JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, September 26, 2024

9:30 a.m.

Senate Hearing Room 109

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azjlbc.gov

**** R E V I S E D ****

JOINT LEGISLATIVE BUDGET COMMITTEE
Thursday, September 26, 2024
9:30 A.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of May 1, 2024

- EXECUTIVE SESSION
  A. Attorney General - Consideration of Proposed Settlements under Rule 14.
  *B. Arizona Department of Administration - Review for the Committee the Planned Contribution Strategy for State Employee and Retiree Medical and Dental Plans as Required Under A.R.S. § 38-658A.

1. *ARIZONA BOARD OF REGENTS - Review of FY 2025 Tuition Revenues.

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

3. *ATTORNEY GENERAL – Review of Uncollectible Debts.

4. ARIZONA DEPARTMENT OF EDUCATION - Review of K-12 Broadband Connectivity Projects.

5. *AHCCCS/DEPARTMENT OF ECONOMIC SECURITY - Review of Capitation Rate Changes for Plan Year 2025.

6. *DEPARTMENT OF PUBLIC SAFETY - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount.

7. *ARIZONA DEPARTMENT OF ADMINISTRATION/AUTOMATION PROJECTS FUND - Review of Automation Projects for ADOA One-Stop Portal, DWR Application Modernization and DES Client Authentication Portal.

8. ARIZONA DEPARTMENT OF CORRECTIONS - Review of FY 2025 Vacancy Savings Reallocation.

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

The Chairman reserves the right to set the order of the agenda.
~~09/18/2024~~
09/23/2024
KP

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STATE OF ARIZONA

Joint Legislative Budget Committee

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VACANT

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

May 1, 2024

The Chairman called the meeting to order at 9:02 a.m., Wednesday, May 1, 2024, in Senate Hearing Room 1. The following were present:

Members:	Senator Kavanagh, Chairman	Representative Livingston, Vice-Chairman
	Senator Alston	Representative Carbone
	Senator Bennett	Representative Carter
	Senator Borrelli	Representative Gutierrez (Temporary Member)
	Senator Diaz	Representative Schwiebert
	Senator Fernandez	Representative Stahl Hamilton
	Senator Mesnard	
Absent:	Senator Hoffman	Representative Biasiucci
		Representative Chaplik

APPROVAL OF MINUTES

Representative Livingston moved that the Committee approve the minutes of January 30, 2024. The motion carried.

CONSENT AGENDA

The following items were considered without further discussion:

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

A.R.S. § 35-173 requires Committee approval of any transfer of spending authority within ADOA. ADOA requested the Committee approve an FY 2024 transfer of $852,300 of Capital Outlay Stabilization Fund (COSF) spending authority from the Utilities line item to the agency's operating budget. The JLBC Staff provided options.

(Continued)

2. ARIZONA DEPARTMENT OF ADMINISTRATION/AUTOMATION PROJECTS FUND (APF) - Review of Arizona Corporation Commission eCorp Replacement.

A.R.S. § 41-714 requires Committee review prior to any monies being expended from ADOA's Automation Projects Fund. ADOA requested Committee review of ADOA's $4,545,100 expenditure plan to replace the Corporation Commission's eCorp System. The JLBC Staff provided options.

3. ARIZONA CRIMINAL JUSTICE COMMISSION (ACJC) – Review of Edward Byrne Memorial Justice Assistance Grant Federal Application.

A.R.S. § 41-2403 requires ACJC to submit its federal application for the Edward Byrne Memorial Justice Assistance Grants (JAG) to the Committee for review 30 days prior to submission to the federal government. The JLBC Staff provided options and a potential provision:

A. ACJC shall submit a preliminary proposal by May 15, 2025 if the federal guidelines have not yet been received for 2025.

4. AHCCCS - Review of Mid-Year Capitation Rate Changes for Plan Year 2024.

An FY 2024 General Appropriation Act footnote requires the state Medicaid agencies to submit an expenditure plan to the Committee for review prior to implementing any changes in capitation rates. AHCCCS requested the Committee review AHCCCS' proposed capitation rate changes to its acute care program submitted on March 28, 2024. The Committee did not review AHCCCS' proposed capitation rate changes to the Department of Economic Security's (DES) Developmental Disabilities (DD) long-term care program submitted on April 26, 2024. The JLBC Staff provided options.

5. DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of FY 2023 Developmental Disabilities Line Item Transfers.

An FY 2023 General Appropriation Act footnote requires DES to submit a report for review by the Committee before transferring any funds into or out of certain Division of Developmental Disabilities (DDD) line items. On April 12, 2024, DES requested the Committee review an FY 2023 transfer of $250,000 from the Home and Community Based Services (HCBS) State-Only line item into the Case Management State-Only line item. The JLBC Staff provided options.

Representative Livingston moved that the Committee approve item #1 and give a favorable review to items 2, 3, 4 and 5 with the JLBC Staff provisions. The motion carried.

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

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

At 9:03 a.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 9:23 a.m. the Committee reconvened into open session.

(Continued)

Representative Livingston moved that the Committee approve the risk management settlements presented by the Attorney General's office in the cases of:

1. *Jose Ramon Ibarra, et al. v. State of Arizona*
2. *Micah Adam Jones v. State of Arizona*
3. *Joshua Schmitt v. State of Arizona*
4. *Christine Scianna v. State of Arizona.*

The motion carried.

Without objection, the meeting adjourned at 9:24 a.m.

Respectfully submitted:

Kristy Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director

Senator John Kavanagh, 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 https://www.azjlbc.gov/jlbc-meetings/.

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Grace Timpany, Fiscal Analyst

SUBJECT: Arizona Board of Regents - Review of FY 2025 Tuition Revenues

Request

Pursuant to a FY 2025 General Appropriation Act footnote, the Arizona Board of Regents (ABOR) requests Committee review of its expenditure plan for all projected tuition and fee revenues in FY 2025.

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.

Gross FY 2025 tuition and fee collections are projected to be $4.5 billion, which is an increase of $258.3 million, or 6.2% above FY 2024. Gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities constitute net tuition. The universities estimate $(1.2) billion in tuition waivers and awards in FY 2025, resulting in $3.2 billion of net tuition. This $3.2 billion level of net tuition is an increase of $137.9 million, or 4.5%, above FY 2024.

Key Points

1) Resident undergraduate tuition rates will increase by 1.4% at ASU, 2.8% at NAU, and 2.2% at UA.
2) Changes in net tuition revenues from FY 2024 to FY 2025 vary by university:
   - ASU: $86.8 million, or 4.2%.
   - NAU: $1.5 million, or 0.6%.
   - UA: $49.6 million, or 6.3%.
3) Net Tuition + General Fund revenues will increase by $118.8 million, or 3.0%, systemwide.

Analysis

In FY 2023, ABOR approved a new multi-year tuition setting process. Under the new structure, the board approves maximum growth rates for university resident tuition in six-year cycles. Growth rates are then reviewed again every four years. The first six-year cycle started in academic year 2023-24 and maximum growth rates were approved through 2028-29. There are no caps on non-resident tuition.

Maximum annual resident tuition growth rates for each university are as follows:

- ASU – 3% for resident undergraduate and graduate students
- NAU – 3.5% for resident undergraduate and 5% for resident graduate students
- UA – 3% for resident undergraduate and graduate students

Table 1 shows reported tuition and mandatory fees changes in FY 2025. For resident undergraduate students, all 3 universities were within the cap. Tuition will increase by 1.4% at ASU, 2.8% at NAU, and 2.2% at UA.

In terms of resident graduate students, ASU and NAU were within the cap. UA received approval from ABOR in June 2024 to exceed the 3.0% growth rate by .3% for resident graduate tuition to allow the university to eliminate $1,555 in graduate student fees.

Table 1

Arizona University System
FY 2025 Tuition and Mandatory Fees 1/

	Resident Undergraduate		Resident Graduate		Non-Resident Undergraduate		Non-Resident Graduate	
	Tuition	Increase	Tuition	Increase	Tuition	Increase	Tuition	Increase
ASU	$12,223	1.4%	$13,587	1.5%	$33,139 2/	2.9%	$36,344	2.9%
NAU 3/	$13,009	2.8%	$13,641	3.8%	$29,881	3.4%	$31,979	4.4%
UA	$13,915	2.2%	$14,856	3.3%	$42,267	2.9%	$34,110	0.4%

1/ Reflects tuition rates for all classes at ASU except freshmen and sophomores in the Polytechnic School and the new college, new students at UA, and all classes at NAU. UA provides a guaranteed tuition rate for each incoming class.

In addition to changes in tuition rates, the universities project systemwide enrollment will increase by 4.4% in FY 2025. Enrollment changes are expected to vary by university:

- ASU expects total enrollment will increase by 4.1%, with the largest increases being in online students and non-resident undergraduate students.
- NAU expects total enrollment will increase by 2.1%, with the largest increase being in resident undergraduate students.
- UA expects total enrollment will increase by 6.1%, with the largest increases being in non-resident undergraduate and non-resident graduate students.

Table 2 displays FY 2024 and FY 2025 General Fund and tuition/fee monies for the Arizona university system. After enrollment changes and tuition rate adjustments, the universities project total gross tuition/fee collections of $4.5 billion in FY 2025. This represents an increase of $258.3 million, or 6.2%, above FY 2024:

- ASU gross tuition collections will increase by $168.0 million, or 6.3% above FY 2024.
- NAU gross tuition collections will increase by $17.8 million, or 4.4% above FY 2024.
- UA gross tuition collections will increase by $72.5 million, or 6.4% above FY 2024.

The universities plan to forego $1.2 billion in tuition revenue for institutional financial aid awards in FY 2025. This represents an increase of $120.4 million from FY 2024, or 10.9%. Of this amount, $81.2 million will be for ASU students, $16.3 million will be for NAU students, and $22.9 million will be for UA students.

After accounting for financial aid awards, net tuition will total an estimated $3.2 billion, which represents an increase of $137.9 million, or 4.5%, compared to FY 2024:

- ASU net tuition collections will increase by $86.8 million, or 4.2% above FY 2024.
- NAU net tuition collections will increase by $1.5 million, or 0.6% above FY 2024.
- UA net tuition collections will increase by $49.6 million, or 6.3% above FY 2024.

By comparison, net tuition collections for the entire university system increased 7.5% in FY 2024 and 10.6% in FY 2023. Prior to the COVID-19 pandemic (FY 2020), net tuition increased by 5.0%.

Table 2

Arizona University System General Fund and Tuition Revenues (in $ Millions)

	FY 2024	FY 2025	$ Increase (Decrease)	% Increase (Decrease)
General Fund 1/	$ 933.4	$ 914.3	$(19.1)	(2.0)%
Gross Tuition/Fees	$4,194.2	$4,452.5	$258.3	6.2%
Scholarship Allowance 2/	(1,103.7)	(1,224.1)	(120.4)	10.9%
Net Tuition	$3,090.5	$3,228.4	$ 137.9	4.5%
Total Net Tuition + General Fund	$4,023.9	$4,142.7	$ 118.7	3.0%

1/ General Fund amounts exclude monies appropriated to ABOR for pass through to the individual campuses. In FY 2024, the budget includes $84.5 million in pass through programs compared to $46.5 million in FY 2025.

2/ Scholarship allowance reflects institutional financial aid provided by the universities (excluding federal loans, private grants, etc.) to offset the cost of tuition. Amounts include scholarship awards and tuition waivers except employee tuition reductions, which are recorded as employee benefit expenses.

In addition to growth in tuition revenues, state General Fund support decreased by $(19.1) million from FY 2024 to FY 2025. This was driven primarily by the removal of FY 2024 one-time funding issues and FY 2025 operating lump sum reductions. In total, General Fund and net tuition/fee resources will increase by $118.7 million, or 3.0%, from $4.0 billion in FY 2024 to $4.1 billion in FY 2025 after enrollment and tuition rate changes.

As shown in *Table 3*, approximately $3.1 billion of the $4.5 billion in gross FY 2025 tuition will be used for operating expenditures. Approximately $1.2 billion will be used to provide financial aid, while $115.7 million and $33.3 million will support debt service and plant funds, respectively.

Expenditures on operating costs are estimated to increase by $169.6 million, financial aid allowances will increase by $120.4 million, debt service costs are estimated to decrease by $(34.5) million, and expenditures from plant funds will increase by $2.8 million.

Table 3

Use of FY 2025 Tuition/Fees by University (In $ Millions)

University	Operating Expenditures 1/	Financial Aid	Plant Fund	Debt Service	Total
ASU	$2,039.7	$670.4	$27.5	$80.4	$2,818.0
NAU	228.9	178.9	1.0	13.5	422.2
UA	810.9	374.8	4.8	21.8	1,212.3
Total	**$3,079.5**	**$1,224.1**	**$33.3**	**$115.7**	**$4,452.5**

Increase in FY 2025 over FY 2024

University	Operating Expenditures 1/	Financial Aid	Plant Fund	Debt Service	Total
ASU	$117.6	$81.2	$2.0	$(32.8)	$168.0
NAU	3.2	16.3	-	(1.7)	17.8
UA	48.8	22.9	0.8	-	72.5
Total	**$169.6**	**$120.4**	**$2.8**	**$(34.5)**	**$258.3**

1/ In addition to all appropriated tuition revenues, includes non-appropriated tuition revenues to be expended on instruction, organized research, public service, academic support, student services, auxiliary enterprises, and institutional support.

GT:kp

Attached is the ABOR tuition report. We do not have a copy of the transmittal letter.

ARIZONA UNIVERSITY SYSTEM
TUITION AND FEES IN SUPPORT OF THE
2024-25 STATE BUDGET

	STATE COLLECTIONS		
	As Reported in the FY 2024-25 Annual Budget approved by ABOR	2024-25 University Collections Fund as reported in General Appropriations Act	CHANGE
Arizona State University	856,998,800	854,407,100	2,591,700
Northern Arizona University	131,836,800	133,855,800	-2,019,000
University of Arizona	368,549,100	347,232,700	21,316,400
University of Arizona Health Sciences Center	61,522,800	69,546,500	-8,023,700
TOTAL UA	430,071,900	416,779,200	13,292,700
TOTAL	1,418,907,500	1,405,042,100	13,865,400

$ Millions

Total State Collections	$1,418.9
Total Non-Appropriated Tuition & Fees Collections	$3,033.6
Total Estimated Tuition Revenue (Gross)	$4,452.5

ARIZONA STATE UNIVERSITY
FY 2025 USES OF APPROPRIATED AND NON-APPROPRIATED TUITION AND FEE REVENUES
APPROVED ANNUAL BUDGET vs. JLBC BASELINE

	Appropriated Tuition and Fees	Non-appropriated Tuition and Fees
FY 2025 Collections Fund As Reported in the Annual Budget	**856,998,800**	**1,961,001,700**
FY 2025 Collections Fund As Reported in the JLBC Baseline	**854,407,100**	
FY 2025 Collections Fund Increase/(Decrease) from the JLBC Baseline	**2,591,700**	**1,961,001,700**
ALLOCATIONS BY PROGRAM		
Instruction		
Investments in Programs Supported by Program Fees		91,071,100
Investments in Programs Supported by College Fees		145,211,200
Investments in Programs Supported by Summer Sessions Tuition		238,314,700
Investments in Faculty Hiring and Academic Support		113,004,500
EdPlus at ASU		415,478,300
Overseas Study Abroad Program Costs		4,202,400
Research Asst./Teaching Asst. Benefit Costs		27,123,600
Operating Support		95,796,800
Organized Research		
Public Service		
Operating Support		346,800
Academic Support		
Operating Support	2,591,700	376,100
Student Services		
Investments in Programs Supported by Mandatory Fees		18,272,700
Operating Support		6,237,900
Institutional Support		
Operations and Maintenance		
Operating Support		698,400
Scholarships/Fellowships/Financial Aid		
Financial Aid Set Aside/Other Financial Aid		670,401,600
Auxiliary Enterprises		
Investments in Programs Supported by Mandatory Fees		24,614,800
Auxiliary Operating Support		1,956,300
Debt Service		
Debt Service/COPs/Lease Purchase		80,394,500
Plant Funds		
Minor Capital Projects		27,500,000
	2,591,700	**1,961,001,700**

The Uses of Appropriated Collections report format calls for a line item explanation of the increase between the Board approved Annual Budget Collections and the JLBC Baseline Collections.
The sum of Appropriated and Non-appropriated tuition and fees ties to the total as presented to the Board at the June meeting, or $2,818,000,500.

ARIZONA STATE UNIVERSITY - TUITION AND FEES REVENUE

($000)

	FY23	FY24 EST	FY25 BGT	Δ FY25 BGT/FY24 EST	
TUITION	**1,303,691**	**1,337,473**	**1,398,396**	**60,923**	5%
NR UG	598,046	603,653	646,313	**42,660**	7%
RES UG	439,523	451,914	464,429	**12,514**	3%
NR Grad	220,578	234,327	238,487	**4,160**	2%
RES Grad	45,544	47,577	49,167	**1,590**	3%
Online	**581,155**	**636,653**	**699,138**	**62,484**	10%
NR UG	397,915	418,740	455,482	**36,742**	9%
RES UG	70,403	70,419	76,949	**6,530**	9%
NR Grad	88,565	111,532	126,099	**14,568**	13%
RES Grad	24,272	35,962	40,608	**4,646**	13%
Prog Fees/Diff	**103,479**	**127,938**	**137,457**	**9,518**	7%
UG	15,341	14,091	14,368	**277**	2%
Grad	88,138	113,847	123,089	**9,242**	8%
College Fee	**159,339**	**177,894**	**186,192**	**8,298**	5%
UG	145,836	165,498	173,549	**8,051**	5%
Grad	13,503	12,396	12,643	**248**	2%
Course Fees	**162**	**351**	**376**	**25**	7%
UG	153	351	376	**25**	7%
Grad	9	0	0	-	-
Extended Ed				-	-
Non Degree				-	-
Summer & Winter Sessions	**219,746**	**241,548**	**259,949**	**18,400**	8%
Mandatory Fees	**50,082**	**51,570**	**53,920**	**2,350**	5%
UG	35,068	36,110	37,756	**1,646**	5%
Grad	15,014	15,460	16,164	**705**	5%
Other Misc.	**75,171**	**80,875**	**82,572**	**1,697**	2%
Total Tuition & Fees	**2,492,825**	**2,654,300**	**2,818,000**	**163,701**	6%

NORTHERN ARIZONA UNIVERSITY

FY 2025 USES OF APPROPRIATED AND NON-APPROPRIATED TUITION AND FEE REVENUES

FY25 APPROVED FY25 ANNUAL BUDGET vs. FY25 GENERAL APPROPRIATIONS ACT

	Other Appropriated Tuition and Fees	Non Appropriated Tuition and Fees
Collections Fund as Reported in the FY 2025 Annual Budget	131,836,800	290,403,200
Collections as Reported in the FY 2025 General Appropriations Act	133,855,800	
Increase/(Decrease) from FY 2025 General Appropriations Act	**(2,019,000)**	**290,403,200**
ALLOCATIONS BY PROGRAM		
Instruction		
Online and Educational Innovation and Partnership Investment		15,314,734
Investments in programs supported by program fees		10,065,440
Investments in programs supported by college fees		15,048,000
Investments in programs supported by summer session tuition		24,722,000
Organized Research		
Public Service		
Academic Support		
Local Account Operating Support		-
Student Services		
Investments in programs supported by mandatory fees		31,676,000
Local Account Operating Support		137,260
Institutional Support		
Local Account Operating Support		50,000
Scholarships/Fellowships/Financial Aid		178,889,766
Debt Service Payments		13,500,000
Plant Funds		1,000,000
	(2,019,000)	**290,403,200**

NORTHERN ARIZONA UNIVERSITY - TUITION AND FEES REVENUE

($000)

	FY23	FY24 EST	FY25 BGT	Δ FY25 BGT/FY24 EST	
Base Tuition	**$268,953**	**$281,206**	**$300,130**	**$18,924**	**7%**
NR UG	$92,571	$84,649	$84,266	**-$382**	**0%**
RES UG	$140,058	$155,720	$168,475	**$12,755**	**8%**
NR Grad	$17,534	$20,489	$24,828	**$4,339**	**21%**
RES Grad	$18,790	$20,348	$22,561	**$2,212**	**11%**
Online	**$33,739**	**$34,471**	**$35,211**	**$740**	**2%**
NR UG	$6,811	$6,076	$6,197	**$122**	**2%**
RES UG	$12,997	$12,677	$12,481	**-$196**	**-2%**
NR Grad	$5,253	$6,106	$6,415	**$309**	**5%**
RES Grad	$8,677	$9,612	$10,117	**$506**	**5%**
Prog Fees	**$8,885**	**$9,904**	**$11,704**	**$1,800**	**18%**
UG	$922	$981	$981	**$0**	**0%**
Grad	$7,963	$8,923	$10,723	**$1,800**	**20%**
College Fee	**$11,973**	**$12,500**	**$15,048**	**$2,548**	**20%**
UG	$11,973	$12,500	$15,048	**$2,548**	**20%**
Grad				**$0**	**-**
Course Fees	**$17**	**$0**	**$0**	**$0**	**-100%**
UG	$0	$0	$0	**$0**	**-100%**
Grad	$17	$0	$0	**$0**	**-100%**
Ext Ed Fees				**$0**	**-**
Non Degree				**$0**	**-**
Summer & Winter Sessions	**$20,400**	**$24,002**	**$24,722**	**$720**	**3%**
Mandatory Fees	**$27,512**	**$29,564**	**$31,676**	**$2,112**	**7%**
UG	$24,334	$26,142	$28,009	**$1,868**	**7%**
Grad	$3,178	$3,422	$3,667	**$244**	**7%**
Other Misc	**$3,357**	**$4,154**	**$3,750**	**-$404**	**-10%**
Total Tuition & Fees	**374,836**	**$395,800**	**$422,240**	**$26,440**	**7%**

UNIVERSITY OF ARIZONA

FY 2025 USES OF APPROPRIATED AND NON-APPROPRIATED TUITION AND FEE REVENUES

APPROVED FY25 ANNUAL BUDGET vs. FY 2025 GENERAL APPROPRIATIONS ACT

	Other Appropriated Tuition and Fees	Non-Appropriated Tuition and Fees
Collections Fund as Reported in the FY25 Annual Budget Report	430,071,900	782,207,100
Collections as Reported in the FY25 General Appropriations Act	416,779,200	
Increase/(Decrease) from FY25 General Appropriations Act	**13,292,700**	**782,207,100**
ALLOCATIONS BY PROGRAM		
Instruction		
Investments in Programs Supported by Program Fees and Differential Tuition		19,358,200
Investments in Programs Supported by Class and Course Fees		0
Investments in Programs Supported by College Fee		33,024,000
Investments in Programs Supported by Summer Sessions Tuition		32,957,900
Investments in Programs Supported by Online Tuition		129,539,000
Investments in Programs Supported by Distance Education Tuition		15,743,600
Local Account Operating Support		13,587,600
Organized Research		
Public Service		
Local Account Operating Support		37,300
Academic Support		
Local Account Operating Support		28,269,800
Student Services		
Local Account Operating Support		47,786,900
Investments in Programs Supported by Mandatory Fees		51,615,000
Institutional Support		
Local Account Operating Support		5,785,800
Scholarships/Fellowships/Financial Aid		
ABOR Financial Aid Set Aside		66,916,300
Program Fees and Differential Tuition Set Aside		3,151,200
Student Financial Aid Awards		304,776,000
Auxiliary Enterprise		
Investments in Programs Supported by Mandatory Fees		3,125,500
Debt Service Payments		21,756,500
Plant Funds		
Building Renewal		4,000,000
Minor Capital Projects		776,500
	13,292,700	**782,207,100**

UNIVERSITY OF ARIZONA - TUITION AND FEES REVENUE

($000)

	FY23	FY24 EST	FY25 BGT	Δ FY25 BGT/FY24 EST	
Base Tuition	**$781,298.1**	**$825,096.5**	**$854,939.0**	29,843	4%
NR UG	$433,067.4	$463,862.0	$474,449.2	10,587	2%
RES UG	$209,621.9	$215,589.2	$218,801.0	3,212	1%
NR Grad	$72,683.7	$74,779.6	$78,501.3	3,722	5%
RES Grad	$65,925.1	$70,865.7	$83,187.5	12,322	17%
Online	**$98,918.4**	**$114,305.9**	**$129,539.0**	15,233	13%
NR UG	$46,214.0	$60,521.1	$73,436.8	12,916	21%
RES UG	$11,882.7	$10,155.4	$11,154.8	999	10%
NR Grad	$30,061.9	$31,954.4	$32,919.7	965	3%
RES Grad	$10,759.8	$11,675.0	$12,027.7	353	3%
Prog Fees/Diff	**$37,803.4**	**$38,509.2**	**$22,509.4**	-16,000	-42%
UG	$20,373.9	$20,849.9	$4,567.3	-16,283	-78%
Grad	$17,429.5	$17,659.3	$17,942.1	283	2%
College Fee	**$0.0**	**$0.0**	**$38,400.0**	38,400	-
UG	$0.0	$0.0	$38,400.0	38,400	-
Grad				0	-
Course Fees	**$7,796.0**	**$8,268.7**	**$0.0**	-8,269	-100%
UG	$7,172.7	$7,607.6	$0.0	-7,608	-100%
Grad	$623.3	$661.1	$0.0	-661	-100%
Ext Ed Fees	**$42,109.8**	**$39,334.9**	**$47,304.2**	7,969	20%
Non Degree	**$5,448.6**	**$5,598.6**	**$5,620.2**	22	0%
Summer Session	**$30,066.6**	**$32,203.9**	**$32,957.9**	754	2%
Mandatory Fees	**$59,813.0**	**$62,932.0**	**$54,740.5**	-8,192	-13%
UG	$49,046.9	$51,604.5	$53,818.9	2,214	4%
Grad	$10,766.1	$11,327.5	$921.6	-10,406	-92%
Other Misc	**$22,945.7**	**$23,799.8**	**$26,268.8**	2,469	10%
Total Tuition & Fees	**1,086,200**	**1,150,050**	**1,212,279**	**62,230**	5%

2

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azjlbc.gov

DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Ethan Scheider, Assistant Fiscal Analyst

SUBJECT: Arizona Department of Administration - Consider Approval of Requested Transfer of Appropriations

Request

A.R.S. § 35-173 requires Committee approval of any transfer of spending authority within the Arizona Department of Administration (ADOA). ADOA is requesting authorization to transfer $1,800,000 of Risk Management Revolving Fund monies from its Workers' Compensation Losses and Premiums line item to the Risk Management Administrative Expenses line item in FY 2024 to pay for the higher-than-budgeted expenses of Attorney General (AG) contracted legal staff.

Committee Options

The Committee has at least the following 2 options:

1. Approval of the transfer.

2. Disapproval of the transfer.

Key Points

1) ADOA is requesting a transfer of $1.8 million of surplus monies to pay for higher-than-budgeted Attorney General risk management contracted legal costs.
2) The Attorney General received its own direct FY 2024 appropriation of $10.7 million to pay for its in-house staff that defends the state in risk management liability claims.
3) If the Attorney General contracts out the state's legal defense, however, ADOA covers that cost from its Risk Management Administrative Expenses line item appropriation of $10.9 million.
4) In the FY 2026 budget, the Legislature may want to consider whether to appropriate the contracted attorney expenses directly to the AG.

Analysis

Background

The FY 2024 Risk Management Administrative Expenses line item of $10.9 million in the ADOA budget funded a variety of expenses including actuarial analyses, investigations, and related travel. Most of the appropriation, however, was used by the Attorney General to contract with outside attorneys to defend risk management claims against the state. The Attorney General's Office has the responsibility of determining whether it is in the best interest of the state to use their own in-house attorneys or contracted attorneys to defend a particular claim. For example, the AG may be conflicted out if they provided legal advice to an agency that subsequently faced a risk management claim for its actions.

For the last several years, ADOA has requested Committee approval to transfer monies from its operating budget or other line items to cover shortfalls in the Risk Management Administrative Expenses line item. This includes $2.4 million in FY 2021, $3.0 million in FY 2022 and $4.6 million in FY 2023. The Committee approved each of those transfers.

Request

ADOA requests to transfer $1.8 million of Risk Management Revolving Fund monies from a surplus in its FY 2024 Workers' Compensation Losses and Premiums line item to the Risk Management Administrative Expenses line item due to increased costs associated with outside counsel. The proposed transfer would increase the total line item appropriation to $12.7 million.

The Workers' Compensation Losses and Premiums line item funds expenses related to the state's liability in workplace injuries. ADOA reports that the Workers' Compensation Losses and Premiums line item has sufficient funding available for the transfer. The FY 2024 budget included $28.4 million for Workers' Compensation Losses and Premiums. The proposed transfer would decrease the total line item appropriation to $26.6 million.

Given the split of the AG risk management legal defense expenses between the AG and ADOA, the Legislature may want to consider the advisability of consolidating all these expenses in the AG FY 2026 budget.

ES:kp

Katie Hobbs
Governor

Elizabeth
Alvarado-Thorson
Cabinet Executive Officer
Executive Deputy Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
(602) 542-1500

June 20, 2024

The Honorable John Kavanagh, Chairman
Arizona State Senate
1700 West Washington
Phoenix, Arizona 85007

The Honorable David Livingston, Vice-Chairman
Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Sarah Brown, Director
Governor's Office of Strategic Planning and Budgeting
1700 West Washington Street; 6th Floor
Phoenix, Arizona 85007

Dear Senator Kavanagh, Representative Livingston, and Director Brown:

Section 35-173, Arizona Revised Statutes, directs that a transfer of spending authority within the Arizona Department of Administration (ADOA) shall be made only with the approval of the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Strategic Planning and Budgeting (OSPB).

ADOA requests a transfer of spending authority in the amount of $1,800,000 across FY 2024 appropriations in the Risk Management Fund. This amount will be moved from the Workers' Compensation Losses and Premiums special line item (SLI) appropriation to the Administrative Expenses SLI appropriation, as shown in *Table 1*, below. The requested transfer is necessary to cover a projected shortfall in the Risk Management Administrative Expenses SLI.

Table 1. Summary of Proposed Transfer in the Risk Management Fund

Appropriation	Original Amount	Proposed Transfer	Adjusted Amount
Workers' Compensation SLI	$28,395,000	$(1,800,000)	$26,595,000
Administrative Expenses SLI	$10,870,700	$1,800,000	$12,670,700

The Risk Management Administrative Expenses SLI is used for non-operating administrative expenses such as actuarial analyses, relevant investigation, and related travel. In recent years, nearly all of the funding has gone toward outside legal counsel to defend the State in risk management lawsuits. The Attorney General's Office (AG's Office) has the statutory responsibility to provide this legal defense, however, when they determine it is in the best interest of the State to use a private law firm, ADOA is required to cover the costs using this SLI.

The projected appropriation shortfall has been a recurring problem for several years, as the enacted appropriations for ADOA have been insufficient to cover the expenses incurred by the AG's Office for outside counsel. To cover costs in recent years, ADOA needed to transfer appropriation authority from other areas of Risk Management, as shown in *Table 2*, below.

Table 2: Summary of Post-Enactment Changes to Risk Management Administrative Expenses SLI

Fiscal Year	Enacted	Transferred In	Revised Total	Transfer Source
2021	$ 8,747,200	$ 2,400,000	$ 11,147,200	Operating Lump Sum
2022	$ 9,294,300	$ 3,000,000	$ 12,294,300	Workers' Compensation SLI
2023	$ 8,597,800	$ 4,600,000	$ 13,197,800	Risk Management Losses & Premiums SLI

This line item presents particular forecasting challenges as legal defense costs are highly variable depending on the nature of each case and the external legal firm the AG's Office engages. Further, ADOA has limited or no insight into the expenses incurred by the AG's Office up front, and due to the logistics of claims and invoice processing from the external firms, there can be a significant delay before ADOA is notified of the cost and receives the invoice for payment. This results in expenses being more heavily weighted toward the third and fourth quarters of the fiscal year, generating more volatility in projections. Despite these challenges, ADOA anticipates the requested $1.8 million appropriation transfer will be sufficient to cover FY 2024 costs based on expenditures to date, an analysis of transaction trends during the administrative adjustment period, and absent unforeseeable anomalies.

If you have any questions regarding ADOA's request for a transfer of spending authority, please contact Jacob Wingate at (602) 291-0208.

Sincerely,

Elizabeth Alvarado-Thorson
Cabinet Executive Officer
Executive Deputy Director

cc: Richard Stavneak, Director, JLBC Staff
Geoffrey Paulsen, Senior Fiscal Analyst, JLBC Staff
Rémy Gaudin, Budget Analyst, OSPB
Michael Wisehart, Deputy Director and State Comptroller, ADOA
Ray DiCiccio, Deputy Director, ADOA
Jacob Wingate, Chief Financial Officer, ADOA
Keith Johnson, Assistant Director, ADOA
Jimmy Arwood, Chief Legislative Liaison, ADOA

3

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azjlbc.gov

DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Gordon Robertson, Fiscal Analyst

SUBJECT: Attorney General – Review of Uncollectible Debts

Request

Pursuant to A.R.S. § 35-150E, the Attorney General (AG) requests Committee review of its listing of uncollectible debts to be removed from the state's accounting system. The listing totals $30,201,500 for debts listed as uncollectible in FY 2024 and prior years.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) The State Comptroller may remove uncollectible debts from the state accounting system after their review by the Committee.
2) The FY 2024 listing includes $30.2 million in uncollectible debt.
3) The majority of the $30.2 million has been deemed uncollectible because the debtor is a defunct corporation/LLC (54.7%) or there are no assets/no wages/a negative credit report (26.9%).
4) A total of 96.0% of the total debt is owed to the Department of Revenue.

Analysis

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

The AG's Collection Enforcement Unit functions as a collection service for debts owed to the state. The unit returns 65% of collected monies to the client agencies and retains the remaining 35% for unit operational costs. While the Collection Enforcement Unit is able to collect from many individuals and businesses that owe monies to the state, some debts are uncollectible for a variety of reasons. The AG's report to the Committee includes the following:

1. Debt owed to the state that was referred to the AG's Collection Enforcement Unit and determined to be uncollectible.
2. Debt owed to state agencies that was not referred to the Collection Enforcement Unit and was deemed to be uncollectible by the individual agency.

Since 2011 the Committee has given favorable reviews of uncollectible debt ranging from $16.4 million to $88.4 million *(see Table 1)*.

Table 1

Favorably Reviewed Uncollectible Debt

Year Reviewed	Uncollectible Debt Listing ($ in Millions)
2011	$17.2
2012	30.4
2013	44.9
2014/15	88.4
2016	78.3
2017	50.9
2018	41.3
2019	31.2
2020	34.2
2021	21.1
2022	16.4
2023	31.0

Since its last report in FY 2023, the AG's office has again reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the AG advises that $30.2 million owed to the state is uncollectible as of April 30, 2024. Due to its length, the specific listing of uncollectible debts does not appear in the attached agency material. Please contact the JLBC Staff for the complete listing.

Of the $30.2 million in uncollectible debt:

- A total of 81.6% is uncollectible because the debtor is a defunct corporation/LLC (54.7%) or there are no assets/no wages/a negative credit report (26.9%). The remaining 18.4% is uncollectible for other reasons *(see Table 2)*.

- A total of 96.0% of the total debt is owed to the Department of Revenue (DOR). The remaining debt is associated with 18 other specified agencies (*see Table 3*).
- Six cases include debts of more than $300,000, totaling $5.1 million and making up 17.0% of all debts in this report. These debts are all owed to DOR. (*see Table 4).*

Table 2

Uncollectible Debt by Reason

Reason	Amount Recommended for Write-Off	Percentage
Defunct Corporation/LLC	$ 16,525,500	54.7%
No Assets/No Wages/Negative Credit	8,116,100	26.9
Debt Discharged in Bankruptcy	1,829,500	6.1
Collection Cost Would Exceed Amount Owed	2,100,800	7.0
Settled	808,800	2.7
Unable to Locate Debtor	26,900	0.1
Debtor is Deceased	743,400	2.5
Insufficient Information/Evidence to File Suit	43,600	0.1
Debtor is Lives and/or Works on a Reservation	7,000	0.0
Total	$30,201,500 1/	**100.0%**

1/ Does not sum due to rounding.

Table 3

Uncollectible Debt Recommended for Write-Off by Client Agency

Agency	Amount Recommended for Write-Off	Percentage
Department of Revenue	$28,990,700	96.0%
Department of Transportation – MVD	605,000	2.0
State Retirement System	188,600	0.6
Registrar of Contractors	149,300	0.5
Department of Juvenile Corrections	54,800	0.2
All Others	213,100	0.7
Total	**$30,201,500 1/**	**100.0%**

1/ Does not sum due to rounding.

Table 4

Largest Individual Cases of Uncollectible Debt

Agency	Amount Recommended for Write-Off	Reason Uncollected
Department of Revenue	$3,088,200	Defunct Corporation/LLC
Department of Revenue	594,600	Defunct Corporation/LLC
Department of Revenue	456,400	No Assets/No Wages/Negative Credit
Department of Revenue	361,500	Defunct Corporation/LLC
Department of Revenue	324,400	Defunct Corporation/LLC
Department of Revenue	314,400	Settled
Total	**$5,139,500**	

GR:kp

OFFICE OF THE ARIZONA ATTORNEY GENERAL

KRIS MAYES
ATTORNEY GENERAL

CIVIL LITIGATION DIVISION
BANKRUPTCY COLLECTION AND ENFORCEMENT SECTION

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

May 25, 2024

HAND DELIVERED

Senator John Kavanagh, Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1716 West Adams
Phoenix, Arizona 85007

RE: FY2023 beginning April 1, 2023 through FY2024 March 31, 2024, for Not-Referred Non-DOR Uncollectible Debt Report
FY2023 beginning May 1, 2021 through FY2024 April 30, 2024, Referred Non-DOR Uncollectible Debt Report
FY2023 beginning July 1, 2022 through June 30, 2023, DOR Uncollectible Debt Report

Dear Representative Cobb:

As requested by the Joint Legislative Budget Committee ("JLBC") pursuant to A.R.S. § 35-150(E), enclosed are the FY2023 beginning April 1, 2023 through FY2024 March 31, 2024, for Not-Referred Non-DOR Uncollectible Debt Report FY2023 beginning May 1, 2021 through FY2024 April 30, 2024, Referred Non-DOR Uncollectible Debt Report and FY2023 beginning July 1, 2022 through June 30, 2023, DOR Uncollectible Debt Report ("the Reports").

The Reports include: 1) debt owed to the State that was referred to the Collection Enforcement Revolving Fund ("CERF") for collection and determined to be uncollectible; and 2) debt owed to the Department of Revenue ("DOR") and other State agencies, boards and commissions that was not referred to the CERF and was deemed uncollectible by the agencies. With respect to the DOR debt listed in the Reports as uncollectible, for FY 2020 the Attorney General's Office is relying upon the certification by DOR set forth in the memorandum dated May 14, 2021, from DOR to the Attorney General's Office and entitled, "Fiscal Year 2020 Certification of Cases for Abatement" ("Certification"). The Certification states that the debt described in the Certification meets the criteria pursuant to A.R.S. § 42-1004B, and for liabilities discharged in bankruptcy, pursuant to the United States Bankruptcy Code, and that DOR has validated through its internal policies and processes that it verified the reasons for abatement, as stated in the Certification, and that they are true and accurate.

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

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

The Reports provide a reason each debt is deemed uncollectible. The reasons include case settled, debtor deceased, unable to locate debtor, collection costs would exceed the amount to be collected, agency has no claim or interest, debtor has neither assets nor wages, debtor lives and/or works on a Reservation, debt discharged in bankruptcy and Corporation/LLC defunct.

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

Please contact the undersigned if you have any questions.

Sincerely,

Don J. Lawrence, Jr.
Section Chief Counsel
Bankruptcy Collection & Enforcement
Arizona Attorney General's Office

Enclosures
cc: Representative David Livingston, JLBC Vice-Chairman (with attachments)
Richard Stavneak, JLBC Director (with attachments)
Sarah Brown, OSPB Director (with attachments)
Gordon Robertson, JLBC Analyst (with attachments)
Ashley Retsinas, State Comptroller (with attachments)
Joseph Branco, AGO Division Chief of Civil Litigation (with attachments)
Don J. Lawrence, Jr., AGO Section Chief Counsel of BCE (with attachments)
Nick Debus, AGO Deputy Attorney General for Law & Policy (with attachments)

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

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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azjlbc.gov

DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Gordon Robertson, Fiscal Analyst

SUBJECT: Arizona Department of Education - Review of K-12 Broadband Connectivity Projects

Request

Pursuant to A.R.S. § 15-249.07, the Arizona Department of Education (ADE) requests Committee review of its annual report on K-12 broadband connectivity construction projects.

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) Since FY 2018, the Legislature has appropriated $13.5 million in state matching funds to ADE Broadband Connectivity Projects.
2) State monies for K-12 Broadband can draw down federal E-rate monies with a match rate up to 90%.
3) We estimate that to date, ADE has expended approximately $10.6 million in state matching funds for Broadband Connectivity Projects for schools and libraries.

Analysis

Background

The federal E-Rate program provides federal matching funds for services to support broadband connectivity to schools and libraries as equipment and services needed for broadband connectivity within schools and libraries. Overseen by the Federal Communications Commission (FCC), the program is administered by the Universal Service Administrative Company (USAC), and provides federal matching funds (i.e. a "discount rate") ranging from 20% to 90% for broadband projects depending on the percentage of students within the school that are eligible for free or reduced-price lunches (FRPL).

The FCC authorizes a dollar-for-dollar increase in federal matching funds up to a maximum of 10% above the base matching rates for broadband projects receiving funding from the state and that meet the FCC's long-term connectivity targets (currently equal to 1 Mbps of bandwidth per student). For example, a school qualifying for a base discount rate of 80% for a broadband project (an urban or rural school with a FRPL-eligible population of more than 50%, but less than 74%) would receive a final match rate of 90% if the state provided matching funds equal to 10% of the cost of the project.

The FY 2018 budget included a one-time appropriation of $3,000,000 from the Automation Projects Fund for state matching funds to be allocated to broadband projects certified by ADE and the USAC for federal E-Rate funding. The $3,000,000, in combination with $8,000,000 collected by the Arizona Corporation Commission (ACC) via a one-time surcharge on Arizona consumers' phone bills authorized in March 2017, provided $11,000,000 of state funding for total anticipated school and library broadband projects of $130,000,000 Total Funds. The enacted FY 2024 budget, as revised during the 2024 session, provided an additional $2,500,000, resulting in a total of $13,500,000 of state funding.

Each year, ADE opens funding applications on July 1, and funding begins on June 1 of the following year. Through FY 2024, ADE has approved 82 projects at a cost of $132,750,100 Total Funds. ADE has also tentatively approved 10 projects for funding FY 2025 at a cost of $4,331,200 Total Funds. *Table 1* summarizes project data by fiscal year. The 92 total projects are serving or will serve upon completion approximately 241,900 students statewide. This total cost of these projects includes $125,119,700 (91%) from E-rate funding, $10,556,600 (8%) from the "state match," and $1,247,800 (1%) from local funding. Local funding is only required from participating schools with a discount rate of less than 80% (less than 50% FRPL eligibility).

Table 1

K-12 Broadband Construction Project Summary [1/ 2/]

Fiscal Year	Students Served	ADE-Certified Projects [3/]	E-Rate Portion	State Portion	School Portion [4/]
2018	63,200	$ 13,605,700	$ 12,410,400	$ 1,043,700	$ 149,800
2019	62,200	58,888,700	53,326,200	4,608,400	954,200
2020	8,200	23,011,700	20,822,900	2,186,000	2,800
2021	16,700	7,461,300	7,013,900	409,900	21,600
2022	39,100	21,151,700	19,696,900	1,361,100	15,500
2023	24,200	7,326,600	6,735,700	590,900	-
2024	1,900	1,243,000	1,131,100	111,900	-
2025	26,400	4,331,200	3,982,600	244,700	103,900
Cumulative	241,900	$ 137,019,900	$ 125,119,700	$ 10,556,600	$ 1,247,800
% of Total		100%	91%	8%	1%

1/ Numbers may not add properly due to rounding.
2/ Reflects JLBC analysis of ADE data on E-Rate project spending and students served as of June 28, 2024.
3/ Represents dollar value of projects certified by ADE, including completed projects and projects in-process and waiting USAC approval.
4/ Schools with less than an 80% discount rate (less than 50% FRPL-eligible) must fund part of their own project costs.

GR:kp

ARIZONA DEPARTMENT OF
EDUCATION

June 28, 2024

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

Dear Representative Livingston,

In compliance with A.R.S. § 15-249.07, please see the Arizona Broadband for Education Initiative report.

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

Sincerely,

Art Harding
Chief Operations Officer
Arizona Department of Education

ARIZONA BROADBAND FOR EDUCATION INITIATIVE

2024 Q2 Update

The Arizona Broadband for Education Initiative is a partnership between the Governor's Office of Education, the Arizona Department of Education, the Arizona Corporation Commission, and the nonprofit organization EducationSuperhighway. The program's goal is to ensure that every public K-12 instructional building in the state is connected via high-speed and reliable broadband connections to enable digital learning in the classroom.

One major component of the Initiative includes supporting schools and libraries as they take advantage of the federal Schools and Libraries (E-rate) Program. The E-rate program provides discounts of up to 90% of the monthly cost of telecommunications services to keep students and library patrons connected to high-speed broadband. It is administered by the Universal Service Administrative Company (USAC), designated by the Federal Communications Commission (FCC).

The E-rate Modernization Order, adopted by the FCC in July 2014, allows states to establish "matching funds" that may contribute up to ten percent in funding to subsidize the cost of Category 1 "special construction" projects. If a state provides eligible schools and libraries with funding for special construction charges for high-speed broadband that meets the FCC's long-term connectivity targets, the E-rate Program will increase an applicant's discount rate for these charges up to an additional ten percent to match the state funding on a one-to-one dollar basis. The combination of E-rate and state match funding can cover up to 100% of an applicant's out-of-pocket cost for the infrastructure necessary to supply high-speed internet.

In March 2017, the Arizona Corporation Commission updated the Arizona Universal Service Fund (AUSF) rules to provide $8M in funding for "Special Construction" projects in Arizona. Used in combination with the E-rate program, this funding will result in approximately $150M in new construction projects within the state. In April 2017 the Arizona State Legislature approved an additional $3M for "Special Construction" projects.

May 2023 the Arizona Legislature approved $2.5M in additional funding to bring the total investment in our schools and libraries to $13.5M.

To date, we have completed $136M in broadband projects (cost to Arizona $11M) across the state providing high-speed internet access via internet services providers and wide area networks.

Erate Special Construction

"Arizona Broadband for Education Initiative"

Funding Year	Students Served	Projects In Process or Awaiting Approval	Erate Portion	State Portion	School Portion	Total Paid Out	Left to Complete
2017-2018	96,652	$13,606,423.92	$12,411,066.38	$1,043,757.54	$149,800.00	$1,043,757.54	$0.00
2018-2019	67,941	$59,433,788.20	$53,758,143.73	$4,612,017.45	$979,597.31	$4,612,017.45	$0.00
2019-2020	36,096	$22,474,314.66	$20,284,032.69	$2,313,603.54	$2,780.10	$2,313,603.54	$0.00
2020-2021	19,232	$7,439,882.98	$7,005,750.01	$580,394.73	$21,600.00	$341,009.73	$239,385.00
2021-2022	66,945	$21,213,107.57	$19,739,120.09	$1,540,833.84	$51,467.00	$930,457.42	$610,376.42
2022-2023	24,150	$6,263,134.03	$5,726,658.90	$772,963.20	$0.00	$739,629.30	$33,333.90
2023-2024	1,894	$1,242,994.00	$1,131,124.54	$291,869.46	$0.00	$291,869.46	$0.00
2024-2025	24,922	**4,331,240**	**3,982,638**	$424,720.23	$103,874.40	0	$424,720.23
Program	337,832	$136,004,884.98	$124,038,534.13	$11,580,159.99	$1,309,118.81	$10,272,344.44	$1,307,815.55
AVAILABLE				**$1,919,840.01**			

Numbers reflect an additional $2.5M from the 2023 Arizona Legislative session.

Explanation of columns

Funding Year	The Erate funding year runs from July 1 through June 30.
Students Served	Number of students impacted by the project.
Projects in Process or Awaiting Approval	Projects that have been submitted and are complete, in process or awaiting approval by the FCC. Denied and cancelled projects have been removed from the total in order to provide a more accurate picture.
Erate Portion	Portion the Federal Erate Program contributes to Arizona.
State Portion	Portion Arizona taxpayers contribute to the project.
School Portion	Schools with an 80% NSLP or higher have zero cost.
Total Paid Out	Total amount paid from the $8M contribution by the Arizona Corporation Commission and $8M from the Arizona budget.
Left to Complete	Approved projects under construction.

Full List of Projects

Funding Year	Applicant Name	Discount Percentage	Student Count	Total Filed	Erate Portion	State Portion	School Portion	Status
2017	Agua Fria UHSD	60%	7649	$749,000.00	$524,300.00	$74,900.00	$149,800.00	Complete
2017	Apache County Consortium	85%	4062	$8,379,313.67	$7,750,865.14	$628,448.53	$0.00	Complete
2017	Arizona Call A Teen Center	90%	261	$61,917.00	$58,821.15	$3,095.85	$0.00	Complete
2017	Bicentennial UHS (Salome HS)	90%	113	$25,303.25	$24,038.09	$1,265.16	$0.00	Complete
2017	Combs Unified School District	80%	4634	$360,000.00	$324,000.00	$36,000.00	$0.00	Complete
2017	Payson Unif School Dist 10	80%	2843	$159,000.00	$143,100.00	$15,900.00	$0.00	Complete
2017	Santa Cruz Valley HS #35	90%	395	$874,320.00	$830,604.00	$43,716.00	$0.00	Complete
2017	Somerton School District	90%	2973	$236,000.00	$224,200.00	$11,800.00	$0.00	Complete
2017	Stanfield School District 24	90%	529	$950,000.00	$902,500.00	$47,500.00	$0.00	Complete
2017	Tombstone USD	90%	970	$500.00	$475.00	$25.00	$0.00	Complete
2017	Vail School District	60%	12752	$2,000.00	$0.00	$200.00	$0.00	Complete
2017	Yavapai County Education Technology Consortium	80%	26000	$1,808,320.00	$1,627,488.00	$180,832.00	$0.00	Complete
2018	Antelope Union High School	90%	230	$471,778.85	$448,189.91	$23,588.94	$0.00	Complete
2018	Apache County Consortium	85%	0	$1,391,054.00	$1,286,724.95	$104,329.05	$0.00	Complete
2018	Cedar Hills - Hackberry	90%	123	$160,000.00	$152,000.00	$8,000.00	$0.00	Complete
2018	Cochise Elementary SD	80%	87	$153,300.00	$138,000.00	$15,300.00	$0.00	Complete
2018	Cottonwood - Oak Creek	80%	2079	$240,559.81	$216,503.82	$24,055.99	$0.00	Complete
2018	Cupertino PLA	90%	5	$13,317.59	$12,651.71	$665.88	$0.00	Complete
2018	Discovery Plus Academy	80%	119	$14,518.29	$11,614.63	$1,451.83	$1,451.83	Complete
2018	Ganado Unified District 20	90%	1,513	$472,042.64	$448,440.51	$23,602.13	$0.00	Complete
2018	Globe USD	80%	1,668	$585,716.00	$527,144.40	$58,571.60	$0.00	Complete
2018	Grand Canyon USD	80%	283	$5,660,200.37	$5,094,180.34	$566,020.03	$0.00	Complete
2018	Holbrook USD	90%	2,066	$82,432.53	$78,310.90	$4,121.63	$0.00	Complete
2018	Lake Havasu USD	80%	5,508	$842,004.00	$757,803.60	$84,200.40	$0.00	Complete
2018	LaPaz County	90%	0	$3,974,976.00	$3,776,227.20	$198,748.80	$0.00	Complete
2018	Laveen ESD	90%	6,831	$900,000.00	$855,000.00	$45,000.00	$0.00	Complete
2018	Littleton School District	90%	387	$629,000.00	$597,550.00	$31,450.00	$0.00	Complete
2018	Maricopa Unified	80%	6,636	$1,850,000.00	$1,665,000.00	$185,000.00	$0.00	Complete
2018	Mohawk Valley Elementary	90%	1,141	$365,771.56	$347,482.98	$18,288.58	$0.00	Complete
2018	Nogales USD	90%	8,500	$947,000.00	$899,650.00	$47,350.00	$0.00	Complete
2018	Pinal County Consortium	85%	0	$33,779,395.00	$31,245,940.37	$2,533,454.63	$0.00	Complete
2018	Pinal County Schools	80%	0	$75,012.00	$67,510.80	$7,501.20	$0.00	Complete
2018	PPEP, Inc	90%	800	$7,500.00	$7,125.00	$375.00	$0.00	Complete
2018	Prescott USD	60%	4,003	$101,180.10	$69,282.06	$10,118.01	$21,780.03	Complete
2018	Saddle Mountain SD	80%	1,764	$1,149,000.00	$1,034,100.00	$114,900.00	$0.00	Complete
2018	Show Low School District	80%	2,324	$199,548.40	$179,593.56	$19,954.84	$0.00	Complete
2018	Snowflake School District	70%	2,542	$217,800.00	$174,240.00	$21,780.00	$21,780.00	Complete

Funding Year	Applicant Name	Discount Percentage	Student Count	Total Filed	Erate Portion	State Portion	School Portion	Status
2018	Tombstone Library	80%	0	$25,000.00	$22,500.00	$2,500.00	$0.00	Complete
2018	Tombstone USD	80%	742	$4,000.00	$3,600.00	$400.00	$0.00	Complete
2018	Vail District	60%	12,860	$4,545,792.00	$3,182,054.40	$454,579.20	$909,158.40	Complete
2018	Yavapai ASD #99	80%		$30,828.34	$27,741.50	$3,082.84	$0.00	Complete
2019	Desert Star Academy	90%	500	$28,447.00	$27,024.65	$1,422.35	$0.00	Complete
2019	Gila County Consortium	83%	6,800	$19,490,128.46	$17,541,115.61	$1,949,012.85	$0.00	Complete
2019	Heber-Overgaard USD 6	80%	520	$1,000,342.46	$900,308.20	$100,034.26	$0.00	Complete
2019	JO Combs	70%		$27,801.00	$22,240.80	$2,780.10	$2,780.10	Complete
2019	Little Singer School	90%	150	$777,660.01	$738,777.01	$38,883.00	$0.00	Complete
2019	Navajo County Consortium	80%	0	$537,405.00	$537,405.00	$0.00	$0.00	Complete
2019	Orme School	80%	140	$727,448.11	$654,703.30	$72,744.81	$0.00	Complete
2019	Shonto Prep	90%		$71,438.62	$67,866.69	$3,571.93	$0.00	Complete
2019	Yucca School	90%	50	$351,049.00	$333,496.55	$17,552.45	$0.00	Complete
2020	Buckeye Elementary	80%	5,614	$360,000.00	$324,000.00	$36,000.00	$0.00	Complete
2020	Douglas Unified School District	90%	4,225	$266,500.00	$253,175.00	$13,325.00	$0.00	Complete
2020	Gila Bend USD	90%	478	$8,543.50	$8,116.33	$427.18	$0.00	Complete
2020	Hunters Point	90%	145	$10,703.89	$10,168.70	$535.19	$0.00	Complete
2020	Liberty School District	70%	3,899	$216,000.00	$172,800.00	$21,600.00	$21,600.00	Complete
2020	Navajo Nation	90%	0	$4,788,550.59	$4,549,123.06	$239,427.53	$0.00	**Funded - In process**
2020	Paloma Elementary	90%	123	$1,651,035.00	$1,568,483.25	$82,551.75	$0.00	Complete
2020	Saddle Mountain School District	80%	2,179	$160,000.00	$128,000.00	$16,000.00	$0.00	Complete
2021	Beaver Creek	80%	275	$1,500,000.00	$1,350,000.00	$150,000.00	$0.00	Complete
2021	Buckeye ESD	80%	5,455	$125,860.00	$113,274.00	$12,586.00	$0.00	Complete
2021	Liberty School District	70%	4,531	$38,045.00	$30,434.00	$3,804.50	$3,804.50	Complete
2021	Maricopa Unified	80%	7,992	$203,499.00	$183,149.10	$20,349.90	$0.00	Complete
2021	Navajo Nation (5 sites)	90%	0	$861,116.16	$818,060.35	$43,055.81	$0.00	**Funded - In process**
2021	Navajo Nation (9 sites)	90%	0	$11,348,412.14	$10,780,991.53	$567,420.61	$0.00	**Funded – In process**
2021	Patagonia School District	90%	160	$720,050.00	$684,047.50	$36,002.50	$0.00	Complete
2021	Pinon Community School	90%	42	$61,374.00	$58,305.30	$3,068.70	$0.00	Cancelled
2021	Sentinel School District	90%	42	$155,250.00	$147,487.50	$7,762.50	$0.00	Complete
2021	Snowflake USD	70%	0	$116,600.00	$93,280.00	$11,660.00	$11,660.00	Complete
2021	Somerton District	90%	0	$468,279.67	$444,865.69	$23,413.98	$0.00	Complete
2021	Sonoita / Elgin	60%	122	$782,015.00	$547,373.20	$156403.00	$0.00	Complete
2021	Theodore Roosevelt School	90%	140	$3,091,499.60	$2,936,924.62	$154,574.98	$0.00	Complete
2021	Yuma ESD	80%	9,012	$27,524.13	$24,771.72	$2,752.41	$0.00	Complete
2021	Yuma UHSD - San Luis	80%	11,348	$1,188,567.00	$1,069,710.30	$118,856.70	$0.00	Complete
2021	Yuma UHSD - Somerton	80%	0	$525,000.00	$472,500.00	$52,500.00	$0.00	Complete

Funding Year	Applicant Name	Discount Percentage	Student Count	Total Amount Filed	Erate Portion	State Portion	School Portion	Status
2022	Florence Unified	80%	9,493	$944,650.00	$850,185.00	$94,465.00	$0.00	Complete
2022	Littleton ESD	84%	6,321	$249,642.00	$237,159.90	$12,482.10	$0.00	Complete
2022	Murphy ESD	90%	1,400	$625,227.00	$593,966.00	$31,261.00	$0.00	**Funded – In process**
2022	Pinal County Consortium	90%	355	$4,402,157.00	$4,005,962.87	$396,194.13	$0.00	Complete
2022	Santa Cruz HS #35	90%	3,441	$1,080,000.00	$1,026,000.00	$54,000.00	$0.00	Complete
2022	Solomon District	80%	200	$16,000.00	$14,400.00	$1,600.00	$0.00	Complete
2022	Safford USD	80%	2,940	$8,880.74	$7,992.67	$888.07	$0.00	Complete
2023	Pinal CC (Canyon State, Imagine Superstition, Imagine Coolidge))	90%	1,894	$1,242,994.00	$1,131,124.54	$111,869.46	$0.00	Complete
2024	Altar Valley District	90%	517	$207,935.66	$197,538.88	$10,396.78	$0	**Funded**
2024	Cibecue Library	90%	0	$930,000.00	$883,500.00	$46,500.00	$0.00	Awaiting Approval
2024	Flowing Wells	90%	5,093	$1,740,707.00	$1,653,671.65	$87,035.35	$0.00	Awaiting Approval
2024	Kingman Academy of Learning	50%	1,451	$266,016.00	$159,609.60	$26,601.60	$79,804.80	**Funded**
2024	Native American Christian School	90%	27	$794,026.00	$754,324.70	$39,701.30	$0.00	Awaiting Approval
2024	Pima USD	70%	1,142	$23,600.00	$18,880.00	$2,360.00	$2,360.00	Awaiting Approval
2024	Pinon Community School	90%	42	$95,406.00	$90,635.70	$4,770.30	$0.00	Awaiting Approval
2024	Snowflake USD	80%	2,962	$112,010.00	$100,809.00	$11,201.00	$0.00	Awaiting Approval
2024	Vail District	60%	14,015	$108,584.00	$76,008.80	$10,858.40	$21,709.60	Awaiting Approval
2024	Willcox	80%	1,124	$52,954.96	$47,659.46	$5,295.50	$0.00	Awaiting Approval

- Project calls are hosted every 2 weeks on Tuesdays for all active projects. Call is open to the public via Zoom.
- Navajo Nation is not managed by ADE, they opted to pay a consultant to manage their projects (Infinity).

Bandwidth Across the State

Currently, **85%** of our districts have access to unlimited bandwidth. Today, Arizona exceeds the National Average at **90%** of our schools meeting the one megabit per second goal (national average is 76%). We do not track Charter Schools and Libraries where many utilize DSL services. Tribal areas have proven to be the most challenging in delivering internet and wide area network services. BIE schools have bandwidth provided by BIE but can participate in our broadband program if they choose.

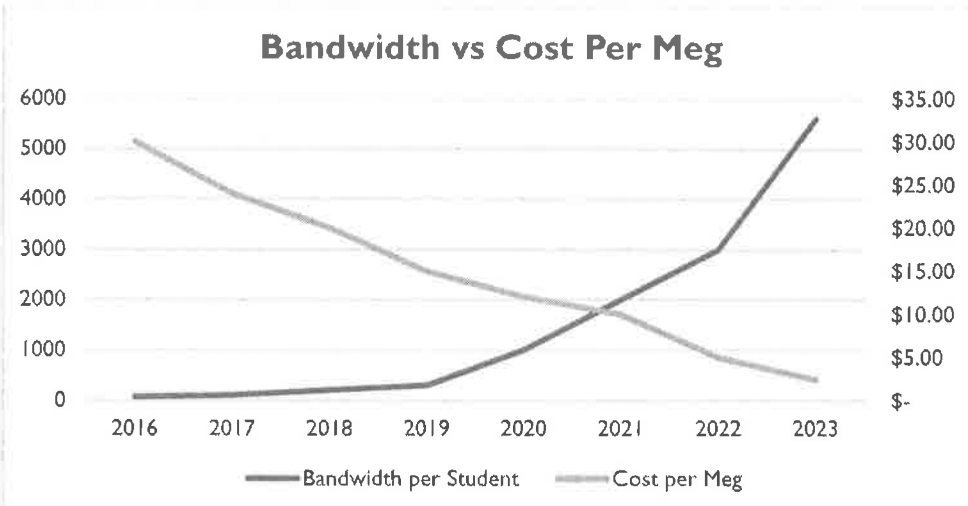
Partnering with the County School Superintendents in building county wide networks has proven to be the most successful model in reducing costs and providing the highest service levels.

Delivering reliable bandwidth to schools and libraries is extremely important in educating our students. As applications and curriculum develop, they become more bandwidth intensive. Having a cost effective, reliable high-speed fiber connection becomes mandatory to keep up with the demand. Today 87% of Arizona students receive at least 1.5M per student and 12% receive 4.4M per student.

Building fiber to the school provides the potential for unlimited available bandwidth.

Cost Per Meg

The Arizona Broadband for Education Initiative has been a key factor in bringing the cost of bandwidth down across the state. Funding new broadband builds brings low-cost, high-performing services to our most rural areas. In 2016, before we started the broadband projects, $10 per meg was considered a good price. Today, we expect less than $5 per meg (Prices include Access and transport).



Bandwidth "Recommendations"

We cannot force an entity to purchase bandwidth, but we can provide the bandwidth and give them the opportunity to purchase via the Erate program. Discounts range from 40% to 90% based on their NSLP (National School Lunch Program) discount level.

Internet Service Provider		
School Year	**2017-18**	**2020-21**
Small School District (fewer than 1,000 students)	At least 1.5 Mbps per user (Minimum 100 Mbps for district)	At least 4.3 Mbps per user (Minimum 300 Mbps for district)
Medium School District Size (3,000 students)	At least 1.0 Gbps per 1,000 users^	At least 3.0 Gbps per 1,000 users
Large School District (more than 10,000 students)	At least 0.7 Gbps per 1,000 users	At least 2.0 Gbps per 1,000 users

(These are the last published guidelines from SETDA)

The Arizona Broadband for Education Initiative has been hugely successful and is a proven model for other states in providing high-speed internet access to schools in rural areas.

Made possible by;

Funding for this initiative:

- Arizona Governor's Office
- Arizona Corporation Commission
- Arizona Legislature
- Arizona Department of Education

Fully Supported by:

- Arizona Department of Administration
- Arizona Corporation Commission - Commissioner Lea Marquez Peterson
- Arizona State School Superintendent – Tom Horne
- Education SuperHighway
- Apache County School Superintendent – Joy Whiting
- Yavapai County School Superintendent – Tim Carter
- Cochise County School Superintendent – Jacqui Clay
- Gila County School Superintendent – Roy Sandoval
- Navajo County School Superintendent – Jalyn Gerlich
- Pinal County School Superintendent – Jill Broussard
- La Paz County School Superintendent – Dru Wagoner
- Coconino County School Superintendent – Cheryl Mango-Paget
- Santa Cruz County School Superintendent – Alfredo Velasquez
- Mohave County School Superintendent – Mike File
- Arizona Rural Schools Association – Melissa Sadorf

For questions regarding the "Arizona Broadband for Education Initiative", contact:

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STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Chandler Coiner, Senior Fiscal Analyst

SUBJECT: AHCCCS/Department of Economic Security - Review of Capitation Rate Changes for Plan Year 2025

Request

Pursuant to an FY 2025 General Appropriation Act footnote, the state's Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The request includes Contract Year Ending (CYE) 2025 capitation rates (October 2024 – September 2025) for the Arizona Health Care Cost Containment System (AHCCCS) and the Department of Economic Security's (DES) Arizona Long Term Care System (ALTCS) program.

Committee Options

The Committee has at least the following 2 options:

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

Analysis

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

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[1] The capitation rates are updated annually for changes in utilization and unit costs, as well as AHCCCS fee schedule changes and programmatic adjustments. Federal regulations require that AHCCCS establish rates that are "actuarially sound," meaning that the rates "are projected to provide for all reasonable, appropriate, and attainable costs that are required under the terms of the contract" with the managed care plan. The proposed rates must be certified by an actuary. These rates may include both unavoidable expenses as well as discretionary changes in the operation of the Medicaid program.

Key Points

1) AHCCCS is proposing a capitation adjustment across the state's Medicaid programs, both within AHCCCS and DES – Developmental Disabilities (DD).
2) The adjustment includes an average 3.6% increase across AHCCCS programs, which would cost $31.7 million above the General Fund budget.
3) We do not have sufficient AHCCCS enrollment data to know whether this cost would be offset by caseload savings.
4) DD rates would increase by 11.2% above the original FY 2024 rates, which we estimate would cost $75.7 million above the General Fund budget.
5) The DD rates increase appears to be primarily associated with substantial cost increases in the Parents as Paid Caregivers (PPCG) program.
6) We lack sufficient information to be able to evaluate the reasonableness of the Executive's assumptions concerning the cost of the PPCG program.

Unless otherwise specified, the dollar values in this memo represent Total Funds.

AHCCCS Rate Adjustment

Within AHCCCS, the rates are increasing by 3.6%, or approximately $462.0 million, in CYE 2025 (October 1, 2024 – September 30, 2025).

Members between the ages of 1 and 20 will be receiving the largest rate increase of 13.8%. These members tend to belong to population categories with a larger General Fund component. Due to this, we estimate the overall rate adjustment results in a $31.7 million General Fund cost above the FY 2025 budget. This cost may be offset by caseload-related or other savings. However, we do not have sufficient AHCCCS enrollment data at this time to know whether these savings will materialize.

The AHCCCS rate adjustment components are described in Attachment A.

DES – DD Rate Adjustment

Within DD, the rates are increasing by 11.2% compared to the original CYE 2024 rates. (The DD rates were revised mid-year but were not reviewed by the Committee). The FY 2025 budget, however, assumed the rates would only be increasing by 4.0%. As a result, we estimate the 11.2% adjustment results in $75.7 million of General Fund costs above the FY 2025 budget. Based on currently available DD enrollment data, we do not believe this cost will be offset by lower-than-budgeted caseloads.

We think that much of this adjustment relates to the Parents as Paid Caregivers program, which is described in more detail below. The overall DD rate adjustment components are also further described in Attachment A.

Parents as Paid Caregivers (PPCG)

During the COVID-19 pandemic, federal regulators temporarily allowed AHCCCS and its contractors to pay parents for providing attendant care and habilitation services to their minor children to address the shortage of direct care workers (DCWs) available for ALTCS during the pandemic. Attendant care means providing assistance in day-to-day tasks such as cleaning, cooking, and personal hygiene, while habilitation services involve methods/trainings to improve the member's life skills and independence.

In order to participate, parents must meet all DCW requirements, which includes being employed/contracted with an agency and passing the necessary DCW competency tests. The agency employing/contracting with the parent is paid according to the DES rate schedule for attendant care and habilitation, and the parent is reimbursed based at a rate determined between the parent and the agency.

DES has used federal American Rescue Plan Act (ARPA) funding for the program during the pandemic. The program was set to expire at the end of the COVID-19 public health emergency. However, AHCCCS received approval from the federal government to temporarily extend the program through calendar year 2023 and requested that federal regulators approve the program on an ongoing basis beginning in 2024. On February 16, 2024, the request for ongoing operation of the program was granted. The federal approval required AHCCCS and DES to limit paid hours per parent to 40 hours per week (there was no cap on paid hours during the pandemic), but total hours of services can still exceed 40 if the parent identifies an alternative caregiver. The program will remain in effect through September 30, 2027, at which point AHCCCS will need to request an extension from the federal government.

AHCCCS and DES now believe the net costs of the ongoing PPCG program are significantly higher than the agencies previously projected. In its FY 2025 budget proposal in January, the Executive requested $4.2 million General Fund and $12.9 million Total Funds for PPCG. In April, the Executive estimated the annual cost as $38.8 million General Fund and $116.5 million Total Funds.

In the spring, the Executive attributed the increase to higher-than-expected utilization for attendant care and habilitation due mainly to the PPCG program. In the mid-year rate revision for FY 2024, AHCCCS actuaries assumed that utilization of attendant care and habilitation would be approximately 23% higher in FY 2024 compared with FY 2022. The Executive said that they discovered this higher utilization due to a new Electronic Visit Verification (EVV) system that it implemented in 2023 to comply with federal requirements. We are uncertain as to why the Executive would not have a better perspective on the potential cost prior to requesting the waiver from the federal government to continue the program.

In the FY 2025 capitation rates, AHCCCS actuaries are assuming that utilization of attendant care and habilitation increase in FY 2025 above FY 2024 by an additional 11% and 19%, respectively. These increases appear to also be connected to the PPCG program. The agency submittal, however, does not describe how these estimated cost increases were derived or what its specific assumptions were in terms of the number of participants or hours reimbursed under PPCG. As a result, we are unable to evaluate the reasonableness of the agency's proposal.

CC:kp

Attachment A
Rate Adjustment Components

The 3.6% rate adjustment within AHCCCS consists of the following:

1. $348.7 million for utilization-related factors. This includes the following: 1) a rebase associated with higher-than-anticipated utilization than the actuaries projected in developing the capitation rates last year, 2) projected changes in utilization (i.e. more use of services), 3) unit cost changes (i.e. changes in the "mix" of services used), and 4) a COVID-19-related "acuity adjustment."

   Based on actual utilization in CYE 2023 and recent trends, AHCCCS actuaries determined that use and cost of services was higher than anticipated in last year's capitation rates, resulting in an increase of 1.3%. The actuaries also anticipate that with the end of the pandemic-era prohibition on disenrollment in April 2023, the remaining AHCCCS population in CYE 2025 will likely have higher average health needs than in CYE 2024. As a result, the actuaries included an acuity adjustment of 1.5%.

2. $103.6 million for fee schedule and programmatic changes. These include:

   - Coverage for the processing, storage, and distribution of human breast milk in cases of medical necessity for infants.
   - Coverage of a prescription medication (resmetirom) that treats adults with nonalcoholic steatohepatitis.
   - Coverage of a prescription medication (semaglutide) to reduce the risk of heart problems in obese or overweight adults.
   - Coverage for corneal cross-linking treatment used to prevent the progression of corneal ectasia.
   - Requiring providers to offer annual syphilis testing for members aged 15 and older.
   - Requiring providers in the public mental health system to use a specific assessment tool for addiction treatment.
   - Expand preventative services to include services provided by a state-certified doula.

3. $9.7 million for increased administrative costs for the contracted health plans.

The 11.2% rate adjustment within DD consists of the following:

1. $290.1 million for utilization-related factors, including utilization of the PPCG program. The DD rate is not receiving an acuity adjustment similar to the one many population categories within AHCCCS are receiving.

2. $66.8 million for fee schedule and programmatic changes.

3. $2.8 million for additional case management costs, technical and administrative issues, and other adjustments.

Katie Hobbs, Governor
Carmen Heredia, Director

September 3, 2024

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

Dear Senator Kavanagh:

The Arizona Health Care Cost Containment System (AHCCCS) has completed its actuarial analysis of Managed Care Organization (MCO) capitation rates that are effective beginning October 1, 2024, and respectfully requests to be placed on the agenda of the next JLBC meeting to review these rates.

In accordance with Federal regulations, MCO capitation rates must be actuarially sound and must be approved by the Centers for Medicare and Medicaid Services (CMS). They must cover the anticipated costs for providing medically necessary services to AHCCCS members. As such, capitation rates are developed to reflect the costs of services provided as well as utilization of those services by AHCCCS members. Capitation rate trends reflect a combination of changes in cost and utilization, calculated as a per member per month (PMPM) expenditure to AHCCCS Contractors (including other state agencies, the Arizona Department of Economic Security/Division of Developmental Disabilities (DES/DDD) and the Department of Child Safety Comprehensive Health Plan [DCS CHP]).

The Arizona Long Term Care System – Elderly and Physical Disability (ALTCS-EPD) Program was set to transition from a previous contract to a new contract with different MCOs effective October 1, 2024. That transition has been paused. Actuarially sound capitation rates were developed for the transition. AHCCCS actuaries are working to redevelop capitation rates for the prior MCOs that will be continuing to serve ALTCS-EPD members during the pause. The tables and figures referenced in this document use the rates which were developed for the transition. Final ALTCS-EPD capitation rates will be provided as soon as they are available and it is anticipated that the growth associated with the final ALTCS-EPD rates should be similar in total to those rates developed for the transition; therefore, those capitation rates are included herein as a proxy for the program.

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

In addition to the annual rate development, the capitation rates must be amended mid-year when action occurs that is expected to impact the MCOs' expenses by a material amount (as determined by the actuaries) and a rate adjustment is required to maintain actuarial soundness. AHCCCS strives to mitigate the need for mid-year capitation adjustments whenever possible, but has identified a few reasons why such action might be necessary during Contract Year Ending (CYE) 2025:

- Adjustments have been included in this year's AHCCCS Complete Care (ACC) and AHCCCS Complete Care - Regional Behavioral Health Agreement (ACC-RBHA) capitation rates to reflect the unwinding of the COVID-19 Public Health Emergency (PHE) continuous coverage requirements. These adjustments may need to be revisited if there are material differences in actual experience vs projections associated with the average cost profiles of remaining enrollees. The actuaries will be evaluating the remainder of the CYE 24 experience to determine if, and how far, the acuity adjustments included in the CYE 25 capitation rates differ from more recent experience.
- A reduction in the requirements related to prior authorization and step therapy for oral antipsychotics was made after the development of the capitation rates; the actuaries will be monitoring the experience for these specific drugs to determine whether the change is having a material impact on the MCOs' costs.

This letter details the annual renewal of rates for CYE 2025 from October 1, 2024, through September 30, 2025, for the following programs: ACC, ACC-RBHA, DCS CHP, ALTCS-EPD, and ALTCS-DD (DES/DDD).

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

Background and Summary

Rates outlined in this letter will be submitted to CMS to be effective October 1, 2024. The utilization and unit cost trends for all programs are detailed in the attached actuarial certifications. Anticipated increases in utilization of existing covered services attributable to specific initiatives or policy guidance are separately detailed. Provider rate adjustments and program changes are also identified.

In CYE 2025, capitation rate growth for all programs can be categorized into two major components:

- Capitation rate growth unrelated to COVID-19, driven primarily by changes in base data, changes in pharmacy expenses, as well as utilization and unit cost trends, and
- Capitation rate growth related to COVID-19, driven by the unwinding of the PHE, particularly the end of the Medicaid continuous coverage requirements and subsequent disenrollments, as well as reduced direct federal funding for COVID-19 vaccines and treatments.

On the next page, Table I displays the overall capitation rate growth unrelated to COVID-19 for all AHCCCS programs, including DES/DDD, as a 2.59 percent increase as shown in "Column 1." Table I also includes data detailing capitation changes related to COVID-19 which account for a 1.61 percent increase for all AHCCCS programs, including DES/DDD, as shown in "Column 2."

The combined, overall capitation rate increase (non-COVID-19 and COVID-19) for all AHCCCS programs, including DES/DDD, is projected to be 4.2 percent. See "Column 3" in Table I for overall capitation impacts by program. The capitation rate growth budgeted by the Legislature for SFY 2025 was 4.0 percent for AHCCCS and DES/DDD, as reported in the JLBC FY 2025 Appropriations Report. AHCCCS therefore anticipates the CYE 2025 capitation adjustments should be funded within existing resources.

Table I. CYE 2025 Capitation Rate Changes

	CYE 2025 Changes from CYE 2024 Rates		
	1	2	3
Program	**Unrelated to COVID-19**	**Related to COVID-19**	**Total**
ACC	0.66%	2.67%	3.33%
ACC-RBHA	5.70%	0.58%	6.29%
DCS CHP	23.30%	0.06%	23.36%
ALTCS-EPD	1.33%	0.01%	1.35%
AHCCCS Total	**1.57%**	**2.03%**	**3.60%**
ALTCS-DD	6.48%	0.04%	6.52%
TCM	4.00%	0.00%	4.00%
DES/DDD Total	**6.47%**	**0.04%**	**6.51%**
AHCCCS and DES/DDD Total	**2.59%**	**1.61%**	**4.20%**

Drivers of Growth Unrelated to COVID-19

An increase of 2.59 percent in the capitation rates is attributable to the following non-COVID-19 factors, which are described more fully in subsequent pages:

1. Rebase – Adjustments to medical expenses to reflect more recent incurred experience account for a net increase of 5.12 percent.
2. Trend – The assumed change in utilization and unit cost trends for medical services accounts for an increase of 1.63 percent.
3. Reimbursement and Programmatic Changes – Factors such as adjustments to fee schedules and differential provider rates, Proposition 206, and others account for a decrease of (3.42 percent).
4. Pharmacy Changes and Rx Rebates – Several changes in pharmacy costs, including formulary changes, account for a net decrease of (0.81 percent).
5. Administration, Case Management, and Care Management – Adjustments to the non-benefit cost component of the rates to reflect the costs to administer and manage the programs account for an increase of 0.08 percent.

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

Table II. CYE 2025 Capitation Rate Change by Component - Unrelated to COVID-19

Program	Rebase	Trend	Reimbursement & Programmatic Changes	Pharmacy Changes & Rx Rebates	Admin, Case Management, & Care Management	Total
ACC	1.60%	1.17%	(1.04%)	(1.26%)	0.18%	0.66%
ACC-RBHA	7.04%	0.16%	(0.84%)	(0.83%)	0.17%	5.70%
DCS CHP	20.08%	5.02%	(2.65%)	(0.02%)	0.87%	23.30%
ALTCS-EPD	10.38%	1.73%	(10.30%)	0.13%	(0.61%)	1.33%
ALTCS-DD	10.67%	3.38%	(7.57%)	(0.10%)	0.08%	6.47%
Total	**5.12%**	**1.63%**	**(3.42%)**	**(0.81%)**	**0.08%**	**2.59%**

Rebase and Trends

Capitation rates for all programs except DCS CHP were rebased using actual experience incurred for the period of October 1, 2022, through September 30, 2023. The DCS CHP Program was rebased using experience incurred between April 1, 2021, and March 31, 2022. Across all programs, this adjustment results in an increase of 5.12 percent.

The inclusion of funding associated with increases for medical expense utilization and inflation is required in order to ensure that capitation rates are actuarially sound. The certifying actuaries developed and applied utilization and unit cost trends for categories of service primarily based on actual experience incurred during the period October 1, 2020, through December 31, 2023. Across all programs, the anticipated impact attributable to medical trend is an increase of 1.63 percent compared to the CYE 2024 capitation rates. As can be seen in Table III below, a key driver of medical trend is growth in home and community based services (HCBS), with an average expected trend rate of 6.0 percent across the ALTCS programs. The HCBS trends are responsible for 0.7 percent of the overall capitation rate growth attributable to changes in utilization and unit costs. The increase is more impactful in the ALTCS-DD population where utilization has increased the overall HCBS trend assumptions to above 6.5 percent for the program.

Table III. CYE 2025 Capitation Trends by Category of Service (COS)

	% Contribution to Cap Rate Change	Trend Rate
ACC, ACC-RBHA, and CHP Programs		
Pharmacy	0.1%	4.9%
Physician/Professional/Medical Services	0.1%	2.9%
Inpatient Hospital & Nursing Facility	0.1%	2.4%
Outpatient Hospital	0.1%	2.8%
Transportation	0.1%	3.2%
Community Health Centers	0.2%	4.0%
Other	0.1%	2.8%
Sub-Total Non-ALTCS Trend	**0.75%**	**3.22%**

ALTCS-EPD and DES/DDD Programs		
Home and Community Based Services	0.7%	6.0%
Acute Care & Behavioral Health	0.1%	4.4%
Nursing Facility and Institutions	0.1%	3.4%
Sub-Total ALTCS Trends	**0.88%**	**5.37%**
TOTAL TRENDS ALL COS	**1.63%**	**3.90%**

Reimbursement and Programmatic Changes

AHCCCS makes adjustments to provider rates based on access to care issues; based on Medicare rate adjustments when rates are tied to Medicare; to differentiate providers who support actions that improve patients' care experience, improve members' health, and reduce cost of care growth; and to meet federal or state requirements. The impact on overall AHCCCS capitation rates from these provider rate adjustments is a decrease of (3.24 percent). In addition, rates decreased (0.19 percent) for other programmatic changes. The combined impact across these rate development components is a decrease of (3.42 percent) to the capitation rates.

Pharmacy Changes

Several changes related to pharmacy expenditures are included in the CYE 2025 capitation rates, including changes to the formulary, market changes associated with provisions of the American Rescue Plan Act effective January 1, 2024, and projected MCO pharmacy rebates. Across all programs, these changes account for a net decrease of (0.81 percent) to the capitation rates.

Administration, Care Management, and Case Management

Across all programs, the adjustment of rates to address the costs to administer the programs and manage care for AHCCCS enrollees accounts for a net change of 0.08 percent. The net change also includes decreases to the underwriting gain percentage in CYE 2025 for the ACC, ACC-RBHA, and ALTCS-EPD populations. The underwriting gain is a non-benefit cost that covers contributions to reserves, risk margin, and cost of capital for the MCOs.

Drivers of Growth Related to COVID-19

An increase of 1.61 percent in the capitation rates is attributable to COVID-19, primarily driven by the unwinding of the COVID-19 PHE; with the end of the continuous coverage requirement, lower cost members began disenrolling from Medicaid during CYE 2023 continuing into CYE 2024, resulting in an increase in the average cost profile of the remaining Medicaid members. To account for this change in the average cost profile, AHCCCS actuaries applied acuity adjustment factors to the rates for a net increase of 1.15 percent across all programs.

The acuity adjustment factors are applied to the ACC and ACC-RBHA rates. The acuity adjustment factors incorporated into capitation rate development reflect the actual disenrollments through May 2024 and the differences in costs between disenrolled members and members who are still enrolled. The actuaries will continue to monitor the experience through the remainder of the contract year ending September 30, 2024, to judge whether the patterns of utilization and expenditures remain in line with the factors assumed. If the actual expenditures by risk group are materially different than projected, the acuity adjustment factors may need to be revisited. If, after review, the actuaries determine that adjustments to the capitation rates are necessary, a new contract with the revised capitation rates will be submitted, and if the change results in a capitation rate for any rate cell changing by more than the +/- 1.5% (de minimis allowable by CMS without recertification), an amended actuarial certification will be submitted.

Note that the CYE 2025 capitation rates also include increased costs associated with COVID-19 vaccines and treatments which were previously funded entirely by the federal government for a net increase of 0.47% across all programs.

Changes in Capitation Rates by Program

ACC Renewal Rates

The CYE 2025 renewal rates for ACC risk groups reflect an increase of 3.33 percent from the most recently submitted rates effective April 1, 2024. Several factors contributed to the change:

- 2.78 percent for rebase and trend adjustments,
- (0.77 percent) for provider reimbursement changes (fee schedule and differential provider rates),
- (0.27 percent) for other program changes,
- (1.26 percent) for pharmacy changes including MCO pharmacy rebates,
- 0.18 percent for administrative and case management, and
- 2.67 percent for COVID-19-related measures.

Please see Appendix Table 2 for more detail.

ACC-RBHA Renewal Rates

The CYE 2025 renewal rates for ACC-RBHA risk groups reflect an increase of 6.29 percent from the most recently submitted rates effective April 1, 2024. Several factors contributed to the change:

- 7.20 percent for rebase and trend adjustments,
- (0.75 percent) for provider reimbursement changes (fee schedule and differential provider rates),
- (0.09 percent) for other program changes,
- (0.83 percent) for pharmacy changes including MCO pharmacy rebates,
- 0.17 percent for administrative and case management, and
- 0.58 percent for COVID-19-related measures.

Laws 2024, Chapter 209 includes a footnote stating:

> "The legislature intends that the percentage attributable to administration and profit for the regional behavioral health authorities be nine percent of the overall capitation rate."

The percentage attributable to administration and profit of the actuarially sound CYE 2025 capitation rates and lump sum directed payments, for the unique RBHA services, is 8.49 percent.

Please see Appendix Table 3 for more detail.

DCS CHP Renewal Rates

The CYE 2025 renewal rates for CHP reflect an increase of 23.36 percent from the most recently submitted rates effective October 1, 2023. Several factors contributed to the change:

- 25.10 percent for rebase adjustments (including an acuity adjustment related to policy changes at DCS CHP purposefully reducing the number of children being removed from their homes, and significantly impacting the average cost profile of the new, smaller, cohort of children entering foster care) and trend adjustments,
- (0.22 percent) for provider reimbursement changes (fee schedule and differential provider rates),
- (2.42 percent) for other program changes,
- (0.02 percent) for pharmacy changes including MCO pharmacy rebates,
- 0.87 percent for administrative and case management, and
- 0.06 percent for COVID-19-related measures.

Please see Appendix Table 4 for more detail.

ALTCS-EPD Renewal Rates

The previously developed rates for CYE 2025 for ALTCS-EPD reflect an increase of 1.35 percent from the most recently submitted rates effective October 1, 2023. Several factors contributed to the change:

- 12.11 percent for rebase and trend adjustments,
- (10.05 percent) for provider reimbursement changes (fee schedule and differential provider rates),
- (0.24 percent) for other program changes,
- 0.13 percent for pharmacy changes including MCO pharmacy rebates,
- (0.61 percent) for administrative and case management, and
- 0.01 percent for COVID-19-related measures.

Please see Appendix Table 5 for more detail.

ALTCS-DD Renewal Rates

The CYE 2025 renewal rates for ALTCS-DD reflect an increase of 6.52 percent from the most recently submitted rates effective October 1, 2023. Several factors contributed to the change:

- 14.14 percent for rebase and trend adjustments, primarily driven by increased expenditures for attendant care services, habilitation services per 15 minutes, and applied behavioral analysis,
- (7.72 percent) for provider reimbursement changes (fee schedule and differential provider rates),
- 0.11 percent for other program changes,
- (0.10 percent) for pharmacy changes including MCO pharmacy rebates,
- 0.06 percent for administrative and case management, and
- 0.04 percent for COVID-19-related measures.

Additionally, CYE 2025 rates for targeted case management (TCM) reflect an increase of 4.00 percent from the most recently submitted rates effective October 1, 2023.

Please see Appendix Table 6 for more detail.

Lump Sum Payments

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

Access to Professional Services Initiative

The Access to Professional Services Initiative (APSI) provides a uniform percentage increase to reimbursement for qualified practitioners. Under 42 CFR § 438.6(c), this is considered a "directed payment" arrangement and is subject to prior approval by CMS. The increase in reimbursement under this initiative ensures access to care for AHCCCS members and will allow providers to achieve quality outcomes, including reducing readmissions and increasing preventative screenings, that help to bend the health care cost curve. APSI provides a uniform percentage increase of 75 percent to otherwise contracted rates for qualified practitioners for all claims for which AHCCCS is the primary payer. The rate increase is intended to supplement, not supplant, payments to eligible providers. The initiative is funded via intergovernmental transfers (IGTs) and no General Fund monies are required. The total estimated payment amount for CYE 2025 is $310.4 million Total Fund.

Alternative Payment Model Initiative – Performance-Based Payments

In CYE 2016, AHCCCS began reimbursing MCOs under the Alternative Payment Model (APM) Initiative-Performance-Based Payments (PBP) Incentive. Under 42 CFR §§ 438.6(a) and (b), these payments are considered an incentive arrangement that provides limited funding to MCOs to support activities that advance the AHCCCS Quality Strategy. The purpose of the initiative is specifically to promote MCO activities that focus on quality improvement and that result in improved health outcomes and cost containment. This initiative is a key component to the AHCCCS goal to pursue and implement long term strategies that bend the cost curve while improving member health outcomes. PBP funding allows MCOs to make incentive payments to providers that meet specific performance objectives or criteria. Excluding DES/DDD, for CYE 2023 the total payment amount, which will be paid during CYE 2025, is estimated to be $70.8 million Total Fund.

HEALTHII Payments

Laws 2020, Chapter 46, Section 2 established a new hospital assessment that is deposited into the Health Care Investment Fund and used to make Hospital Enhanced Access Leading to Health Improvements Initiative (HEALTHII) directed payments (authorized under 42 CFR § 438.6(c) and subject to prior approval by CMS) to hospitals and to increase base reimbursement for services reimbursed by AHCCCS under the dental fee schedule and physician fee schedule. The HEALTHII payments are made as lump sum payments outside of base capitation rates, and so do not contribute to overall capitation rate growth. The total payments for HEALTHII during CYE 2025 are estimated to be $3.09 billion, and do not include any General Fund monies.

Nursing Facility - Supplemental Payments

The 2016 Medicaid Managed Care Final Rule required that pass-through payments to physicians and nursing facilities be phased out within five years of the effective date of the final rule. AHCCCS therefore transitioned the previous nursing facility pass-through payments into a 42 CFR § 438.6(c) directed payment arrangement, subject to prior approval by CMS. The Nursing Facility – Supplemental Payments (NF-SP) provide a uniform dollar increase per bed day for qualified facilities. The rate increase is intended to supplement, not supplant, payments to eligible providers. The NF-SP initiative is funded by the quarterly nursing facility assessments and no General Fund monies are required. The total NF-SP amounts for CYE 2025 are estimated to be $92.4 million Total Fund.

Pediatric Services Initiative

The Pediatric Services Initiative (PSI) is a directed payment arrangement under 42 CFR § 438.6(c) and is subject to prior approval by CMS. PSI provides an estimated uniform percentage increase of 16 percent for hospital services provided by a freestanding children's hospital or pediatric unit of a general acute care hospital with more than 100 beds. The increase in reimbursement under PSI ensures access to care for pediatric members and will support provider strategies to manage care for those members with complex conditions. Specifically, this program is anticipated to help reduce unplanned readmissions and hospital-acquired conditions, and thereby bend the health care cost curve. This initiative is funded via IGTs, and no General Fund monies are required. The total estimated payment amount for CYE 2025 is $59.1 million Total Fund.

Safety Net Services Initiative

The Safety Net Services Initiative (SNSI) is a directed payment arrangement under 42 CFR § 438.6(c) and is subject to prior approval by CMS. The SNSI directed payment provides a uniform percentage increase for inpatient and outpatient services provided by the eligible public safety net hospital. The SNSI uniform percentage increase is based on a fixed total payment amount and is expected to fluctuate based on utilization in the contract year. This increase is intended to supplement, not supplant, payments to the eligible public safety net hospital. This initiative is funded via IGTs, and no General Fund monies are required. The total estimated payment amount for CYE 2025 is $388.5 million Total Fund.

Targeted Investments 2.0 Payments

Under the approved 1115 Waiver, AHCCCS has a Targeted Investments 2.0 (TI 2.0) initiative which supports Arizona's goal to fully transform the Medicaid delivery system to an integrated whole person care structure by encouraging providers to thoughtfully develop infrastructure and protocols to optimize coordination of services designed to meet the member's acute, behavioral, and health-related social needs and address identified health inequities amongst their patient population. AHCCCS will achieve this goal by supporting providers throughout the state to develop and enhance care coordination processes with health care and community-based organizations and provide guidance, tools, and technical assistance for internal population health analyses. The TI 2.0 initiative is a directed payment arrangement under 42 CFR § 438.6(c), subject to prior approval by CMS, and is funded via Designated State Health Programs (DSHP) and IGT funding; no General Fund monies are required. The total payments for TI 2.0 during CYE 2025 are estimated to be $63.3 million Total Fund.

The actuarial certifications for the capitation rates are attached. Should you have any questions on any of these issues, please feel free to contact Erica Johnson, Chief Actuary, at erica.johnson@azahcccs.gov.

Sincerely,

Carmen Heredia
Director

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

Appendix Table 1A
CYE 2025 Medicaid Capitation Rates

	CYE 24 Rate			CYE 25 Rate			CYE 25 Change from CYE 24 Rates		
							1	2	3
Program	**Unrelated to COVID-19**	**Related to COVID-19**	**Total**	**Unrelated to COVID-19**	**Related to COVID-19**	**Total**	**Unrelated to COVID-19**	**Related to COVID-19**	**Total**
ACC	$410.99	$ 13.47	$424.46	$413.78	$ 24.82	$438.60	0.66%	2.67%	3.33%
ACC-RBHA	$62.58	$ 0.69	$63.27	$66.18	$ 1.06	$67.24	5.70%	0.58%	6.29%
CHP	$1,309.32	$ 12.78	$1,322.09	$1,617.35	$ 13.61	$1,630.97	23.30%	0.06%	23.36%
ALTCS-EPD	$5,503.26	$ (0.18)	$5,503.08	$5,576.71	$ 0.61	$5,577.32	1.33%	0.01%	1.35%
AHCCCS Total							**1.57%**	**2.03%**	**3.60%**
ALTCS-DD	$6,255.88	$ (1.89)	$ 6,253.99	$6,661.41	$ 0.40	$ 6,661.80	6.48%	0.04%	6.52%
TCM	$222.25	$0.00	$222.25	$231.13	$0.00	$ 231.13	4.00%	0.00%	4.00%
DES/DDD Total							**6.47%**	**0.04%**	**6.51%**
AHCCCS and DES/DDD Total							**2.59%**	**1.61%**	**4.20%**

Appendix Table 1B
CYE 2025 Capitation Rates by Risk Group

ACC	CYE 25 Proj MMs	CYE 24 Rates Total	CYE 25 Rates Total	Projected Expenditures CYE 24 Rates CYE 25 Proj MMs	Projected Expenditures CYE 25 Rates CYE 25 Proj MMs	Total Change from CYE 24 Rates
AGE < 1	531,600	$ 762.34	$ 782.50	$ 405,257,900	$ 415,975,500	2.6%
AGE 1-20	8,968,985	$ 213.41	$ 242.95	$ 1,914,037,300	$ 2,179,050,200	13.8%
AGE 21+	3,601,124	$ 425.78	$ 437.96	$ 1,533,289,500	$ 1,577,131,600	2.9%
Duals	1,609,998	$ 169.92	$ 162.86	$ 273,563,400	$ 262,208,800	(4.2%)
SSIWO	631,271	$ 1,296.76	$ 1,356.04	$ 818,607,500	$ 856,031,100	4.6%
ESA	5,877,101	$ 641.68	$ 636.27	$ 3,771,221,000	$ 3,739,410,800	(0.8%)
NEA	951,825	$ 469.95	$ 476.35	$ 447,311,300	$ 453,397,500	1.4%
Delivery	34,086	$ 7,270.71	$ 7,081.45	$ 247,829,500	$ 241,378,200	(2.6%)
Total	22,205,990	$ 424.46	$ 438.60	$ 9,411,117,400	$ 9,724,583,700	3.3%

ACC-RBHA	CYE 25 Proj MMs	CYE 24 Rates Total	CYE 25 Rates Total	Projected Expenditures CYE 24 Rates CYE 25 Proj MMs	Projected Expenditures CYE 25 Rates CYE 25 Proj MMs	Total Change from CYE 24 Rates
SMI	561,467	$ 2,298.79	$ 2,453.78	$ 1,290,694,400	$ 1,377,715,700	6.7%
Crisis	23,733,708	$ 8.88	$ 9.19	$ 210,819,100	$ 218,198,200	3.5%
Total	23,733,708	$ 63.27	$ 67.24	$ 1,501,513,500	$ 1,595,913,900	6.3%

DCS CHP	CYE 25 Proj MMs	CYE 24 Rates Total	CYE 25 Rates Total	Projected Expenditures CYE 24 Rates CYE 25 Proj MMs	Projected Expenditures CYE 25 Rates CYE 25 Proj MMs	Total Change from CYE 24 Rates
Integrated Rate	96,349	$1,322.09	$1,630.97	$ 127,382,600	$ 157,142,200	23.4%

ALTCS-EPD	CYE 25 Proj MMs	CYE 24 Rates Total	CYE 25 Rates Total	Projected Expenditures CYE 24 Rates CYE 25 Proj MMs	Projected Expenditures CYE 25 Rates CYE 25 Proj MMs	Total Change from CYE 24 Rates
Dual	269,502	$4,609.65	$4,692.75	$ 1,242,308,500	$ 1,264,704,600	1.8%
Non-Dual	59,074	$9,578.98	$9,612.78	$ 565,871,100	$ 567,868,000	0.4%
Total	328,576	$ 5,503.08	$ 5,577.32	$ 1,808,179,600	$ 1,832,572,600	1.3%
AHCCCS TOTAL	**23,158,296**			**$ 12,848,193,100**	**$ 13,310,212,400**	3.6%

DES/DDD	CYE 25 Proj MMs	CYE 24 Rates Total	CYE 25 Rates Total	Projected Expenditures CYE 24 Rates CYE 25 Proj MMs	Projected Expenditures CYE 25 Rates CYE 25 Proj MMs	Total Change from CYE 24 Rates
ALTCS-DD	536,106	$ 6,253.99	$ 6,661.80	$ 3,352,799,400	$ 3,571,430,600	6.5%
Targeted Case Management	90,497	$ 222.25	$ 231.13	$ 20,112,800	$ 20,916,900	4.0%
DES/DDD Total	**626,603**	**$ 5,382.86**	**$ 5,733.05**	**$ 3,372,912,200**	**$ 3,592,347,500**	6.5%
AHCCCS & DES/DDD TOTAL	**23,694,402**			**$ 16,221,105,300**	**$ 16,902,559,900**	**4.2%**

Appendix Table 1C
CYE 2025 Capitation Rate Change by Component

Program	Unrelated to COVID-19								Related to COVID-19		All
	Rebase	Trend	Fee Schedule Changes	DAP	Program Changes	Rx Rebates	Pharmacy Changes	Admin, Care Mgt, Case Mgt	COVID-19 Treatment Cost Changes	Acuity Adjustment	Total
ACC	1.6%	1.2%	(1.0%)	0.2%	(0.3%)	(0.0%)	(1.2%)	0.2%	0.8%	1.9%	3.3%
ACC-RBHA	7.0%	0.2%	(0.9%)	0.1%	(0.1%)	(0.0%)	(0.8%)	0.2%	0.1%	0.5%	6.3%
DCS CHP	20.1%	5.0%	(0.5%)	0.2%	(2.4%)	(0.0%)	(0.0%)	0.9%	0.1%	0.0%	23.4%
ALTCS-EPD	10.4%	1.7%	(9.6%)	(0.5%)	(0.2%)	0.0%	0.1%	(0.6%)	0.0%	0.0%	1.3%
AHCCCS Total %	**3.66%**	**1.17%**	**(2.16%)**	**0.08%**	**(0.26%)**	**(0.02%)**	**(0.98%)**	**0.08%**	**0.58%**	**1.45%**	**3.60%**
AHCCCS $ (Millions)	**$469.9**	**$150.6**	**($277.1)**	**$10.9**	**($34.0)**	**($3.0)**	**($125.5)**	**$9.7**	**$74.4**	**$186.2**	**$462.0**
DES/DDD Total %	**10.67%**	**3.38%**	**(7.14%)**	**(0.54%)**	**0.11%**	**0.01%**	**(0.11%)**	**0.08%**	**0.04%**	**0.00%**	**6.51%**
DES/DDD $ (Millions)	**$360.0**	**$114.0**	**($240.9)**	**($18.0)**	**$3.7**	**$0.5**	**($3.9)**	**$2.8**	**$1.2**	**$0.0**	**$219.4**
AHCCCS & DES/DDD TOTAL %	**5.12%**	**1.63%**	**(3.19%)**	**(0.04%)**	**(0.19%)**	**(0.02%)**	**(0.80%)**	**0.08%**	**0.47%**	**1.15%**	**4.20%**
Total $ (Millions)	**$829.9**	**$264.6**	**($518.0)**	**($7.1)**	**($30.3)**	**($2.5)**	**($129.3)**	**$12.5**	**$75.6**	**$186.2**	**$681.5**

Appendix Table 2
AHCCCS Complete Care (ACC) Program
CYE 2025 Capitation Rate Development

	PMPM	
Average CYE 2024 Rate	**$424.46**	
CYE 2025 Adjustments Unrelated to COVID-19	**PMPM Change**	**% Change**
Rebase	$6.81	1.60%
Trend	$4.98	1.17%
Fee Schedule Changes	$(4.08)	(0.96%)
DAP	$0.79	0.19%
Program Changes	$(1.14)	(0.27%)
Rx Rebates	$(0.15)	(0.04%)
Pharmacy Changes	$(5.19)	(1.22%)
Administrative, Case Management, and Care Management	$0.77	0.18%
CYE 2025 Adjustments Unrelated to COVID-19	**$2.79**	**0.66%**
CYE 2025 Adjustments Related to COVID-19	**PMPM Change**	**% Change**
COVID-19 Treatment Cost Changes	$3.27	0.77%
Acuity Adjustment	$8.08	1.90%
CYE 2025 Adjustments Related to COVID-19	**$11.34**	**2.67%**
Average CYE 2025 Rate	**$438.60**	**3.33%**

Appendix Table 3
AHCCCS Complete Care - Regional Behavioral Health Agreement (ACC-RBHA) Program
CYE 2025 Capitation Rate Development

	PMPM	
Average CYE 2024 Rate	**$63.27**	
CYE 2025 Adjustments Unrelated to COVID-19	**PMPM Change**	**% Change**
Rebase	$4.45	7.04%
Trend	$0.10	0.16%
Fee Schedule Changes	($0.54)	(0.86%)
DAP	$0.07	0.11%
Program Changes	($0.05)	(0.09%)
Rx Rebates	($0.00)	(0.00%)
Pharmacy Changes	($0.52)	(0.83%)
Administrative, Case Management, and Care Management	$0.11	0.17%
CYE 2025 Adjustments Unrelated to COVID-19	**$3.61**	**5.70%**
CYE 2025 Adjustments Related to COVID-19	PMPM Change	% Change
COVID-19 Treatment Cost Changes	$0.07	0.11%
Acuity Adjustment	$0.30	0.47%
CYE 2025 Adjustments Related to COVID-19	**$0.37**	**0.58%**
Average CYE 2025 Rate	**$67.24**	**6.29%**

Appendix Table
Comprehensive Health Plan (CHP) Program
CYE 2025 Capitation Rate Development

	PMPM	
Average CYE 2024 Rate	**$1,322.09**	
CYE 2025 Adjustments Unrelated to COVID-19	**PMPM Change**	**% Change**
Rebase	$265.44	20.08%
Trend	$66.39	5.02%
Fee Schedule Changes	($6.13)	(0.46%)
DAP	$3.20	0.24%
Program Changes	($32.06)	(2.42%)
Rx Rebates	($0.05)	(0.00%)
Pharmacy Changes	($0.20)	(0.01%)
Administrative, Case Management, and Care Management	$11.45	0.87%
CYE 2025 Adjustments Unrelated to COVID-19	**$308.04**	**23.30%**
CYE 2025 Adjustments Related to COVID-19	**PMPM Change**	**% Change**
COVID-19 Treatment Cost Changes	$0.83	0.06%
CYE 2025 Adjustments Related to COVID-19	**$0.83**	**0.06%**
Average CYE 2025 Rate	**$1,630.97**	**23.36%**

Appendix Table 5
Arizona Long Term Care System - Elderly and Physical Disability (ALTCS-EPD) Program
CYE 2025 Capitation Rate Development[1]

	PMPM	
Average CYE 2024 Rate	**$5,503.08**	
CYE 2025 Adjustments Unrelated to COVID-19	**PMPM Change**	**% Change**
Rebase	$571.22	10.38%
Trend	$95.17	1.73%
Fee Schedule Changes	($527.26)	(9.58%)
DAP	($26.06)	(0.47%)
Program Changes	($13.48)	(0.24%)
Rx Rebates	$1.18	0.02%
Pharmacy Changes	$6.16	0.11%
Administrative, Case Management, and Care Management	($33.48)	(0.61%)
CYE 2025 Adjustments Unrelated to COVID-19	**$73.45**	**1.33%**
CYE 2025 Adjustments Related to COVID-19	**PMPM Change**	**% Change**
COVID-19 Treatment Cost Changes	$0.79	0.01%
CYE 2025 Adjustments Related to COVID-19	**$0.79**	**0.01%**
Average CYE 2025 Rate	**$5,577.32**	**1.35%**

Appendix Table 6

Arizona Long Term Care System - Developmental Disabilities (ALTCS-DD) Program
CYE 2024 Capitation Rate Development

	Regular DD		Targeted Case Management	
	PMPM		**PMPM**	
Average CYE 2024 Rate	**$6,253.99**		**$222.25**	
CYE 2025 Adjustments Unrelated to COVID-19	**PMPM Change**	**% Change**	**PMPM Change**	**% Change**
Rebase	$671.46	10.74%	$0.00	0.00%
Trend	$212.73	3.40%	$0.00	0.00%
Fee Schedule Changes	($449.37)	(7.19%)	$0.00	0.00%
DAP	($33.66)	(0.54%)	$0.00	0.00%
Program Changes	$6.96	0.11%	$0.00	0.00%
Rx Rebates	$0.90	0.01%	$0.00	0.00%
Pharmacy Changes	($7.21)	(0.12%)	$0.00	0.00%
Administrative, Case Management, and Care Management	$3.71	0.06%	$8.89	4.00%
CYE 2025 Adjustments Unrelated to COVID-19	**$405.53**	**6.48%**	**$8.89**	**4.00%**
CYE 2025 Adjustments Related to COVID-19	**PMPM Change**	**% Change**	**PMPM Change**	**% Change**
COVID-19 Treatment Cost Changes	$2.29	0.04%	$0.00	0.00%
CYE 2025 Adjustments Related to COVID-19	**$2.29**	**0.04%**	**$0.00**	**0.00%**
Average CYE 2025 Rate	**$6,661.80**	**6.52%**	**$231.13**	**4.00%**

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

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STEPHANIE STAHL HAMILTON

DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Jordan Johnston, Principal Fiscal Analyst

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

Request

Pursuant to A.R.S. § 41-1724G and A.R.S. § 41-1724H, the Arizona Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2025 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies. The Subaccount is funded primarily from a $4.00 surcharge on criminal violations.

DPS has submitted for review its proposal to distribute $1,346,400 of the $2,396,400 FY 2025 appropriation from the Subaccount to continue to fund 3 existing programs: Detention Liaison Officers Program ($420,000), Border County Officers Program ($576,400), and Pima County Border Crimes Unit ($350,000). DPS plans to submit to the Committee an allocation plan for the Border Security and Law Enforcement Grants ($1,050,000) for review at a later date this year.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

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

A. DPS shall report to the Committee prior to implementing any changes to the proposed FY 2025 allocation of the grants (*see Table 1*).

Key Points

1) DPS is requesting review of $1.3 million of its $2.4 million GIITEM Subaccount appropriation.
2) DPS proposes continuing to fund 3 existing programs:
   - Detention Liaison Officers Program ($420,000), 3 jurisdictions
   - Border County Officers Program ($576,400), 4 jurisdictions
   - Pima County Border Crimes Unit ($350,000)
3) DPS will submit to the Committee for review at a later date an allocation plan for the Border Security and Law Enforcement Grants ($1.05 million).
4) DPS indicates the participation of the agencies is subject to change based on the jurisdictions' willingness to meet the requirements of the program.

Analysis

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

The subaccount monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security programs, personnel, and equipment. The proposed DPS expenditure plan would allocate the entire FY 2025 GIITEM Border Security and Law Enforcement Subaccount appropriation to 4 existing programs. They are currently requesting review of the following 3:

Detention Liaison Officers Program - $420,000 to fund detention and correctional officers that serve within jails and state prisons to gather intelligence from inmates about illegal activities along the border. This is $(38,300) less than the amount reviewed by the Committee in FY 2024. The FY 2025 plan proposes to fund detention officers in Cochise (1 position) and Pima (2 positions) Counties and correctional officers/investigators in the Department of Corrections (2 positions), the same 3 entities in the FY 2024 plan reviewed by the Committee.

Recipients of the funding pay 25% of the payroll costs of the positions. Because the Detention Liaison Officers Program is dependent on local governments providing the 25% match, the department has indicated it may shift funding between recipients as circumstances dictate.

Border County Officers Program - $576,400 to hire county sheriff deputies and municipal police officers that work as part of the GIITEM Task Force's Border District investigating border-related crimes such as drug trafficking and human smuggling. This is $38,300 more than the amount reviewed by the Committee in FY 2024. The FY 2025 plan proposes to fund officers and deputies in the Oro Valley Police Department (1 position), Coolidge Police Department (1 position), Marana Police Department (1 position), and Cochise County Sheriff's Office (3 positions). The Eloy Police Department, which was in the FY 2024 plan reviewed by the Committee, has decided to not participate in the program in FY 2025. Recipients of the funding pay 25% of the payroll costs of the positions.

Pima County Border Crimes Unit - $350,000 to fund a portion of the costs of 10 Pima County Sheriff's deputies that focus exclusively on border-related crimes. This allocation is the same as the amount reviewed by the Committee in FY 2024.

Table 1 below provides the full FY 2024 expenditure plan reviewed by the Committee and the proposed FY 2025 plan. The department has stated that the participation of the agencies is subject to change based on the jurisdictions' willingness to meet the requirements of the program.

Table 1

DPS Expenditure Plan – GIITEM Subaccount

	FY 2024 Reviewed Allocation	FY 2024 Projected Allocation [1/]	FY 2025 Proposed [2/] Allocation
Detention Liaison Officers Program [3/]			
Cochise County Sheriff's Office	$ 65,500	$ 52,900	$ 60,000
Pima County Sheriff's Office	130,900	139,400	120,000
Department of Corrections	261,900	168,600	240,000
Subtotal	**$458,300**	**$360,900**	**$420,000**
Border County Officers Program [3/]			
Cochise County Sheriff's Office	$ 230,500	$ 186,100	$ 288,100
Coolidge Police Department	76,900	64,500	96,100
Eloy Police Department	76,900	-	-
Oro Valley Police Department	76,900	62,400	96,100
Marana Police Department	76,900	113,000	96,100
Subtotal	**$538,100**	**$426,000**	**$576,400**
Pima County Border Crimes Unit	**$350,000**	**$0**	**$350,000**
Border Security and Law Enforcement Grants			
Cochise County Sheriff's Office	$ 250,000	$ 250,000	-
Graham County Sheriff's Office	100,000	100,000	-
Greenlee County Sheriff's Office	100,000	-	-
La Paz County Sheriff's Office	100,000	100,000	-
Santa Cruz County Sheriff's Office	250,000	250,000	-
Yuma County Sheriff's Office	250,000	250,000	-
Unallocated [4/]	-	-	$1,050,000
Subtotal	**$1,050,000**	**$950,000**	**$1,050,000**
Total	**$2,396,400**	**$1,736,900**	**$2,396,400**

1/ Represents year-to-date actual expenditures and estimates through September 5, 2024.
2/ Represents estimated new proposed FY 2025 allocation from the subaccount.
3/ The department stated they are unable to estimate precise allocations by agency in FY 2025 due to variations in assignment of personnel. As such, the displayed FY 2025 allocations reflect prorated shares of the overall funding.
4/ DPS will submit an expenditure plan to the Committee for the Border Security and Law Enforcement Grants FY 2025 allocation at a later date.

Border Security and Law Enforcement Grants - The department plans to work with the Arizona Sheriff's Association to determine how the Border Security and Law Enforcement Grants will be distributed. DPS has allocated $1,050,000 for this program. This total allocation amount is unchanged from FY 2024. DPS will submit an expenditure plan for this allocation to the Committee for review at a later date.

JJ:kp

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

KATIE HOBBS
Governor

JEFFREY GLOVER
Director

September 3, 2024

Senator John Kavanagh, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, AZ 85007

Dear Senator Kavanagh:

Pursuant to A.R.S. § 41-1724(H), the Department of Public Safety is submitting its FY 2025 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount (Subaccount) to the Joint Legislative Budget Committee for review.

The FY 2025 General Appropriations Act appropriates $2,396,400 from the Subaccount to DPS. Pursuant to A.R.S. § 41-1724, "...monies in the subaccount shall be used for law enforcement purposes related to border security, including border personnel". The monies may also be used for "...safety equipment that is worn or used by a peace officer who is employed by a county sheriff."

DPS intends to continue funding the four existing programs that have previously been given a favorable review by the JLBC. The Department's overall FY 2025 expenditure plan is as follows:

Detention Liaison Officer Program	$ 420,000
Border County Officers	576,400
Border Crimes Unit	350,000
Border Security and Law Enforcement Grants	1,050,000 [1/]
TOTAL	**$2,396,400**

[1/] Proposed to be funded from GIITEM Fund appropriations to DPS.

Detention Liaison Officer Program

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

The program currently funds a total of five detention/correctional officers in Cochise (1) and Pima (2) Counties, and in southern Arizona prisons operated by the Department of Corrections, Rehabilitation, and Reentry (2). At any given time, the agencies participating in the DLO Program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DLO Program planned FY 2025 expenditure is $420,000, and adjustments may occur between the DLO Program and the Border County Officer Program based on participation levels.

Local agencies pay 25% of the payroll costs of their positions. The DLO Program was first reviewed by the JLBC in August 2007.

Border County Officers

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

The program currently funds a total of six officer and deputy positions with the Coolidge (1), Marana (1), and Oro Valley (1) Police Departments, and the Cochise County (3) Sheriff's Office. As referenced in the DLO Program discussion, DPS wishes to retain the ability to move modest amounts of money between the DLO and Border County Officer Programs, as circumstances dictate.

At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated $538,100 for the program in FY 2024. Local agencies pay 25% of the payroll costs of their positions. The Border County Officers Program was first reviewed by JLBC in August 2007.

Border Crimes Unit

Subaccount monies fund a portion of the costs of 10 deputies from the Pima County Sheriff's Department who operate as part of the Border Crimes Unit. The BCU works in cooperation with GIITEM and conducts interdiction efforts in remote areas of Pima County.

DPS has allocated $350,000 for the project in FY 2025. Pima County pays for all costs above the $350,000 level. The Pima County portion exceeds 25% of the payroll costs for the 10 positions. The BCU was first reviewed by JLBC in August 2007.

Border Security and Law Enforcement Grants

DPS confers with the Arizona Sheriffs' Association (ASA) on the distribution of the Border Security and Law Enforcement Grants. We have contacted the ASA about the FY 2025 distribution plan but have not reached a resolution. For historical perspective, the following table shows the FY 2023 and FY 2024 allocations of these monies:

County Sheriff	FY23 Allocations	FY24 Allocations	FY25 Plan
Apache	$0	$0	TBD
Cochise	250,000	250,000	TBD
Coconino	0	0	TBD
Gila	0	0	TBD
Graham	100,000	100,000	TBD
Greenlee	100,000	100,000	TBD
La Paz	100,000	100,000	TBD
Maricopa	0	0	TBD
Mohave	0	0	TBD
Navajo	0	0	TBD
Pima [1/]	0	0	TBD
Pinal [2/]	0	0	TBD
Santa Cruz	250,000	250,000	TBD
Yavapai	0	0	TBD
Yuma	250,000	250,000	TBD
TOTAL	**$1,050,000**	**$1,050,000**	**$1,050,000**

[1/] Per the submitted distribution plan, DPS intends to reimburse the Pima County Sheriff's Department an additional $350,000 for eligible Border Crimes Unit costs
[2/] The Pinal County Sheriff's Office has been allocated an additional $500,000 in FY 2017 through FY 2025 from the GIITEM Fund pursuant to A.R.S. § 41-1724.

DPS will present a grant allocation plan to the JLBC for review at a future meeting. We anticipate the plan will be finalized over the summer. The JLBC grant allocations review timeline is not expected to affect the recipient counties' operations, as the allocations are typically made in October (50%) and April (50%) due to cash flow limitations of the GIITEM Subaccount.

Grant recipient agencies may use the funding for any purpose consistent with statute. As required by statute, to receive the funding, recipient agencies must certify each fiscal year to the DPS Director that the agency is complying with A.R.S. §11-1051 to the fullest extent of the law.

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

Sincerely,

Jeffrey Glover, Colonel
Director

C: Representative David Livingston, Vice-Chairman
Sarah Brown, OSPB Director
Richard Stavneak, JLBC Director

Detention Liaison Officers	FY 2024 Estimated [1/]	FY 2025 Estimated [2/]
Cochise County SO	$ 52,900	$ 60,000
Pima County SO (2 officers)	139,400	120,000
Department of Corrections (4 officers)	168,600	240,000
Subtotal - DLO	**$ 360,900**	**$ 420,000**
Border County Officers		
Oro Valley PD	$ 62,400	$ 96,100
Marana PD	113,000	96,100
Cochise County SO (3 deputies)	186,100	288,100
Coolidge PD	64,500	96,100
Eloy PD	-	N/A
Subtotal - BCO	**$ 426,000**	**$ 576,400**
Border Crime Unit		
Pima County Sheriffs Department	**$ -**	**$ 350,000**
Border Security and Law Enforcement Grants		
Cochise SO	$ 250,000	TBD
Graham SO	100,000	TBD
Greenlee SO	-	TBD
La Paz SO	100,000	TBD
Santa Cruz SO	250,000	TBD
Yuma SO	250,000	TBD
Subtotal - Grants	**$ 950,000**	**$ 1,050,000**
TOTAL	**$ 1,736,900**	**$ 2,396,400**

[1/] FY 2024 Estimated data are through September 5, 2024. There is an additional $437,300 encumbered for eligible other agency work that may have been completed by June 30, 2024. In particular, this may affect the Pima County Sheriff's Department.

[2/] FY 2025 Estimates for the DLO and Border County Officer programs are based on prorated shares of the overall program funding. Due to variations in assignment of personnel, it is not possible to estimate precise amounts by agency.

7

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azjlbc.gov

DATE: September 19, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Destin Moss, Assistant Fiscal Analyst

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of Automation Projects for ADOA One-Stop Portal, DWR Application Modernization and DES Client Authentication Portal

Request

A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). The Arizona Department of Administration (ADOA) requests Committee review of 3 projects:

1) $2,114,300 for FY 2025 maintenance and operations of ADOA's Business One-Stop Portal,

2) $2,500,000 for the Department of Water Resources (DWR) IT Application Modernization, and

3) $6,000,000 for the Department of Economic Security (DES) Client Authentication Portal.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the requests.

2. An unfavorable review of the requests.

Key Points

ADOA requests review of the following APF expenditures:

1) $2.1 million for FY 2025 ADOA Business One-Stop portal operating expenses.
2) $2.5 million for the DWR IT Application Modernization project.
3) $6.0 million for the first phase of a new DES client portal that will act as a central hub for all DES services, including new identity verification features.

Analysis

ADOA – Business One-Stop Portal Operating Expenses

The Business One-Stop Web Portal provides a single online location for an individual to apply for the applicable licenses and registrations across state agencies for companies operating in Arizona. Phase 1 of the project was completed in June 2023 and the portal launched with the basic functionalities necessary to start a business in Arizona.

The Committee has already reviewed all existing appropriations for the portal except $2.1 million. ADOA is requesting review of the remaining funds for Business One Stop maintenance and operations costs.

DWR – Application Modernization

Based on an estimate from ADOA/DWR, the FY 2023 budget included $1.7 million to modernize multiple DWR systems and applications. The Committee reviewed the expenditure plan for this appropriation at its July 2022 meeting. The original vendor selected by DWR was ultimately unable to complete the project, which led DWR to cancel the original contract and select a different vendor.

The Legislature subsequently appropriated another $2.5 million to finish the project, which ADOA/DWR has now requested the Committee review. In addition to this $4.2 million, the department is utilizing some of their own fund sources to fund the total project cost of $8.5 million. DWR has negotiated a new, milestone-based contract with their current vendor to reduce the likelihood of any future cost increases.

DES – Client Authentication Portal Phase 1

The FY 2025 budget appropriated $6.7 million for a new platform to authenticate individuals applying for health and human service programs. The stated purpose of this allocation was to prevent fraud, waste, and abuse. ADOA requests review of $6.0 million for Phase 1 development of a new DES client authentication portal. The total Phase 1 development cost, including other fund sources and federal matching dollars, is estimated at $9.8 million.

The new portal will serve as a central hub for all DES services. The portal will offer full self-service to clients, expedite application vetting and processing, and reduce redundancies arising from the existence of multiple, independent client-facing portals. The portal will include additional data consolidation and identity verification features to reduce fraud.

DES plans to develop the project in multiple phases, with each phase incorporating additional DES programs and divisions into the portal. In Phase 1, DES will focus on incorporating common business functionalities and programs within the Division of Child Care. DES estimates the portal could first be deployed in October 2024, with the total completion of Phase 1 by May 2025. DES has not yet provided a cost estimate for completion of all anticipated phases. In addition to the previous appropriation of $6.7 million, we know that DES is requesting at least $2.0 million in the FY 2026 budget for the portal.

DM:kp

Katie Hobbs
Governor

Elizabeth
Alvarado-Thorson
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
(602) 542-1500

September 5, 2024

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

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

Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2025 Automation Projects Fund (APF) expenditure plans for the following projects: the Department of Administration - ASET - Business One Stop, the Department of Economic Security (DES) - Authentication Portal, and the Department of Water Resources - Application Modernization.

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

Sincerely,

J.R. Sloan
State CIO

Enclosures
cc: Richard Stavneak, Director, JLBC Staff
Sarah Brown, Director, OSPB
Elizabeth Alvarado-Thorson, Executive Deputy Director, ADOA
Geoff Paulsen, JLBC Staff
Destin Moss, JLBC Staff
Kyley Jensen, OSPB Staff
Rémy Gaudin, OSPB Staff
J.R. Sloan, State CIO
Jacob Wingate, Chief Financial Officer, ADOA

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Favorable Review Request Summary				
Agency	Project Name	APF Appropriation	Favorably Reviewed	Favorable Review Requested
ADOA	Business One Stop	$8,614,300	$6,500,000	$2,114,300
DES	Authentication Portal	$6,000,000	$0	$6,000,000
ADWR	Application Modernization	$2,500,000	$0	$2,500,000

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Agency: Department of Administration - ASET

Project: Business One Stop

Appropriation: Business One Stop

BACKGROUND:

In Fiscal Year 2024, the Business One Stop Program was tasked with carrying out the second phase of the platform's development, which maintained the Program's focus of supporting small businesses and under-served communities by bringing more previously paper-only applications online and by delivering complete end-to-end functionality for all types of small business formations – LLCs, Partnerships, and Sole Proprietorships.

The monumental effort of the teams over the year resulted in the successful completion of our roadmap, allowing the Program to deliver 32 new features to our customers in support of Foreign and Domestic Partnerships (GP, FP, LP, LLP, LLLP, FLP, FLLP, and FLLLP) – allowing customers to create, maintain, modify, and close these business entity types – along with similar support for Trade Names, Trademarks, Annual Reports, and a number of other Transfer, Conversion, Amendment, and Qualification documents required to do business in Arizona. At the same time, the teams also completed full Single Sign-On integration with the Department of Revenue's AZTaxes systems, allowing Business One Stop customers to connect their tax accounts to their business accounts online. The teams also completed a full User Interface / User Experience overhaul to the portal's "Planning" section and to the entire Mobile view, giving both a more modern polish and intuitive flow.

CURRENT REQUEST:

Heading into the new Fiscal Year, the Arizona Business One Stop Program, on behalf of its partners at the Department of Transportation, Department of Revenue, the Corporation Commission, and the Secretary of State, is requesting a favorable review of our Fiscal Year '25 Maintenance and Operations plan, which includes an extension of our existing APF appropriation in the amount of $2,114,300 which is to be used for Maintenance and Operations work only.

As the Program shifts its focus to maintaining the platform for long-term support, this funding will be used to strategically enhance the platform in ways that improve the overall user experience, speed, and efficiency of the portal without the addition of any new features. This work is being categorized as follows:

- **Corrective changes** are tasks to correct minor errors or deficiencies in software.
    - This is simple bug-fixing. As bugs are encountered that affect the system and its customers, we will use our resources to quickly remedy them.
- **Adaptive changes** are minor revisions to existing software to meet changing requirements.
    - Needs and requirements are always changing. One example of this work that is expected to occur this year is the re-integration of the ACC's APIs (reconnecting the systems' backends) once they complete their internal eCorp upgrade.
- **Perfective changes** are minor improvements to application software so it will perform in a more efficient, economical, and/or effective manner.

   - These are low cost/low effort changes that enhance the way the platform itself functions - things like improvements to data streaming efficiency to reduce end-user lag on the dashboard. A lot of this kind of work was backlogged as we focused on completing our development roadmap. Now that we're in M&O, we have time to address them, which will improve the overall performance and user experience of Business One Stop.
- **Software maintenance** can include activities such as revising/creating new reports, making limited data element/database changes, and making minor alterations to data input and display screen designs.
   - This category of work represents changes to the platform that become required because a piece of underlying software needs to be updated in order for the portal to maintain function. For example, changes to security certificates to ensure ongoing security compliance.

WHAT THIS REQUEST DOES NOT INCLUDE

This request does not include funds for the development of new features whether or not the work was previously planned on a roadmap in the past. It also does not include funds for adding features to the portal for any potential new or existing partners.

BFY23 APF Appropriation Available for FY25	Amount Favorably Reviewed	Favorable Review Requested
$2,114,300	$0	$2,114,300

PROJECT DESCRIPTION:

Business One Stop has helped thousands of people and greatly lowered the barrier of entry for new business owners in Arizona since its public launch in August of 2022. Under-served communities in rural areas far outside the metro-Phoenix area have expressed that now, instead of potentially needing to drive into Phoenix (possibly more than once depending on which agencies they needed to speak with), completing physical paperwork, and then waiting up to several weeks for approvals, these business owners can open Business One Stop on their desktop or mobile device, complete their applications in their living room, and have approvals within an hour.

As we head into M&O and wind down our active development, it becomes more important to focus on work that keeps the portal active and enhances the way that it helps people. To that end, a large portion of the M&O work we intend to complete this year falls under the **Perfective** category defined above.

Solution:

In order to maximize the time and resources that we have been given for the year, the teams have begun breaking down our backlogged work into the following high level Epics:

B1S 2025 M&O Plan	**Agency**	**Description**
B1S Enhancement	All	Enhance Chatbot interaction/responses
B1S Enhancement	All	Fine-tune API integrations to improve dashboard load time and workflow speed

B1S Enhancement	All	Fine-tune the display and order of customer input fields (ex: address fields) and consistency of the display to improve user experience
B1S Enhancement	All	Allow for auto-population of required information (available through agency APIs) to improve user experience
B1S Enhancement	All	Finetune the look and feel of B1S on mobile devices
B1S Enhancement	All	Ensure Drupal site is compliant for accessibility
B1S Enhancement	SOS	Ensure all correspondence is available on the Dashboard for all SOS flows (documents are only emailed at this time for some flows)
B1S Enhancement	All	Provide Multilingual support (page translations to selected foreign language)
B1S Enhancement	All	Guest Check-out to increase SOS adoption (allow users to continue as a guest on B1S without account)
B1S Enhancement	All	Improve the SOS backend processing and Status API to reduce customer waiting time and payment issues

B1S Maintenance	All	System Maintenance and Upgrades 1. 2-3 Angular Upgrades (17, 18 and 19 early 2025) 2. .Net Core 8 Upgrade on 3 APIs 3. Complete Keyvault migration 4. Upgrade to Redis Caching 5. Don't cache records during job runs
B1S Maintenance	All	Resolve all pending bug fixes for all agencies
B1S Optimization	All	Fine-tune the look and feel of B1S on web browsers to be more user friendly and intuitive
B1S Optimization	All	Fine-tune B1S main homepage with standard naming convention to reduce confusion and encourage users to sign up and explore the site
B1S Optimization	ACC	Analyze the new API request and response payloads from the new vendor for compliance with existing format
B1S Optimization	ACC	Ensure APIs from the new vendor are integrated and tested for data completeness and accuracy

Feature Optimization	ACC	Ensure filing correspondence includes a header and payment information (similar to the format on ACC site)
Feature Optimization	ACC	Ensure resubmission of rejected filings is in compliance with Statute (ensure effective date and other data follows guidelines)
Feature Optimization	All	Add additional help language for each step of the filing flow eliminating any confusion for new customers starting a new business

Benefits:

Business One Stop represents a great stride forward in the State's ability to serve its people with modern, human-centric technology.

Business One Stop has already helped 3,500+ new businesses get started in the state since August 2022. Business One Stop helps users create new businesses at a rate of (130+ per month) The more people who are aware of Business One Stop and use it, the more that benefit will grow.

PROJECT COST DETAIL

Personal Services - Staff costs for ADOA and SOS personnel	$675,231.63
ERE - Employee benefits	$270,092.65
Professional & Outside - ADOT's Aura Solutions team, the team that builds and manages Business One Stop's core technology.	$985,000.00
Other Operating Expenses - Licenses for Jira, Qualtrics, Call Center, Website Hosting	$135,200.00
Contingency	$48,775.72
Total Cost for FY [2024-2025]	**$2,114,300**

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Agency:	Department of Economic Security (DES)
Project:	DES Authentication Portal
Appropriation:	ADOA APF - Health and Human Services Information System (HHIS) Subaccount - Statewide HHIS Technology Projects

CURRENT REQUEST:

The Department of Administration (ADOA) is seeking approval for $6,000,000 from the ADOA Automated Projects Fund (APF) Health and Human Services Information System Subaccount for Statewide HHIS Technology Projects on behalf of the Arizona Department of Economic Security (DES). This funding will be used to develop the initial two phases of the DES Authentication Portal (The Portal) project. The main objective is to aid in verifying individuals applying for health and human services programs, while also preventing unauthorized access and deterring fraudulent activities to combat fraud, waste, and abuse.

The DES Authentication Portal serves as the primary digital gateway for DES clients, offering a central hub for digital engagement. It integrates various communication platforms like mobile, web, and voice to provide clients with 24/7 access in a user-friendly interface centered around the client's needs. The Portal aims to strengthen existing security measures, minimize fraudulent or duplicate applications, and streamline the screening process for applicants to ensure that only eligible Arizona residents receive benefits. By employing human-centered design principles, the system is tailored to define user profiles and assess benefit eligibility for each user, ensuring benefits are provided in a fiscally responsible and efficient manner.

Below is the appropriation table with the request from DES:

BFY24 APF Appropriation	Favorably Reviewed	Favorable Review Requested
$6,000,000	$0	$6,000,000

PROJECT DESCRIPTION:

Background:

The Department has 19 separate client-facing portals with limited functionality for DES team members and clients to access, track, and update service-related information. Moreover, many Department programs lack online application or tracking features, necessitating in-person or phone contact for addressing queries, concerns, or inconsistencies. Key client data like Name, Address, SSN, and Date of Birth is duplicated across multiple agency systems, hindering data standardization and posing security risks while compromising data integrity.

Method of Procurement (for initial requests):

The Department will make use of the statewide Digital Services contracts and will assign task orders to qualified vendors who have been awarded one of these contracts. The procedure will be competitive, allowing multiple vendors to receive task orders and compete for the projects.

Solution:

The Department plans to adopt a Platform as a Service (PaaS) model for the upcoming solution implementation. This strategy will emphasize a low-code/no-code approach, enabling the Department (and the State) to utilize the application across various programs and agencies, creating a modern digital interface for interacting with the agency and potentially the state for services. In addition, the Department will employ a Master Data Management (MDM) solution to maintain consistent client data across programs in a centralized location, reducing security risks associated with storing sensitive information in multiple systems. Furthermore, identity verification will be improved by utilizing the Arizona Department of Transportation's eAZ application for identity control, ensuring client verification through state-issued identification matching. When clients apply for services, their information will be cross-checked via the eAZ application. If verification is unsuccessful, the Department will engage a third-party identification verification vendor to authenticate and validate individuals to prevent fraud.

Benefits:

The Portal is designed to streamline and strengthen the authentication process to assist in the prevention of fraud, waste, and abuse of state resources. The Portal will utilize the Department of Transportation eAZ identity capabilities while maintaining a focus on enhancing existing security features to safeguard benefits and services against bad actors. As different program applications and processes are integrated into the portal, clients will be able to submit documentation to one central location for all department programs. This will reduce the burden on both the department and the client, resulting in opportunities for meaningful engagement to help drive individuals toward self-sufficiency and away from reliance on assistance. The Portal also offers round-the-clock self-service options for clients and employees, expediting the application vetting and processing timelines. Acting as a central hub for all DES services, it will enhance client care and promote collaboration among program divisions through integrated service delivery. The savings associated with a more efficient method of engagement is projected to further support the Department's goal of removing unnecessary touchpoints and reducing redundancy. This not only enhances the operational efficiency but also allows resources to be allocated more effectively, ensuring the Department can focus on delivering high-quality service where it matters most. The funding for this initiative aims to be supplemented with federal resources at an estimated rate of 30%.

The features and corresponding impact are listed below:

Portal Feature	Impact on Fraud,Waste and Abuse
Individual Clearance & ID Proofing	Multi-layered identity verification and multi-factor authentication will be deployed to minimize identity theft and guarantee that only legitimate users access the services
IP Address Monitoring	Tracks and blocks suspicious or unauthorized geographical IP addresses to prevent fraudulent activity.
Account Email Dotting and Blocking Bad Domains	Examines email addresses for manipulation and checks domain integrity to block bad domains.
Tracking Multiple Address Changes from Common IPs	Monitors frequent address changes from a single IP address to detect suspicious activity
Anomalous Transaction Monitoring	Monitors unusual patterns during account creation and application submission to detect fraud earlier and allow for immediate investigation
Tracking Password Reset/Email Change Anomalies	Monitors irregular password resets and email changes, which can be initial signs of potential account takeovers and identity theft
Intelligent Optical Character Recognition (OCR) for Document Uploads	Automates data extraction from verification documents and detects invalid/forged documents
Smart Nudges Based on Machine Learning	Utilizing machine learning to examine behavior and offer timely alerts or notifications to avoid accidental misuse or errors in data entry.

PROJECT GOALS/MILESTONES:

Description	Start Date (Est.)	End Date (Est.)	Est. Duration (weeks)
Business Requirements	10/2023	2/2024	21
Procurement/Vendor Information Session/Selection	3/2024	5/2024	9
Prototype Procurement/Development/User Experience Testing	52024	8/2024	16
Authentication Portal Development - First Two Phases	8/2024	12/2024	18
Implementation/Go-Live First Two Phases	12/2024	12/2024	1

**Timeline reflects phase 0 and phase 1 of the DES Authentication Portal project and the timeline is subject to change*

PROJECT COST DETAIL

Professional Services - Implementation / contractor support	$4,392,700
IV&V (If Applicable)	$122,600
Design - Design of the new cloud architecture - Refer to Professional Services	$0
Migration - 5% of implementation professional services	$218,900
Quality Management/Testing - Refer to Professional Services	$0
Hardware - N/A	$0
Software - Salesforce, Mulesoft, other software, and IaaS for Setup Phase and Phase 1	$1,265,800
License & Maintenance Fees - Refer to Software	$0
Total Cost for FY24 and FY25	**$6,000,000**

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Agency: Water Resources

Project: Application Modernization

Appropriation: $2,500,000 FY 2024 Supplemental Appropriation

CURRENT REQUEST

ADWR is requesting the favorable review of its $2.5 million FY 2024 supplemental appropriation for its application modernization project. JLBC already reviewed ADWR's initial APF appropriation of $1.7 million.

BFY23 APF Appropriation	Favorably Reviewed	Favorable Review Requested
$1,700,000	$1,700,000	$0

BFY24 APF Appropriation	Favorably Reviewed	Favorable Review Requested
$2,500,000	$0	$2,500,000

PROJECT DESCRIPTION:

Background: The Arizona Department of Water Resources is seeking to replace mission-critical applications that range in age from 2-22 years old through this project. Additionally, the project will provide a uniform and modernized way for customers to interact with ADWR and will reduce the reliance on paper-based processes.

ADWR received initial approval from ITAC to proceed with the project in August 2022. ADWR entered into a contract with a vendor to carry out the project in September 2022 for a total estimated integration cost of $1.8 million. Early in the project, ADWR and the vendor encountered significant issues with work quality and poor communication. Additionally, the vendor's design was of questionable quality and fit for the agency. Despite efforts to repair the relationship and chart a path forward, ADWR ultimately determined that the issues were irreconcilable and worked with SPO to terminate the task order.

Before canceling the task order, ADWR had spent a total of $356,300 ($177,400 APF) on milestones from the previous vendor, which included discovery and some other minor deliverables, including a small side project that constructed a customer portal for the newly created Douglas Active Management Area.

ADWR signed an agreement with Salesforce Dotcom (SFDC) to complete the project in September 2023 on a time and materials (T&M) basis with an estimated total integration cost of $4.0 million. ADWR requested and received a $2.5 million appropriation from the APF to carry out this contract. Additionally, ADWR contracted with Gartner to provide IV&V services. ITAC approved Change Request #1012 in February 2024.

After beginning development on the project, SFDC and ADWR encountered some issues. Most notably, SFDC discovered that ADWR's data and processes were more complex than SFDC originally thought and the SFDC team didn't have enough expertise in Public Sector Solutions to meet the complex needs of the project. Additionally, ADWR had underestimated the workload required for data mapping, which made it difficult to keep up with the pace during sprints. Finally, Gartner released its initial IV&V Assessment and recommended transitioning from the existing T&M contract to a Firm Fixed Price (FFP) Deliverable-based agreement.
ADWR and SFDC paused development and entered into a Planning and Administrative phase where the following developments occurred:

- Negotiation of a FFP Deliverable-based contract which allows ADWR to keep pace with development and which fits within ADWR's budget, while building functionality for 4 major ADWR groups.
- Continuation of data mapping and data cleansing activities.
- Building a SFDC team that is suited for the project.

The new FFP Deliverable-based contract extends the project timeline from July 2024 to June 2025. The cost to complete the project under the new contract will be $3.5 million and will be funded as follows:

- $2.5M Automation Projects Fund
- $1.0M ADWR Non-Appropriated Funding Sources

Through June 30, 2024, ADWR has expended a total of $3,243,600 on the project, including its entire $1.7 million appropriation from the Automation Projects Fund. The expenditures can be split out for the following categories:

- Previous Contractor Payments - $356,300
- Current Vendor Payments - $1,704,700
- Software and Licensing Costs - $1,182,600

Method of Procurement (for initial requests): ADWR contracted with Salesforce Dotcom (SFDC) through the Carahsoft statewide contract to integrate ADWR's applications into the Salesforce Platform.

Solution: ADWR will integrate its applications into the Salesforce Platform utilizing Public Sector Solutions. The business units that will be completed are Surface Water, Field Services, Adjudications, and Groundwater Permitting & Wells. In addition, a portfolio of shared services will be developed that all units will utilize once integrated into the Public Sector Solutions platform. These shared services include payment processing, address verification, signature/notarization functionality, mapping/GIS, time tracking, document management, customer portal and application management.

Benefits:
The completion of this project will replace aging applications that are written in a legacy development language, provide a modernized manner for customers to interact with ADWR, and will reduce ADWR's reliance on paper-based processes. These improvements will result in relief for staff and for customers.

ADWR projects that the following improvements will be realized through the completion of the project.

- Unification of customer data across all ADWR systems
- Increase ADWR online services from 20% to 40%
- Increase ADWR online transactions from 30% to 60%
- Reduce transaction time by 25%

PROJECT GOALS/MILESTONES:

Define your goals and milestones, Start Date, End Date, and duration.

Description	***Start Date (Est.)***	***End Date (Est.)***	***Duration (weeks/months)***
Project Readiness	08/31/2023	8/31/2023	0 weeks
Sprint 0	12/18/2023	2/18/2024	9 weeks
Sprint 1 - 5	12/18/2023	2/19/2024	9 weeks
Project Restart Sprint 1-5 [Address verification, Legislative Timeframes]	08/04/2024	11/09/2024	14 weeks
Sprints 6 - 10 [Base setup, Customer Portal, Application Management, Document Management, Map/GIS, Time Tracking, Adjudications, Field Services, Surface Water, Wells]	11/10/2024	03/01/25	16 weeks
User Acceptance Testing	03/02/25	03/29/25	4 weeks
Training/Testing/Deploy	03/30/25	04/19/25	3 weeks
Go-Live	04/19/25	04/19/25	0 weeks
After-Care Support	04/20/25	05/03/25	2 weeks
Project Closeout	05/05/25	06/16/25	6 weeks

PROJECT COST DETAIL

Professional Services - These are largely costs associated with the integration of ADWR systems into the Salesforce platform. There are also lesser costs for an architectural evaluation of a previous vendor's work and for contracted staff.	$6,747,400
IV&V (If Applicable) - ADWR retained Gartner as its IV&V vendor.	$525,000
Design - Design of the new cloud architecture	$0
Migration - Explanation	$0
Quality Management/Testing Explanation	$0
Hardware- Explanation	$0
Software Explanation	$0
License & Maintenance Fees- These are the five-year costs for ADWR's Salesforce, Mulesoft, and signature solution associated with the project.	$1,182,600
Total Development Cost to Complete Project	**$8,455,000**

Funding Plan:
The following table shows ADWR's current funding plan for the project's development costs.

Fund	Amount
Automation Projects Fund	$4,200,000
General Fund (appropriated)	$1,328,000
Water Resources Fund (appropriated)	$79,400
General Adjudication Personnel and Support Fund	$410,900
Well Administration and Enforcement Fund	$700,000
Indirect Cost Recovery Fund	$1,736,700
Total	**$8,455,000**

8

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: September 24, 2024

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Assistant Director

SUBJECT: Arizona Department of Corrections - Review of FY 2025 Vacancy Savings Reallocation

Request

Pursuant to an FY 2025 General Appropriations Act footnote, the Arizona Department of Corrections (ADC) requests review of its plan to utilize $11,032,700 in FY 2025 General Fund vacancy savings appropriated for Personal Services and Employee Related Expenditures (ERE) to cover various operating costs including utilities, fuel, telecommunications, transportation, and equipment upgrades. We received this request on Friday, September 20.

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 Chairman's provision:

A. As part of its December 15, 2024 semi-annual staffing report, ADC shall report to the Committee on the current status of correctional officer recruitment and retention and the department's plans and initiatives to improve staffing and reduce correctional officer vacancy levels.

Key Points

1) ADC expects to underspend their FY 2025 salaries and benefits by $20 million due to an inability to fill vacant positions.
2) If left unexpended, these savings would be returned to the General Fund.
3) A footnote requires ADC to seek Committee review if they plan to spend this funding on anything other than salary and benefits.
4) ADC proposes to reallocate $11.0 million of the surplus salary/benefit funds for other operating costs, primarily IT, energy, and perimeter security issues.

Analysis

In FY 2025 ADC was appropriated a total of $695.1 million in the operating budget for salaries and benefits, otherwise known as Personal Services and Employee Related Expenditures (ERE). This amount in the enacted budget included a decrease of $(19.8) million to account for vacant correctional officer positions. An FY 2025 General Appropriation Act footnote requires that ADC seek Committee review before spending any of this funding on anything besides Personal Services and ERE.

ADC now projects that this salaries and benefits spending will fall short of the FY 2025 appropriation by an additional $20.0 million (for a total of $39.8 million in vacancy savings). ADC experienced a similar vacancy savings level in FY 2024 with approximately 1,000 vacant positions. ADC proposes to reallocate $11.0 million of the $20.0 million to pay for other operating costs, including $4.4 million for IT/telecommunications, $3.9 million for energy expenses and $1.2 million for perimeter security systems. *Table 1* below details the amount of each proposed reallocation.

Table 1

Proposed Personal Services/ERE Reallocation

	Amount
IT/Telecommunications	$ 4,439,700
Energy (utilities and fuel)	3,905,300
Perimeter Security Systems	1,201,000
Kitchen Equipment Replacement	921,200
Inmate Intake Clothing	293,200
Staff Recruitment and Retention Costs	167,300
Interstate Compact Transportation Costs	105,000
Total	**$ 11,032,700**

ADC's plan includes an additional $167,300 for staff recruitment and retention costs. We have asked ADC for information on the total budget for this activity.

A General Appropriation Act footnote requires ADC to report semi-annually (December 15 and July 15) on the status of correctional officer staffing. This report typically includes some information about recruitment and retention efforts. The Committee may consider a provision to require ADC to report in more detail on December 15th about its efforts to improve hiring as well as retention of correctional officers.

GP:kp

Arizona Department of Corrections
Rehabilitation & Reentry

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KATIE HOBBS
GOVERNOR

RYAN THORNELL
DIRECTOR

September 19, 2024

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

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

Subject: Review of expenditure plan to spend from Personal Services and Employee-related Expenditures designated amounts on Other Operating Expenditures

Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Corrections, Rehabilitation, and Reentry (ADCRR) requests placement on the next meeting agenda of the Joint Legislative Budget Committee (JLBC) to review an expenditure plan to spend from the amounts designated in the Lump Sum for Personal Services and Employee Related Expenditures on Other Operating Expenditures.

ADCRR's FY 2025 current annual salary savings approximation is $20M. This request is seeking approval to utilize a total of $11M of the payroll allocation for operating costs which are not supported by existing appropriations.

The operating costs of ADCRR have continually increased over recent years; yet, the operating budget has not been adjusted for the higher costs. Higher energy costs and the costs of goods and services are the root cause of this problem. Also, ADCRR has critical kitchen equipment replacement needs. This equipment is essential for safe food handling, production and storage. Many items were included in ADCRR's FY 2025 Budget Request and also in its FY 2026 Budget Request.

The total estimated operating need is approximately $16M. Approval of the current request will provide relief to the operating allocations and allow time for review of current expenditure trends which may result in a future reallocation request.

A brief description of the operating needs is summarized in the below table.

	Estimated Need	**Request**
Energy Costs (utilites & fuel)	$5,207,000	$3,905,325
Perimeter Security Detection Systems (contracted)	$1,201,000	$1,201,000
Telecommunication Costs	$3,820,600	$2,292,400
IT - Cloud Storage and Software Costs	$3,578,900	$2,147,300
Inmate Intake Clothing Requirements	$488,600	$293,200
Staff Recruitment Costs	$278,900	$167,300
Interstate Compact Costs (transportation)	$175,000	$105,000
Kitchen Equipment Replacement	$1,535,300	$921,200
Total	$16,285,300	**$11,032,725**

If I can provide additional information, please do not hesitate to contact me.

Sincerely,

Ryan Thornell
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Sarah Brown, Director, Governor's Office of Strategic Planning and Budgeting
Geoffrey Paulsen, Senior Fiscal Analyst, Joint Legislative Budget Committee
Caroline Dudas, Budget Manager, Governor's Office of Strategic Planning and Budgeting
Juldich Louezi-Madingou, Budget Analyst I, Governor's Office of Strategic Planning and Budgeting