Arizona Department of Administration - Automation Projects Fund

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 APPROVED
INDIVIDUAL PROJECTS [1/2/]			
Department of Administration Subaccount			
Business One-Stop Shop Web Portal	1,932,300[3/]	15,614,300	0
K-12 School Financial Transparency Reporting Portal	564,400	1,500,000	3,500,000[4/]
State Data Center	234,400	0	0
Department of Administration Subtotal	2,731,100	17,114,300	3,500,000
Health and Human Services Information System (HHIS) Subaccount			
Statewide HHIS Technology Projects	0	0	15,000,000
Human Resources Information System Subaccount			
HRIS Replacement	0	22,397,800	20,647,800
Department of Agriculture Subaccount			
IT Projects and Cloud Migration	0	2,000,000	0
Charter School Board Subaccount			
Charter School Board Online Platform	82,800	0	0
Corporation Commission Subaccount			
Online Records and Filing System Replacement	0	0	7,000,000[5/]
Department of Child Safety Subaccount			
CHILDS Replacement	1,934,500	0	0
Department of Economic Security Subaccount			
Child Care Management System	24,100[3/]	0	0
Department of Education Subaccount			
Education Learning and Accountability System	2,049,100	0	0
Department of Gaming Subaccount			
Tribal Gaming Certification e-Licensing	572,600	0	0
Industrial Commission of Arizona Subaccount			
IT System Upgrades	457,100	0	0
Judiciary-Supreme Court Subaccount			
Statewide Community Supervision Electronic Monitoring System	0	0	2,500,000
Probation Case Management System Replacement	0		3,270,000
Judiciary-Supreme Court Subtotal	0	0	5,770,000
State Board of Psychologist Examiners Subaccount			
e-licensing System Modifications	0	0	0
Department of Public Safety Subaccount			
Concealed Weapons Tracking System	0[3/]	0	494,500
Department of Revenue Subaccount			
Integrated Tax System Modernization	0	15,819,800	19,369,400[6/7/]
Secretary of State Subaccount			
Electronic Record Storage Study	0	300,000	0

	FY 2022 ACTUAL	FY 2023 ESTIMATE	FY 2024 APPROVED
Department of Water Resources Subaccount			
Application Modernization and Integration	0	1,700,000	0
TOTAL - ALL PROJECTS	**7,851,300**	**59,331,900**	**71,781,700**[8/9/]

FUND SOURCES			
Other Appropriated Funds			
Department of Administration Subaccount	2,731,100	17,114,300	3,500,000
Health and Human Services Subaccount	0	0	15,000,000
Human Resources Information System Subaccount	0	22,397,800	20,647,800
Department of Agriculture Subaccount	0	2,000,000	0
Charter School Board Subaccount	82,800	0	0
Corporation Commission Subaccount	0	0	7,000,000
Department of Child Safety Subaccount	1,934,500	0	0
Department of Economic Security Subaccount	24,100	0	0
Department of Education Subaccount	2,049,100	0	0
Department of Gaming Subaccount	572,600	0	0
Industrial Commission of Arizona Subaccount	457,100	0	0
Judiciary-Supreme Court Subaccount	0	0	5,770,000
State Board of Psychologist Examiners Subaccount	0	0	0
Department of Public Safety Subaccount	0	0	494,500
Department of Revenue Subaccount	0	15,819,800	19,369,400
Secretary of State Subaccount	0	300,000	0
Department of Water Resources Subaccount	0	1,700,000	0
SUBTOTAL - Other Appropriated Funds	7,851,300	59,331,900	71,781,700
SUBTOTAL - Appropriated Funds	7,851,300	59,331,900	71,781,700[10/]
TOTAL - ALL SOURCES	**7,851,300**	**59,331,900**	**71,781,700**

AGENCY DESCRIPTION —The Automation Projects Fund (APF) is administered by the Arizona Department of Administration (ADOA). Monies in this appropriated fund are designated to implement, upgrade, or maintain automation and information technology projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to JLBC for review.

FOOTNOTES

1/ General Fund monies are transferred into the Automation Projects Fund to finance certain projects. See *Table 2* for all fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the Automation Projects Fund.

2/ Represents expenditures from the APF. Because many of the APF appropriations are spent over multiple years, the FY 2022 actual column also includes non-lapsing expenditures from prior year appropriations.

3/ Notwithstanding Laws 2021, chapter 408, section 117, the following amounts appropriated from the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, in fiscal year 2021-2022 to the department of administration by Laws 2021, chapter 408, section 117 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2024:

1. $7,758,900 from the department of administration subaccount in the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, to develop a business one-stop web portal.
2. $9,000,000 appropriated from the department of economic security subaccount in the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, to update the childcare management system at the department of economic security.
3. $550,000 appropriated from the department of public safety subaccount in the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, to the department of administration to update the concealed weapons tracking system at the department of public safety. (FY 2024 General Appropriation Act footnote)

4/ A. The sum of $1,500,000 is appropriated from the department of administration subaccount in the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, in each of fiscal years 2022-2023 and 2023-2024 to the department of administration to develop a K-12 school financial transparency reporting system.
B. The sum of $1,500,000 is appropriated from the state general fund in each of fiscal years 2022-2023 and 2023-2024 for deposit in department of administration subaccount in the automation projects fund established pursuant to section 41-714, Arizona Revised Statutes, to develop a K-12 school financial transparency reporting system.
C. Notwithstanding section 41-714, Arizona Revised Statutes, in each of fiscal years 2022-2023 and 2023-2024, the appropriations made in subsection A of this section do not require review from the joint legislative budget committee pursuant to section 41-714, Arizona Revised Statutes.
D. The amounts appropriated pursuant to this section from the automation projects fund established by section 41-714, Arizona Revised Statutes, in fiscal years 2022-2023 and 2023-2024 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2025. (FY 2022 General Appropriation Act footnote)

5/ As part of the department of administration's request for expenditure review pursuant to section 41-714, Arizona Revised Statutes, the department shall also submit a report for review of the agency's plan to support the business one-stop project through its completion, including plans for how the new system will integrate with the business one-stop solution. (General Appropriation Act footnote)

6/ The monies appropriated in this subsection shall be spent for an integrated tax system modernization project that meets the following minimum specifications:
1. Captures data fields from electronically-filed individual and corporate income tax returns and makes the data available for querying and reporting purposes. The system shall provide the department of revenue staff, the joint legislative budget committee staff and governor's office of strategic planning and budgeting staff direct access to the querying and reporting functions. The querying and reporting functions shall include procedures to protect taxpayer confidentiality under applicable state and federal law.
2. For electronic corporate income tax returns, captures information regarding the principal business activity of the corporation. This requirement may be satisfied through North American industry classification system data listed on federal tax forms. The tax system shall allow for querying and reporting based on principal business activity.
3. Includes an integrated individual income tax model within the project and provides the department of revenue staff, the joint legislative budget committee staff and governor's office of strategic planning and budgeting staff direct access to the individual income tax model. At a minimum, the model shall allow the department of revenue staff, the joint legislative budget committee staff and governor's office of strategic planning and budgeting staff to adjust tax law parameters against an anonymized representative sample of income tax returns to estimate the fiscal impact of proposed tax legislation. The model shall only include data from state and federal tax returns that are captured by the tax system. The individual income tax model shall include procedures to protect taxpayer confidentiality under applicable state and federal law.
4. Makes individual and corporate income tax data available for querying, modeling and reporting within twenty-four months following the end of a tax year.

Before awarding any procurement contract for the tax system, the department of revenue shall submit a report addressing the project specifications contained in this subsection for review by the joint legislative budget committee.

7/ As part of the department of administration's request for expenditure review pursuant to section 41-714, Arizona Revised Statutes, the department shall also submit a report for review of the agency's plan to support the business one-stop project through its completion, including plans for how the new [tax] system will integrate with the business one-stop solution. (General Appropriation Act footnote)

8/ The amount appropriated pursuant to this section from the automation projects fund established by section 41-714, Arizona Revised Statutes, in fiscal year 2023-2024 is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2025. (General Appropriation Act footnote)

9/ Within thirty days after the last day of each calendar quarter, the department of administration shall submit to the joint legislative budget committee a quarterly report on implementing projects approved by the information technology authorization committee established by section 18-121, Arizona Revised Statutes, including the projects' expenditures to date, deliverables, timeline for completion and current status. (General Appropriation Act footnote)

10/ The transfers into the automation projects fund established by section 41-714, Arizona Revised Statutes, are not appropriations out of the automation project fund. Only direct appropriations out of the automation projects fund are appropriations. (General Appropriation Act footnote)

Background

The APF is administered by ADOA and consists of subaccounts used to implement, upgrade, or maintain automation and information technology (IT) projects for state agencies. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit to the Joint Legislative Budget Committee (JLBC) for review an expenditure plan that includes project costs, deliverables, timeline for completion and method of procurement.

Pursuant to A.R.S. § 18-121, the Information Technology Authorization Committee (ITAC) is required to approve or disapprove all IT projects that exceed a total cost of $1,000,000. If project costs are greater than $5,000,000, A.R.S. § 18-104 requires an additional third-party analysis before receiving ITAC approval and requires agencies to submit quarterly progress reports from the third-party consultant. Unless otherwise noted, appropriations are non-lapsing for 2 years.

Department of Administration Subaccount

Business One-Stop Shop Web Portal

The budget includes no funding in FY 2024 for the Business One-Stop Shop Web Portal. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of $(15,614,300) from the ADOA APF Subaccount in FY 2024 to remove one-time design costs associated with phase 2 development of a Business One-Stop Web Portal.

The FY 2020 budget included $1,000,000 for initial design and a pilot of the Business One-Stop Web Portal. The FY 2022 budget included $7,758,900, transferred from ADOA's Other Appropriated Funds, to complete the development for functionality for any business to plan or start operations in Arizona. ADOA reported that phase 1 features began to be released to the public in October 2022.

The FY 2023 appropriation was financed from the General Fund and will be used for phase 2 of the system which will add functionality to "manage" a business in Arizona, by adding a dashboard which allows businesses to register users, connect accounts to existing businesses, update user information, register or cancel a license, apply for a tax license, register a trade name or trademark, reserve an LLC name, and procure a certificate of good standing. In September 2022, the JLBC gave a favorable review of ADOA's plan to use unspent phase 1 funding to begin developing phase 2 of the project. The FY 2024 General Appropriation Act extends the lapsing date of the FY 2022 appropriation through FY 2024.

K-12 School Financial Transparency Reporting Portal

The budget includes $3,500,000 from the ADOA APF Subaccount in FY 2024 for the K-12 School Financial Transparency Reporting Portal. Adjustments are as follows:

Additional One-Time Project Funding

The budget includes an increase of $2,000,000 from the ADOA APF Subaccount in FY 2024 for additional funding for the K-12 School Financial Transparency Reporting Portal.

The FY 2022 K-12 Budget Reconciliation Bill (BRB) included a provision which requires ADOA to develop a school financial transparency portal with school level data from districts and charter schools on revenues generated by weighted student count, allocation of federal, state, and local revenue, allocation of Classroom Site Fund monies, and expenditures on teacher pay and benefits, classroom supplies, student support, and other expenditures.

The FY 2022 appropriation was financed by an appropriation for the General Fund to the ADOA APF Subaccount. The FY 2022 General Appropriation Act also included appropriations of $1,500,000 in both FY 2023 and FY 2024 for the completion of the project. As a result, these monies will not appear in the FY 2024 General Appropriation Act. This additional FY 2024 funding of $2,000,000 is also financed from the General Fund. These appropriations are non-lapsing through FY 2025.

State Data Center

The budget includes no funding in FY 2024 for the ADOA State Data Center. This amount is unchanged from FY 2023.

The FY 2022 budget included an appropriation to relocate the ADOA state data center in Tucson to a third-party location. The $2,000,000 appropriation was financed by a transfer from the APF fund balance to the ADOA APF Subaccount. The FY 2022 funds are non-lapsing through FY 2023 and ADOA expects the project to be completed in FY 2023.

Health and Human Services Information System Subaccount

Statewide HHIS Technology Projects

The budget includes $15,000,000 from the Health and Human Services Information System (HHIS) Subaccount in FY 2024 for Statewide HHIS Technology Projects. Adjustments are as follows:

One-Time Project Funding

The budget includes an increase of $15,000,000 from the HHIS APF Subaccount for Statewide HHIS Technology Projects.

The FY 2024 appropriation was financed from the General Fund.

HHIS projects may include the Systems Integrator at AHCCCS to replace the agency's reliance on its mainframe IT system for the Prepaid Medicaid Management Information System. Projects may also include other health and human agency systems to improve identification management for safety net systems and address inoperability of outdated IT systems.

At its June 2023 JLBC meeting, the Committee favorably reviewed an expenditure plan for AHCCCS totaling $2,000,000 to begin the development of the Prepaid Medicaid Management Information System (PMMIS) Systems Integrator. The AHCCCS project includes $7,500,000 in federal expenditure authority from its operating budget not included here.

Human Resources Information System Subaccount

HRIS Replacement

The budget includes $20,647,800 from the Human Resources Information System (HRIS) Subaccount in FY 2024 for the HRIS Replacement project. Adjustments are as follows:

HRIS Replacement Funding Alignment

The budget includes a decrease of $(1,750,000) from the HRIS Subaccount in FY 2024 for development costs associated with the first year of the HRIS replacement project.

The FY 2023 appropriation was financed via a proportional pro rata charge to state agencies. Agencies were allocated additional resources as a statewide adjustment to pay the fee. Of the $22,397,800, $8,011,400 is from the General Fund and $12,636,400 is charged to other appropriated and non-appropriated agency funds. The remaining $1,750,000 was intended to be transferred from the balance of ADOA's Personnel Division Fund into the HRIS APF Subaccount. The budget includes a supplemental FY 2023 transfer of $1,750,000 from the Personnel Division Fund.

The FY 2024 budget continues the proportional pro rata charge to state agencies with a reduction of $(1,750,000) which was charged to the balance of the Personnel Division Fund.

HRIS is the state's central hub for salary and benefit administration, employee records, time and leave management, and other workforce data. The FY 2023 budget assumed that total project costs would be $68,000,000 over 3 years. In July 2022, ADOA awarded a contract for the project and reduced the total project costs to $44,166,800.

Department of Agriculture Subaccount

IT Projects and Cloud Migration

The budget includes no funding in FY 2024 for IT projects and cloud migration at the Department of Agriculture. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of $(2,000,000) from the Department of Agriculture Subaccount in FY 2024 to remove one-time funding for IT projects and cloud migration.

The FY 2023 funding continued the department's efforts to modernize its IT systems and move the systems to the cloud. The FY 2023 appropriation was financed from the General Fund.

Charter School Board Subaccount

Charter School Board Online Platform

The budget includes no funding in FY 2024 for the Charter School Board Online Platform. This amount is unchanged from FY 2023.

The FY 2022 budget appropriated $614,100 to replace the board's online information platform with an off-the-shelf solution. The platform provides charter school data to board staff, charter holders, and the public. The FY 2022 appropriation was financed by an appropriation from the

General Fund to the Charter School Board APF Subaccount. The FY 2022 funds are non-lapsing through FY 2023 and the board expects the new system to be completed in FY 2023.

Corporation Commission Subaccount

Online Records and Filing System Replacement

The budget includes $7,000,000 from the Corporation Commission Subaccount in FY 2024 for an Online Records and Filing System Replacement project. Adjustments are as follows:

One-Time Project Funding

The budget includes an increase of $7,000,000 from the Corporation Commission Subaccount in FY 2024 for an Online Records and Filing System Replacement project.

The Corporation Commission e-Corp system provides online access to corporation and limited liability company records on file with the agency's Corporations Division. The current system is aging and will no longer be maintained by the vendor in FY 2024. The FY 2024 funding will be used to implement and migrate to a new cloud-based system.

The FY 2024 appropriation was financed from the Securities Regulatory and Enforcement Fund.

The FY 2024 budget includes a footnote requiring the agency to include a report for JLBC review on its plan to support the ADOA Business One-Stop project through its completion, including plans for how the new e-Corp system will integrate with the business one-stop solution. The report is due as part ADOA's request for expenditure review pursuant to A.R.S § 41-714.

Department of Economic Security Subaccount

Child Care Management System

The budget includes no funding in FY 2024 for the Department of Economic Security (DES) Child Care Management System. This amount is unchanged from FY 2023.

The FY 2022 budget included $9,000,000 from the DES APF Subaccount to update the Child Care Management System. The Child Care Management Software (CCMS) system allows the department and its contract child care providers to track finances, enrollment, attendance, and reporting. The FY 2022 appropriation was financed by a transfer from the federal Child Care Development Fund Block Grant to the DES APF Subaccount.

At the December 2021 JLBC meeting, the Committee favorably reviewed DES's expenditure plan of $2,532,800 to replace the child care attendance tracking system. The FY 2024 General Appropriation Act extends the lapsing date of the FY 2022 appropriation through FY 2024.

Department of Education Subaccount

Education Learning and Accountability System

The budget includes no funding in FY 2024 for the Arizona Department of Education (ADE) Education Learning and Accountability System (ELAS). This amount is unchanged from FY 2023.

The FY 2022 budget appropriated $7,200,000 from the ADE APF Subaccount to complete the ELAS project. The FY 2022 appropriation was financed by a transfer from the Empowerment Scholarship Fund to the ADE APF Subaccount. *(Please see the FY 2022 Appropriations Report for additional details and background on the project.)*

The FY 2022 appropriation included $1,200,000 for ADOA-ASET oversight of the project. A General Appropriation Act footnote requires ADOA to engage consultants that provide project management to ADE, including support in technical documentation, financial tracking and documentation, and program management and governance.

The FY 2023 General Appropriation Act extended the lapsing date of the FY 2022 appropriation through FY 2024. At the July 2022 JLBC meeting, the Committee completed its review of the project's total appropriations. ADE reports that the project is on track for completion near the end of FY 2023.

Industrial Commission of Arizona Subaccount

IT System Upgrades

The budget includes no funding in FY 2024 for the Industrial Commission of Arizona's (ICA) IT System Upgrades. This amount is unchanged from FY 2023.

The FY 2022 budget included $1,067,700 from the Industrial Commission of Arizona APF Subaccount for IT system upgrades at the ICA. Projects include the modernization and enhancements to the Occupational

Safety and Health Administration information system, enhancements to IT systems in the Commission's Claims, Administrative Law Judge, and Labor Divisions, and the development of a finance and budget data warehouse.

The FY 2022 appropriation was financed by a transfer from the Industrial Commission Administrative Fund to the Industrial Commission of Arizona APF Subaccount. The FY 2022 budget exempted the project from JLBC review. The FY 2022 funds are non-lapsing through FY 2023. ITAC approved the project in March 2022 and the ICA reports that the project will be complete by the end of FY 2023.

Judiciary Supreme Court Subaccount

Statewide Community Supervision Electronic Monitoring System

The budget includes $2,500,000 from the Judiciary Supreme Court Subaccount in FY 2024 for the Statewide Community Supervision Electronic Monitoring System. Adjustments are as follows:

One-Time Project Funding

The budget includes an increase of $2,500,000 from the Judiciary Supreme Court Subaccount in FY 2024 for the Statewide Community Supervision Electronic Monitoring System.

In FY 2023, the Supreme Court initiated a $2,500,000 pilot project funded with the American Rescue Plan Act (ARPA) Funds. The system is designed to enable probation officers to monitor and communicate with individuals involved in the criminal justice system, both pre-trial and in selected probation groups, using a cell phone.

The FY 2024 appropriation was financed from the General Fund.

Probation Case Management System Replacement

The budget includes $3,270,000 from the Judiciary Supreme Court Subaccount in FY 2024 for a Probation Case Management System Replacement project. Adjustments are as follows:

One-Time Project Funding

The budget includes an increase of $3,270,000 from the Judiciary Supreme Court Subaccount in FY 2024 to replace the Probation Case Management System.

The statewide system is used by all 15 county adult probation departments. The current system is over 20 years old and has reached its end of life.

The Supreme Court estimates that the total project costs are approximately $11,100,000 over 3 years.

The FY 2024 appropriation was financed from the General Fund.

Board of Psychologist Examiners Subaccount

e-Licensing System Modifications

The budget includes no funding in FY 2024 for modifications to the Board of Psychologist Examiners e-licensing system. This amount is unchanged from FY 2023.

The FY 2022 budget included $20,000 from the Board of Psychologist Examiners APF Subaccount for modifications to the board's e-licensing system. The board uses the statewide e-licensing system operated by ADOA. In FY 2023, the board transitioned to a different e-licensing system along with several other regulatory boards and they now plan to use the funding to enhance the new e-licensing system.

The FY 2022 appropriation was financed by a transfer from the Board of Psychologist Examiners Fund to the Board of Psychologist Examiners APF Subaccount. The FY 2022 funds are non-lapsing through FY 2023.

Department of Public Safety Subaccount

Concealed Weapons Tracking System

The budget includes $494,500 from the Department of Public Safety (DPS) APF Subaccount in FY 2024 for upgrades to the DPS Concealed Weapons Tracking System. Adjustments are as follows:

Additional One-Time Project Funding

The budget includes an increase of $494,500 from the DPS APF Subaccount in FY 2024 for additional funding for the Concealed Weapons Tracking System.

The FY 2022 budget included $550,000 from the DPS APF Subaccount to complete upgrades to the Concealed Weapons Tracking System. The FY 2024 General Appropriation Act extends the lapsing date of the FY 2022 appropriation through FY 2024.

The system tracks concealed weapon permits and allows law enforcement to verify permits. The current system uses antiquated mainframe technology. The new system will interface with other law enforcement systems and allow the public to renew permits online. *(Please see the FY 2022 Appropriations Report for additional details and background on the project.)*

Department of Revenue Subaccount

Integrated Tax System Modernization

The budget includes $19,369,400 from the Department of Revenue (DOR) APF Subaccount in FY 2024 for the DOR's development of a new integrated tax system. Adjustments are as follows:

Second-Year Development costs

The budget includes an increase of $3,549,600 from the DOR APF Subaccount in FY 2024 for the development of a new integrated tax system modernization project. The FY 2024 budget funding level is included in the FY 2023 budget's 3-year General Fund spending plan. The FY 2024 3-year spending plan includes the FY 2024 – FY 2026 funding levels as displayed in *Table 1.*

The FY 2024 appropriation will be financed by a transfer from the following funds to the DOR APF Subaccount:

- $11,794,100 from the General Fund
- $7,575,300 from the Integrated Tax System Project Fund. The Integrated Tax System Project Fund consists of monies recovered from local governments (including regional transportation authorities) and state non-General Fund accounts that will benefit from the system.

As part of the FY 2023 budget, DOR estimated that the system will cost $104,827,600 to implement by FY 2028. The long-term spending plan for the tax system assumed that development costs would be allocated as follows: 1) 60.89% from the General Fund; 2) 34.06% from Local Governments; 3) 4.13% from the 0.6% Education Sales Tax; and 4) 0.92% from the 16% recreational marijuana excise tax. As noted above, the non-General Fund sources (which total 39.11% of the project budget) are deposited into the Integrated Tax System Project Fund.

Given these fixed allocation percentages, of the total project budget of $104,827,600, the General Fund cost would be $63,829,700. The remaining $40,997,900 is to be appropriated from the Integrated Tax System Project Fund as show in *Table 1.*

Table 1

Integrated Tax Modernization Costs

	General Fund	Integrated Tax System Project Fund	Total
FY 2023	$9,632,700	$6,187,100	$15,819,800
FY 2024	11,794,100	7,575,300	19,369,400
FY 2025	11,847,300	7,609,500	19,456,800
FY 2026	11,725,500	7,531,300	19,256,800
FY 2027	11,238,400	7,218,400	18,456,800
FY 2028	7,591,700	4,876,300	12,468,000
Total	**$63,829,700**	**$40,997,900**	**$104,827,600**

DOR is given annual guidance in budget legislation on the dollar amounts of these non-General Fund allocations, which represent the fixed percentages multiplied by that year's annual project budget. In addition, budget legislation also provides DOR guidance for the assessment of the local government charges.

The Taxation BRB (Laws 2023, Chapter 147) provides the legislative intent for setting these assessments as follows:

1) The amount to be charged to all counties, cities, towns, Council of Governments and regional transportation authorities with a population greater than 800,000 shall not exceed $6,597,200 for FY 2024.
2) Each local government type's share (for example all counties' share of the $6,597,200) is based on that government type's proportionate share of certain state and locally-collected revenues received by those local entities 2 fiscal years prior to the current fiscal year. *(See Table 2 for a list of the state/local tax categories and distributions used to allocate the local government charges.)* Once each government type's share of the local assessment has been calculated, population is the basis for determining the apportioning of fees among counties as well as among cities and towns.
3) The amounts charged to the 16% recreational marijuana excise tax and the 0.6% education sales tax shall not exceed $178,100 and $800,000, respectively, in FY 2024.

In future years, these limits will be adjusted in session law to allow for the collection of the expected future contributions from the Integrated Tax System Project Fund as shown in *Table 1*.

Section 113 of the FY 2024 General Appropriations Act continues a footnote requiring DOR to submit a report on meeting project specifications to JLBC for review prior to completing the procurement process and that details the following system requirements for the project:

- Capturing data fields from electronically-filed individual and corporate income tax returns and make the data available for querying and reporting purpose.
- For electronic corporate income tax returns, capturing information regarding the principal business activity of the corporation. This requirement may be satisfied through North American Industry Classification System data listed on federal tax forms. The tax system shall allow for querying and reporting based on principal business activity.
- Including an integrated tax model within the project that will be accessible to DOR, JLBC, and OSPB Staff to adjust tax law parameters against an anonymized sample of income tax returns to estimate the fiscal impact of proposed tax legislation. The model shall include procedures to protect taxpayer anonymity.
- The system shall make individual and corporate income tax data available for querying, modeling, and reporting within 24 months following the end of a tax year.

Table 2
Tax Categories Used for Allocation

Tax Category/Distribution	ARS Statutory Reference
State TPT Revenue Sharing	42-5029
Municipal TPT	42-6001
County Excise Tax	42-6103
Maricopa County Road Tax	42-6105
Pima County Road Tax	42-6106
County Road Tax	42-6107
County Hotel Tax	42-6108
County Jail Excise Tax	42-6109/42-6109.01
County Capital Projects Tax	42-6111
County Judgment Bonds Tax	42-6112
Urban Revenue Sharing	43-206

The JLBC favorably reviewed the $15,819,800 FY 2023 appropriation at two different meetings. At the September 2022 JLBC meeting, the Committee gave DOR a favorable review for initial scoping and procurement costs totaling $870,900.

At its June 1, 2023 meeting, the JLBC favorably reviewed both the expenditure plan for the remaining FY 2023 monies as well as the project specifications. The vendor contract became public on June 26, 2023. The selected vendor submitted a bid at $55 million for development costs. This amount, combined with DOR's internal costs of $40 million, results in a total development budget of $95 million, leaving $9.4 million for a contingency (See Table 2 below). The selected vendor's contract included $30 million for 10 years of post-implementation operations and maintenance. This latter amount was not included in the DOR project budget.

Table 3
DOR Total Project Budget Costs
($ in Millions)

	6-Year Budget
Vendor Development Costs	55.0
DOR Internal Development Costs	40.0
Total	**95.0**

Secretary of State Subaccount

Electronic Record Storage Study

The budget includes no funding in FY 2024 for an electronic record storage feasibility study. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease $(300,000) from the Secretary of State APF Subaccount in FY 2024 to remove one-time electronic record storage feasibility study funding.

The FY 2023 funding will be used to conduct a feasibility study on how the Secretary of State shall preserve electronic records on behalf of the state in a self-sustaining manner similar to physical record storage.

The FY 2023 appropriation was financed from a transfer from the Records Services Fund.

Department of Water Resources Subaccount

Application Modernization and Integration

The budget includes no funding in FY 2024 to update the department's applications. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of $(1,700,000) from the DWR APF Subaccount in FY 2024 to remove one-time funding for application modernization.

The modernized applications and portal will centralize data, reduce manual data entry by department staff, reduce the processing time of applications, and allow applicants for DWR permits and licenses to submit and follow-up on their applications online.

The FY 2023 appropriation will be financed from a transfer from the Water Resources Fund.

Other Issues

FY 2023 Supplemental

The budget includes a one-time supplemental transfer of $1,750,000 from the Personnel Division Fund to the HRIS APF subaccount for the HRIS replacement project. This amount was intended to be transferred in the FY 2023 General Appropriations Act.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, the General Fund deposits into the APF costs are projected to increase by $53,200 in FY 2025 above FY 2024 and decrease by $(8,132,800) in FY 2026 below FY 2025. These estimates are based on:

<u>HRIS Replacement</u>
The long-term estimates assume funding for HRIS replacement will remain the same in FY 2025 from FY 2024 and decline by $(8,011,000) in FY 2026 below FY 2026 for the completion of the project.

<u>DOR Integrated Tax System Modernization</u>
The long-term estimates assume funding for the DOR Integrated Tax System modernization project will increase by $53,200 in FY 2025 above FY 2024 and decrease by $(121,800) in FY 2026 below FY 2025.

Subaccount Balance Transfers

The FY 2023 Automation BRB modified permanent law to allow ADOA to transfer unspent APF subaccount funding back to the fund of origin at the completion of an information technology project. ADOA is required to annually report on transfers. In FY 2023, ADOA reported the following transfers:

	Transfer Amount
<u>General Fund</u>	
Department of Agriculture	$ 51,000
<u>Other Appropriated Funds</u>	
Department of Administration	
Automation Operations Fund	587,100
Department of Education	
Empowerment Scholarship Fund	57,700
Department Environmental Quality	
Underground Storage Tank Revolving Fund	199,100
Department of Gaming	
Arizona Benefits Fund	277,400
Department of Public Safety	
Highway Patrol Fund	875,200

Table 2

Automation Projects Fund Transfers

($ in thousands)

	FY 2022	FY 2023	FY 2024
Department of Administration Subaccount			
General Fund	3,000.0	17,114.3	3,500.0
Automation Projects Fund	2,000.0		
Automation Operations Fund	4,758.9		
State Web Portal Fund	3,000.0		
HHIS Subaccount			
General Fund			15,000.0
HRIS Subaccount			
General Fund		8,011.4	8,011.4
Other Agency Funds		12,636.4	12,636.4
Personnel Division Fund		1,750.0 2/	
Department of Agriculture Subaccount			
General Fund		2,000.0	
Charter School Board Subaccount			
General Fund	614.1		
Corporation Commission			
Securities Regulatory and Enforcement Fund			7,000.0
Department of Economic Security Subaccount			
Federal Child Care Development Fund Block Grant	9,000.0		
Department of Education Subaccount			
ADE Empowerment Scholarship Fund	4,448.9		
State Treasurer Empowerment Scholarship Fund	2,751.1		
Department of Gaming Subaccount			
Arizona Benefits Fund	850.0		
Industrial Commission of Arizona Subaccount			
Industrial Commission Administrative Fund	1,067.7		
Judiciary -Supreme Court Subaccount			
General Fund			5,770.0
Board of Psychologist Examiners Subaccount			
Board of Psychologist Examiners Fund	20.0		
Department of Public Safety Subaccount			
Concealed Weapons Permit Fund	550.0		494.5
Secretary of State Subaccount			
Record Services Fund		300.0	
Department of Revenue Subaccount			
General Fund		9,632.7	11,794.1
Integrated Tax System Project Fund		6,187.1	7,575.3
Department of Water Resources			
Water Resources Fund		1,700.0	
General Fund Subtotal	***3,614.1***	***36,758.4***	***44,075.5***
Other Appropriated Fund Subtotal	***28,446.6***	***22,573.5***	***27,706.2***
Total	***32,060.7*** 1/	***59,331.9***	***71,781.7***

1/ The FY 2022 column of numbers are transfers, not actuals, and therefore may not match the FY 2022 Actual column in the Budget table above.
2/ Supplemental transfer in FY 2024 budget.