STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, March 31, 2015
8:30 A.M.
House Hearing Room 4

MEETING NOTICE

- Call to Order
- Approval of Minutes of December 17, 2014.
- DIRECTOR'S REPORT (if necessary).
- EXECUTIVE SESSION - Arizona Department of Administration, Risk Management Services - Consideration of Proposed Settlements under Rule 14.

1. ADOPTION OF COMMITTEE RULES AND REGULATIONS.
2. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CHILD SAFETY - Review of CHILDS (Automation Projects Fund).
3. ARIZONA DEPARTMENT OF ADMINISTRATION/ARIZONA DEPARTMENT OF CORRECTIONS - Review of Adult Information Management System FY 2015 (Automation Projects Fund).
4. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF CHILD SAFETY - Review of Transition Funding Expenditure Plan (Moving Expenses).
5. ARIZONA DEPARTMENT OF ADMINISTRATION/DEPARTMENT OF ECONOMIC SECURITY - Review of Transition Funding Expenditure Plan (Data Center).
6. ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.
7. ATTORNEY GENERAL - Review of Quarterly Reports on Legal Settlements.
8. NORTHERN ARIZONA UNIVERSITY - Review of Expenditure and Performance Report on Nonprofit Biotechnology Research Appropriation.

9. AUTOMOBILE THEFT AUTHORITY - Review of the Proposed Expenditures from the Reimbursable Programs Line Item.

10. AHCCCS/DEPARTMENT OF HEALTH SERVICES/DEPARTMENT OF ECONOMIC SECURITY/DEPARTMENT OF CHILD SAFETY - Review of Proposed Capitation Rates Changes.

The Chairman reserves the right to set the order of the agenda.
3/25/15
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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

December 17, 2014

The Chairman called the meeting to order at 1:45 p.m., Wednesday, December 17, 2014, in House Hearing Room 1. The following were present:

Members:	Senator Shooter, Chairman	Representative Kavanagh, Vice-Chairman
	Senator Cajero Bedford	Representative Alston
	Senator Griffin	Representative Lesko
	Senator McComish	Representative Olson
	Senator Melvin	
	Senator Pancrazi	
	Senator Tovar	
	Senator Yarbrough	
Absent:		Representative Gowan
		Representative Kwasman
		Representative Mach
		Representative Ugenti

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of September 30, 2014, Chairman Don Shooter stated that the minutes would stand approved.

The Chairman held the agenda items for the Attorney General (State v. McKesson Corporation) and State Board of Education (Review of Changes to Achievement Testing Program) so as to seek input from the incoming Attorney General and incoming Superintendent of Public Instruction.

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Plan to Reduce Federal Reimbursement for Excess Balances.

Ms. Rebecca Perrera, JLBC Staff, stated that this item is for a review of ADOA's plan to reduce the level of federal reimbursements regarding excess balances from funds other than the Special Employee Health Insurance Fund (HITF). The JLBC Staff presented options to the Committee.

(Continued)

Representative Kavanagh moved that the Committee recommended that any excess balances be proportionately returned to the state and the federal government. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Approval of Employer Sanctions Enforcement Distributions.

Ms. Rebecca Perrera, JLBC Staff, stated that this item is for a review of the distribution of $329,200 of the $513,200 FY 2015 appropriation for the enforcement of immigration-related employer sanctions. The JLBC Staff presented options to the Committee.

Representative Kavanagh moved that the Committee approve the distribution of $231,400 of the $513,200 FY 2015 appropriation for the enforcement of immigration-related employer sanctions. The Committee requests additional information on the Pima County Sheriff's request for $97,700 for further review and any additional funding for any county would require Committee approval. The motion carried.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review of Arizona Strategic Enterprise Technology (ASET) Projects (Automation Projects Fund).

Ms. Rebecca Perrera, JLBC Staff, stated that this item is for review of $335,500 in proposed FY 2014 expenditures from the APF for projects at the State Data Center at the ASET office in ADOA. The JLBC Staff presented options to the Committee.

Mr. Aaron Sandeen, Deputy Director and State Chief Information Officer, ADOA, responded to member questions.

Representative Kavanagh moved that the Committee give a favorable review to ADOA's $335,500 in FY 2014 expenditures from the Automated Projects Fund for projects at the State Data Center at the ASET Office in ADOA with the following provisions:

A. As a result of further planning and implementation efforts, should there be significant changes in the proposed cost, technology approach, scope of work, or schedule, ADOA-ASET must amend the Project Investment Justification (PIJ) to reflect the changes and submit an updated PIJ to the ADOA-ASET Strategic Oversight team for review, and approval as necessary.

B. ADOA-ASET must ensure that appropriate levels of security controls are in place prior to the migration of any service offerings that may involve sensitive, confidential, or Personally Identifiable Information (PII) data to the cloud.

The motion carried.

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

Mr. Jon Stall, JLBC Staff, stated that DOR requests Committee review of $1.7 million in proposed FY 2015 expenditures from the Automation Projects Fund (APF) to improve DOR's ability to capture and analyze more tax return data electronically. The JLBC Staff presented options to the Committee.

Representative Kavanagh moved that the Committee give a favorable review to $1,134,200 in FY 2015 expenditures from the APF to capture and analyze more tax return data electronically with the following provisions:

(Continued)

A. Should any additional expense be required to implement the project beyond what has been proposed, DOR must amend the PIJ and submit it to ADOA's ASET and Information Technology Authorization Committee (ITAC), if requested for review and approval prior to further expenditure of funds.
B. Prior to spending of the project's contingency funding of $565,800, DOR must submit an expenditure plan of funding activity to the Committee for review.
C. DOR is to report to JLBC by February 3, 2015 as to whether these automation changes will permit publication of fiscal year income tax credit data within 90 days after the end of the fiscal year.

The motion carried.

ADOA/DEPARTMENT OF REVENUE - Review of Electronic Tobacco Tax Filing System Project (Automation Projects Fund).

Mr. Jeremy Gunderson, JLBC Staff, stated that DOR requests Committee review of $1.0 million in proposed FY 2015 expenditures from the APF for an electronic tobacco tax licensing system at DOR. The JLBC Staff presented options to the Committee.

Mr. Aaron Sandeen, Deputy Director and State Chief Information Officer, ADOA, responded to member questions.

Representative Kavanagh moved *that the Committee give a favorable review to DOR's $1.0 million in FY 2015 expenditures from the APF for an electronic tobacco tax licensing system at DOR with the following provisions:*

A. Prior to moving any state data into the vendor provided solution, DOR must specify the selected solution's compliance with the Arizona Baseline Security Controls needed to provide a moderate level of protection for any Personally Identifiable Information data to be stored offsite. DOR and/or the vendor must explain any controls that cannot be met and if there are plans to address future compliance.
B. As a result of the procurement process, should the final costs exceed the estimated costs by 10% or more, or should there be significant changes to the proposed technology, scope of work or implementation schedule, DOR must amend the PIJ to reflect the changes and submit it to ADOA-ASET and ITAC, for review and approval prior to further expenditure of funds.
C. A favorable review by the Committee does not constitute endorsement of General Fund appropriations to fund any increase in DOR operating costs due to the new licensing system.

The motion carried.

JLBC STAFF - Consider Approval of Index for School Facilities Board (SFB) Construction Costs.

Mr. Josh Hope, JLBC Staff, stated that the cost-per-square-foot factors used in the SFB new school construction financing "shall be adjusted annually for construction market considerations based on an index identified or developed by the JLBC as necessary but not less than once each year." The JLBC Staff presented options to the Committee.

Representative Kavanagh moved *that the Committee approve a 0% adjustment in the cost-per-square-foot factors. The adjustment is based on longitudinal inflation data, by measuring the change in the Rider*

Levett Bucknall Phoenix construction cost index since the last JLBC cost-per-square-foot adjustment in November 2008. The motion carried.

(Continued)

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

Mr. Steve Schimpp, JLBC Staff, stated that A.R.S. § 15-915B requires the Superintendent of Public Instruction to reimburse school districts for K-12 "local share" taxes that they must refund to a taxpayer due to an Arizona Tax Court ruling that reduces the taxpayer's assessed property value for prior fiscal years.

Representative Kavanagh moved that the Committee give a favorable review to ADE's plan to provide 26 school districts in 7 counties with $2,953,900 in corrected Basic State Aid funding due to a recent settlement in the Arizona Tax Court regarding property taxes paid in prior years by the Transwestern Pipeline Company. The motion carried.

DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Transition Funding Expenditure Plan - Data Center.

Mr. Richard Stavneak, JLBC Director, stated that this item requires Committee review of monies being expended from the ADOA's $25.0 million appropriation for the establishment of the Department of Child Safety (DCS) and the relocation of the DES Data Center. DES is requesting Committee review of $2.5 million for the next phase of the date center relocation. The JLBC Staff presented options to the Committee.

Mr. Aaron Sandeen, Deputy Director and State Chief Information Officer, ADOA, responded to member questions.

Representative Kavanagh moved that the Committee give a favorable review of $2.5 million for the next phase of the Data Center relocation with the following provisions:

A. *DES is to notify the JLBC Staff prior to expending the $200,000 contingency.*

B. *Should final costs exceed the proposed costs by 10% or more, or should there be significant changes to the technology approach, scope of work, or schedule, DES must amend the PIJ to reflect the changes and submit an updated PIJ to ADOA-ASET, and to ITAC, for review and approval prior to further expenditure of funds.*

The motion carried.

ARIZONA HEALTH CARE COST CONTAINMENT SYSTEM (AHCCCS), THE DEPARTMENT OF HEALTH SERVICES (DHS) AND DES - Review of Revised Capitation Rate Changes.

Mr. Jon Stall, JLBC Staff, stated that the Committee is required to review the AHCCCS, DHS and DES capitation rate changes prior to implementation. AHCCCS, DHS and DES are revising their capitation rates to reimburse Medicaid health insurers for costs of paying a federal health insurer fee in 2014. The JLBC Staff presented options to the Committee.

Representative Kavanagh moved that the Committee give a favorable review to the proposed capitation rate changes to reimburse Medicaid health insurers for costs of paying a federal health insurer fee in 2014. The motion carried.

(Continued)

CONSENT AGENDA

The following items were considered without discussion.

ARIZONA DEPARTMENT OF ADMINISTRATION - Review Report on Public Safety Broadband.

Pursuant to an FY 2015 General Appropriation Act footnote, the Committee is required to review its annual report on expenditures for the State and Local Implementation Grant program associated with the National Public Safety Broadband Network Initiative.

ATTORNEY GENERAL - Review of Quarterly Reports on Legal Settlements.

Pursuant to the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) the Committee is required to review quarterly reports on the receipts and disbursements from the Consumer Protection - Consumer Fraud Revolving Fund, the Consumer Restitution and Remediation Revolving Fund, and the Antitrust Enforcement Revolving Fund, as well as deposits made to the General Fund submitted by the Attorney General (AG).

DEPARTMENT OF REVENUE (DOR) - Review of Tax Data Analysis Expenditure Plan.

Laws 2014, Chapter 18 requires Committee review prior to any monies being expended from DOR's $100,000 appropriation for improving the agency's analysis of tax data.

Representative Kavanagh moved that the Committee give favorable reviews to the 3 agenda items listed above. The motion carried.

EXECUTIVE SESSION

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

At 2:28 p.m. the Joint Legislative Budget Committee went into Executive Session.

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

At 3:05 p.m. the Committee reconvened into open session.

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

Representative Kavanagh moved that the Committee approve the recommended settlement proposed by the Attorney General's office in the case of Redfish v. State of Arizona.

Senator Yarbrough moved that the Committee recommend that DCS and/or DES report to the JLBC at its next meeting on their plans for further disciplinary action and for policy reforms going forward to prevent reoccurrence of such activity.

The motions carried.

(Continued)

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

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

C. JLBC - Annual Performance Review per Rule 7.

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

Without objection, the meeting adjourned at 3:07 p.m.

Respectfully submitted:

K Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director

Senator Don Shooter, Chairman

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

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DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

FROM: Richard Stavneak, Director RS

SUBJECT: Adoption of Committee Rules and Regulations

The Committee will consider the attached rules and regulations for adoption at its March 31 meeting. The rules are the same as in the prior session.

RS:lm
Attachment

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 1

NAME OF COMMITTEE AND METHOD OF APPOINTMENT

The name of the Committee is the Joint Legislative Budget Committee, hereinafter referred to as the Committee, consisting of sixteen members designated or appointed as follows:

1. The majority leaders of the Senate and House of Representatives, the Chairmen of the Senate and House of Representatives Appropriations Committees, the Chairman of the Senate Finance Committee and the Chairman of the House of Representatives Ways and Means Committee.

2. Five members of the Senate and five members of the House of Representatives who are members of their Appropriations Committees shall be appointed to the Committee by the President of the Senate and the Speaker of the House of Representatives, respectively.

RULE 2

STATUTORY POWERS AND DUTIES OF THE COMMITTEE

1. The Committee shall ascertain facts and make recommendations to the Legislature relating to the State budget, revenues and expenditures of the State, future fiscal needs, the organization and functions of State agencies or divisions thereof and such other matters incident to the above functions as may be provided for by rules and regulations of the Committee.

2. The Committee shall promulgate rules and regulations for the operation of the Committee.

3. The Committee shall have the powers conferred by law upon legislative committees.

4. The Committee shall make studies, conduct inquiries, investigations and hold hearings.

5. The Committee may meet and conduct its business any place within the State during the sessions of the Legislature or any recess thereof and in the period when the Legislature is not in session.

6. The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing, with the right to call witnesses, which the Committee has authority to undertake.

RULE 3

CHAIRMAN OF THE COMMITTEE

The Chairman of the House of Representatives Appropriations Committee shall have a term as Chairman of the Committee from the first day of the First Regular Session to the first day of the Second Regular Session of each Legislature and the Chairman of the Senate Appropriations Committee shall have a term from the first day of the Second Regular Session to the first day of the next Legislature's First Regular Session.

RULE 4

COMMITTEE PROCEEDINGS

The Committee proceedings shall be conducted in accordance with Mason's Manual of Legislative Procedure, except as otherwise provided by these rules.

RULE 5

SUBCOMMITTEES

The Committee may establish subcommittees from the membership of the Legislature and assign to such subcommittees any study, inquiry, investigation or hearing with the right to call witnesses which the Committee has authority to undertake. Each such subcommittee shall include in its membership an equal number of Senate and House of Representatives members.

RULE 6

QUORUM

A majority of the members of the Committee shall constitute a quorum for the transaction of business.

RULE 7

LEGISLATIVE BUDGET ANALYST

The Legislative Budget Analyst (hereinafter "Director") shall be the Staff Director and the Chief Executive Officer of the Committee. The Director shall be appointed by the Committee and shall serve on a full-time basis. The Committee shall annually review the Director's performance and the Committee or the Chairman and Vice Chairman shall determine the Director's salary within the limits prescribed by law. The Chairman of the Committee may appoint a subcommittee to make recommendations concerning these matters.

In addition to the responsibilities prescribed by A.R.S. § 41-1273, the duties of the Director shall include any duties which shall be assigned by the Committee, including the following:

1. Compilation of information for the Committee.

2. A continuous review of State expenditures, revenues and analysis of the budget to ascertain facts, compare costs, workload and other data and make recommendations concerning the State's budget and revenue of the departments, boards, commissions and agencies of the State.

3. Act as administrative head of the Committee Staff, with authority to hire and dismiss such personnel as may be necessary for the proper conduct of the office, and fix compensation of staff members within any limits set by the Committee.

4. Maintain the records and files of the Committee.

5. Shall make special reports for presentation to the Committee and to others as directed by the Committee.

6. Attend all meetings of the Committee and such other meetings and hearings as are necessary to facilitate the work of the Committee.

7. Examine as to correctness all vouchers for the expenditure of funds appropriated for the use of the Committee.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 8

AGENDA FOR MEETINGS

An agenda for each Committee Meeting shall be prepared by the Director and, whenever possible, mailed or delivered to members of the Committee, not less than one week prior to the meeting. The Director must have at least three weeks prior notice for any state agency-requested items that appear on the agenda, unless the Chairman of the Committee approves of a later submission.

RULE 9

ORDER OF BUSINESS

The Order of Business at a Committee meeting shall be determined by the Chairman of the Committee. It shall normally be as follows:

1. Call to order and roll call
2. Reading and approval of minutes
3. Director's Report [if any]
4. Executive Session (including Rule 14 items)
5. Items requiring Committee review and/or approval
6. Other Business - For Information Only
7. Adjournment

RULE 10

DISBURSEMENTS

1. All expenditures of the Committee shall be by vouchers properly itemized and supported by receipts and shall be approved by the Director when authorized by the Chairman of the Committee.

2. All contracts and studies authorized by the Committee shall be approved by the Committee after examination.

RULE 11

MEETINGS OF THE COMMITTEE

The Committee shall meet at such times and places as the Committee may determine. Additional special meetings may be called by the Chairman or by a majority of the members of the Committee.

RULE 12

ADOPTION AND AMENDMENT OF THE RULES AND REGULATIONS

These rules and regulations shall be adopted and may be amended by a majority vote of the members of the Committee, provided that a quorum is present.

JOINT LEGISLATIVE BUDGET COMMITTEE OF ARIZONA

RULES AND REGULATIONS

RULE 13

FISCAL NOTES

1. The President of the Senate and the Speaker of the House of Representatives or their designees may each designate bills that shall have a fiscal note prepared regarding their impact.

2. The JLBC Staff shall prepare the fiscal notes utilizing an impact period that covers the full cost of the legislation. The fiscal notes shall indicate any local fiscal impact, where appropriate.

3. Fiscal notes shall not contain comments or opinions on the merits of the bill.

4. Exceptions to the procedure set forth in this rule shall be permitted with the approval of the Chairman and Vice Chairman of the Committee.

5. The Committee may amend or suspend this rule or any subsection hereof by a majority vote of those present and eligible to vote.

6. Procedures to implement this rule shall be prepared by the Director and approved by the Chairman and Vice Chairman of the Committee.

RULE 14

STATE LIABILITY CLAIMS - PROCEDURE FOR SETTLEMENT WHEN COVERED BY RISK MANAGEMENT SELF-INSURANCE FUND

1. General provisions for presentation of settlement to the Committee:

    A. Settlements of $250,000 or less do not require approval of the Committee pursuant to A.R.S. § 41-621(N). All proposed liability settlements must be presented to the Committee in accordance with these provisions and accompanied by a report containing the information specified in Paragraph 3.

    B. The report shall be filed with the Chairman of the Committee seven days before the meeting scheduled to consider the settlement proposal.

    C. A limited number of items may be excluded from the written report and presented orally at the Committee meeting, if the Attorney General and Risk Management Division find the exclusion to be absolutely necessary for the protection of the State's case.

    D. All Committee settlement proceedings and material prepared for such proceedings shall be required to be kept confidential.

    E. Any plaintiff's inquiries regarding Committee meeting dates, times and agendas should be directed to the Attorney General's Insurance Defense Section which shall consult with the JLBC Staff Director.

2. At a Committee meeting at which a settlement proposal is considered:

    A. Material shall be presented by the Attorney General or retained defense counsel who had primary responsibility over negotiation of the settlement and/or handling of the case, together with the Manager of the Risk Management Division of the Department of Administration.

STATE LIABILITY CLAIMS (CONT'D)

B. The Committee Chairman or a majority of the Committee, may request other witnesses to attend and testify at any settlement proposal meeting. When requested by a Committee member, the director of an agency named in a lawsuit for which a settlement is proposed shall be requested to appear at the meeting at which the settlement is proposed.

C. The presentation of the settlement proposal at the Committee meeting shall contain, at a minimum, the information required to be submitted pursuant to Paragraph 3.

D. In addition to the report, additional drafts, charts, pictures, documents or other items may be presented to the Committee by the Attorney General or Risk Management Division, if helpful in reviewing the merits of the settlement. Additional items shall be presented when requested by the Committee Chairman, or a majority of the Committee at a prior meeting, or a JLBC subcommittee to which the matter has been referred.

E. Upon a conclusion of the presentation, the Committee may accept the settlement as proposed, reject the settlement as proposed, recommend an alternative settlement with the advice of the Attorney General and Risk Management Division, request additional information, evaluations or appearances of witnesses, or the matter may be referred to a JLBC subcommittee for further study.

3. The written settlement proposal report submitted to the Committee for each settlement offer shall contain the following information:

A. A one to two page executive summary of pertinent information related to the case that, at a minimum, summarizes information contained in items B, D, G, H, I, K, L, N and P below.

B. The names of the plaintiffs or claimants.

C. Whether a lawsuit has been filed, the date on which it was filed and the current status of the lawsuit. If a lawsuit has not been filed, the last date upon which a lawsuit could be filed.

D. The basic facts of the case including, first, the undisputed facts and secondly, those facts in dispute.

E. A summary of the basis or bases of liability claimed by plaintiff or claimant and the State's defenses to such liability, including the key evidence relied upon by each party.

F. The amount originally claimed by the plaintiff or claimant.

G. The identifiable damages and/or costs incurred by plaintiff or claimant to date.

H. Costs incurred by the State in defending the claim or suit to date.

I. Estimated costs to the State of defending the claim or suit through trial.

J. Attorney for plaintiff, Attorney General assigned to the case, retained defense counsel, if any.

K. Estimate of plaintiff or claimant's chances of prevailing in suit against the State.

L. Range of recovery likely at trial for plaintiff's claims.

M. Complete terms of settlement including:

1. To whom payment is to be made;

RULE 14 CONTINUED

STATE LIABILITY CLAIMS (CONT'D)

2. The amount of payment;

3. The conditions, if any, attached to the payment; and

4. Deadline for settlement, if any.

N. Settlement recommendations of Attorney General and Risk Management and recommended response to settlement offer.

O. Whether the State has any claim or right of recovery against other parties, e.g., subrogation or indemnification.

P. An agency and an Arizona Department of Administration response that shall contain the following information:

1. Actions taken to eliminate or limit the future risk of liability to the state.

2. Statement as to any disciplinary action(s) taken against any employee(s) that were negligent in carrying out their duties.

3. An agency loss prevention plan approved by the Arizona Department of Administration (ADOA). If an approved plan is not available, ADOA will provide an explanation of why it is not approved at that time, and a timetable for submitting an approved plan.

4. In conjunction with the settlement procedures prescribed pursuant to this rule, the Risk Management Division shall:

A. Annually report to the Committee on 1) the operations of the Division, 2) the status of pending claims and lawsuits, 3) information on actual judgements and settlements, 4) status of claims and lawsuits reported on the prior year annual report, 5) number of claims and lawsuits filed since the last report, 6) number of liability cases taken to trial with information on the verdicts and judgment amounts, and 7) projected fund balances.

B. With the assistance of the Attorney General, propose to the Committee any changes in State insurance coverage, State statutes, State liability principles or claims procedures which may help to limit future State liability.

C. Provide the Committee with an agency loss prevention plan that results from a judgment against the state in an amount equal to or greater than that which requires JLBC settlement authority. Within sixty days after payment of the judgment, ADOA will either indicate approval of the plan, provide an explanation of why it is not approved, or provide an explanation as to why a plan is no longer applicable.

RULE 15

CONFIDENTIAL NATURE OF SERVICES

The Director, members of the JLBC Staff, and those charged with the duty of processing in any manner proposed budget estimates, recommendations or research, shall not, without consent of the recipient legislator(s), disclose to any other person whomsoever, the contents of any letter, memorandum, report, or other written communique.

RULE 15 (CONTINUED)

This provision does not apply to regular JLBC Staff reports nor information which the Staff prepares and disseminates under the general authority of the Director that was not specifically requested by a legislator(s).

The violation of any provision of this rule by the Director, a member of his staff, or any person charged in any manner with the duty of processing proposed analysis or research may be deemed sufficient cause for dismissal by the Director and in the case of the Director, by the Committee.

JLBC Staff
04/14/11
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DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Ben Beutler, Senior Fiscal Analyst BB

SUBJECT: Arizona Department of Administration/Department of Child Safety - Review of CHILDS (Automation Projects Fund)

Request

Laws 2014, Chapter 18 requires Committee review prior to any monies being expended from the Arizona Department of Administration's (ADOA) Automation Projects Fund (APF) for replacement of the CHILDS system. The Department of Child Safety (DCS) is requesting Committee review of $313,000 for CHILDS replacement as part of the Phase 1 Planning project.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Under either option, the JLBC Staff recommends the following Arizona Strategic Enterprise Technology (ASET) provisions:

A. DCS may proceed to contract for requirements definition, a cost benefit study, alternative analysis, and feasibility study utilizing available funding. Should additional APF funding be authorized for this project, DCS must amend the Project Investment Justification (PIJ) or submit a new PIJ to reflect the change in scope and proposed costs, and submit it to ASET, and to the Information Technology Authorization Committee (ITAC) if required, for review and approval prior to additional expenditure of funds.

(Continued)

B. DCS may proceed with the discovery phases needed to define requirements, produce a cost benefit study, alternative analysis, and feasibility study. However, DCS may not proceed with further development efforts until an updated PIJ, reflecting the final costs, scope of work, technology, and implementation schedule for the proposed solution, has been submitted to ASET and ITAC for review and approval (if required).

Analysis

The Children's Information Library and Data Source (CHILDS) is the information management system used to document the status, demographics, location and outcomes for children in the care of DCS. The system assists with various business processes including hotline intake, initial assessments and investigations, case management, adoptions, eligibility determinations, staff management, provider management and payment processing.

ADOA/DCS were appropriated $5.0 million of non-lapsing General Fund monies in FY 2015 for CHILDS replacement. The departments' plan calls for the replacement of CHILDS through 2 phases. DCS is requesting review of $313,000 of the $5.0 million appropriation for the Phase 1 Planning project. The $313,000 will draw down an equal amount of Federal Funds. During Phase 1, DCS will hire a consultant to prepare the CHILDS replacement request for proposal (RFP). The consulting firm will have experience with Statewide Automated Child Welfare Information Systems (SACWIS) and be required to produce certain contract deliverables, including but not limited to a requirements document, an alternative analysis, a cost/benefit analysis, a feasibility study and a final report with findings, recommendations and potential risks. Phase 1 will last 5 months.

During Phase 2, DCS will implement the RFP, selecting a vendor to design, develop, and carry out the chosen CHILDS replacement solution in accordance with certain standards. DCS plans to have the Phase 2 RFP ready for release in early 2016. It is anticipated that after the RFP is awarded, Phase 2 will span multiple years.

A FY 2015 General Appropriation Act footnote stipulates that CHILDS replacement funding is contingent upon DCS contracting with a third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DCS are to provide ITAC and the Joint Legislative Budget Committee with a list of performance measures to be tracked by the new CHILDS system and a recent report from the third-party consultant when seeking review of the CHILDS replacement funding. Although DCS has hired the third-party consultant using monies from non-APF sources, the department indicates that it is too early in the process to provide the third-party report or the list of performance measures to the Committee. The departments plan to provide the required information during the Phase 1 Planning project.

RS/BB:kp

Douglas A. Ducey
Governor

Kathy Peckardt
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

March 16, 2015

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

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

Dear Representative Olson and Senator Shooter:

In accordance with Arizona Revised Statues § 41- 714, the Arizona Department of Administration (ADOA) is submitting this request for review of the Automation Projects Fund (APF) project to begin the planning phase to replace the Department of Child Safety's (DCS) Statewide Automated Child Welfare Information System (SACWIS), known as the Children's Information Library and Data Source (CHILDS).

Of the $5,000,000 APF appropriation, DCS is planning to spend $313,000 on the initial planning phase. These amounts will match and draw in an equivalent amount of federal funds.

The Project Investment Justification (PIJ) for the Phase I planning vendor has been submitted to Arizona Strategic Enterprise Technology (ASET) for review but has not yet been approved. The Department requests to be placed on the agenda pending the approval of the PIJ by the state Chief Information Officer.

Laws 2014, Chapter 18, section 123 requires that DCS use "a contracted independent third-party consultant to evaluate and assess the project's feasibility, estimated expenditures, technology approach and scope" and that ADOA and DCS "provide a list of specific performance measures to be tracked by the new automation system when seeking review of the $5,000,000 FY 2015 expenditure". DCS has hired a consultant project manager who has overseen the planning to date. As the project is still in the early planning phase, it is impossible to identify specific performance measures to be tracked by the new system at this juncture. The Phase I planning project does, however, include the development of the requirements for the system, which will identify those performance measures.

Phase I is to produce four primary deliverables:

- Requirements Document – a comprehensive, detailed list of the capabilities and functionality needed in the system.
- Alternatives Analysis – an analysis of replacement options (transfer from another state, build new, commercial-off-the-shelf, etc.).
- Cost/Benefit Analysis – a financial analysis of the procurement costs and benefits to be achieved by replacing the system.
- Feasibility Study – an assessment of the likelihood of success for each of the proposed alternatives.

DCS obtained approval of the Advance Planning Document from the federal Department of Health and Human Services' Administration for Children and Families to proceed with the planning phase of this project on August 27, 2014.

Attached, for your information, is a copy of the PIJ document as submitted to ASET and the ADOA project description document.

Sincerely,

Kathy Peckardt

Kathy Peckardt
Interim Director

Enclosures

cc: Richard Stavneak, Director JLBC
John Arnold, Director OSPB
Rebecca Perrera, JLBC Staff
Andrew D. Smith, JLBC Staff
Chris Olvey, OSPB Staff
Paul Shannon, Assistant Director Budget and Resource Planning ADOA

FY15 APF (A.R.S. § 41-714) Favorable Review Requests for March 31, 2015 JLBC Meeting

Agency-Division	Project Name	FY 15 APF Appropriation	JLBC Favorable Review Request	PIJ/ASET/ITAC Status
ADCS	Child Protective Service IT Modernization	$5,000,000	$308,499	Pending State CIO Approval
	Total Favorably Reviewed FY15 APF Funds		$57,034,700	
	Total January 2015 Request		**$308,499**	
	Remaining FY15 Unapproved APF funds		$12,691,501	
	Total FY15 Appropriated APF Budget		$70,034,700	

Child Protective Service IT Modernization

Project Name	FY15 Description	Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ ITAC Status	JLBC Fav. Rev. Status
Child Protective Service IT Modernization (PIJ ID# CH15004)	- This project is Phase 1 of the Department of Child Safety's (DCS) child welfare system [Children's Information Library and Data Source (CHILDS)] replacement project. The Phase 1 project will result in the creation of the following: business requirements, cost benefit analysis, feasibility study, and final recommendations. These documents are necessary for the State to make an informed business decision concerning the future direction of the legacy CHILDS system and possible replacement, also to secure federal funding and possibly engage a contractor to replace CHILDS. Phase 2 will utilize the requirements developed in Phase 1 to procure a contractor who will be responsible for replacing CHILDS with a system that achieves the goals and objectives of the DCS process improvements.	$5,000,000	$308,499	Pending State CIO Approval	**Pending**
Total			**$308,499**		

Remaining FY15 APF Projects Pending JLBC Favorable Review

Agency-Division	Project Name	FY 15 Amount	Amount Pending Favorable Review	PIJ /ASET/ ITAC Status
ADCS	Child Protective Service IT Modernization	$5,000,000	$4,691,501	Pending PIJ Submittal
ADC	Adult Inmate Management System (AIMS) Replacement	$8,000,000	$8,000,000	Approved
Total Remaining FY15 APF Projects Awaiting JLBC Favorable Review		**$13,000,000**	**$12,691,501**	

Favorably Reviewed FY15 APF Projects

Agency-Division	Project Name	FY 15 Amount	JLBC Favorable Review Amount	PIJ /ASET/ ITAC Status
ADOA	Business Re-Engineering Arizona (BREAZ) (Formerly AFIS Replacement Project)	$26,533,000	$26,533,000	JLBC Favorable Review Received in March 2013 for $79.8M
ADEQ	myDEQ Phase 2	$6,800,000	$6,800,000	JLBC Favorable Review 6/19/14
ADE	AELAS Program Support Office (PSO)	$1,500,000	$1,500,000	JLBC Favorable Review 6/19/14
ADE	AELAS Production Services/Support	$2,200,000	$2,200,000	JLBC Favorable Review 6/19/14
ADE	AELAS School Finance SAIS Payments CSF	$1,500,000	$1,500,000	JLBC Favorable Review 6/19/14
ADE	AELAS Standardized Student Data Store	$2,200,000	$2,200,000	JLBC Favorable Review 6/19/14
ADE	AELAS SIS Opt In	$800,000	$800,000	JLBC Favorable Review 6/19/14
ADE	AELAS SLDS – Arizona Education Data-driven Decision System (AzED3S) including AELAS Shared Services	$1,900,000	$1,900,000	JLBC Favorable Review 6/19/14
ADE	AELAS Opt-In Tools FY15	$450,000	$450,000	JLBC Favorable Review 6/19/14
ADE	AELAS Data Governance	$850,000	$850,000	JLBC Favorable Review 6/19/14
ADE	AELAS Organization Entity Management	$600,000	$600,000	JLBC Favorable Review 6/19/14
ADOA-ASET	Automation Projects Fund Strategic Execution Team	$1,701,400	$1,701,400	JLBC Favorable Review 9/30/14

Agency-Division	Project Name	FY 15 Amount	JLBC Favorable Review Amount	PIJ /ASET/ ITAC Status
ADOA-ASET	Transformation Initiatives Project Managers	$450,300	$450,300	JLBC Favorable Review 9/30/14
ADOA-ASET	Strategic Technology Assessment	$400,000	$400,000	
ADOA-ASET	Business and Technical Enterprise Architecture Training	$100,000	$100,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Agency Website Transformation & Content Management Solution (CMS) Implementation	$325,000	$325,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Secure Data Protections Pilots	$375,000	$375,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Data Center Network Managing/Monitoring	$515,195	$515,195	JLBC Favorable Review 9/30/14
ADOA-ASET	Security Assessment	$590,000	$590,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Central Security Management	$415,000	$415,000	JLBC Favorable Review 9/30/14
ADOA-ASET	Incident Response	$111,800	$111,800	JLBC Favorable Review 9/30/14
ADOA-ASET	Security Awareness	$348,448	$348,448	JLBC Favorable Review 9/30/14
ADOA-ASET	Data Center Security Management	$769,557	$769,557	JLBC Favorable Review 9/30/14
ADOA-ASET	Mainframe Refresh	$2,900,000	$2,900,00	JLBC Favorable Review 9/30/14
ADOR	Data Capture	$1,700,000	$1,700,000	JLBC Favorable Review 12/17/14
ADOR	Electronic Tobacco Tax Filing System	$1,000,000	$1,000,000	JLBC Favorable Review 12/17/14
Total Favorably Reviewed FY15 APF Projects		**$57,034,700**	**$57,034,700**	

Remaining FY14 APF Projects Pending JLBC Favorable Review

Agency-Division	Project Name	FY 15 Amount	Amount Pending Favorable Review	PIJ /ASET/ ITAC Status
ADOA-ASET	Web Portal Transition - Phase II	$445,000	$445,000	Pending PIJ submittal
ADOA-ASET	Pending	$384,482	$384,482	Pending PIJ submittal
Total Remaining FY14 APF Projects Awaiting JLBC Favorable Review		**$829,482**	**$829,482**	

ADOA - ASET
Arizona Strategic Enterprise Technology

Project Investment Justification

Version 05

A Statewide Standard Document for Information Technology Projects

Project Title:

Child Protective Service IT Modernization

Agency Name:	Department of Child Safety (DCS)
Date:	03/13/2015
Agency Contact Name:	Dennis Espeland
Agency Contact Phone:	(602) 264-3376 ext:3223
Agency Contact Email:	DEspeland@azdes.gov

Hover for Instructions

I. Management Summary*

The Department of Child Safety (DCS) is requesting approval to proceed with a project to create the planning documents necessary to secure federal funding and ultimately engage a contractor to replace the Department's child welfare system – Children's Information Library and Data Source (CHILDS).

Initiated by the Social Security Act of 1993, CHILDS was implemented in 1997 to provide an efficient, effective and economical means of managing child welfare service delivery and exchange information between various State and Federal information systems. Additinally, CHILDS is in compliance with federal law that requires all States to submit data to the Adoption and Foster Care Analysis Reporting System (AFCARS) and the National Child Abuse and Neglect Data System (NCANDS) to support federal statistical reporting and analysis.

Replacement of the CHILDS system will be accomplished in two phases. The first phase (Phase 1) is a planning effort required to create the documents that the federal Department of Health and Human Services (HHS), Administration for Children and Families (ACF) requires for approval of federal cost sharing. The Implementation Advanced Planning Document (IAPD) is the document DCS submits to request the fifty (50) percent funding match from DHS/ACF. The second phase (Phase 2) will utilize the requirements developed in Phase 1 to procure an implementation contractor who will be responsible for replacing CHILDS with a system that achieves the goals and objectives of the DCS process improvements.

The Department seeks approval to enter into a contractual agreement with the contractor whose proposal scored highest in the evaluation. This contractor was selected after an evaluation of five (5) vendor proposals that responded to the Phase 1 Request For Proposal (RFP). This contractor will lead the DCS in development of system requirements and planning documents over approximately a five (5) month period.

II. Project Investment Justification (PIJ) Type*

[ ] **Yes** [X] **No** Is this document being provided for a Pre-PIJ / Assessment phase?

If Yes,

Identify any cost to be incurred during the Assessment phase.	$0

[X] **Yes** [ ] **No** Will a Request for Proposal (RFP) be issued as part of the Pre-PIJ or PIJ?

III. Business Case

*A. Business Problem**

The CHILDS system was designed to meet the DHS/ACF Statewide Automated Child Welfare Information System (SACWIS) requirements enacted in 1993. SACWIS requirements were initiated to assist states with creation of systems to significantly improve foster care, adoption and child welfare services delivery. Improvements included better tracking of children, abuse reporting, provider recruitment and payment, and management information reporting. These systems also include interfaces to exchange data with other human services systems such as Medicaid, SNAP (food stamps), TANF (cash assistance) and Child Support. SACWIS compliance is necessary to qualify for enhanced federal funding. CHILDS utilizes legacy mainframe technology that is increasingly difficult and expensive to maintain, fix and enhance. Modern systems utilize internet based technologies that are significantly improved in function, data presentation, and ease of use. The next generation of Child Welfare Systems, in addition to meeting SACWIS requirements, include design and technology improvements that enhance caseworker performance and productivity. Significant case worker data entry is required to establish a case, initiate an investigation, conduct an assessment and request provider services. The CHILDS system does not provide real-time information about provider's availability to serve children requiring emergency placement in care facilities. This means that placement options which might better serve the child are not communicated to the worker. The replacement system must incorporate functionality to address all SACWIS requirements, but the primary focus will be to make the system easier for caseworkers to use and better deliver service to children and families. This means providing remote access to workers so they don't have to return to their offices to perform data entry and search for providers to request services. Workers also need robust Global Positioning System (GPS) enabled software to help with retrieval of relevant, nearby provider services, travel routing, worker location, and emergency response requests. Although DCS is conducting a thorough analysis of current business process and changing the way they deliver services, recent and planned business process improvements cannot easily be implemented in the CHILDS system. Also, technology improvements such as internet based remote access and mobile technology solutions (phones, tablets, etc.) cannot easily be integrated with CHILDS. The replacement system must be accessible to a broader user base that includes providers and clients through common, secured, web-based technologies.

*B. Proposed Business Solution**

The DCS plan is to engage a contractor to assist the Department in development of the requirements and planning documents necessary to issue an RFP for replacement of the CHILDS system. The system requirements will describe the functionality necessary to enable implementation of the new Child Welfare business delivery model, provide new technology solutions for workers, and reduce enhancement timeframes and costs. The planning documents will evaluate replacement alternatives, estimate benefits and costs, and evaluate the feasibility of replacement alternatives.

The project will result in the creation of ten (10) contract deliverables, four (4) of which are documents necessary for Federal cost share approval and issuance of the RFP for the CHILDS replacement system. These four (4) deliverables are described below. The other six (6) deliverables are project management deliverables to monitor the progress and successful completion of the Phase 1 project.

- **Requirements Document** – a detailed list of the capabilities and functionality needed in the CHILDS replacement system.
- **Alternatives Analysis** – looks at replacement options (transfer from another state, build new, COTS, etc.).
- **Cost/Benefit Analysis** – provides a financial analysis of the procurement costs and benefits to be achieved by replacing the system.
- **Feasibility Study** – an assessment of the likelihood of success for the alternatives proposed.

The US Department of Health and Human Services (HHS) – Children's Bureau approved the Department to draw 50/50 federal to state matching funds to complete the work activities defined for this project.

The DCS seeks ASET approval for the award of the CHILDS Replacement Project Phase 1 RFP selected contractor. This contractor has experience and knowledge of Statewide Automated Child Welfare Information System (SACWIS) requirements, advanced technology products, and information system security requirements. This firm proposes resources with the knowledge and experience necessary to conduct multiple concurrent Joint Application Design Session (JADS) in order to meet the timelines defined for the documentation of system requirements.

At the completion of this project the contractor will provide a Project Close out Report and Presentation of the three (3) alternatives that best address the Department's goal of replacing CHILDS. The presentation will discuss:

- Findings
- Recommendations
- Issues, Risks and concerns
- Lessons Learned

C. *Quantified Benefits**

- [X] Service enhancement
- [X] Increased revenue
- [X] Cost reduction
- [X] Problem avoidance
- [X] Risk avoidance

Explain:

Service enhancement: The replacement of the CHILDS system will provide the program with new functional capabilities in support of revised business requirements.
Increased Revenue: The Title IV-E penetration rate, which provides for federal reimbursement for a portion of the maintenance and administrative costs of foster care for children, is lower than expected; a new system will improve State services and recover additional enhanced funding from the Title IV-E Social Security act.
Cost reduction: The current CHILDS system is very complex in design and requires highly skilled technical personnel to make changes to business processing rules. The DCS will be requesting functional capabilities to allow the modification of business rules by DCS business analysts.
Problem avoidance: The design of the current CHILDS system makes system access and usage a complex task for the DCS workforce. Replacement of the system will address current system access and usage problems. CHILDS is essentially a data entry system, and the current recommendations are to move to a decision support system that provides assistance to case workers in the management of case/client family situations.
Risk Avoidance: With the implementation of a new CHILDS system, decision support functionality will be built into the system to assist DCS workers with risk assessment, agency response and selection of service options. Decision support capability will ensure greater consistency in the agency response to similar family scenarios and needs. It will also reduce mistakes in investigation, case management and service delivery by providing guidelines for case workers to follow.

IV. Technology Approach

A. *Proposed Technology Solution**

Deliverables for this project will not result in a technology solution. Outputs for this project will serve as input to a Federal approval process for a phase 2 grant that will allow issuance of a RFP to solicit vendor proposals for replacement of CHILDS. Therefore this section will be germane to the next PIJ which will be created after completion of this project, issuance of a phase 2 RFP, selection of a vendor proposal.

B. *Technology Environment*

Not applicable for this project as no IT changes will be occurring.

C. *Selection Process*

The DCS worked with the Arizona State Procurement Office (SPO) in the development, evaluation, and recommendation for award of a contract Phase 1 of the CHILDS Replacement Project. The selection was based upon a competitive bid process that evaluated vendor proposals submitted in response to the RFP. The membership of the evaluation teams was comprised of four individuals with program, technical, procurement, and business knowledge to ensure a comprehensive evaluation of all proposal submissions. Proposals were evaluated in three, weighted categories. The categories and available points for each category are as follows:

Evaluation Category	**Points**
1. Scope Of Work, Understanding and Approach	500
2. Oferror Experience, References and Employee Resumes	300
3. Cost	200

Seven (7) proposal submissions were received. Five (5) of which met the proposal submission requirements. The evaluation committee independently scored each proposal to determine which proposal provided the most comprehensive, cost effective solution. The selected vendor received 765 of the available points and scored the highest in evaluation categories two (2) and three (3). The next highest proposal scored 742 points, and was considerably higher in cost. The recommended proposal price is considerably lower than the DCS estimated cost of Phase 1 ($3.2 million) due to the following factors:

1) The level of detail of requirements definition that the vendors proposed was not as extensive as anticipated when the original cost estimate was developed, but the vendors did adequately address the requirements of the RFP and the requirements that result should be sufficient to support the Phase 2 RFP.

2) The original estimate did not anticipate that DCS would create a baseline list of requirements with over 1,200 requirements that will be assessed during the project. This was possible due to the fact DCS was able to leverage requirements from other state RFPs and CHILDS system documentation.

V. Project Approach

A. *Project Schedule**

Project Start Date: 03/23/2015 **Project End Date:** 08/28/2015

B. *Project Milestones*

Major Milestones	Start Date	Finish Date
Perform Project Initiation Activities (Vendor)	4/20/2015	4/21/2015
Conduct and Document Project Kick-off (Vendor)	4/23/2015	5/5/2015
Create the Project Master Plan (Vendor)	4/22/2015	4/28/2015
Review & Approve the Project Master Plan (DCS)	4/29/2015	5/12/2015
Create the Project Work Plan (Vendor)	4/22/2015	4/29/2015
Review and Approve the Project Work Plan (DCS)	4/30/2015	5/13/2015
Maintain the Project Work Plan (Vendor)	5/14/2015	9/3/2015
Create the Staffing and Org Chart (Vendor)	4/22/2015	4/29/2015
Review and Approve Staffing and Org Chart (DCS)	4/30/2015	5/13/2015
Maintain the Staffing and Org Chart (Vendor)	5/14/2015	9/3/2015
Create Requirements Management Plan (Vendor)	4/22/2015	5/5/2015
Review and Approve Requirements Management Plan (DCS)	5/6/2015	5/19/2015
Create the Requirements Document Template (Vendor)	4/22/2015	5/11/2015
Review and Approve Requirements Document Template (DCS)	5/12/2015	5/25/2015
Create the Functional and Non Functional Requirements (Vendor)	4/28/2015	8/3/2015
Review and Approve the Functional and Non Functional Requirements (DCS)	8/4/2015	8/17/2015
Create Analysis of Development Options (Vendor)	7/21/2015	8/17/2015
Review and Approve Analysis of Development Options (DCS)	8/18/2015	8/31/2015
Create Cost Benefit Analysis (Vendor)	6/29/2015	8/17/2015
Review and Approve Cost Benefit Analysis (DCS)	8/18/2015	8/31/2015
Create Feasibility Study and Recommendation (Vendor)	7/28/2015	8/20/2015
Review and Approve Feasibility Study and Recommendation (DCS)	8/21/2015	9/3/2015
Project Close-out Report and Presentation (Vendor)	8/5/2015	8/17/2015
Approve Close-out Report and Presentation (DCS)	8/18/2015	8/31/2015

VI. Roles and Responsibilities

A. Project Roles and Responsibilities

Role	Function	Responsibility	Responsible Individual
Project Sponsor	Executive	Initiate project, obtain funding, champion project, team staffing	Vicki Mayo, DCS Deputy Director
Project Manager	Contractor	Manage overall project management to include oversight and direction of DCS tasks and resources responsible for performing State contract responsibilities.	Dennis Espeland
Data and Technology Administrator	DCS IT Manager	IT Project Manager, facilitates and coordinates involvement of DCS IT resources with the Steering Committee	Ernest Baca
Network engineer	Configuration and deployment; testing and evaluation (limited role in Phase 1)	Help with network access and workstation setup for the project team	Mathew Iseghohimen

B. Project Manager Certification

- [X] Project Management Professional (PMP) Certified
- [X] State of Arizona Certified
- [ ] Project Management Certification not required

C. Full-Time Employee (FTE) Project Hours

Total Full-Time Employee Hours	0
Total Full-Time Employee Cost	$0

3

STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Micaela Larkin, Fiscal Analyst ML

SUBJECT: Arizona Department of Administration/Arizona Department of Corrections - Review of Adult Information Management System FY 2015 (Automation Projects Fund)

Request

Pursuant to A.R.S. § 41 - 714, the Arizona Department of Administration (ADOA) has requested that the Committee review $8.0 million in proposed FY 2015 expenditures from the Automation Projects Fund (APF) for the second year of funding for the replacement of the Adult Information Management System (AIMS) at the Arizona Department of Corrections (ADC).

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Analysis

<u>Background</u>
In 1985, ADC implemented AIMS. AIMS is an automated system designed to track a variety of ADC data, including population management, intake processing, inmate identification, and sentence calculations, as well as to assist ADC in numerous reporting requirements to other public and private entities. The legacy system has reached the end of its useful life for a variety of reasons, primarily the result of its aging programming language, COBOL.

A total of $16.0 million has already been appropriated for the replacement of the AIMS systems. On August 20, 2013, the JLBC committee favorably reviewed the initial expenditure for $8.0 million in FY

(Continued)

2014 APF monies for AIMS replacement with the condition that the contract be awarded after review of the Information Technology Authorization Committee (ITAC) and the use of an independent consultant in selecting the vendor. ITAC favorably reviewed the project and the original consultant report at the July 23, 2014 meeting of ITAC. A contract for the AIMS replacement project was awarded to Business & Decision Group on July 30, 2014.

Current Status

The project is now known as Adult Inmate Management Replacement Project (AIMS2) by the department. The vendor will oversee the modification of a commercial "off the shelf" system. This solution meets 80% of the department's requirements. For the remaining 20% of the software needs outlined by the department, the vendor will customize the software. The project is expected to be fully implemented by March 2017.

The total project cost of $24.0 million consists of 6 components:

• Software Solution and Customization	$16,119,000
• Dedicated ADC Staff and Training	$ 3,200,000
• Information Technology Equipment	$ 700,000
• Implement Information Exchange with Other Agencies	$ 450,000
• Consulting Services (Ongoing 3rd Party Resources)	$ 400,000
• Contingency	$ 3,131,000

The department anticipates spending a total of $7.5 million during FY 2016, with these monies comprised of the FY 2014 and FY 2015 APF monies. Any remaining FY 2015 monies at the end of FY 2016 will be used for FY 2017 expenditures. The department anticipates asking for an additional $8.0 million in APF monies for FY 2017 to complete the remainder of project costs. The department estimates an ongoing maintenance cost of $1.6 million.

ADC retained an outside consultant to provide ongoing analysis of the project's feasibility, estimated expenditures, technology approach and scope for the project as required by the FY 2015 General Appropriation Act. The consultant reported a strong commitment to the project by the department and provided recommendations to strengthen the development process in the quarterly report submitted December 24, 2014. The original project described 20 distinct modules for the business functions completed by the system such as intake, classification, population management, and inmate commissary. The changed plan is to work module by module rather than defining design requirements and documentation for all modules before proceeding on the entire project.

Current Proposal

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) transferred a total of $8.0 million into the APF to finance this project including $5.5 million from the Prison Construction and Operations Fund, and $2.5 million from the Corrections Fund.

ADOA is currently requesting a favorable review of $8.0 million in expenditures appropriated in FY 2015 for the second year of a 3-year, $24.0 million project.

The ADC proposed spending plan for FY 2015 monies consists of 4 main components:

• Software Solution and Customization	$ 6,162,500
• Information Technology Equipment	$ 688,400
• Dedicated ADC Staff and Training	$ 500,000
• Implement Information Exchange with Other Agencies	$ 450,000
• Consulting Services (Ongoing 3rd Party Resources)	$ 199,100

(Continued)

Of the $8.0 million in FY 2014 monies, the department has spent $5.3 million as of January 31, 2015. ADC anticipates spending a total of $7.4 million in FY 2015. In FY 2016, ADC anticipates spending $7.5 million consisting of any unspent FY 2014 monies and a portion of the FY 2015 appropriation. In FY 2017, ADC anticipates spending $9.0 million.

RS:ML/kp

Arizona Department of Corrections

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DOUGLAS A. DUCEY
GOVERNOR

CHARLES L. RYAN
DIRECTOR

March 18, 2015

RECEIVED
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JOINT BUDGET COMMITTEE

The Honorable Justin Olson, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Representative Olson:

The Arizona Department of Corrections requests placement on the next meeting agenda of the Joint Legislative Budget Committee to request authorization for FY 2014-2015 expenditure for the agency's automation project, the Adult Inmate Management System Replacement Project (AIMS2).

In accordance with the Fifty-first Legislature, Second Regular Session, 2014, Chapter 18, House Bill 2703, the department is providing a summary and the current quarterly independent assessment report on the AIMS2 project prepared by the state contracted consultant, Public Consulting Group.

If you have any questions regarding any of the proposed items, please contact Michael Kearns, Division Director of the department's Administrative Services Division, at (602) 542-1160.

Sincerely,

Charles L. Ryan
Director

Enclosures

cc: The Honorable Don Shooter, Vice-Chairman, Joint Legislative Budget Committee
John Arnold, Director, Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Mike Lettman, Acting Chairman, Information Technology Authorization Committee
Scott Selin, Budget & Project Manager, Office of Strategic Planning and Budgeting
Micaela Larkin, Fiscal Analyst, Joint Legislative Budget Committee Staff

Arizona Department of Corrections
AIMS Replacement

Revised Based on Updated Cash Flow Estimates							
	Project Budget	FY 2015 Budgeted	FY 2015 Actual Through 01/31/2015	FY 2015 Remaining	FY 2016	FY 2017	Total
Systems Integrator Costs [1]	$16,119,000	$7,098,214	$5,248,223	$1,849,990	$4,149,863	$5,101,701	$16,349,778
Other Contractor Costs	$850,000	$99,570	$49,785	$49,785	$649,140	$199,140	$947,850
ADC Costs	$3,900,000	$211,593	$15,736	$195,857	$1,188,407	$2,500,000	$3,900,000
Contingency @ 15%	$3,131,000	$0	$0	$0	$1,565,500	$1,236,872	$2,802,372
Total	$24,000,000	$7,409,377	$5,313,744	$2,095,632	$7,552,910	$9,037,713	$24,000,000

	Project Budget	FY 2015 Budgeted	FY 2015 Actual Through 01/31/2015	FY 2015 Remaining	FY 2016	FY 2017	Total
Original Budget as submitted in Budget Request	$24,000,000	$8,563,702			$9,371,029	$6,065,269	$24,000,000

Revised Based on Updated Cash Flow Estimates - Detailed							
	Project Budget	FY 2015 Budgeted	FY 2015 Actual Through 01/31/2015	FY 2015 Remaining	FY 2016	FY 2017	Total
Systems Integrator Costs [1]	$16,119,000	$7,098,214	$5,248,223	$1,849,990	$4,149,863	$5,101,701	$16,349,778
Other Contractor Costs							
Consulting Services	$400,000	$99,570	$49,785	$49,785	$199,140	$199,140	$497,850
Automation with Partners	$450,000	$0	$0	$0	$450,000	$0	$450,000
Subtotal	$850,000	$99,570	$49,785	$49,785	$649,140	$199,140	$947,850
ADC Costs							
Dedicated Staff And Training	$3,200,000	$200,000	$4,143	$195,857	$500,000	$2,500,000	$3,200,000
Equipment (E.G. Pcs, Web Cac	$700,000	$11,593	$11,593	$0	$688,407	$0	$700,000
Subtotal	$3,900,000	$211,593	$15,736	$195,857	$1,188,407	$2,500,000	$3,900,000
Contingency @ 15%	$3,131,000	$0	$0	$0	$1,565,500	$1,236,872	$2,802,372
Total	$24,000,000	$7,409,377	$5,313,744	$2,095,632	$7,552,910	$9,037,713	$24,000,000

[1] System Integrator Costs are projected to exceed the allocation by $230,778 due primarily to an increase to the Performance Bond of $267,904 offset by a reduction to the Sales Tax of ($37,088).

ARIZONA DEPARTMENT OF CORRECTIONS
AIMS 2 PROJECT SUMMARY

AIMS2 Project started with kickoff meeting on 9/2/14. ADC Project Management Office (PMO) & Subject Matter Expert staff assigned.

- AIMS2 vendor has > 30 staff dedicated to various work streams working onsite at ADC Central Office in Phoenix, Arizona and Development teams at the Scottsdale, Arizona location.

Intake Module:

- Detailed Functional Specifications Business Rules and Quality Assurance (QA) completed.
- AIMS2 vendor Developers currently in Joint Application Design (JAD) phase working on customized Module.

Classification Module:

- Detailed Functional Specifications Business Rules and Quality Assurance (QA) completed.
- AIMS2 vendor Developers currently in Joint Application Design (JAD) phase working on customized Module.

Sentence Calculation Module:

- Highly complex module requiring additional SME resources and technology tools currently applied. ADC and vendor participating in Requirements Gathering (JAR Sessions) covering Old Code, New Code & Truth and Sentencing.

Property Module:

- Detailed Functional Specifications Business Rules and Quality Assurance (QA) completed.
- Property Module includes new technology not currently available to ADC staff.
- AIMS2 vendor Developers in Design Phase working on customization of Module.

Inmate Banking:

- Completed detailed Functional Specifications, Business Rules and Quality Assurance (QA).
- AIMS2 vendor Developers in Design Phase working on customization of Module.

Population & Security Threat Group Modules:

- ADC and vendor actively working Joint Application Requirement (JAR) Sessions to develop Business Rules and Functional Specifications.
- Programs Module:
  - ADC and vendor actively working Joint Application Requirement (JAR) Sessions to develop Business Rules and Functional Specifications.

Accomplishments:

1. ADC successfully negotiated a 100% Performance Bond in the Amount of $16.1M.
   - This mitigates risks to ADC if vendor fails to meet contract requirements.
2. ADC has setup a PMO to manage all aspects of the Implementation, Operations and project management activities.
3. AIMS2 Source Code held in Escrow account at Iron Mountain Vault. This protects ADCs AIMS2 investment over life of 10 year contract.
4. AIMS2 has completed initial Arizona Department of Administration (ADOA) Security Controls Compliance & Privacy rules documentation.
   - ADC will engage third party security penetration provider in 2016 to validate technical security.
5. AIMS2 off-site Data Center hardware, software & infrastructure implemented at Data Center in Phoenix metro area.

AIMS2 Third Party Consultant Report Mandated by Arizona House Bill 2703:

*** The AIMS2 Third Party Consultant Report was last completed in January 2015. The second appropriations funding request by ADC to the Joint Legislative Budget Committee occurs prior to the next scheduled quarterly report scheduled to be finalized in April 2015. This presentation reflects comments by Third Party Consultant; Public Consulting Group (PCG) noted in their January 2015 report, and mitigations by ADC.

Project Strengths:

- ADC has designated subject matter and technical experts, who will participate as needed in project activities.
- ADC has allocated a full-time Program Manager, who is a certified Project Executive, with over 22 years of experience. ADC has approved and hired dedicated staff.
- ADC has strong executive sponsorship in place, with the Director, Deputy Directors, and all ADC management universally supporting the project.
- The project's fiscal status is good at this time. ADC processes for tracking project financials are detailed, timely and thorough.

Project Findings & Recommendations:

Summary: While the ADC AIMS2 Project remains complex with important time, resource and budget constraints, the collaborative team of ADC and vendor are mitigating risks effectively and have demonstrated strategic and tactical progress.

1. "The $24 M budget for design, development and implementation (DDI) does not have any excess. The Department may be required to expend additional funds, including the contingency fund, to implement AIMS2 within the project time frame."
   - **Mitigation:** ADC believes the $24 M budget is sufficient. The vendor has a full risk contract that requires the project to be delivered within the fixed price.

2. The establishment of the Change Control Board (CCB) and supporting processes needs to be prioritized.
   - **Mitigation:** ADC has implemented a Change Control Board (CCB) to define a change control process to consider any changes, whether or not a cost is associated with the proposed change. PCG recommends that this be prioritized to deal with proposed scope changes. ADC is closely examining any change requests for validity, timing, impact and necessity.

3. Legislative change drives requirement changes and additional costs and Arizona needs to limit legislative or policy changes for the duration of the project to the extent possible.
   - **Mitigation:** Through the Change Control Board (CCB), ADC will limit changes to only those required legislatively or to ensure public safety and security.

4. The selected solution may require more customization than estimated by the vendor. The complexity of the Arizona business rules is an additional risk.
   - **Mitigation:** ADC will consider feasible alternatives and limit customization wherever possible, including modification of business processes as long as user satisfaction, public safety and security concerns are addressed. Strong collaboration between ADC and vendor continues to ensure the project scope and schedule objectives are being met.

5. Legacy systems may be difficult to maintain during the implementation period. State resources will need to support ongoing maintenance of the legacy AIMS in addition to working with vendor to understand existing business rules, to work on converting data and interfaces and to support testing.
   - **Mitigation:** The State will need to hire contractors and/or staff to support and backfill existing staff who are working on the project. ADC anticipates 'freezing' changes to the legacy system as the project prepares to implement at the pilot site.

6. The Implementation approach, while it is designed to minimize changes to the legacy systems, presents risks in the effort required for a "big-bang" (all remaining nine complexes brought on-line in a one month period of time)

implementation at the other prisons. ADC must require thorough testing and stabilization of the new solution at Perryville before it is rolled out statewide.

- **Mitigation:** ADC has approved a work plan that provides for iterative integrated testing at the conclusion of each development cycle to allow for progressive testing as the modules are added to the system. Providing the development, internal testing and defects are addressed by vendor development and QA teams are completed timely, the time planned for the more advanced testing including User Acceptance testing appears to be adequate.

7. With the proposed deployment approach, the movement of male offenders between institutions that have transitioned and those that have not will need to be addressed.
   - **Mitigation:** ADC will run the old and new systems concurrently for a short period of time (one to two months) to ensure the transition captures inmate movement between facilities with and without the new system.

8. Extensive training is required for staff to transition from AIMS to AIMS2, especially during the implementations following the pilot at Perryville.
   - **Mitigation:** ADC and vendor plan to take an "all hands on deck" approach to the implementation at Perryville so that everyone is thoroughly trained on AIMS2. In addition, a train the trainer approach will be utilized. ADC will utilize funding in the existing budget for overtime requirements during the training period.

9. Vendor proposed pricing shows 44% of the price to be paid in the first fiscal year, 22% in the second year, and 34% in the third year. This presents a risk to ADC if vendor is paid a substantial amount of the total contract up front before delivery of a substantial part of the tested Solution. With the modification of the approach to conduct requirements, design and testing activities in a modular, phased fashion, deliverables will be submitted in parts rather than at a single point in time.
   - **Mitigation:** The vendor Final Proposal Revision was accepted under the best knowledge at the time. ADC has renegotiated the payment stream to better align with deliverables (see financial summary). The total vendor price remains the same for the project, and is still a fixed price. In addition, the contract includes a performance bond for 100 percent of the DDI work effort. Finally, ADC has mitigated risk by including a ten percent withhold on all deliverables until final acceptance of the Solution. This amount is in line with withhold amounts found in similar implementations.

PUBLIC CONSULTING GROUP

State of Arizona

Adult Inmate Management System (AIMS) Replacement Project

Initial Quarterly OMS Independent Assessment and Oversight Report

Period Ending November 30, 2014

December 24, 2014

Updated January 21, 2015

Version History

Version	Date	Comments
Initial Assessment Report draft	12/19/2014	Draft delivered to the ADC Project Manager for review and comment
Initial Assessment Report_Nov2014	12/24/2014	Final delivered to the ADC Project Manager including updates based on comments
Initial Assessment Report_Nov2014_final	1/13/2015	Final updates based on input from ADC executive leadership
Initial Assessment Report_Nov2014_update	1/21/2015	Updates to budget table based on input from ADC executive leadership

Table of Contents

1. Executive Summary

The operation and maintenance of the Adult Inmate Management System (AIMS) currently presents a business risk to the State of Arizona, in the form of operational inefficiencies, critical data errors, an inability to adapt to changing laws and reporting requirements, and a risk to public safety. The objective of the AIMS Replacement Project is to reduce its business risk through the acquisition and implementation of a commercial-off-the-shelf (COTS) solution to replace AIMS.

In August 2014 ADC selected Public Consulting Group, Inc. (PCG) to conduct independent, quarterly assessments of the implementation. The scope of the PCG contract is designed to meet the requirements of the Joint Legislative Budget Committee (JLBC) per Arizona House Bill 2703.

This document assesses the status of the AIMS Replacement Project from September 1 through November 30, 2014.

1.1. Background

The AIMS Replacement Project was initiated by the Department in October 2011. Following an RFI process, the Department released a Request for Proposals for replacement of its Offender Management System (OMS) in August 2013. Following a structured procurement process aligned with State procurement rules, ADC selected Business and Decision (B&D) for implementation of its new OMS, which is named AIMS2, with a COTS solution.

B&D is implementing a hosted OMS solution, Mi-Case, which meets the requirements in the RFP as clarified during the proposal evaluation process. Features of the B&D solution include:

- Mi-Case is built using Microsoft .NET technologies with C# .NET code.
- Mi-Case uses a SQL Database using SQL Server Management Studio 2012.
- The AIMS2 solution will be hosted in the IO Phoenix Data Center, which is a Tier 3 data center.
- All 20 modules requested by ADC are included in the firm fixed price. B&D has estimated that 80% of the requirements are provided out of the box.

- B&D will implement AIMS2 first at Perryville. Other sites will be implemented in waves at intervals determined by ADC.

- B&D originally proposed to implement AIMS2 at all sites by November 2016. Based on the actual start date of July 30, 2014, B&D has provided an updated Work Plan and Schedule. This schedule, which is currently under review and pending approval by ADC, shows a March 15, 2017 implementation date. B&D will provide seven years of maintenance and operations through July 30, 2024.

1.2. Project Strengths

Following the initial quarterly review, the project shows the following strengths:

- ADC has allocated a full-time Project Manager, who is a certified Project Executive, with over 22 years of experience. ADC is in the process of adding another resource to support the project.

- ADC has designated and obtained commitments from managers for subject matter experts and technical experts, who will participate as needed in project activities. Interviews during the onsite assessment indicated that ADC has been successful in making the right resources available at the right time to keep the project on track and provide accurate information to B&D.

- ADC has strong executive sponsorship in place, with the Director, Deputy Directors, and all ADC management universally support the project.

- ADC executives interviewed are involved and committed to project success.

- The project's fiscal status is good at this time. ADC processes for tracking project financials are detailed, timely and thorough.

- ADC subject matter and technical experts are very satisfied with the quality and knowledge of the B&D team. Team members have been highly motivated, knowledgeable and willing to work collaboratively with ADC. B&D resources are on the ground and fully engaged in requirements gathering such as observing intake processes onsite at two intake facilities, attending sentence calculation classes conducted by ADC, etc.

1.3. Project Risks

PCG's original assessment report on the project through contractor selection, dated June 2014, included the following potential risks for the AIMS Replacement Project because of size and scope of the implementation. These risks with updates based on the initial assessment as well as additional risks are summarized in the following paragraphs. Details of risks are provided in Section 4.

- The $24 M budget for design, development and implementation (DDI), while in line with projects in similar states, does not have any excess. Considering the B&D price of $16,119,000 for DDI, there is a reasonable contingency fund. However, the scope and complexity of the AIMS2 project is comparable to projects with budgets equal to or surpassing the approved budget of $24 M.

- Legislative change drives requirement changes and additional costs. While this risk is present on any large and complex multi-year project, Arizona needs to limit legislative or policy changes for the duration of the project to the extent possible. Changes will require modifications to both AIMS2 and the legacy AIMS system, which will challenge the budget.

- The establishment of the Change Control Board (CCB) and supporting processes needs to be prioritized.

- It is typical that the selected solution will require more customization than estimated by the vendor. In this case, there is additional risk because of the complexity of the business rules in Arizona compared to Maryland. Once requirements are fully understood during the requirements and design sessions, B&D may find additional resources are needed to complete the project on time. B&D may take some time to understand the level of automation required and ramp up resources.

- Legacy systems may be difficult to maintain during the implementation period. The State resources will need to support ongoing maintenance of the legacy AIMS in addition to working with B&D to understand existing business rules, to work on converting data and interfaces and to support testing.

- The implementation approach, while it is designed to minimize changes to the legacy systems, presents risks in the effort required for a "big-bang" implementation at the other prisons. ADC must require thorough testing and stabilization of the solution at Perryville before it is rolled out statewide. Because the new Work Plan and Schedule has not been completed and available for review, it is unclear whether sufficient integrated testing and UAT is scheduled.

- With the proposed deployment approach, the movement of male offenders between institutions that have transitioned and those that have not will need to be addressed.

- Extensive training is required for staff to transition from AIMS to AIMS2, especially during the implementations following the pilot at Perryville.

- B&D's proposed pricing shows 44% of the DDI price to be paid in the first fiscal year, 22% in the second year, and 34% in the third year. This presents a risk to ADC if B&D is paid a substantial amount of the total contract up front before delivery of a substantial part of the tested solution. With the modification of the approach to conduct requirements, design and testing activities in a modular, phased fashion, deliverables will be submitted in parts rather than at a single point in time. ADC has mitigated risk of an incomplete implementation by including a 100 percent performance bond and a 10 percent withhold on all DDI deliverables until final acceptance of AIMS2.

- As in all large implementations, the subject matter and technical experts needed to support the implementation effort are also needed to support the ongoing business operations and maintenance of legacy systems at ADC. Although the Department has designated its most experienced staff to participate in DDI activities, they cannot be dedicated full-time for the duration of the project. This competition for valuable resources presents a challenge to the Project Manager in ensuring that the best person is available for all meetings or to conduct deliverable reviews within the accepted project scheduled time frames. PCG is recommending that ADC add project management resources to the project given only one full-time person (the Project Manager) is dedicated to the project.

- Scheduling of project activities such as finalization of the Work Plan and Schedule, walkthroughs, and orientations are dependent upon ADC availability, which is a challenge to ADC, which must prioritize the operations responsibilities of its resources.

These potential require monitoring by the ADC throughout the implementation. Additional detail on risks is provided in Section 4.

1.4. Recommendations

High-level recommendations include the following paragraphs. Additional detail on recommendations is provided in Section 5.

- The project payment schedule from the BAFO needs realignment with the approved update to the Work Plan and Schedule. PCG recommends that ADC formalize this change in a contract amendment because the contract is deliverable based.
- ADC and B&D need to prioritize completion of the updated Work Plan and Schedule.
- ADC has plans to implement a Change Control Board (CCB) to define a change control process to consider any changes, whether or not a cost is associated with the proposed change. PCG recommends that this be prioritized to deal with proposed scope changes.
- ADC full-time project resources are limited to the Project Manager, which may impact the ability to fully review deliverables, coordinate resources, and conduct communications and other management activities in a timely manner. ADC has indicated that is in the process of assigning additional resources to support the project. PCG recommends that additional resources be prioritized.
- PCG recommends a detailed process for ADC review of deliverables submitted by B&D be documented and put in place.
- Under the modified waterfall approach, UAT is projected to occur for every module. B&D states that with the addition of each module, integration occurs so that module-level UAT actually is cumulative. PCG recommends that the schedule for availability of system documentation to the ADC team preparing for and conducting UAT be documented.

- ADC has indicated that it will begin Executive Steering Committee meetings in December or January. These are needed to involve executives in high-level decisions concerning approach and schedule.

- Tools such as the TFS software have become available, but information from requirements sessions have not been loaded into the tools, and they are not being used to manage resources or scope. PCG recommends that this activity be prioritized.

4

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

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HOUSE OF REPRESENTATIVES

JUSTIN OLSON
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DAVID STEVENS
MICHELLE UGENTI

DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Ben Beutler, Senior Fiscal Analyst BB

SUBJECT: Arizona Department of Administration/Department of Child Safety - Review of Transition Funding Expenditure Plan (Moving Expenses)

Request

Laws 2015, Chapter 8 requires Committee review prior to any monies being expended from the Arizona Department of Administration's (ADOA) $19.5 million appropriation for Department of Child Safety (DCS) transition expenses. DCS is requesting Committee review of $1.6 million in relocation expenses from the transition appropriation.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Analysis

The FY 2015 budget originally included $25.0 million in transition funding for one-time DCS transitional costs. The FY 2016 General Appropriation Act subsequently reduced that amount to $19.5 million. The $19.5 million appropriation does not have any specific dollar earmarks.

During the May 2014 Special Session on child welfare, the Executive planned to spend $6.7 million from the transition appropriation on renovations for the building located at 1717 West Jefferson Street in Phoenix. The purpose of the renovation was to expand occupancy capacity at 1717 West Jefferson to house all of DCS' central administrative staff. Because the 1717 West Jefferson building would have required significant remodeling, DCS has decided to lease private space for its central office at 3003 North Central Avenue in Phoenix.

(Continued)

In total, DCS plans to lease 112,323 square feet in the 3003 North Central Avenue building at $19 per square foot, or $2.1 million annually. DCS will be giving up 93,321 square feet in space in 7 buildings in order to consolidate its central administrative staff in the 3003 North Central Avenue building, with the exception of the Children's Information Library and Data Source (CHILDS) team, which will remain in other privately-leased space. DCS currently pays $1.1 million annually for the space in the 7 buildings that it is vacating. The net new cost of the 3003 North Central Avenue space is $1.1 million, which is already accounted for in DCS' operating budget.

In order to move to the private space, DCS is requesting $1.6 million from the transition appropriation. The moving expenses are based on a quote from the state-contracted vendor. *Table 1* shows the proposed moving expenses by purpose.

Table 1

Relocation Expenses by Purpose

Purpose	**Amount**
Furniture and Chairs	$ 966,100
Labor and Moving	276,600
Information Technology/Telecommunication Cabling	246,500
Tax	104,200
Total	**$1,593,400**

Of the $966,100 for furniture, $766,100 is the workstation and office cost with $200,000 for contingency, including chairs. The $766,000 in furniture costs will provide a combination of new and refurbished furniture for 393 workstations/offices at a cost of about $2,000 per office space.

DES Renovation

The Department of Economic Security (DES) plans to renovate 19,196 square feet that DCS is vacating in its main headquarters building at a cost of about $500,000. The renovation includes 5,234 square feet for the new office of the DES Director, who will be moving from the 1717 West Jefferson building. DES plans to pay for the renovation with existing resources in its operating budget.

Transition Funding Commitments

DES has a separate agenda item requesting favorable review of $4.0 million for the final phase of the data center relocation. After accounting for the DES Data Center, DCS administrative expenses, and relocation expenses, *Table 2* shows that $4.4 million would remain in transition funding.

Table 2

Transition Appropriation by Purpose

Administrative Expenses	**Amount**
40 Administrative and Technology Staff	$ 2,557,200
Field Equipment (1,700 laptops)	2,524,200
Technology Services Licensing	1,121,300
Website and IT Consulting	300,000
Subtotal - Administrative Expenses	**$ 6,502,700**
Other Transition Expenses	
DES Data Center - Planning & Implementation	$ 3,000,000
DES Data Center - Application Migration (proposed)	4,000,000
DCS Relocation (proposed)	1,593,400
Unallocated as of March 2015	4,403,900
Subtotal - Other	**$12,997,300**
Total	**$19,500,000**

RS/BB:kp

Douglas A. Ducey
Governor

Arizona Department of Child Safety

Gregory McKay
Director

March 9, 2015

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

Re: Agenda Request

Dear Representative Olson:

The Department of Child Safety (DCS) requests to be placed on the agenda for the Joint Legislative Budget Committee for review of its expenditure plan for $1,593,400 of monies appropriated to the Transition Fund. This will fund the Department's move into privately leased space.

When the Department was created on May 29, 2014, the Legislature included in the FY 2015 budget a one-time appropriation of $25 million to fund the costs to begin to operate the DCS as an entity separate from the Department of Economic Security (DES). To date, the Department has received review for expenditures of $6.5 million from the fund in FY 2015.

The Department plans to spend $1,593,400 from the Transition Fund to move from the DES space it currently occupies into privately leased space.

Laws 2014, 2nd Special Session, Chapter 1, Section 161 conveyed ownership of the building at 1717 West Jefferson Street in Phoenix to DCS from DES. This building has historically housed the DES Director's office, and was to be renovated and used for DCS's central office. The cost of renovation was initially estimated at about $7 to $8 million. Once the Department was created, the Legislature requested that DCS also look into the availability of privately-owned space to lease to meet central office requirements. In conjunction with the Governor's Office and the Arizona Department of Administration (ADOA), DCS researched available space and determined that due to the availability of space and the extended timeframes that renovating 1717 West Jefferson would have presented, it would be advantageous financially to move into private space.

The Department has executed a lease and is currently in the process of working with the landlord to prepare five floors of 3003 North Central Avenue to house DCS's central office. In order to move into the building, however, the Department will need $1,593,400 from the Transition Fund.

These monies will be expended as follows:

- Furniture and Chairs: $966,100
- Labor and Moving: $276,600
- Information Technology/Telecom Cabling: $246,500
- Tax: $104,200

If you have any questions, please contact our office at (602) 542-5844.

Sincerely,

Gregory McKay
Director

3003 N CENTRAL PROJECT FURNITURE LEGEND

Floor	Location	Quantity	Description	Furniture Cost	Labor Cost
1	Private Offices	5	Existing L-Shape Offices from 3003 Demo		$1,500.00
1	Workstations	18	6x8 Pre-Owned Knoll Refurbished	$36,129.60	
			Price of Pre-Owned includes NBH delivery & install		
18	Private Offices	23	Existing from 4000 N Central 22nd & 15th floors		$8,980.00
18	Workstations	60	Existing AIS from 4000 N Central 22nd & 15th floors		$21,600.00
19	Private Offices	18	Existing Teknion from 1624 W Adams		$7,180.00
19	Workstations	76	6x8 Pre-Owned Knoll Refurbished	$152,547.20	
			Price of Pre-Owned includes NBH delivery & install		
20	Private Offices	16	Existing Compete from 1789 W Jefferson 3rd floor		$6,460.00
20	Private Offices	3	New Compete to match existing	$6,324.48	$810.00
20	Workstations	78	6x8 Pre-Owned Knoll Refurbished	$156,561.60	
			Price of Pre-Owned includes NBH delivery & install		
21	Private Offices	14	Existing L-Shape Offices from 3003 Demo		$7,200.00
21	Private Offices	4	Pre-Owned Kimball U-Shape AD Offices	$10,800.00	
21	Workstations	76	6x8 Pre-Owned Knoll Refurbished	$152,547.20	
			Price of Pre-Owned includes NBH delivery & install		
22	Private Offices	23	New Case Furniture 20-L-Shape, 3-U-Shape	$29,445.20	$5,610.00
22	Workstations	66	6x8 Pre-Owned Knoll Refurbished	$132,475.20	
			Price of Pre-Owned includes NBH delivery & install		
23	Private Offices	3	New Compete Plus, 1 Director, 2 Deputy Directors	$19,523.04	$1,440.00
23	Private Offices	20	New Case Furniture 22-L-Shape	$24,776.00	$4,800.00
23	Private Offices	2	Pre-Owned Kimball U-Shape AD Offices	$5,400.00	
23	Workstations	12	Existing AIS furniture from 1624 W Adams		$3,940.00
23	Workstations	24	New AIS to match existing	$39,502.32	$7,056.00
	NOTE: LISTED PRICES ARE PRE/TAX		**Totals**	**$766,031.84**	**$76,576.00**

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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http://www.azleg.gov/jlbc.htm

DATE: March 24, 2015

TO: Senator Don Shooter, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Tom Ritland, Fiscal Analyst T.R.

SUBJECT: Arizona Department of Administration/Department of Economic Security - Review of Transition Funding Expenditure Plan (Data Center)

Request

Laws 2015, Chapter 8 requires Committee review prior to any monies being expended from the Arizona Department of Administration's (ADOA) $19.5 million appropriation for the establishment of the Department of Child Safety (DCS) and the relocation of the Department of Economic Security (DES) Data Center. DES is requesting Committee review of $4.0 million for the final phase of the data center relocation.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the expenditure plan.

2. An unfavorable review of the expenditure plan.

DES is seeking the relevant approvals from the Information Technology Authorization Committee (ITAC) and the Arizona Strategic Enterprise Technology (ASET) staff through the Project Investment Justification (PIJ) process. ITAC is scheduled to review the project at their upcoming meeting on March 25, 2015. The JLBC Staff recommends that the Committee consider adopting the standard ITAC/ASET provision as part of its review:

A. Should final costs exceed the proposed costs by 10% or more, or should there be significant changes to the technology approach, scope of work, or schedule, DES must amend the PIJ to reflect the changes and submit an updated PIJ to ADOA-ASET, and to ITAC, for review and approval prior to further expenditure of funds.

(Continued)

Analysis

Background

The FY 2015 budget originally included $25.0 million for one-time DCS transitional costs and costs associated with DES Data Center improvements. The FY 2016 General Appropriation Act subsequently reduced that amount to $19.5 million. The $19.5 million appropriation does not have any specific dollar earmarks. In preparation for the May 2014 Special Session, however, the Executive suggested that $7.0 million of these monies may be directed toward DES Data Center relocation. The current Data Center is located on state property and has experienced flooding, power outages, leaks, asbestos, and failed air conditioning and fire suppression systems.

At its September 30, 2014 meeting, the Committee favorably reviewed a $500,000 expenditure plan for the Planning Phase of the data center relocation. The Planning Phase assessed how all the Data Center systems, applications, and hardware connect to and utilize each other so the department could determine how to migrate all systems and applications with minimal risk. At its December 10, 2014 meeting, the Committee favorably reviewed a $2.5 million expenditure plan for the Implementation Phase. DES is nearing completion of the Implementation Phase, which establishes the network infrastructure in the new space, including routers, switches, firewalls, cabling, and software.

DES is currently seeking approval to expend $4.0 million of the DCS transition monies for the Migration Phase, the final phase of the relocation. DES is planning to use $89,700 in savings from lower than expected costs during the first 2 phases to pay for estimated costs above $4.0 million in the final phase. This phase will also utilize an additional $1.0 million in Federal Funds. *Table 1* shows the proposed expenditures by purpose. In the Migration Phase, the department will establish mainframes in the new space and begin migrating all applications, hardware, and systems incrementally to minimize the risk of a total shutdown. DES estimates the application migration to conclude in April 2016.

Table 1

Data Center Migration Phase Expenses by Purpose

Purpose	**Amount**
Professional and Outside Services	$1,779,400
Hardware	2,550,500
Software	523,900
Training	258,300
Total	**$5,112,100**
Fund Source	
General Fund	$4,089,700
Federal Fund	1,022,400
Total	**$5,112,100**

The department has submitted a PIJ for the final phase of the relocation to ITAC to review and approve in their upcoming meeting scheduled for March 25, 2015.

The total cost for the data center relocation is estimated to be $8.8 million with a split between state and federal spending estimated to be $7.0 million and $1.8 million, respectively. The split can be seen in *Table 2*, and shows that 11 different federal programs would contribute 21% of the cost of improvements; the state would contribute 79%.

RS/TR:kp
Attachment

Table 2

DES Data Center Federal Fund Allocation

Fund Source	Total Funds		Fed Applied		State Match Applied	
Supplemental Nutrition Assistance Program	$ 1,476,000	17%	$ 693,000	8%	$ 783,000	9%
AHCCCS Medical Assistance Only	1,122,000	13%	-	0%	1,122,000	13%
Title IV-E	825,000	9%	415,000	5%	410,000	5%
Title IV-D	830,000	9%	473,000	5%	357,000	4%
Unemployment Insurance Administration	578,000	7%	-	0%	578,000	7%
Long Term Care Capitation	1,078,000	12%	-	0%	1,078,000	12%
Temporary Assistance for Needy Families	1,191,000	14%	-	0%	1,191,000	14%
Social Services Block Grant Program	480,000	5%	-	0%	480,000	5%
Section 110	317,000	4%	249,000	3%	68,000	1%
Child Care Development Fund	90,000	1%	-	0%	90,000	1%
Other	813,000	9%	-	0%	813,000	9%
Total	**$ 8,800,000**		**$ 1,830,000**	**21%**	**$ 6,970,000**	**79%**

DEPARTMENT OF ECONOMIC SECURITY
Your Partner For A Stronger Arizona

Douglas A. Ducey
Governor

Timothy Jeffries
Director

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JOINT BUDGET COMMITTEE

Mr. Richard Stavneak
Director, Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Dear Mr. Stavneak:

The Department of Economic Security requests to be placed on the Joint Legislative Budget Committee's next agenda for review of expenditure plans for the DES Data Center Relocation as required in Laws 2014, Second Special Session, Chapter 2, Section 3, as amended:

> The sum of $19,500,000 is appropriated in fiscal year 2014 - 2015 from the state general fund to the Department of Administration for costs associated with the establishment of the Department of Child Safety and the relocation of the data center operated by the Department of Economic Security. Before any expenditure of this amount, the Department of Child Safety shall submit an expenditure plan for review by the Joint Legislative Budget Committee.
>
> The appropriation made in subsection A of this section is exempt from the provisions of 35-190, Arizona Revised Statutes, relating to lapsing of appropriations until June 30, 2016.

The Department plans to utilize this appropriation to relocate the data center through distinct phases. At its September 30, 2014 meeting, the Committee favorably reviewed the Department's request to expend $500,000 for the Planning Phase of the data center relocation. In order to manage risk, the Department has also engaged Gartner Inc. to provide an independent verification and validation of the planned migration phases.

On October 22, 2014, The Department received an "Approval with Conditions" from the Information Technology Authorization Committee for the network migration phase of the project. In addition, at its December 17, 2014 meeting, the Committee gave a favorable review, with two adopted provisions, of the Department's request to expend $2.5 million for the Network Migration Phase which sets the state for timely application migration, and ultimately, a successful data center move to the new state facility.

Over the past several months through a statewide Arizona Department of Administration contract, the Department has secured rental space for the Data Center's new location. In addition, based on the Information Technology Authorization Committee's (ITAC) approval, the Department is establishing the network infrastructure in the space that requires routers, switches, firewalls, cabling, software, and services for installation and configuration. The network infrastructure is needed to connect to the Department's services, mainframe, and storage in the new location.

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Telephone (602) 542-5678 • Fax (602) 542-5339 • www.azdes.gov

As required by the Committee, the Department is now requesting approval to spend the remaining $4 million of the above appropriation. The Department has submitted the final Project Investment Justification (PIJ) for ITAC to review and approve during the upcoming Committee meeting scheduled for March 25, 2015.

This third and final phase of the project consists of establishing the mainframe and server environments and the migration of applications into the new facility. This phase will commence at the end of March 2015 and is projected to conclude in April 2016.

The third phase's first step is for the Department to procure Cisco Unified Computing System (UCS) and NetApp equipment that is essentially a match for the Department's current server environment. This reduces the risk of the move by allowing applications to be migrated individually from the old to the new environment and is more cost effective than paying to relocate the current five year old, end-of-life server equipment only to replace it at a later date.

Once the new data center environment is in place, the application migration vendors can begin sequentially migrating all of the Department's applications and systems. Low risk applications will be moved and tested first to identify any problems. Once all low risk applications have been moved, the more complex applications will begin the process.

If you have any questions, please contact Debra Peterson, Chief Financial Officer, at (602) 542-3786.

Sincerely,

Timothy Jeffries
Director

TJ/dp
Enclosures (2)

cc: Members of the Joint Legislative Budget Committee
John Arnold, Director, Governor's Office of Strategic Planning and Budgeting

ADOA-ASET

Project Investment Justification

Version 01.01

A Statewide Standard Document for Information Technology Projects

Project Title:

DES Data Center Relocation - Compute Implementation

Agency Name:	Department of Economic Security (DES)
Date:	March 2015
Agency Contact Name:	Kim Hartleroad
Agency Contact Phone:	602-274-5359 X1263
Agency Contact Email:	khartleroad@azdes.gov

I. Management Summary*

The Arizona Department of Economic Security (AZDES) is seeking approval to procure hardware and professional services needed to implement the computing resources within the new co-located multi-tenant data center.

The DES compute solution is required to support the computing, processing and storage capacity that will be implemented in the I/O Data Center and used to transition from the 1720 AZDES Data Center to the CenturyLink I/O facility site Data Center, hereafter referred to as the I/O Data Center.

Network connectivity will be extended to both data centers on a single and pre-existing subnet. The IP addressing of servers will not be changed between data centers before or during the migration.

The IBM mainframe will be physically relocated to the I/O Data Center. To reduce risk and keep the mainframe under warranty, it's required for IBM to perform the relocation of the mainframe components to the I/O Data Center.

There are 66 physical servers at the DES. Many of these are scheduled to be virtualized before the data center move, so physical relocation may not be required.

For the virtualized distributed systems, a new virtual environment will be created using a Cisco FlexPod solution. This solution provides an ideal solution to do a virtual migration of the current distributed environment which helps reduce risk and potential down time.

NetApp provides the ability to keep storage synchronized between storage arrays in the two data centers. Utilizing VMware, a single virtual data center will be created between the current UCS environment and the new UCS environment.

After the new Cisco Unified Computing System (UCS) and storage hardware has been racked, stacked and configured, applications will be migrated in a series of waves. All of the migrations except for Exchange, Mainframe and potentially a few physical servers will be migrated virtually with either the VMotion or Site Recovery Manager applications.

The project is complete when all applications and services are hosted and running from the I/O Data Center and the 1720 AZDES Data Center can be decommissioned.

II. Project Investment Justification (PIJ) Type*

☐ **Yes** ☒ **No** Is this document being provided for a Pre-PIJ / Assessment phase?

If Yes,

Identify any cost to be incurred during the Assessment phase.	$
Based on research done to date, provide a high-level estimate or range of development costs anticipated for the full PIJ.	$

Explain:
Click here to enter text.

☐ Yes ☒ **No** Will a Request for Proposal (RFP) be issued as part of the Pre-PIJ or PIJ?

III. Business Case

*A. Business Problem**

The AZDES Data Center continues to rapidly deteriorate. The AZDES Data Center has experienced three significant facility outages (requiring emergency services & evacuation) over the last 18 months. These facility issues have included: fire, flood, power outages, leaks, asbestos abatement, generator issues and halon deployments.

The cost to repair this facility would require millions of dollars and the repairs cannot take place while equipment is in the AZDES Data Center. Without immediate intervention, a catastrophic failure is inevitable. The only viable solution is to relocate the AZDES Data Center to the new co-located, multi-tenant site within the CenturyLink / IO facility site. The AZDES Data Center is essential to the daily functionality of the Arizona Department of Economic Security enterprise and multiple other business units within the state that are dependent on our system interfaces. It is imperative to continue the necessary project activities to prepare for the actual relocation of the current AZDES Data Center. The AZDES requires additional funds to relocate computer equipment, procure new servers and storage equipment and engage implementation services for the migration to the new co-location facility. The new UCS and storage equipment are a continuation of the Data Center Relocation (DCR) activities approved in the previous Networking PIJ (DE15003).

*B. Proposed Business Solution**

The DES is requesting approval to proceed with the current data center relocation project by acquisition of additional computing hardware and professional services to address the following project needs:

- Replacement of existing end of life distributed system servers
- Replacement of existing end of life enterprise storage
- Additional data center facility requirements (Non-recurring Charge items)
- Professional services to install and configure server and storage
- Professional services to relocate the IBM Mainframe equipment
- Professional services to facilitate the application migration process

The installation of the hardware, configuration, and training of the DES Division of Technology Services (DTS) staff on the new environment will be performed by contract personnel (professional services).

The approach to migrate to the new data center is to utilize applications "waves". The waves were proposed based on the risk to services based on assessing the technology, system integration, organizational support capability, business impact and priority. Each application was scored based on these criteria. The score of each application was accumulated to determine the overall impact of a failure for any particular wave. The order of the waves introduces risk slowly and increases risk as confidence grows in the capability of the new data center and the team performing the migrations.

The project plan has four weeks allocated to each wave. This is to allow time for the development, test, and production environment to be moved and tested independently. The plan is to have each environment be a small wave with testing and validation before initiating the next set of moves. Each wave will have test plans, test staff and signoff requirements. The allocated time is intended to provide time to both testing and time to mitigate any issues that may surface. In the event a signoff cannot be provided, the issues will be documented and the wave will be rolled back.

As each wave is planned further, it is important to provide preparation guidance to the end-user community. These users need to be aware of the planned outages, expected durations and testing and validation plans. It is expected that end-users will be engaged to validate the applications after the move.

The project will build backup plans and prepare materials in the event that a system outage lasts longer than the planned duration. The planning needs to consider how the business can continue to service clients without a system for short periods of time. This may include the use of desktop software and manual methods.

Last, a communication plan that include DES clients will be executed to provide notifications of system outages if/when they occur. The DES will need to plan for increased phone support during these outages.

The project assumes no changes to the current business continuity plans. However, the project plans to have manual business processes in place in the event that systems are down longer than anticipated. Manual business process may have to be deployed for short amounts of time. The purpose is to document transactions that would later be manually added to the system once everything is brought back up. This would only be employed if there was a high level of confidence that the system was going to be successfully brought up in a reasonable amount of time.

The DES IBM Mainframe will go through a number of disaster recovery failover exercises to the Arizona Department of Administration (ADOA) in preparation of the physical relocation. The first of these tests was successfully completed on February 21th, 2015. To assure that the critical services on the mainframe can be supported for an extended period at ADOA the project includes transition to virtual tape from the current physical tape environment. The New Virtual Tape Libraries will be deployed at both DES and ADOA. This will allow DES to failover to ADOA during the move, reducing risk and potential downtime.

In the event that a system testing is unsuccessful after the move to the co-located data center, the following steps would be executed in order:

- Fail back to the existing data center image
- Restore system from snapshot
- Restore system from tape
- Restore system by redeployment of software and restore database

System backups and snapshots must be maintained and retained during the data center move until such time it is clear that the applications have been successfully transitioned.

The project will be considered complete when all applications and services are hosted and running from the I/O Data Center and the 1720 AZDES Data Center can be decommissioned.

C. *Quantified Benefits**

	Service enhancement
	Increased revenue
	Cost reduction
x	Problem avoidance
x	Risk avoidance

Explain:

Problem Avoidance – Problems associated with the current data center environment.
Risk Avoidance – The risk associated with potential system/service failures induced by the current data center conditions.

IV. Technology Approach

A. *Proposed Technology Solution**

The networking solution approved in the previous PIJ is underway utilizing services from CenturyLink. When CenturyLink completes their work, all network connectivity will be established from a Wide Area Network/Local Area Network (WAN/LAN) perspective.

All router and switching configurations will be completed by CenturyLink with a hand off ready for the mainframe and UCS environment. These systems will only need to connect to the switching provided by CenturyLink.

IBM, cStor, VMware and B&D Technologies (referred to simply as B&D throughout this document) will be the primary contractors for the implementation of the Cisco USC, NetApp and VMware configuration.

IBM professional services will relocate the DES IBM mainframe. Included in scope is the relocation services required to relocate equipment for the ADOA and the Department of Public Safety (DPS) that currently resides in the AZDES Data Center.

Professional services will facilitate the application migration phase. The application migration will utilize a wave approach moving groups of inter-related applications over approximately six months to reduce risk that could potentially impact client services. VMware and B&D will provide the professional services for the distributed application migrations.

The following goals are expected at the completion of the project:

- Remove all dependency on the old AZDES Data Center
- Relocate the IBM mainframe and associated computer equipment
- Relocate all non DES equipment
- Replace end-of-life servers and storage

As required by State law, this project is required to contract with an independent third party for review of and guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project.

The research firm Gartner Inc. whose technology expertise is often used by DES, has been engaged in this capacity for the project. The Gartner review documents, comments and observations are available to support this approach and planning presented in this PIJ.

B. Technology Environment

IBM Mainframe

- Relocation services provided by IBM:
  - All activities associated with moving and shipping of Mainframe equipment
  - Physical loss or damage to the equipment during disassembly, transportation, and reassembly
  - Replacement Value Coverage included for equipment
  - Invisible Transit Damage (ITD) included
  - Maintenance Service Qualified status maintained

Cisco UCS

- (2) 6296 Fabric Interconnects each with 48 ports licensed
- (8) 5108 UCS chassis
- (28) B200 M4 blades evenly distributed across the 8 chassis
  - (17) have:
    - 2@ 14-core CPU
    - 768GB Memory
    - VIC1340
  - (11) have:
    - 2@ 14-core CPU
    - 512GB Memory
    - VIC1340

- AD-DHCP (Windows Server Hosts)
    - Cisco UCS
    - (9) B200 M4 blades
    - 2 x E5-2609v3 (1.90 GHz / 6-core / 85w)
    - 2x200GB SSDs disk drives
    - 128GB Memory
    - VIC1340

VMware Licensing

- (1 Instance) vCenter Standard
- (56 CPUs) vCloud Suite Enterprise
- Production SnS 24x7 – 3 Years

NetApp Storage

- Cluster 1
    - All Flash Tier
        - FAS8060 HA Pair with 1x24x800 SSD & 1x12x800GB SSD; **16TB usable**
        - 2 cDOT Cluster Switches and 1 Cabinet
    - SAS Flash Tier
        - FAS8060 HA Pair with 18x24x900GB SAS & 1x24x800GB SSD (Flash Pools); **309TB usable**
        - 2 Cabinets
    - SATA Flash Tier
        - FAS8060 HA Pair with 10x24x4TB SATA & 1x24x800GB SSD (Flash Pools); **704TB usable**
        - 1 Cabinet
- Cluster 2
    - Microsoft DPM Backup Target
        - FAS8020 Single Node 3x24x4TB SATA; **187TB usable**
        - 1 Cabinet

NetApp Software

Deduplication - With NetApp deduplication, the DES can store just one copy of each unique data object, substantially reducing capacity requirements. Deduplication automatically removes duplicate data blocks on a 4KB level across an entire volume, reclaiming wasted storage to achieve significant space savings.

Data compression - Data compression reduces physical space usage by replacing repeating patterns within chunks of data. It can be run whether or not deduplication is enabled and can provide additional space savings whether run alone or together with compression.

FlexClone volume - With NetApp FlexClone technology, the DES administrators can create instant writable Snapshot copies to support application testing. Unlike full copies from mirrored production data, FlexClone copies can be created almost instantly, take very little space, and have negligible performance impact. You can affordably create as many clones as needed to speed product development.

Snapshot copies - NetApp Snapshot technology enables DES's IT administrators to create point-in-time copies of virtual machines or entire data stores. By using NetApp SnapRestore technology, you can then restore from these backup copies at any level of granularity—single files, directories, or entire volumes—simply and quickly when you need to. Many copies can be made at any time increment in less than one second, with no performance impact, no matter how many Snapshot copies are taken.

MetroCluster™ software - NetApp MetroCluster is an integrated high-availability/disaster recovery solution for campus and metro-area deployments.

SnapMirror technology - With NetApp SnapMirror, DES's data is available and up to date at all times. By maintaining two copies of data online, SnapMirror protects data against all types of hardware outages, including site failure. When used with the NetApp clustered failover high-availability solution, SnapMirror enables DES to achieve a level of data availability that was previously attainable only with mainframe architectures.

SnapVault software - NetApp SnapVault is a disk-to-disk backup product that is a core feature of Data ONTAP. It includes application-aware backup solutions tailored for application-specific protection provided by the suite of NetApp SnapManager® products.

Flash Pool - Flash Pool is a persistent aggregate-level read and write cache. It lets you add RAID groups consisting of SSDs to an aggregate containing HDDs, with the goal of delivering performance comparable to that of an SSD-only aggregate; it also keeps costs closer to those of an HDD-only aggregate. A relatively small number of SSDs in an aggregate are used as a persistent cache to accelerate both random reads and writes.

Infinite Volume - NetApp Infinite Volume addresses the scalability needs of enterprise content repositories with a single logical file container that can scale to 20PB.

SnapRestore - SnapRestore rapidly restores single files, directories, or entire LUNs and volumes from any Snapshot copy backup. Instantaneously recovers your files, databases, and complete volumes from your backup.

IBM TS7720 VTS system, add de-duplication for 203TB usable capacity

- AZ DES Site-A PROD - DLm2100 with DD2500
- AZ DES Site B: D/R - DLm2100 with DD2500

C. *Selection Process*

Selection of the new co-located site was done under an RFP issued by the Arizona Department of Administration (ADOA). DES intends to leverage the recently established state contract with CenturyLink Technology Solutions, in strategic partnership with the IO Data Centers, LLC.

The DES will procure the required products in compliance with current state contracts and purchasing policies. Hardware products will be procured that are compatible with both the current DES infrastructure and ADOA-ASET established standards.

The DES is procuring new Cisco UCS and NetApp equipment that is essentially a match for the current environment. This direction was selected to lessen the risk associated with a physical relocation of the current UCS environment and to replace all of the end-of-life equipment currently being utilized.

Selection of IBM to relocate the Mainframe is needed to assure continuation of the warranty and the knowledge and depth IBM has with these types of relocation efforts.

V. Project Approach

A. *Project Schedule**

Project Start Date: 9/15/2014 **Project End Date:** 4/1/2016

B. *Project Milestones*

Major Milestones	Start Date	Finish Date
Acquire, Install, Initial configuration of UCS servers	06/12/2015	07/07/2015
Acquire, Install, Initial configuration of NetApp storage	06/12/2015	07/07/2015
Configure and validate virtual server environment (VMware)	07/07/2015	07/27/2015
Test & Validate network, UCS and VMware environments	07/27/2015	08/07/2015
Distributed Replication enabled	08/08/2015	N/A
Exchange physical relocation	09/11/2015	09/11/2105
IBM Mainframe failover testing	Various	12/05/2015
New I/O space ready for Mainframe move	08/08/2015	12/04/2015
IBM Contract and Services	01/18/2016	01/18/2016
Uninstall, Relocate, Install, Validate IBM Mainframe and peripherals	03/19/2015	03/19/2016
Distributed Application Wave Migrations	08/10/2015	03/19/2016
Project closure and decommission	03/21/2016	04/01/2016
IV&V Oversight	10/29/2014	04/01/2016

VI. Roles and Responsibilities

A. *Project Roles and Responsibilities*

Sponsor	Executive	Initiate project, obtain funding	Mike Dellner - DTS AD
Sponsor	Executive	champion project, team staffing	Dennis Myers - DTS
Project Architecture	DTS Enterprise Architecture	Manage and review overall project architecture	Albert A. Barbieri – DTS Todd B. Templeton – DTS
Project Manager	DTS Project Manager	Manage project schedule and tasks to include test and acceptance	Dwayne Carter - DTS

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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http://www.azleg.gov/jlbc.htm

DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Rebecca Perrera, Fiscal Analyst RP

SUBJECT: Arizona Department of Administration - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan

Request

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

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of the $5.5 million wireless portion of the ETSF expenditure plan.

2. An unfavorable review of the $5.5 million wireless services expenditure plan.

In FY 2015, ADOA expects to distribute $22.2 million from the ETSF. Of the $22.2 million, $15.8 million is for wire services, $5.5 million is for wireless services, and $0.9 million is for administrative costs. Over the past 5 years, expenditures averaged $18.6 million.

Analysis

ADOA works with county/city 911 administrators to distribute monies from ETSF for Federal Communications Commission (FCC) compliant telecommunications equipment, software, carrier services, and maintenance. The counties and cities are responsible for implementing the improvements to their 911 system. ADOA is responsible for providing centralized oversight in developing project schedules to consider the greatest needs, especially in rural areas, and for maximizing regional efficiencies and local readiness.

(Continued)

While ADOA prefers that each county complete implementation phases as a whole, the department does make allowances for cities or areas that are behind or ahead of the county schedule. Localities must provide and fully fund their own personnel, utilities, and facilities. ADOA also requires communities to submit Wireless 911 Service Plans to the agency for its approval.

Emergency 911 Wireless Service Status

In 1996, the FCC issued Report and Order 96-204, which ordered the development and implementation of 911 services for wireless telecommunications systems in 2 phases. Before a service area achieves *Phase I,* 911 calls consist of the call being directed to a public safety answering point (PSAP), but the call is delivered without location or call back information (shown below as *Phase 0/.5*). *Phase I* requires local public safety answering facilities to be able to identify the phone number of the caller, in addition to the nearest cellular tower to the caller and to relay calls to the nearest emergency response center. *Phase II* requires local public safety answering facilities to be able to identify the specific location of the caller. Geographic Information System (GIS) Standards must be met before a 911 system deploys wireless Phase II. Mobile service carriers were required to upgrade their systems for Phase II capability by December 2005. The status of Arizona's wireless 911 availability as of August 30, 2014, is listed below:

Phase 0/.5

Flagstaff/Coconino County	Navajo Reservation	Navajo County
Hopi Reservation	San Carlos Reservation	Apache County

Phase I

City of Winslow

Phase II

Cochise County	Graham County	Pima County
Flagstaff/Coconino County	Greenlee County	Santa Cruz County
Colorado City	Maricopa County	Yavapai Region
Gila County	Mohave County	Yuma County
Gila River Tribal Community	Pinal County	

The $5.5 million wireless portion of the ETSF expenditure plan would assist these local governments in achieving *Phase II* capabilities. Wireless *Phase II* services are now available on the major thoroughfares from Nogales through Yavapai County. Areas that have not yet completed *Phase I* are being encouraged to move directly to *Phase II.* Approximately 90% of the state's population lives in *Phase II* areas, where the location of a 911 caller can be identified.

Funding Mechanism

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

The revenue generated from these taxes is deposited into the Emergency Telecommunications Services Revolving Fund. ADOA estimates that revenues will increase from $17.2 million in FY 2014 to $18.5 million by FY 2015 and remain near that level through FY 2019.

(Continued)

FY 2015 ETSF Expenditure Plan

Localities submit copies of their invoices for emergency telecommunications services and equipment to ADOA, who subsequently distributes funds to these areas based on need. In FY 2015, ADOA expects to distribute $22.2 million from ETSF. Of the $22.2 million, $5.5 million is for *Phase I* and *Phase II* wireless services. In addition, $15.8 million is for proposed wire services expenditures, while the remaining $0.9 million is for administration costs.

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

Table 1

ADOA Emergency Telecommunications Services Revolving Fund
FY 2013 – 2015 Expenditure Plan

	Actual FY 2013	Actual FY 2014	Projected FY 2015
Revenues			
Balance Forward	$ 2,129,600	$ 3,436,800	$ 4,593,300
Tax Revenue	16,425,800	17,109,400	18,500,000
Interest Income	30,500	40,900	40,000
Funds Available	**$18,585,900**	**$20,587,100**	**$23,133,300**
Expenditures			
Wireless Services			
Phase I Wireless	$ 32,700	$ 32,500	$ 35,700
Phase II Wireless	4,203,900	4,138,900	5,490,600
Wireless Services Subtotal	**$ 4,236,600**	**$ 4,171,400**	**$ 5,526,300**
Wire Services	$10,132,500	$10,834,300	$15,724,800
Wireless Services	4,236,600	4,171,400	5,526,300
Administration	780,000	864,000	925,900
ETSF Expenditure Plan Total	**$15,149,100**	**$15,869,700**	**$22,177,000**
Transfers	$ 0	$ 124,300	$ 0
Fund Balance	$ 3,436,800	$ 4,593,100	$ 956,300

(Continued)

Table 2 includes further detail on planned wireless services expenditure in FY 2015.

Table 2

FY 2015 Wireless Services Expenditure Plan

	Total
Cochise County	$ 302,600
Coconino County/ Page	156,600
Colorado City	2,600
Gila County	40,500
Gila River Tribal	9,500
Graham County	41,900
Greenlee County	14,200
La Paz County	16,400
Maricopa County	2,626,800
Mohave County	188,500
Pima County	1,242,900
Pinal County	336,000
Santa Cruz County	86,200
Winslow	34,200
Yavapai County	301,700
Yuma County	124,300
TOTAL	**$5,524,900**

RS/RP:kp

Janice K. Brewer
Governor

Kathy Peckardt
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

December 20, 2014

RECEIVED
DEC 23 2014
JOINT BUDGET COMMITTEE

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

The Honorable John Kavanagh, Vice Chairman
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, AZ 85007

Dear Senator Shooter and Representative Kavanagh:

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

- The Wireless Program Report for fiscal year 2014
- The status of Arizona 9-1-1 and the estimated costs and deployment schedule to implement Wireless Phase II
- The 9-1-1 financial forecast for fiscal years 2015 through 2019 incorporating the fund balance transfers to the General Fund during FY03, FY04, FY09, FY10, FY11, FY12, FY13 and FY14
- FY15 Wireless Program Plan
- Arizona GIS Standards Compliant Map
- Arizona Wireless 9-1-1 Deployment Map

Please note that the financial forecast shows a program deficit in fiscal year 2018. This deficit occurs despite anticipated additional revenues generated through Laws 2012, Chapter 198, Prepaid Wireless Telecommunications E911 Excise Tax, which was implemented January 1, 2014. With additional Wireless Phase II deployments and a transition to an IP Enabled Network, costs will continue to increase. This anticipated shortfall will prevent the full implementation of the critical wireless program, equipment upgrades for Public Safety Answering Points, the transition to an IP Enabled Network and will require some costs to be shifted to the 9-1-1 Systems throughout the State. Should you have any questions, please contact me at 602-542-1500 or Barbara Jaeger, the State 9-1-1 Administrator at 602-542-0911.

Sincerely

Kathy Peckardt

Kathy Peckardt
Interim Director

cc: Richard Stavneak, Director, JLBC
Rebecca Perrera, Fiscal Analyst, JLBC
John Arnold, Director, OSPB
Will Palmisano, Budget Analyst, OSPB
Aaron v. Sandeen, Deputy Director/State CIO, ADOA
Phil Manfredi, Chief Strategy Officer, ADOA
Michael C. Sherman, Executive Manager, ADOA

Arizona Department of Administration
State 9-1-1 Office
Wireless Program Report
Fiscal Year 2014

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

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

Laws 2012, Chapter 198 modified the statue to include a new Prepaid Wireless tax and collection methodology. The tax is .8% of the purchase at the point of sale and the retailer can retain .3% of that amount collected. The tax was implemented in January 2014 and in the first two quarters has collected $631,547.

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

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

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

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

The Arizona 9-1-1 Wireless Phase II Implementation Plan has been updated to expand the program moving specified sites toward deployment of Wireless Phase II and identifying expenditures associated with legislative cost recovery. The Statewide System Project plan covering each 9-1-1 System for FY15 has been updated. Due to limited funding availability, deployment of Wireless Phase II is currently limited to only those carriers that do not seek wireless carrier costs.Federal Communications

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

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

Wireless Deployment

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

System	FY14 Expenditures		PI/PII
Cochise County	$	219,430	PII
Coconino County	$	42,804	PII
Colorado City	$	4,690	PII
Gila County	$	37,375	PII
Gila River Tribal	$	7,586	PII
Graham County	$	34,959	PII
Greenlee County	$	11,658	PII
La Paz County	$	48,507	Transition
Maricopa Region	$	1,802,165	PII
Mohave County	$	33,249	PII
*Navajo/Apache County	$	-	GIS
Pima County	$	1,098,573	PII
Pinal County	$	312,025	PII
Santa Cruz County	$	77,535	PII
Winslow	$	80,061	PI
Yavapai County	$	292,264	PII
Yuma County	$	125,925	PII
	$	**4,228,806**	

During FY14, $2,316 was expended from the $1 million dollar Public Safety Answering Point (PSAP) Readiness Fund Grant to complete the Geographic Information Systems (GIS) work necessary for Greenlee County. The grant was awarded to the State on October 7, 2004 by The Wireless E-911: The PSAP Readiness Fund. At the close of FY14, there was $161,648 still available. To date, those funds have furthered the deployment of Wireless Phase II for seven counties and one municipality. Additional funds were received from the Arizona Department of Land under the State Broadband Initiative (SBI) Grant for the GIS work in Apache County, Greenlee County, Navajo County and La Paz County. Page11 shows those Arizona areas which are GIS Standards Compliant.

With the completion of these projects, Wireless Phase II service is available on the major thoroughfares from Nogales through Yavapai County. Page 12 depicts the status of Wireless Phase II deployments. It is anticipated that La Paz County will be ready to move to Wireless Phase II in FY15. Any special grant funds remaining with the completion of Greenlee County will be used to provide mapping equipment in the remaining counties of Apache, La Paz and Navajo Counties.

Wireless Phase II deployment for Mohave County was completed in FY11. During FY14, a project was completed to ensure that 9-1-1 location data between the Frontier 9-1-1 network platform and the CenturyLink 9-1-1 network platform could be passed seamlessly. The implementation costs were included in the expenditures above and the monthly cost of $822 is included in the FY15 budget for maintaining that connectivity. In FY13, deployment of Wireless Phase II in Greenlee County was completed without those carriers that seek cost recovery.

Wireless Expenditures

The FY14 expenditures for Wireless Phase I & II are outlined in the table above. No funds were allocated to the Navajo Nation since it has not completed a 9-1-1 Service Plan for funding eligibility.

FY15 Wireless budget depicted in the table below includes the expenditures for systems currently Wireless Phase I and/or Wireless Phase II, those adding in new systems, and those that are close to, or have, completed their GIS requirements.

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

Additional expenditures budgeted for FY15 includes ongoing costs associated with the frame relay or MPLS networks for the Enterprise Mapping System. With significant county boundary issues identified, this system allows updated GIS data to be distributed to the 9-1-1 centers within their county or share the data with other counties. These costs are already being expended in the Cochise County, Maricopa Region, Mohave County, Pima County, Pinal County and Yavapai County. When new map data is available, that data can be distributed via the frame relay or MPLS network allowing updated information to be published more efficiently.

System	FY15 Budget		PI/PII
Cochise County	$	302,640	PII
Coconino County	$	156,600	PII
Colorado City	$	2,640	PII
Gila County	$	40,500	PII
Gila River Tribal	$	9,480	PII
Graham County	$	41,880	PII
Greenlee County	$	14,160	PII
La Paz	$	16,368	transition
Maricopa Region	$	2,626,800	PII
Mohave County	$	188,496	PII
* Navajo Co/Apache Co	$	-	GIS
Pima County	$	1,242,900	PII
Pinal County	$	336,000	PII
Santa Cruz County	$	86,160	PII
Winslow	$	34,200	PI
Yavapai County	$	301,680	PII
Yuma County	$	124,320	PII
	$	**5,524,824**	

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

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

Prior to FY12, separate network trunk groups were installed in order to be assured that 9-1-1 calls from wireless devices would not adversely affect the delivery of wireline calls. The cost for wireline trunks falls under a separate network tariff and therefore has minimal additional costs. The network trunks used specifically for wireless calls are $1,300 per month, per trunk which is significantly higher. Therefore, any future deployments or changes to an existing network designs, will have only one network trunk group that will carry both wireline and wireless calls to the Public Safety Answering Point (PSAP). When the initial Wireless Phase II projects were implemented, there was concern that the wireless 9-1-1 calls overwhelm the system. That is no longer the case with customers moving away from wireline technology.

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

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

With an emphasis toward homeland security, the 9-1-1 program continues to fund the Telecommunications Service Priority (TSP) provisioning which was added in FY07. This federal program is designed to ensure elevated network restoration to anyone who registers and pays for the service. In the event of a national disaster requiring federal intervention for network continuity, the service will ensure that Arizona's 9-1-1 systems will be restored in a timely manner.

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

The Estimated Costs and Deployment Schedule to Implement Wireless Phase II

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

The Wireless Phase II Systems Deployment Timeline and estimated implementation costs are listed in the chart titled Wireless Phase II Implementation Costs below. Projections are based on figures obtained from the Local Exchange Carrier (LEC), equipment vendors and the Wireless Carriers. The information in the chart titled FY15 Wireless Program Plan on Page 9 outlines the statewide status and implementations for Wireless Phase I and Phase II. Additionally, these figures were obtained through the cooperative effort of the Local Exchange Carriers and the Wireless Carriers. The State 9-1-1 Office continues to negotiate with vendors to reduce the costs.

Again, it should be noted that for FY12 and subsequent years, three policy changes are in effective due to funding limitations; 1) Wireless Phase II implementations are only being requested of those carriers that do not seek cost recovery; 2) all 9-1-1 wireless calls will be delivered on only one trunk group and; 3) the deployment of additional Enterprise Mapping Systems have been suspended.

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

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

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

Wireless Phase II Implementation Costs

9-1-1 System	FY	LEC and Wireless Carrier Costs	Equipment & Misc. Products and Services	Totals (Tax Included)
Apache/Navajo	FY16	$ 26,312	$ 1,220,949	$ 1,247,261
La Paz	FY15	$ 80,000	$ 177,908	$ 257,908
Winslow	FY16	$ 85,500	$ 107,300	$ 192,800
Total		$ 191,812	$ 1,506,157	$ 1,697,969

Revenue FY15 Projections

Since 2006, there has been almost a 55% reduction in revenue annually. This can be attributed to the reduction in the tax from $.37 in FY06, to $.28 in FY07 and to $.20 in FY08. In FY06, the annual revenue collected was $30,186,088 while in FY14 the annual revenue collected was $17,150,326.

The projected annual revenue for FY15 does not meet the annual expenditures for continued service of the 9-1-1 program in Arizona. Approvals for certain PSAP equipment upgrades have been denied due to limited funding. Equipment is upgraded only if funds are available. The priority today is sustaining the 9-1-1 network components and the ongoing maintenance on the PSAP equipment. The projected revenue for FY15 of $18.5 million, which includes interest income from the prior funds available. Since FY02, $53 million dollars of 9-1-1 Program funds have been transferred to the State's General Fund.

Since 2008, the State has been required to report those transfers to the Federal Communications Commission (FCC) to be included in their report to Congress. These transfers have also affected the ability for the State 9-1-1 program to be eligible to receive federal grants.

The budget for FY15 did not anticipate any fund transfers, but equipment upgrades have still been deferred and Next Generation (NG) 9-1-1 projects cannot be initiated due to limited funding.

	FY13 Actual @$.20	FY14 Actual @$.20	FY15 Actual @$.20
Excise Tax	$ 16,425,768	$ 17,109,402	$ 18,500,000
Interest	$ 30,512	$ 40,924	$ 40,000
	16,456,280	17,150,326	18,540,000
%		4.13%	7.78%

The 9-1-1 Excise Tax revenue for FY14 closed at $17,150,326 million dollars, a 4.13% increase in revenue over FY13 when coupled with the reduced interest. The increased revenue includes wireline, wireless and VoIP providers and can be attributed primarily to $631,547 in new revenue from pre-paid wireless that went into effect January 1, 2014. The Department of Revenue forecasted $2 million in annual revenue from the pre-paid wireless charge.

The fiscal year-end report for FY14 indicated that the total amount of customers for wireline, wireless and VoIP generated $17,150,326. Revenue estimates for FY15 show an increase to $18,540,000, which includes an annualized forecast of pre-paid wireless charges..

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

In preparing the 911 Project Plan through FY15, the introduction of the pre-paid wireless, the customer base forecast, reduced fees and limited service capabilities have been taken into consideration indicating that the program may reach a shortfall in FY18.

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

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

The Future of Wireline and Wireless 9-1-1

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

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

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

More than $21.4 million dollars in unfunded projects have been identified through FY15. Of that amount, $9.5 million dollars would be in support of PSAPs in Maricopa Region for critical equipment upgrades, $2.2 million dollars would be dedicated for sites in Pima County and $733,225 dollars for sites in Pinal County. Additionally, all Airbus DS equipment (213 answering positions) in the State is at End of Life/Non Supported as of November 1, 2014.

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

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

Summary

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

Documents included in this report outline the 9-1-1 Wireless Phase II expenditures for FY14, as well as the Wireless Phase II budget for FY15.

The table on Page five identifies the implementation costs for deployments of 9-1-1 Wireless Phase II in upcoming years.

The Actual and Proposed Expenditures on Page 9 provides a financial history of the program from FY10 through FY19 anticipated expenditures.

The two maps on Pages 11 and 12 respectively, identify that the communities maintain a high level of GIS accuracy for call service delivery and that the deployment of Wireless Phase II is spreading throughout the state.

FY10 - FY19 Actual and Proposed Expenditures

Includes Capital Cost Recovery for Wireless Phase I and Phase II

Assumes No Change in Tax Rates.

As of August 23, 2014

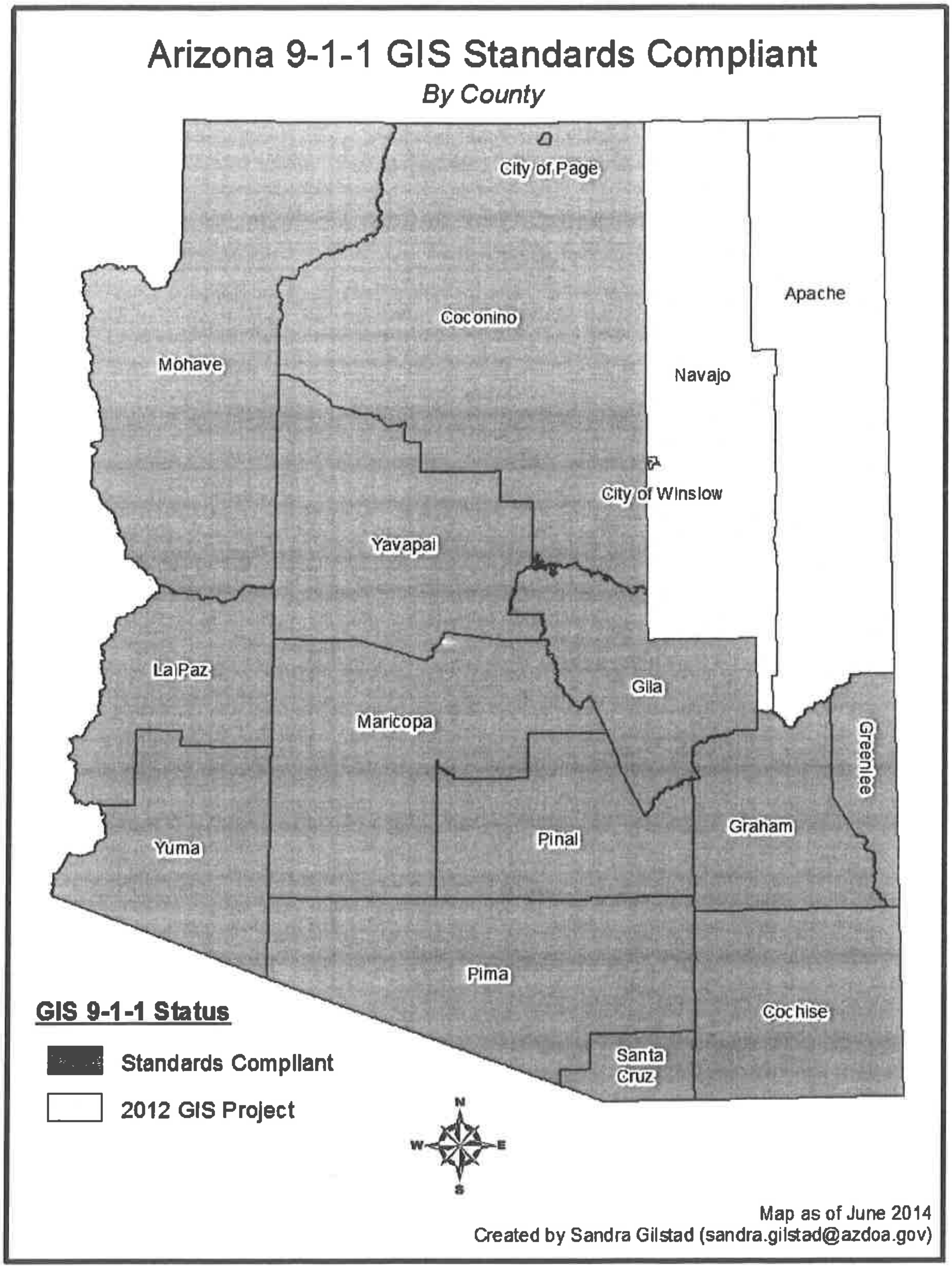
Includes Wireless & Excise Taxes at of Flat Rate of $.20 for FY 2010-FY 2019

' ANNUAL INCREASE ASSUMPTIONS: 6.5% Operations Cost from FY14 budget; 911 Excise Tax based on tax rate.

	Actual FY10	Actual FY11	Actual FY12	Actual FY13	Actual FY14	Budgeted FY15	Budgeted FY16	Budgeted FY17	Budgeted FY18	Budgeted FY19
Administration	$ 407,407	$ 400,244	$ 465,156	$ 449,027	$ 521,929	$555,000	$555,000	$555,000	$555,000	$555,000
PSAP Network Management	$ 304,268	$ 347,166	$ 330,723	$ 330,935	$ 342,036	$370,800	$370,800	$370,800	$370,800	$370,800
Sub-Total	$ 711,675	$ 747,410	$ 795,879	$ 779,962	$ 863,965	$ 925,800	$ 925,800	$ 925,800	$ 925,800	$ 925,800
Wireline - (Existing Network Technology) (PCA33200)*	$22,589,210	$9,035,733	$11,193,469	$10,132,525	$10,834,268	$13,744,844	$10,017,848	$7,879,376	$7,430,808	$317,472
Wireline - (Proposed transition to IP enabled network)**	$ 1,631,982	$115,217	$0	$0	$0	$1,980,000	$4,343,680	$6,362,400	$7,312,800	$15,998,400
Phase I Wireless - (Includes Cost Recovery) (PCA 33310)	$ 134,272	$ 47,048	$ 30,072	$ 32,693	$ 32,454	$ 35,700	$ 35,700	$ -	$ -	$ -
Phase II Wireless - (Includes Cost Recovery) (PCA 33320)	$ 6,235,342	$ 4,546,205	$ 4,129,626	$ 4,203,918	$ 4,138,852	$ 5,490,624	$ 4,103,006	$ 3,415,260	$ 3,373,200	$ 2,644,800
Mapping & Address Support	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
TOTAL PROGRAM COSTS	$ 31,302,481	$ 14,491,613	$ 16,149,046	$ 15,149,098	$ 15,869,539	$ 22,176,968	$ 19,426,034	$ 18,582,836	$ 19,042,608	$ 19,886,472
FUNDS FROM PRIOR	$ 27,553,184	$ 4,303,498	$ 3,980,442	$ 2,129,584	$ 3,436,766	$ 4,593,253	$ 956,285	$ 70,251	$ 27,415	$ -
WIRELESS TAX	$ -	$ -	$ -	$ -	$ 631,547	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000	$ 2,000,000
EXCISE TAX	$ 16,453,500	$ 16,606,135	$ 16,481,681	$ 16,425,768	$ 16,477,855	$ 16,500,000	$ 16,500,000	$ 16,500,000	$ 16,500,000	$ 16,500,000
INTEREST INCOME	$ 286,395	$ 26,522	$ 30,207	$ 30,512	$ 40,924	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Total Collections	$ 16,739,896	$ 16,632,657	$ 16,511,888	$ 16,456,280	$ 17,150,326	$ 18,540,000	$ 18,540,000	$ 18,540,000	$ 18,540,000	$ 18,540,000
TOTAL FUNDS	$ 44,293,079	$ 20,936,155	$ 20,492,330	$ 18,585,864	$ 20,587,092	$ 23,133,253	$ 19,496,285	$ 18,610,251	$ 18,567,415	$ 18,540,000
PRIOR PERIOD ADJ OR PROJECT CARRY-FORWARD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TRANSFER TO GENERAL FUND	**$ 8,687,100**	**$ 2,464,100**	**$ 2,213,700**	**$ -**	**$ 124,300**					
EXPENDITURES	$ 31,302,481	$ 14,491,613	$ 16,149,046	$ 15,149,098	$ 15,869,539	$ 22,176,968	$ 19,426,034	$ 18,582,836	$ 19,042,608	$ 19,886,472
FUNDS FORWARD	$ 4,303,498	$ 3,980,442	$ 2,129,584	$ 3,436,766	$ 4,593,253	$ 956,285	$ 70,251	$ 27,415	$ (475,193)	$ (1,346,472)

FY15 Wireless Program Plan

9-1-1 System	Basic	E/ANI	E9-1-1	Phase I	Phase II	Program Plan FY15
Cochise County					X	
Coconino County			X	FY15	FY15	Transition to Phase II
Colorado City					X	
Gila County					X	Phase II No Cost Recovery Carriers
Gila River Tribal Property					X	
Graham County					X	
Greenlee County					X	Phase II No Cost Recovery Carriers
Hopi Reservation						No Service Plan
La Paz County			X	FY15	FY15	Transition to Phase II
Maricopa County					X	
Mohave County					X	
Navajo Reservation						No Service Plan
Northeastern Ariz. Users Asso.(Navajo/Apache Co)			X	FY16	FY16	GIS Development
Pinal County					X	
Pima County					X	
San Carlos Reservation						No Service Plan
Santa Cruz County					X	
Winslow				X	FY16	
Yavapai Region					X	
Yuma County					X	Phase II No Cost Recovery Carriers
		None			E9-1-1	
		Basic			WPI	
		Ew/ANI			WPII	
updated: 11/5/2014					WPII No Cost Recovery Carriers	



Arizona 9-1-1 GIS Standards Compliant
By County
City of Page
Coconino
Mohave
Apache
Navajo
City of Winslow
Yavapai
La Paz
Maricopa
Gila
Greenlee
Yuma
Pinal
Graham
Pima
Cochise
Santa Cruz
GIS 9-1-1 Status
Standards Compliant
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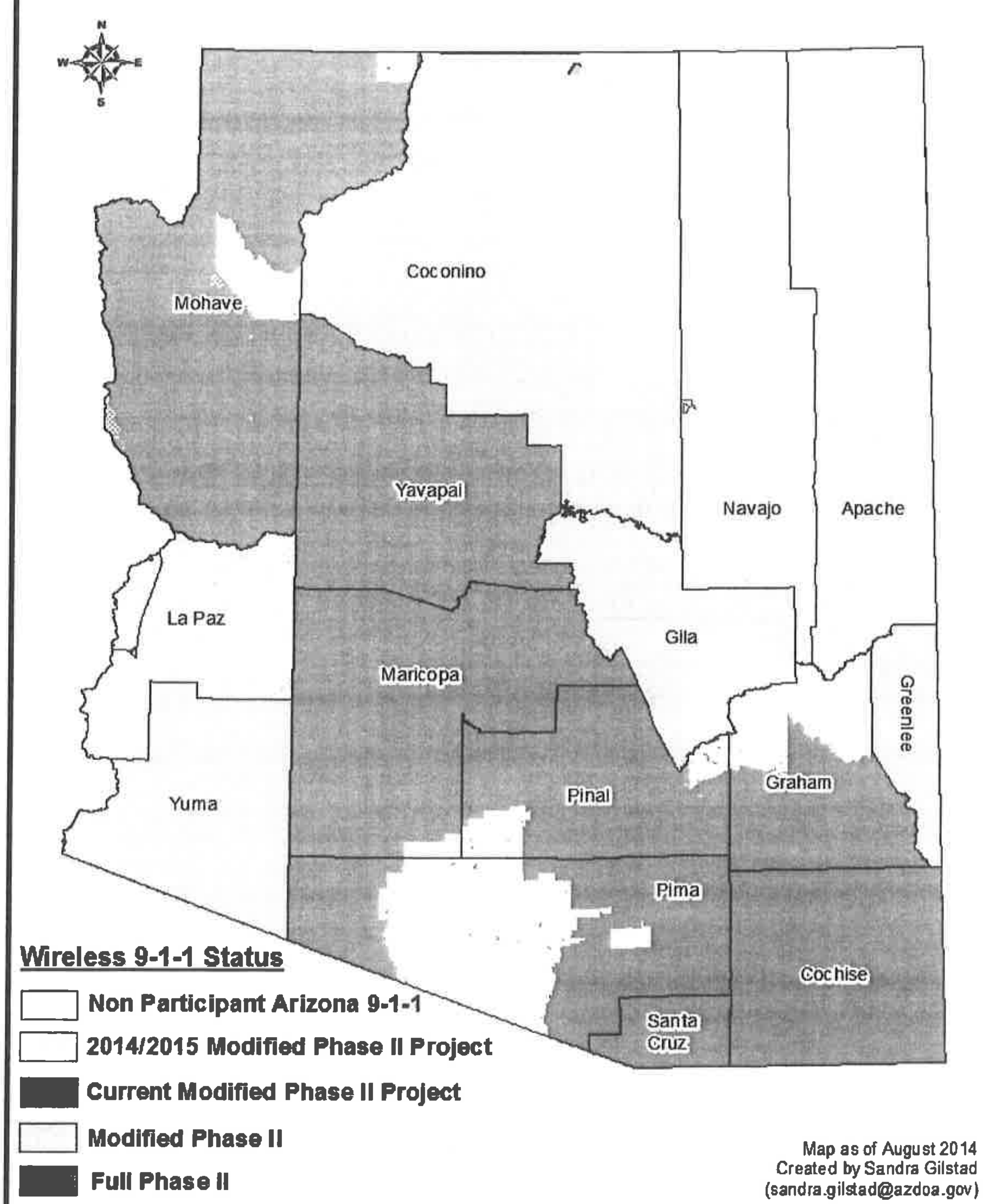
Map as of June 2014
Created by Sandra Gilstad (sandra.gilstad@azdoa.gov)

Arizona Wireless 9-1-1 Status



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STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Matt Gress, Fiscal Analyst MG

SUBJECT: Attorney General - Review of Quarterly Reports on Legal Settlements

Request

A footnote in the FY 2015 General Appropriation Act (Laws 2014, Chapter 18) requires the Attorney General (AG) to submit to the Joint Legislative Budget Committee for review quarterly reports on the receipts to and disbursements from the Consumer Protection - Consumer Fraud (CPCF) Revolving Fund, the Consumer Restitution and Remediation Revolving Fund, and the Antitrust Enforcement Revolving Fund, as well as deposits made to the General Fund.

The intent of the General Appropriation Act provision is to review the AG's allocation of legal settlements among the various funds. In the second quarter of FY 2015, the AG deposited $538,900 to the CPCF Revolving Fund, $21,100 to the Restitution Subaccount, and $10,000 to the Remediation Subaccount.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Under either option, the JLBC Staff recommends that the Attorney General return to the Committee if it intends to expend any of the monies the state received from the McKesson Corporation settlement.

(Continued)

Analysis

The review of the quarterly reports is intended to provide legislative oversight of how the AG has allocated legal settlement proceeds among the 5 possible funds/subaccounts (*see Attachment A*). With the exception of $10,000 that was deposited into the Remediation Subaccount, none of the deposits will require further Committee review. The AG's allocation of legal settlement proceeds appear to comply with legislative intent (*see Table 1 for more detail on the amount of deposits to each fund*). The remainder of the memo provides a summary of the legal settlement that resulted in a deposit of more than $250,000 and background on the AG's different funds related to consumer activities.

Table 1

FY 2015 Legal Settlement Deposits 1/
October 1, 2014 - December 31, 2014

	Revenues	Fund Balance
CPCF Revolving Fund	$538,900	$13,288,500 2/
State of Arizona vs. AT&T Mobility, LLC	*325,800*	
Consumer Restitution Subaccount	21,100	2,156,100
Consumer Remediation Subaccount	10,000	5,797,100 3/
Antitrust Enforcement Revolving Fund	0	196,000
General Fund	0	N/A
Total	**$570,000**	**$21,437,700**

1/ The total receipts for each fund may include interest income on the total proceeds awarded.
2/ The fund balance includes $2,091,300 in funds which are restricted by legal settlement.
3/ Laws 2015, Chapter 8 requires the AG to transfer $5,400,000 from the Remediation Subaccount to the General Fund by June 30, 2016.

Case Background

The AG deposited proceeds from 1 case listed in *Table 1* into the CPCF Revolving Fund.

The *AT&T Mobility* case is the largest receipt reported by the AG. The AG sued AT&T, LLC, as did several other states, for engaging in deceptive practices in connection with text message subscription services. AT&T denied wrongdoing but reached a settlement agreement with the AG. The settlement agreement required AT&T to pay $325,800 to the state. The AG deposited these monies into the CPCF Revolving Fund, which may be used for any purpose permitted by statute.

McKesson Settlement

The FY 2016 budget, as introduced, transferred $5.4 million from the CPCF Revolving Fund to the General Fund. Due to cashflow concerns raised by the AG, the final budget now transfers that amount from the Remediation Subaccount instead. Almost all of the $5.8 million in the Remediation Subaccount is attributed to a legal settlement with the McKesson Corporation (McKesson). The AG expects most, if not all, of the monies for the transfer to come from this legal settlement alone. In February 2015, the AG submitted a proposed expenditure plan for the McKesson settlement monies. The $5.4 million fund transfer would essentially eliminate that plan.

(Continued)

In September 2012, Arizona sued McKesson for artificially raising the reported average wholesale price (AWP) of hundreds of brand-name drugs. As a result of McKesson's alleged misconduct, the Arizona Health Care Cost Containment System (AHCCCS), as well as other third-party payers and consumers, paid higher prices for prescription drugs. McKesson denied wrongdoing but reached a settlement with Arizona and agreed to pay $8.8 million in damages to the state. Several other states and the federal government sued McKesson for similar reasons and also reached separate legal settlements with the company.

Of the $8.8 million McKesson paid to the state, $5.8 million of the settlement was deposited into the Remediation Subaccount, $2.0 million into the CPCF Revolving Fund, and $1.0 million into the Restitution Subaccount. The Committee has previously reviewed the AG's allocation of the $5.8 million deposit into the Remediation Subaccount. At that time, the AG had not yet submitted its expenditure plan for the McKesson monies.

Prior to enactment of the FY 2016 budget, the AG submitted a proposed expenditure plan for the $5.8 million allocation. The plan would spend $4.1 million to fund programs targeting prescription drug education, misuse, and abuse. Another $1.2 million would be used to enhance law enforcement efforts to prevent and prosecute prescription drug pricing, marketing offenses and other deceptive acts. This enhancement would fund 3 additional employees for 3 years, including an economist, an attorney, and a legal assistant. The remaining $578,700 would be used for program administration.

The FY 2016 budget would transfer $5.4 million of the $5.8 million McKesson allocation to the General Fund. The AG has not yet decided how it will expend the remaining $400,000. The JLBC Staff recommends that the AG return to the Committee for review of an expenditure plan prior to spending those remaining monies.

RS/MG:kp
Attachment

Attachment A

Fund Structure Background

Laws 2013, Chapter 143 revised the AG's procedures for reporting on the distribution and allocation of legal settlements. Prior to this legislation, the General Appropriation Act required the Committee to review the AG's proposed allocations of any non-criminal legal settlements exceeding $100,000. Many of these settlements were typically deposited into the CPCF Revolving Fund. Chapter 143 retained the CPCF Revolving Fund, but established a new Consumer Restitution and Remediation Revolving Fund with 2 new subaccounts. With this legislation, the AG may now deposit consumer fraud-related recoveries into 1 of 4 funds/subaccounts:

1. The main CPCF Revolving Fund, which derives its revenue from any investigative or court costs, attorney fees or civil penalties recovered by the AG as a result of enforcement of either state or federal consumer fraud statutes. The monies, subject to legislative appropriation, are used for operations of the Consumer Protection Division, and can also be used for other operating expenses. Committee review of expenditures from this fund is not required.
2. The Consumer Restitution Subaccount of the Consumer Restitution and Remediation Revolving Fund. The AG is to deposit legal settlement proceeds into this subaccount to compensate specific, identifiable entities, including the state, for economic loss resulting from violations of consumer protection laws. This subaccount is not subject to legislative appropriation. Committee review of expenditures from this subaccount is not required.
3. The Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund. This subaccount consists of monies collected as a result of a settlement to rectify violations of consumer protection laws, other than monies collected for the benefit of specific, identifiable entities. Monies in this subaccount up to $3,500,000 are continuously appropriated. Any amount of money collected over that amount is subject to legislative appropriation. The AG must submit an expenditure plan for Committee review before expending any monies in this subaccount.
4. The General Fund. Chapter 143 directs any monies resulting from compromises or settlements, excluding restitution and reimbursement funds or attorney fees, into the General Fund.

The AG must also report deposits into the Antitrust Enforcement Revolving Fund. This fund consists of monies recovered by the state as a result of antitrust, restraint of trade, or price-fixing activity enforcement. The monies are to be used to cover the AG's antitrust enforcement costs. If the settlement exceeds the cost of enforcement, then the remainder is transferred to the General Fund unless the recovery was on behalf of a special fund or political subdivision, in which case the remaining monies would go to those entities.

MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION

LIZETTE MORGAN
CHIEF FINANCIAL OFFICER

RECEIVED
JAN 21 2015
JOINT BUDGET COMMITTEE

January 13, 2015

The Honorable Doug Ducey
Governor of the State of Arizona
State Capitol Complex
1700 West Washington
Phoenix, Arizona 85007-2890

Dear Governor Ducey:

Pursuant to A.R.S. § 44-1531.01 (D), enclosed is the accounting of the receipts and disbursements from the Consumer Protection Revolving Fund for the period ended December 31, 2014.

Please let me know if you need additional information.

Sincerely,

Lizette Morgan
Chief Financial Officer

Copies with enclosure to:

The Honorable Andy Biggs, Senate President
Arizona State Senate

The Honorable David M. Gowan, Speaker of the House
House of Representatives

Kathy Peckardt, Interim Director
Department of Administration

Michele Reagan, Secretary of State
Office of the Secretary of State

Richard Stavneak, Director
Joint Legislative Budget Committee

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW
Fund: CONSUMER PROTECTION REVOLVING FUND
Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION
Period: JULY 1, 2014 THROUGH DECEMBER 31, 2014
A.R.S. Citation: § 44-1531.01
Fund Number: 2014

DESCRIPTION:				Amount
SOURCE OF REVENUE	BEGINNING BALANCE, JULY 1, 2014	See (A) below		$ 11,427,953
	REVENUES			
Civil penalties imposed on violations of consumer fraud statutes; recovery of costs or attorneys fees.	Other Fines Forfeitures and Penalties		$ 4,455,772	
	Interest		-	
	Transfers In		34,134	
	TOTAL REVENUES			4,489,906
PURPOSE OF FUND	EXPENDITURES			
Consumer fraud education and investigative and enforcement operations of the Consumer Protection & Advocacy Section, including costs and expenses associated with the tobacco master settlement agreement arbitration.	Personal Services		1,181,151	
	Employee Related Expenses		514,825	
	Professional & Outside Services		68,630	
	Travel - In-State		15,760	
	Travel - Out-of-State		6,407	
	Aid to Others		-	
	Other Operating Expenses		130,999	
	Capital Outlay		-	
	Capital Equipment		-	
	Non-Capital Equipment		22,712	
	Operating Transfers Out		89,103	
	TOTAL EXPENDITURES			2,029,587
	FUND BALANCE, DECEMBER 31,2014	See (B) below		13,888,272
	OUTSTANDING ENCUMBRANCES			599,814
	FUND BALANCE NET OF ENCUMBRANCES, DECEMBER 31, 2014			$ 13,288,458

(A): Fund Balance, June 30, 2014 before 13th Month FY2014		$ 11,572,791
Adjustments to Revenue/Operating Transfers In 13th Month FY2014	3,657	
Adjustments to Expenditures/Operating Transfers out 13th Month FY14	(148,496)	
Total adjustments 13th month FY2014		(144,839)
Adjusted Ending Balance, June 30, 2014		$ 11,427,953

(B): Fund Balance includes $2,091,331 in funds which are restricted by settlement.

OFFICE OF THE ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION
CONSUMER PROTECTION REVOLVING FUND
REVENUE
FY 2015

	Amount
Total Revenue 7/1/14 - 9/30/14	3,951,046
Deposits - 2nd Quarter FY2015	
Legal Settlement Deposits greater than or equal to $250,000	
This settlement resolves allegations that AT&T Mobility LLC ("AT&T) engaged in deceptive and/or unfair acts and practices in connection with unauthorized charges for third party services placed on consumers' wireless bills ("wireless cramming"), in violation of the Arizona Consumer Fraud Act. The Company's alleged conduct is described more fully in the attached Assurance of Discontinuance. As a result of this multistate settlement, the Attorney General obtained $325,770.70 to be deposited into the Consumer Protection-Consumer Fraud Revolving Fund and used for purposes set forth in statute. In addition, the settlement prohibits AT&T from engaging in conduct that gave rise to this enforcement action in the future. The settlement also requires AT&T to provide $80 million in consumer restitution nationwide. Additional information on the claims process is available at www.ftc.gov/att or by calling (877) 819-9692.	325,771
Legal Settlement Deposits less than $250,000	213,089
Total Deposits - 2nd Quarter FY2015	538,860
Total Revenue 7/1/14 - 12/31/14	4,489,906

MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION

LIZETTE MORGAN
CHIEF FINANCIAL OFFICER

January 13, 2015

The Honorable Doug Ducey
Governor of the State of Arizona
State Capitol Complex
1700 West Washington
Phoenix, Arizona 85007-2890

Dear Governor Ducey:

Pursuant to A.R.S. § 44-1531.02 (D), enclosed is the accounting of the receipts and disbursements from the Consumer Restitution and Remediation Revolving Fund by Subaccount for the period ended December 31, 2014.

Please let me know if you need additional information.

Sincerely,

Lizette Morgan
Chief Financial Officer

Copies with enclosure to:

The Honorable Andy Biggs, Senate President
Arizona State Senate

The Honorable David M. Gowan, Speaker of the House
House of Representatives

Kathy Peckardt, Interim Director
Department of Administration

Michele Reagan, Secretary of State
Office of the Secretary of State

Richard Stavneak, Director
Joint Legislative Budget Committee

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW
Fund: CONSUMER RESTITUTION & REMEDIATION REVOLVING FUND
Sub Account: RESTITUTION
Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION
Period: JULY 1, 2014 THROUGH DECEMBER 31, 2014
A.R.S. Citation: § 44-1531.02
Fund Number: 2573

DESCRIPTION:			AMOUNT
SOURCE OF REVENUE	BEGINNING BALANCE, JULY 1, 2014 (See (A) below)		$ 1,918,447
Monies collected from lawsuits intended to compensate a specific, identifiable person, including the state, for economic loss resulting from violations of consumer protection laws.	REVENUES		
	Other Fines Forfeitures and Penalties	$ 279,611	
	Other Revenue	6,310	
	TOTAL REVENUES		285,921
PURPOSE OF FUND	EXPENDITURES		
Monies to be distributed to specific, identifiable persons as directed by a court order.	Personal Services	-	
	Employee Related Expenses	-	
	Professional & Outside Services	-	
	Travel - In-State	-	
	Travel - Out-of-State	-	
	Aid to Others	-	
	Other Operating Expenses - Restitution	48,285	
	Capital Outlay	-	
	Capital Equipment	-	
	Non-Capital Equipment	-	
	Operating Transfers Out	-	
	TOTAL EXPENDITURES		48,285
	FUND BALANCE, DECEMBER 31, 2014		2,156,083
	OUTSTANDING ENCUMBRANCES		-
	FUND BALANCE NET OF ENCUMBRANCES, DECEMBER 31, 2014		$ 2,156,083

(A):	Fund Balance, June 30, 2014 before 13th Month FY2014		$ 1,457,650
	Adjustments to Revenue/Operating Transfers In 13th Month FY2014	460,797	
	Total adjustments 13th month FY2014		460,797
	Adjusted Ending Balance, June 30, 2014		$ 1,918,447

OFFICE OF THE ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION
CONSUMER RESTITUTION & REMEDIATION REVOLVING FUND
RESTITUTION SUBACCOUNT
REVENUE
FY 2015

	AY14	AY15	Total
Total Revenue 7/1/14 - 9/30/14	460,797	264,786	725,583
Deposits - 2nd Quarter FY2015			
Legal Settlement Deposits greater than or equal to $250,000			
Legal Settlement Deposits less than $250,000		17,431	17,431
Interest Income	-	3,704	3,704
Total Deposits - 2nd Quarter FY2015	-	21,135	21,135
Total Revenue 7/1/14 -12/31/14	460,797	285,921	746,718

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW
Fund: CONSUMER RESTITUTION & REMEDIATION REVOLVING FUND
Sub Account: REMEDIATION
Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION
Period: JULY 1, 2014 THROUGH DECEMBER 31, 2014
A.R.S. Citation: § 44-1531.02
Fund Number: 2573

DESCRIPTION:			AMOUNT
SOURCE OF REVENUE	**BEGINNING BALANCE, JULY 1, 2014** (See (A) below)		$ 5,779,348
Monies collected as the result of an order of a court, or as a result of a settlement or compromise, to rectify violations or alleged violations of consumer protection laws.	**REVENUES**		
	Other Fines Forfeitures and Penalties	$ -	
	Interest	17,750	
	Transfers In	-	
	TOTAL REVENUES		17,750
PURPOSE OF FUND	**EXPENDITURES**		
Consumer fraud education programs and operating expenses incurred in administrating or implementing programs.	Personal Services	-	
	Employee Related Expenses	-	
	Professional & Outside Services	-	
	Travel - In-State	-	
	Travel - Out-of-State	-	
	Aid to Others	-	
	Other Operating Expenses	10	
	Capital Outlay	-	
	Capital Equipment	-	
	Non-Capital Equipment	-	
	Operating Transfers Out	-	
	TOTAL EXPENDITURES		10
	FUND BALANCE, DECEMBER 31, 2014		5,797,088
	OUTSTANDING ENCUMBRANCES		-
	FUND BALANCE NET OF ENCUMBRANCES, DECEMBER 31, 2014		$ 5,797,088

(A):	Fund Balance, June 30, 2014 before 13th Month FY2014		$ 5,776,240
	Adjustment Rounding	1	
	Adjustments to Revenue/Operating Transfers In 13th Month FY2014	3,107	
	Total adjustments 13th month FY2014		3,108
	Adjusted Ending Balance, June 30, 2014		$ 5,779,348

OFFICE OF THE ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION
CONSUMER RESTITUTION & REMEDIATION REVOLVING FUND
REMEDIATION SUBACCOUNT
REVENUE
FY 2015

	Amount
Total Revenue 7/1/14 - 9/30/14	7,747
Deposits - 2nd Quarter FY2015	
Legal Settlement Deposits greater than or equal to $250,000	-
Legal Settlement Deposits less than $250,000	-
Interest Income	10,003
Total Deposits - 2nd Quarter FY2015	10,003
Total Revenue 7/1/14 - 12/31/14	17,750

MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL

BUSINESS & FINANCE DIVISION

LIZETTE MORGAN
CHIEF FINANCIAL OFFICER

January 13, 2015

The Honorable Doug Ducey
Governor of the State of Arizona
State Capitol Complex
1700 West Washington
Phoenix, Arizona 85007-2890

Dear Governor Ducey:

Pursuant to A.R.S. § 41-191.02 (B), enclosed is the accounting of the receipts and disbursements from the Antitrust Enforcement Revolving Fund for the period ended December 31, 2014.

Please let me know if you need additional information.

Sincerely,

Lizette Morgan
Chief Financial Officer

Copies with enclosure to:

The Honorable Andy Biggs, Senate President
Arizona State Senate

The Honorable David M. Gowan, Speaker of the House
House of Representatives

Kathy Peckardt, Interim Director
Department of Administration

1275 WEST WASHINGTON PHOENIX, AZ 85007 • PHONE (602) 542-8445 • FAX (602) 542-5940

Department: ATTORNEY GENERAL - DEPARTMENT OF LAW
Fund: ANTITRUST ENFORCEMENT REVOLVING FUND
Cost Center: CONSUMER PROTECTION & ADVOCACY SECTION
Period: JULY 1, 2014 THROUGH DECEMBER 31, 2014
A.R.S. Citation: § 41-191.02
Fund Number: 2016

DESCRIPTION:			AMOUNT
SOURCE OF REVENUE	BEGINNING BALANCE, JULY 1, 2014		$ 290,064
Money recovered as a result of the enforcement of state or federal antitrust statutes.	REVENUES		
	Other Fines Forfeitures and Penalties	-	
	Transfers In	-	
	TOTAL REVENUES		-
PURPOSE OF FUND	EXPENDITURES		
To offset costs incurred in the enforcement of state and federal antitrust statutes, but may not be used to employ or compensate attorneys.	Personal Services	$ 38,903	
	Employee Related Expenses	14,864	
	Professional & Outside Services	7	
	Travel - In-State	240	
	Travel - Out-of-State	120	
	Aid to Others	-	
	Other Operating Expenses	6,816	
	Capital Outlay	-	
	Capital Equipment	-	
	Non-Capital Equipment	895	
	Fund Sweep	-	
	Operating Transfers Out	7,500	
	TOTAL EXPENDITURES		69,345
	FUND BALANCE, DECEMBER 31, 2014		220,719
	OUTSTANDING ENCUMBRANCES		24,680
	FUND BALANCE NET OF ENCUMBRANCES , DECEMBER 31, 2014		$ 196,039

(A): Fund Balance, June 30, 2014 before 13th Month FY2014		$ 290,147
Adjustments to Expenditures/Operating Transfers out 13th Month FY14	(83)	
Total adjustments 13th month FY2014		(83)
Adjusted Ending Balance, June 30, 2014		$ 290,064

OFFICE OF THE ATTORNEY GENERAL
BUSINESS & FINANCE DIVISION
ANTITRUST ENFORCEMENT REVOLVING FUND
REVENUE
FY 2015

	Amount
Total Revenue 7/1/14 - 9/30/14	-
Deposits - 2nd Quarter FY2015	
Legal Settlement Deposits greater than or equal to $250,000	-
Legal Settlement Deposits less than $250,000	-
Total Deposits - 2nd Quarter FY2015	-
Total Revenue 7/1/14 - 12/31/14	-

OFFICE OF THE ARIZONA ATTORNEY GENERAL
PUBLIC ADVOCACY & CIVIL RIGHTS DIVISION
CONSUMER PROTECTION & ADVOCACY SECTION

MARK BRNOVICH
ATTORNEY GENERAL

DENA BENJAMIN
SECTION CHIEF COUNSEL
DIRECT PHONE NO. (602) 542-7717
DENA.BENJAMIN@AZAG.GOV

RECEIVED
FEB 13 2015
JOINT BUDGET COMMITTEE

February 10, 2015

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

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

Re: *State of Arizona v. McKesson Corporation*

Dear Senator Shooter and Representative Olson:

Pursuant to A.R.S. § 44-1531.02(C), the Attorney General's Office respectfully submits the enclosed expenditure plan for review. As a result of a December, 2013 settlement with the McKesson Corporation, the Attorney General secured approximately $5.7 million in remediation funds which have been deposited into the consumer remediation subaccount of the consumer restitution and remediation revolving fund established by A.R.S. § 44-1531.02. According to the court order, the McKesson funds may be used to support programs addressing prescription drug activity and enhancing law enforcement efforts to prevent and prosecute deceptive pricing and marketing acts or practices. The enclosed McKesson Settlement Expenditure Plan allocates the funds in compliance with the court order. For reference, copies of the court order and settlement agreement, as well as the complaint, are attached.

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

Sincerely,

Dena Benjamin

Dena Benjamin
Section Chief Counsel
Consumer Protection and Advocacy Section

cc: The Honorable Andy Biggs
The Honorable Andy Tobin
Richard S. Stavneak
Lizette Morgan
Matthew Gress (via e-mail and U.S. mail)
Mike Liburdi
Ryan Anderson

Enclosures

Doc #4327221

OFFICE OF THE ARIZONA ATTORNEY GENERAL

PUBLIC ADVOCACY DIVISION

CONSUMER PROTECTION & ADVOCACY SECTION

MCKESSON SETTLEMENT EXPENDITURE PLAN

FEBRUARY 2015

This plan is submitted to the Joint Legislative Budget Committee, for review at its next meeting. It outlines the expenditure of $5.7 million in McKesson settlement funds, secured by the Arizona Office of the Attorney General.

The McKesson Enforcement Action

In December 2013, a consumer protection enforcement settlement was reached between the Arizona Attorney General and McKesson Corporation (Case # CV-2012-013707) to resolve allegations that McKesson violated Arizona's Consumer Fraud Act by artificially inflating the prices of more than 400 brand-name prescription drugs, costing consumers millions of dollars. The terms of the court order approving the settlement require that $5.7 million of the funds be used for any of the following purposes:

- to educate consumers about prescription drug pricing and ways to reduce their prescription drug spending.
- to enhance law enforcement efforts to prevent and prosecute prescription drug price manipulation or other unfair or deceptive acts or practices related to the pricing or marketing of merchandise including prescription drugs.
- other programs intended to rectify violations or alleged violations of consumer protection laws as alleged in the complaint.

The court order designated a separate $1 million of the McKesson settlement to be used for direct restitution payments to consumers harmed by McKesson's alleged violations and that is currently in process. Any unexpended funds shall be distributed to the consumer protection-consumer fraud revolving fund established by A.R.S. 44-1531.01.

Community Assessment and Response

After internal discussion with the lead attorney on the case and preliminary dialogue with potential stakeholders on issues of greatest importance to the community regarding prescription drugs and deceptive pricing or marketing practices, it was learned that prescription drug education, payment assistance and misuse and abuse were critical public health issues in need of attention and funding opportunities. Due to this feedback and the AGO's collaboration with the AZ Partnership for a Drug Free America on the dangers of prescription drug abuse, these topics were addressed in a community needs assessment that was distributed to at least 45 public and private nonprofit organizations to ensure broad statewide representation. Recipients included representatives from all county health departments, the Board of Pharmacy, AZ Department of Education, AZ Department of Weights and Measures, AZ Department of Health Services, the Public Health Assn., the AZ Criminal Justice Commission, the Assn. of Community Health Centers, the Center for Rural Health, AHCCCS, the Governor's office, various medical professional boards, substance abuse coalitions and the Alliance of AZ Nonprofits.

The assessment sought feedback on the best use of the funds for programs and/or services that focus on one or more of the following issue areas:

- prescription drug education
- prescription drug payment assistance
- prescription drug abuse and misuse
- deceptive pricing practices
- other programs intended to rectify violations or alleged violations of consumer protection laws as alleged in the Complaint.

Stakeholders were asked to prioritize the issue areas based on need in their community, and for evidence-based or informed program types with the goal to increase capacity, fill a gap in services and provide the largest benefit to people in need in Arizona.

Following the receipt of assessment responses the AGO convened a stakeholders meeting on October 2, 2014 to bring respondents and others together to discuss the assessment results and obtain additional comments. The AGO notified the Arizona Legislature of the meeting through JLBC staff. The AGO received written and/or verbal comments from eleven organizations. The plan was developed according to the priority issue areas identified by the community stakeholders.

Expenditure Plan

The AGO will distribute the McKesson settlement funds through a competitive solicitation process that complies with Arizona law. The funds will be used to support evidence-based or informed programs throughout the state that target populations most in need, over a twenty seven (27) month funding cycle. As summarized in the chart below, 35% will be targeted to prescription drug education and payment assistance, 35% to prescription drug misuse and abuse and 20% to AGO law enforcement activity for prosecution of deceptive pricing offenses. The consent judgment allows for an amount to be used to enhance law enforcement efforts to prevent and prosecute prescription drug price manipulation or other unfair or deceptive acts or practices related to the pricing or marketing of merchandise including prescription drugs. As interest income is accrued it will be allocated to the contract or grant awarded programs.

Description	% of Total	Expenditures	Summary
Beginning Cash			$5,760,798.00
Interest Income			26,286.00
Total Funds Available			**5,787,084.00**
Grant/Contract Awards			
• Prescription Drug Misuse/Abuse	35%	2,025,479.00	
• Prescription Drug Education and Payment Assistance	35%	2,025,479.00	
AGO Law Enforcement – to prosecute deceptive pricing offenses	20%	1,157,416.00	
Sub-total			5,208,374.00
Program Administration			
• Operations	07%	405,095.00	
• Program Design & Monitoring	03%	173,615.00	
Sub-total			578,710.00

It is anticipated that the funds will be awarded to private nonprofits and county or municipal government agencies for community-based programs, in early 2015. The AGO plans to hire a consultant(s) with expertise in public health and the prescription drug field who will be responsible for developing contract or grant requirements, providing recommendations on the distribution of funds, and program monitoring. Administrative costs, including the consultant(s), are not expected to exceed 10% of the total settlement amount throughout the start-up and close-out of the programs. This is less than the 12% cap imposed by A.R.S. §41-191.08, which governs the Attorney General's operation of the victim services fund. An AGO settlement program coordinator is in place to oversee the funding process and effective implementation of the funds and programs, to ensure compliance with the court order.

McKesson Expenditure Plan
AGO Law Enforcement Projections
FY 2015-17

To fund AGO staff, including an economist, lawyer, and legal assistant, over a three year period to:

- Prosecute consumer protection and antitrust cases involving prescription drug price manipulation or other unfair or deceptive acts or practices related to the pricing or marketing of merchandise including prescription drugs.
- Cooperate with other organizations and agencies addressing unlawful pricing practices affecting seniors, veterans, and other Arizonans.
- Provide on-going analyses of Arizona's healthcare markets, public healthcare policies, and federal legislation, including the Affordable Care Act, and their effects on Arizona consumers, especially seniors and veterans.

			2 Yr. Total	3 Yr. Total
Funds Available	**$1,157,416.00**			
Economist Administrator	1.00 FTE	77,500.00		
Attorney	1.00 FTE	75,000.00		
Legal Assistant	1.00 FTE	46,600.00		
	Subtotal	199,100.00	398,200.00	597,300.00
ERE		62,900.00	125,800.00	188,700.00
	Total Salaries	**262,000.00**	**524,000.00**	**786,000.00**
Overhead		54,500.00	109,000.00	163,500.00
	Subtotal	316,500.00		
One-time Equipment Cost		16,700.00		
	Total Salaries & Overhead	**$ 333,200.00**	**649,700.00**	**966,200.00**

8

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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HOUSE OF
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MICHELLE UGENTI

DATE: March 24, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Art Smith, Principal Fiscal Analyst AS

SUBJECT: Northern Arizona University - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation

Request

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 132) requires Northern Arizona University (NAU) to provide an expenditure and performance report resulting from an appropriation of $3 million to NAU yearly from FY 2015 through FY 2019 to grant to a nonprofit biomedical research entity. The university shall transmit the report to the Joint Legislative Budget Committee (JLBC) for its review on or before February 1 of each year.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review of NAU's biomedical research report.

2. An unfavorable review of NAU's biomedical research report.

Analysis

The FY 2015 budget requires that NAU contract with a nonprofit biomedical research entity for a $3 million annual grant over a 5-year period. The grantee is required to report to NAU annually. The university is then required to transmit the report to the JLBC by February 1. The following information is required to be provided by the grant recipient:

1. The type and amount of expenditures from all state sources of monies.

(Continued)

2. A description of each grant received as well as the positions and locations of positions solely or partly funded by the state.

3. Performance measures including outcomes related to use of state monies, progress made toward the achievement of each outcome, reportable inventories or discoveries made and publications related to research funded by state monies.

The grantee is the Translational Genomics Research Institute, also known as TGen. TGen is a nonprofit organization which studies the genetic components of diseases to develop diagnostics, prognostics and therapies for cancer, neurological disorders, diabetes and other complex medical conditions.

All Sources of State Monies
In addition to the $3 million NAU appropriation, TGen also receives $2 million from the Arizona Department of Health Services (DHS) from the Tobacco Tax and Health Care Fund – Health Research Account. The expenditures of the TGen monies from NAU in the first half of FY 2015 are summarized in *Table 1*:

Table 1

TGen Expenditures of NAU Grant Through December 31, 2014

Utilization	**Expenditure**
Research Services	$ 796,000
Research Capital	256,000
Research Supplies	249,000
Research Support Services	50,000
Project Management	50,000
Information Technology	50,000
Education	50,000
Total	**$1,501,000**

Grant Description
In the second half of FY 2014, TGen applied for 60 grants totaling $40 million. Of that amount, TGen was awarded 18 grants totaling $5.7 million for laboratory research in the first half of FY 2015. *(Please see the NAU report attached to this memo for the list of grant awards.)* The FY 2015 grants have been awarded to 12 TGen researchers who all reside in Arizona. Overall, 18 new full-time equivalent (FTE) Positions with total salaries and benefits of $1.3 million were created by TGen using a combination of support from the General Fund appropriation to NAU and the Tobacco Tax appropriation to DHS.

NAU distributes the appropriation to TGen on a quarterly basis. As a result, TGen has received $2.3 million to date with an additional payment of $750,000 to be disbursed on May 1, 2015.

Performance Measures
Outcomes reported by TGen are a result of clinical research that began prior to FY 2015 and supplemented by NAU and DHS funding during the current fiscal year as described below:

- It has used state funding to lead an international team that has sequenced DNA related to the cellular structure of ovarian cancer, leading to the discovery of mutations of a specific gene.

(Continued)

- The Stand up to Cancer Melanoma Research Alliance Melanoma Dream Team has opened and enrolled its first patients for clinical trial, with a pool of 30 drugs that will be used in cellular studies on their ability to kill tumors. One outcome of this trial is the development of new medications for treating melanoma.

- The formation of the Molecular Medicine Alliance with George Mason University, which has submitted research grants to combine the expertise of TGen scientists and those of the university in the areas of genomics and proteomics.

- TGen's Center for Rare Childhood Disorders, which expanded during 2014, recently treated its 200th patient. Additionally, TGen published a paper in November detailing improved diagnostic methods for childhood disorders.

- TGen also reports that it has conducted clinical trials for patients in the Phoenix area for various forms of cancer and that clinical divisions for pancreatic cancer, breast cancer, leukemia, prostate cancer, lung cancer, and melanoma are under development.

- Patient participation in clinical trials includes:

    - 125 visits per month
    - 35-45 new patients per month
    - 400-600 patient samples collected per month

TGen utilized state appropriations for the production of 71 publications and 20 presentations in the first 2 quarters of FY 2015.

RS/AS:kp

NORTHERN ARIZONA UNIVERSITY

Government Affairs and
Business Partnerships

Northern Arizona University
550 East Van Buren, Bldg 3, 3rd Floor
Phoenix, AZ 85004

602-827-2555
602-827-2557 fax

January 30, 2015

Director Richard Stavneak
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007

Director Stavneak:

In accordance with Laws 2014, Chapter 18, Section 132, enclosed please find the annual expenditure and performance report provided to Northern Arizona University (NAU) by the Translational Genomics Research Institute (Tgen). The report details the grant activity and performance measures as related to state funding for fiscal year 2015.

As demonstrated in the attached report, the first $3 million state investment in Tgen has leveraged external funding that supports essential research activities. These grants include dollars to study areas such as antibiotic resistance genes and pathogens and to support research on Alzheimer's Disease and Amyotrophic Lateral Sclerosis (ALS).

NAU appreciates its partnership with Tgen and looks forward to the continued individual success of the organization as well as the continued success of our partnership. Our relationship exemplifies the importance of the biosciences to NAU and Arizona's economy. We are gratified that the state recognizes our ongoing relationship and sees the benefits that derive from scientific discoveries.

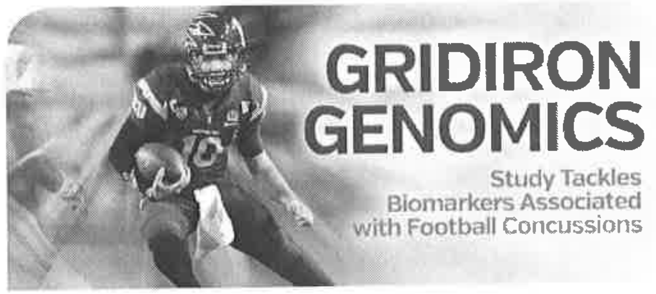
Do not hesitate to contact me if you have any questions regarding the attached report or NAU's partnership with Tgen and the state as they relate to these grant monies.

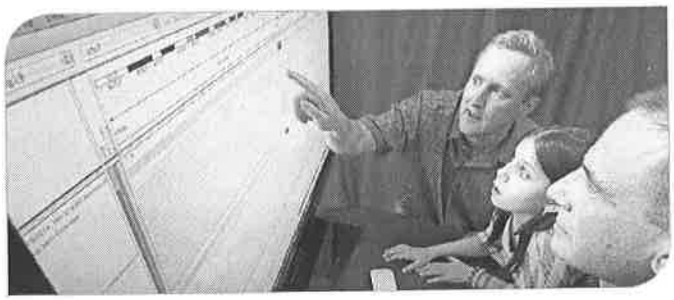
Sincerely

William Grabe

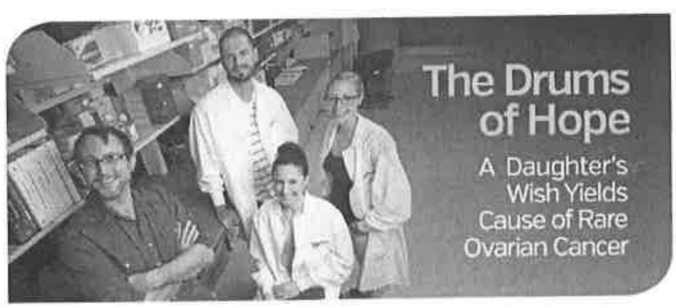
William Grabe
Vice President for Research
Northern Arizona University

cc: Art Smith, Principal Fiscal Analyst





Summary of FY15 Q1 and Q2 TGen Activities



Summary of FY15 Q1 and Q2 Activities

During the first two quarters of FY15, TGen pursued the goal of H82703, Fifty-first Legislature, Second Regular Session, Chapter 18, Section 132, as adopted by the Arizona Legislature pursuant to the FY2014-2015 budget and signed by the Governor on April 11, 2014 to support a non-profit medical research institute in Arizona that specializes in biotechnology and that collaborates with universities, hospitals, biotechnology and other health science research centers.

During this period TGen experienced significant scientific and medical progress across multiple areas, many of which reached new heights and forged the potential for significantly greater achievements in the future.

In addition, the following provides details of recent progress in expenditures, grant support, outcomes and progress, patents and licensing, and peer-reviewed laboratory research publications and presentations.

Actual Expenses from July 1, 2014 - December 31, 2014

NAU / State of Arizona Grant	Expenditures
Research Supplies	$249,000
Research Services	796,000
Research Capital	256,000
Research Support Services	50,000
Project Management	50,000
Information Technology	50,000
Education	50,000
	$1,501,000

Capital Equipment detail

BioTek Instrument
Kuiqpick Microscope
LCM Instrument
Illumina HiSeq Upgrade

Other State Funding

ADHS Fixed Price Contract:	Expenditures
Personal Services	$65,222
Professional & Outside Services	475,744
Equipment	393,862
Facilities and Administrative	54,097
	$988,925

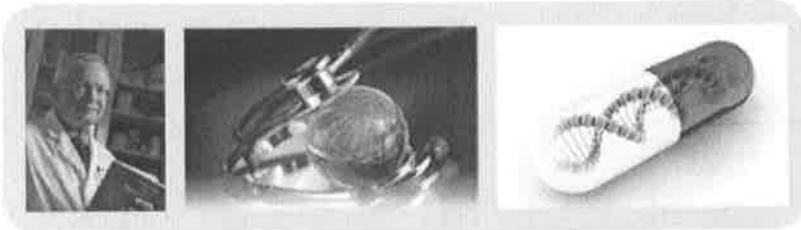
NOTE: All employees reside in the state of Arizona. No employees identified within this agreement are supported by any other State, or the TGen Foundation.

Grant Support

In additional to philanthropic donations and research contracts, grant funding is an important funding source for research. In the second half of 2014, TGen investigators submitted 60 grants totaling $40M (See Appendix B for complete listing). During this period, TGen was awarded 18 grants, totaling $5.7M:

a) Three-year grant from the National Science Foundation totaling $15,001 to Dr. Dave Engelthaler to study the relative abundance and diversity of antibiotic resistance genes and pathogens in reclaimed versus potable water distribution systems.
b) One-year grant from NIH totaling $90,000 to Dr. Dave Engelthaler to identify prevalence, risk factors and consequences of complex M. Tuberculosis infections.
c) One-year grant from the NIH totaling $15,219 to Dr. Matthew Huentelman to support the Alzheimer's Disease Genetics Consortium.
d) One-year grant from the Entertainment Industry Foundation totaling $518,102 to Dr. Jeffrey Trent to utilize Next-Generation Sequencing of Small Cell Lung Cancer to identify actionable targets for treatment.
e) Three-year grant from NIH totaling $471,542 to Dr. Matthew Huentelman for the development and application of CATT: a neuronal Cell Activity - Tagging Toolbox.
f) One-year grant from the CDC totaling $339,996 to Dr. Paul Keim for DNA sequencing and bioinformatic analysis of pathogens with imp.
g) Three-year grant from the Arizona Biomedical Research Commission totaling $225,000 to Dr. Jesse Hunter to identify and functionally characterize novel neuromuscular disease-causing variants in Arizona infants and children.
h) Four-year grant from NIH to Dr. Jeff Kiefer totaling $99,112 to study the role of clonal heterogeneity in mediating the resistance to targeted therapy in melanoma.
i) Five-year grant from NIH to Dr. Michael Bittner totaling $196,297 to investigate novel therapeutics targeting the INPP5A pathway in Squamous Cell Carcinoma.
j) Two-year grant from the DOD to Dr. Kendall Van Keuran-Jensen totaling $73,654 to study the exosome-mediated transmission of neurodegeneration in Amyotrophic Lateral Sclerosis (ALS) using patient induced pluripotent stem cell-derived neurons and astrocytes
k) Two-year grant from the Avon Foundation to Dr. Bodour Salhia totaling $200,006 to develop novel targeted therapeutic approaches for breast cancer metastasis to brain.
l) One-year grant from NIH to Dr. Kendall Van Keuran-Jensen totaling $291,300 to study peptide and protein biomarkers for Amyotrophic Lateral Sclerosis (ALS).
m) Two-year from Science Foundation Arizona (SFAz) to Dr. Jeffrey Trent totaling $200,000 to support Dr. Muhammed Murtaza, a 2014 SFAz Bisgrove Scholar.
n) Three-year grant from NIH to Dr. Patrick Pirrotte totaling $735,851 to help develop the preservation of dried plasma spots for downstream proteomic applications.
o) One-year grant from DOD to Dr. Suwon Kim totaling $20,972 to study ING4 Loss in Prostate Cancer progression.
p) Two-year grant from NIH to Dr. David Craig totaling $176,403 to investigate somatic mutations in the brain in Alzheimer's Disease.
q) Five-year grant from NIH to Dr. Matthew Huentelman totaling $1,665,818 to study neural system dynamics and gene expression in support of successful cognitive aging.
r) Five-year grant from NIH to Dr. Matthew Huentelman totaling $778,502 to investigate epigenetic, neuroimaging and behavioral effects of hypertension in the aging brain.

The projects outlined above, in addition to many others, are supported under the funding provided by H82703, Fifty-first Legislature, Second Regular Session, Chapter 18, Section 132.



Outcomes and Progress

Unique to this past half year is the crystallization of initiatives that will leverage internal discoveries and developments in genomics research and informatics tools that led to improved patient benefit. Notable achievements include:

- TGen investigators led an international team that sequenced the DNA from 12 small cell carcinoma of the ovary, hypercalcemic type (SCCOHT) patients, and found mutations in a particular gene —SMARCA4— in 75 percent (9/12) of the cases studied. The study results appeared March 23 in the journal *Nature Genetics*. The findings revealed a "genetic superhighway" mutation in a gene found in the overwhelming majority of patients with SCCOHT, and set the stage for drug development, clinical trials because the finding allows for a more definitive diagnosis, enabling more appropriate treatment.

- The Stand Up to Cancer Melanoma Research Alliance Melanoma Dream Team, which TGen President Dr. Jeffrey Trent co-leads with Dr. Pat LoRusso from the Yale University Cancer Center, opened and enrolled the first patients in its clinical trial. The Dream Team now has a pool of 30 drugs to use in the trial, 10 of which are new investigational drugs, with negotiations continuing to obtain an additional six agents. We also continued studies of cellular programs in melanoma cells that can be targeted to kill the tumor, and development of promising new drugs we hope to move to clinical trials.

- TGen also generated significant national attention following the May 6 announcement of our Molecular Medicine Alliance with Virginia's George Mason University. The alliance already has submitted applications for more than $12 million in research grants for projects that each institution might not have pursued alone, but are now well positioned to accomplish by combining their complimentary expertise in genomics and proteomics. This alliance was important to secure a future for proteomics at TGen.

- TGen's Center for Rare Childhood Disorders — know called the Dorrance Center for Rare Childhood Disorders— blossomed during 2014. The Center provides parents an opportunity to discover answers about their children's diagnosis and potential treatments though our genomic capabilities. The Center recently treated its 200th patient, and in late November, published a paper detailing improved diagnostic methods for childhood disorders.

In terms of clinical research and clinical trials, TGen has a direct clinical research site through a strategic alliance with the Virginia G. Piper Cancer Center (VGPCC) Clinical Trials Program at Scottsdale Healthcare. Since 2005, these clinical trials have provided options that did not exist before to Phoenix-area patients as well as patients from all over the country. The program conducts clinical trials across a number of cancer types. Further development of cancer specific divisions in pancreatic cancer, breast cancer, leukemia, prostate cancer, lung cancer, and melanoma are under development.

Dr. Daniel Von Hoff, TGen's physician-in-chief also serves as the programs chief scientific officer. The program focuses on clinical trials with targeted agents and genomics-based individualized therapy and with an initial focus on cancer, allows the unique opportunity for TGen to transition its laboratory-based research to patient care centered on individualized therapy. The program brings new clinical research into the community, to those patients who would otherwise have to travel someplace else for access to new therapies or prevention agents.

Patient participation in clinical trials includes:

- 125 visits per month
- 35-45 new patients per month
- 400-600 patient samples collected per month

Patents and Licenses

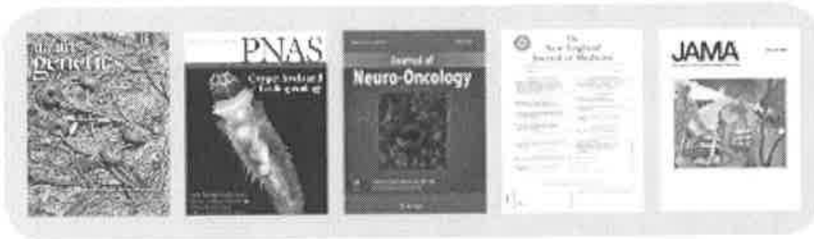
During FY15 Q1 & Q2, TGen was issued 4 patents and filed 24 patent applications on TGen-generated research. The attached lists reflect projects funded by external sponsors, but supported by underlying technology provided for by State of Arizona funding.

Patents Issued:

Issue Date	File Date	Tech ID	Country	Title	Patent No.	App Type	Status
08/19/2014	11/01/2010	090518-108 SWINE FLU	United States	Methods and Kits to Detect New H1N1 "Swine Flu" Variants	8,808,993	Utility	Issued
08/07/2014	03/24/2008	070223-038 FGFR2	Australia	Method Of Diagnosing, Classifying And Treating Endometrial Cancer And Precancer	2008230880	Nationalized PCT	Issued
07/01/2014	03/24/2008	070223-038 FGFR2	Israel	Method of Classifying Endometrial Cancer and Compositions for Treating Same	200908	Nationalized PCT	Issued
07/30/2014	03/24/2008	070223-038 FGFR2	China	Method Of Diagnosing, Classifying And Treating Endometrial Cancer And Precancer	ZL200880009529.2	Nationalized PCT	Issued

Patents Filed:

Date	Tech Id	Title	Country	Status	Serial No.
07/09/14	130509-205 Fn14TWEAK	Compositions and Methods of Screening for Compounds That Modulate Activity at a Tweak Binding Site on a CRD of FN14	PCT	Filed	PCT/US14/046047
07/09/14	130509-205 Fn14TWEAK	FN14 Antagonists and Therapeutic Uses Thereof	United States	Filed	14/327,448
08/06/14	140611-227	Methods and Kits to Identify and Genotype Cryptococcus Species	United States	Filed	62/033,769
08/20/14	130805-209 Haplotypl	Haplotype Analysis for Bacterial Rare Variant Detection using Next-generation sequencing	United States	Filed	62/039,901
08/26/14	130805-208 SMOR	Single Molecule-Overlapping Read Analysis for Minor Variant Mutation Detection in Pathogen Samples	PCT	Filed	PCT/US14/052745
08/26/14	140522-225	Systems and Methods for Workflow Organization	United States	Filed	62/042,061
09/16/14	130409-201 SOCIALOME	Digital Lightbox Display Environment	United States	Filed	14/490,499
11/13/14	141110-230	Methods of Treating Cancer	United States	Filed	62/078,992
11/24/14	140826-228	Compositions and Methods for the Treatment of Fungal Infections	United States	Filed	62/083,429
12/11/14	141210-231 RUNX3	Methods of Detecting Breast Cancer Brain Metastasis With Genomic and Epigenomic Biomarkers	United States	Filed	62/090,408
11/10/14	131107-215	Compounds for Cognitive Enhancement and Meghods of Use Thereof	PCT	Filed	PCT/US2014/064868
11/10/14	131003-211 UMINGAS	Systems and Methods for Universal Tail-Based Indexing Strategies for Amplicon Sequencing	PCT	Filed	PCT/US2014/064890
12/05/14	131002-210 Autophagy	Autophagy Inhibitors	PCT	Prosecution by Other Party	PCT/US2014/068886
12/03/14	120424-177 BurkAssay	Primers, Assays And Methods For Detecting Burkholderia Pseudomallei And Burkholderia Mallei	Australia	Filed	2013262783
10/23/14	090223-093 PTEN	Benzamide Derivatives	France	Prosecution by Other Party	10792517.4
10/23/14	090223-093 PTEN	Benzamide Derivatives	Germany	Prosecution by Other Party	10792517.4
10/23/14	090223-093 PTEN	Benzamide Derivatives	Ireland	Prosecution by Other Party	10792517.4
10/23/14	090223-093 PTEN	Benzamide Derivatives	Italy	Prosecution by Other Party	10792517.4
10/24/14	111019-165 FFPE	A System And Method Of Genomic Profiling	Japan	Filed	
10/23/14	090223-093 PTEN	Benzamide Derivatives	Switzerland	Prosecution by Other Party	10792517.4
10/23/14	090223-093 PTEN	Benzamide Derivatives	United Kingdom	Filed	10792517.4
11/22/14	080723-073 NHERF1	Methods of Identifying and Treating Glioblastoma	France	Issued	10792517.4
11/22/14	080723-073 NHERF1	Methods of Identifying and Treating Glioblastoma	Switzerland	Issued	10792517.4
11/22/14	080723-073 NHERF1	Methods of Identifying and Treating Glioblastoma	United Kingdom	Issued	10792517.4



Peer-Reviewed Laboratory Research Publications and Presentations

As it has from been from our very founding in 2002, the focus of TGen's work remains the patient: but not just on the patient of the future. Our work is having an impact on patients in need today, many of who can't afford to wait months or years for treatments that may work. Much of what we learn is published in leading scientific and medical journals, which continuously adds to the growing knowledge base of molecular research and medicine.
In the second half of 2014, TGen researchers published their research results extensively in numerous scholarly peer-reviewed academic journals and through presentations at leading national and international conferences. The list below reflects publications and presentations resulting from projects funded by external sponsors, but supported by underlying technology provided for by State of Arizona funding.

Publications

1. Joy A, Ramesh A, Smirnov I, Reiser M, Misra A, Shapiro WR, Mills GB, Kim S, Feuerstein BG. AKT pathway genes define 5 prognostic subgroups in glioblastoma. *PLoS One.* 2014 Jul 1;9(7):e100827

2. Weiss GJ, Ganeshan B, Miles KA, Campbell DH, Cheung PY, Frank S, Korn RL. Noninvasive image texture analysis differentiates K-ras mutation from pan-wildtype NSCLC and is prognostic. *PLoS One.* 2014 Jul 2;9(7):e100244.

3. Han Y, Signorello LB, Strom SS, Kittles RA, Rybicki BA, Stanford JL, Goodman PJ, Berndt SI, Carpten J, Casey G, Chu L, Conti DV, Rand KA, Diver WR, Hennis AJ, John EM, Kibel AS, Klein EA, Kolb S, Marchand LL, Leske MC, Murphy AB, Neslund-Dudas C, Park JY, Pettaway C, Rebbeck TR, Gapstur SM, Zheng SL, Wu SY, Witte JS, Xu J, Isaacs W, Ingles SA, Hsing A; The PRACTICAL Consortium; The ELLIPSE GAME-ON Consortium, Easton DF, Eeles RA, Schumacher FR, Chanock S, Nemesure B, Blot WJ, Stram DO, Henderson BE, Haiman CA. Generalizability of established prostate cancer risk variants in men of African ancestry. *Int J Cancer.* 2014 Jul 8. [Epub ahead of print]

4. Jiao S, Peters U, Berndt S, Brenner H, Butterbach K, Caan BJ, Carlson CS, Chan AT, Chang-Claude J, Chanock S, Curtis KR, Duggan D, Gong J, Harrison TA, Hayes RB, Henderson BE, Hoffmeister M, Kolonel LN, Le Marchand L, Potter JD, Rudolph A, Schoen RE, Seminara D, Slattery ML, White E, Hsu L. Estimating the heritability of colorectal cancer. *Hum Mol Genet.* 2014 Jul 15;23(14):3898-905.

5. Northfelt DW, Ramanathan RK, Cohen PA, Von Hoff DD, Weiss GJ, Dietsch GN, Manjarrez KL, Randall TD, Hershberg RM. A phase I dose-finding study of the novel Toll-like receptor 8 agonist VTX-2337 in adult subjects with advanced solid tumors or lymphoma. *Clin Cancer Res.* 2014 Jul 15;20(14):3683-91.

6. Rosenstein BS, West CM, Bentzen SM, Alsner J, Andreassen CN, Azria D, Barnett GC, Baumann M, Burnet N, Chang-Claude J, Chuang EY, Coles CE, Dekker A, De Ruyck K, De Ruysscher D, Drumea K, Dunning AM, Easton D, Eeles R, Fachal L, Gutiérrez-Enríquez S, Haustermans K, Henríquez-Hernández LA, Imai T, Jones GD, Kerns SL, Liao Z, Onel K, Ostrer H, Parliament M, Pharoah PD, Rebbeck TR, Talbot CJ, Thierens H, Vega A, Witte JS, Wong P, Zenhausern F; Radiogenomics Consortium. Radiogenomics: radiobiology enters the era of big data and team science. *Int J Radiat Oncol Biol Phys.* 2014 Jul 15;89(4):709-13.

7. Ryman DC, Acosta-Baena N, Aisen PS, Bird T, Danek A, Fox NC, Goate A, Frommelt P, Ghetti B, Langbaum JB, Lopera F, Martins R, Masters CL, Mayeux RP, McDade E, Moreno S, Reiman EM, Ringman JM, Salloway S, Schofield PR, Sperling R, Tariot PN, Xiong C, Morris JC, Bateman RJ; Dominantly Inherited Alzheimer Network. Symptom onset in autosomal dominant Alzheimer disease: a systematic review and meta-analysis. *Neurology.* 2014 Jul 15;83(3):253-60.

8. Jain M, Zhang L, Boufraqech M, Liu-Chittenden Y, Bussey K, Demeure MJ, Wu X, Su L, Pacak K, Stratakis CA, Kebebew E. ZNF367 inhibits cancer progression and is targeted by miR-195. *PLoS One.* 2014 Jul 21;9(7):e101423.

9. Liu CM, Osborne BJ, Hungate BA, Shahabi K, Huibner S, Lester R, Dwan MG, Kovacs C, Contente-Cuomo TL, Benko E, Aziz M, Price LB, Kaul R. The semen microbiome and its relationship with local immunology and viral load in HIV infection. *PLoS Pathog.* 2014 Jul 24;10(7):e1004262.

10. Xie Q, Mittal S, Berens ME. Targeting adaptive glioblastoma: an overview of proliferation and invasion. Neuro Oncol. 2014 Jul 30. [Epub ahead of print] Review.McEachron TA, Tomboc P, Tran NL. An integrated approach to identifying clinically relevant targets in pediatric gliomas. *CNS Oncol*. 2013 Jul;2(4):303-6.

11. Wang H, Burnett T, Kono S, Haiman CA, Iwasaki M, Wilkens LR, Loo LW, Van Den Berg D, Kolonel LN, Henderson BE, Keku TO, Sandler RS, Signorello LB, Blot WJ, Newcomb PA, Pande M, Amos CI, West DW, Bézieau S, Berndt SI, Zanke BW, Hsu L; Genetics and Epidemiology of Colorectal Cancer Consortium (GECCO), Lindor NM, Haile RW, Hopper JL, Jenkins MA, Gallinger S, Casey G; Colon Cancer Family Registry (CCFR), Stenzel SL, Schumacher FR, Peters U, Gruber SB; Colorectal Transdisciplinary Study (CORECT), Tsugane S, Stram DO, Le Marchand L. Trans-ethnic genome-wide association study of colorectal cancer identifies a new susceptibility locus in VTI1A. *Nat Commun*. 2014 Aug 8;5:4613.

12. Hurth C, Yang J, Barrett M, Brooks C, Nordquist A, Smith S, Zenhausern F. A miniature quantitative PCR device for directly monitoring a sample processing on a microfluidic rapid DNA system. *Biomed Microdevices*. 2014 Aug 9. [Epub ahead of print]

13. Kusne Y, Carrera-Silva EA, Perry AS, Rushing EJ, Mandell EK, Dietrich JD, Errasti AE, Gibbs D, Berens ME, Loftus JC, Hulme C, Yang W, Lu Z, Aldape K, Sanai N, Rothlin CV, Ghosh S. Targeting aPKC disables oncogenic signaling by both the EGFR and the proinflammatory cytokine TNF? in glioblastoma. *Sci Signal*. 2014 Aug 12;7(338):ra75.

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Presentations

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2. Identification of New Genes and Pathways for Rare Infantile Forms of Spinal Muscular Atrophy and Neuromuscular Disorders. *J. M. Hunter, C. D. Balak, J. Kiefer, M. E. Ahearn, G. Lambert, D. Duggan, B. Wirth, W. Tembe, C. Legendre, W. Liang, L. Cuyugan, J. Mcdonald, J. Adkins, A. Kudoglu, J. Corneveaux, M. Russell, M. Huentelman, D. Craig, J. Carpten, S. M. Bernes, J. Hall, L. Baumbach-Reardon

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6. Differential Gene Expression In Key Oncolytic Pathways Observed Between Caucasian-American and African-American Women with Triple-Negative Breast Cancer. *J. E. Getz, L. L. Baumbach-Reardon, C. Gomez, M. E. Ahearn, M. Jorda, C. R. Legendre, W. Tembe, S. Nasser, V. Yellapantula, M. D. Pegram, J. D. Carpten.

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11. Whole exome sequencing identifies rare mutations in children with undiagnosed neurological disorders. *K. Ramsey, M. De Both, J. J. Corneveau, A. Kurdoglu, S. Rangasamy, R. Richholt, I. Schrauwen, A. L. Siniard, S. Swaminathan, S. Szelinger, D. W. Craig, M. J. Huentelman, V. Narayanan.

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13. Novel ROCK inhibitors developed for both cognitive enhancement and blockade of pathological tau phosphorylation. *M. Turk, M. D. Adams, T. Wang, T. Dunckley, M. J. Huentelman.

14. The influence of demographic and disease risk factors on paired associates learning in an internet recruited cohort of over 29,000 individuals. *A. L. Siniard, I. Schrauwen, J. J. Corneveaux, J. Peden, M. N. Turk, M. D. De Both, R. F. Richholt, M. Mueller, J. Langbaum, E. Reiman, R. Caselli, P. Coleman, C. Barnes, E. Glisky, L. Ryan, M. J. Huentelman.

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17. Gene expression profiling of human astrocytes treated with bexarotene and related compounds shows increase in neuroprotective cytokine GMCSF. *R. Richholt, I. Piras, A. M. Persico, M. J. Huentelman.

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Full-time positions filled (new and replacements) included:

In FY15 Q1 and Q2 (July-December of 2014), 18 new full-time equivalent positions were created with salaries and benefits totaling $962,717.9. Salaries for temporary positions (those positions created for a finite period of time) totaled $55,320. Student salaries were just over $267,000, bringing the overall total to $1,285,037. Hires were:

Assistant Professor
Business Analyst, Enterprise Applications
Director, Marketing
Post-Doc Fellow (5)
Research Associate (5)
Research Associate II (3)
Software Integration Engineer
Sr. Post Doc Fellow

In terms of education level, eighty-three percent of full-time TGen staff holds a college degree and forty-six percent holds an advanced degree.

9

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

FAX (602) 926-5416

http://www.azleg.gov/jlbc.htm

DATE: March 24, 2015

TO: Representative Justin Olson
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Eric Billings, Principal Fiscal Analyst EB

SUBJECT: Automobile Theft Authority - Review of the Proposed Expenditures from the Reimbursable Programs Line Item

Request

Pursuant to a FY 2015 General Appropriation Act (Laws 2014, Chapter 18) footnote, the Automobile Theft Authority (ATA) is required to submit for review a report outlining any proposed expenditures from the Reimbursable Programs line item.

ATA has submitted for review a proposal to expend up to $5,000, donated by the National Insurance Crime Bureau (NICB), in FY 2015 to support the Arizona Vehicle Theft Task Force through the purchase of 2 trailers. The trailers will be used to help transport large pieces of scrap metal to the Department of Public Safety for further analysis and storage.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review of the request.

Analysis

The Reimbursable Programs line item was created in FY 2006 to fund programs such as training seminars, the cost of sending staff to training seminars, and bait car system projects throughout the state. The line item's only revenue source is donations, grants, and fee collections given to ATA by the private sector.

(Continued)

ATA reports that the NICB has made a donation of $5,000 to fund the purchase of 2 trailers that will be used by the Arizona Vehicle Task Force to transport large pieces of scrapped vehicles to DPS evidence facilities. Of the trailers to be purchased, one will be an enclosed box trailer and the other will be a 15-foot long open trailer. The NICB is a non-profit membership organization that was created by the insurance industry to address insurance related crime through the development of relevant databases, analytical services, and investigative support to law enforcement. The Arizona Vehicle Theft Task Force is comprised of 20.5 FTE Positions housed within DPS and 14 individuals at partner agencies that are solely dedicated to the investigation of auto-theft crimes. In FY 2015, the total cost to the state of the Arizona Vehicle Task Force is estimated to be $4,384,000.

RS/EB:kp

ARIZONA AUTOMOBILE THEFT AUTHORITY
1400 W. WASHINGTON STREET, SUITE 270 PHOENIX, ARIZONA 85007
PHONE (602) 364-2886 FAX (602) 364-2897 www.azwatchyourcar.com

RECEIVED
JAN 23 2015
JOINT BUDGET COMMITTEE

January 21, 2015

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

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

Re: AATA Reimbursable Program

Dear Representative Olson and Senator Shooter;

The Arizona Automobile Theft Authority (AATA) received a donation in the amount of $5,000.00 from the National Insurance Crime Bureau (NICB), which is presently deposited in the AATA reimbursable programs account. The specific purpose of the donation is to support the efforts of the Arizona Vehicle Theft Force and to defray the expenses of the purchase of two trailers for their use in support of criminal investigations.

The Arizona Vehicle Theft Task Force regularly investigates crimes that involve 'chop shops' and other locations that require the seizure of large vehicle parts. Once seized as evidence the parts must be removed for prosecution and safe keeping, thus is the purpose of obtaining the trailers.

The AATA requests this matter be placed on the next meeting agenda for consideration. The reimbursable programs account was created by the legislature as a fund to receive grants, gifts and donations to the agency. The AATA is required to "submit a report to the joint legislative budget committee before expending any monies for the reimbursable programs line item. The agency shall show sufficient funds collected to cover the expenses indicated in the report." H.B. 2001, Section 13 (2013).

I am available to meet with your staff and provide further explanation as appropriate.

Sincerely,

Frederick W. Zumbo
Executive Director

Our mission is to deter vehicle theft through a statewide cooperative effort by supporting law enforcement activities, vertical prosecution and public awareness/community education programs.

10

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

PHONE (602) 926-5491

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http://www.azleg.gov/jlbc.htm

DATE: March 25, 2015

TO: Representative Justin Olson, Chairman
Members, Joint Legislative Budget Committee

THRU: Richard Stavneak, Director RS

FROM: Jon Stall, Senior Fiscal Analyst

SUBJECT: AHCCCS/DHS/DES/DCS - Review of Proposed Capitation Rate Changes

Request

Pursuant to footnotes in the FY 2015 General Appropriation Act, the state Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The agencies propose April 1, 2015 revisions to the previously reviewed contract year (CYE) 2015 capitation rates (October 1, 2014 to September 30, 2015).

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Relative to budgeted rates, the JLBC Staff projects that the revised rates would increase total General Fund spending by approximately $500,000 during the last 3 months of FY 2015 (April through June). On a 12-month basis, the rates would increase General Fund costs by $1.9 million.

The total General Fund increase of $1.9 million primarily represents costs of covering court-ordered incontinence briefs. *Table 1* provides a further breakout of revised rates and impacts by Medicaid population.

Analysis

<u>Coverage of Incontinence Briefs</u>
The proposed rates include an increase to fund incontinence briefs that are deemed medically necessary to

(Continued)

prevent skin breakdown or infection. The state's policy has been to reimburse for adult incontinence briefs used for treatment, but not preventive purposes. In December 2014, the U. S. Supreme Court allowed a U. S. Court of Appeals ruling in *Alvarez v. Betlach* to stand, effectively requiring the state to expand Medicaid coverage of briefs for adult preventive use. Revised Arizona Long Term Care System (ALTCS) capitation rates for the Elderly and Physically Disabled population in AHCCCS and Developmentally Disabled population in DES include additional funding for this coverage.

Reimbursement of Health Centers

Medicaid health plans contract with Federally Qualified Health Centers (FQHC) and Rural Health Clinics (RHC) to provide services in medically underserved areas. Historically, Medicaid health plans have reimbursed these providers according to the state's Medicaid fee schedule while AHCCCS has made additional fee-for-service payments up to a federally determined rate.

Beginning April 1, 2015, Medicaid health plans will be required to reimburse FQHC and RHC providers from their regular capitation payments. This change results in a budget-neutral shift of costs from AHCCCS fee-for-service payments to capitation rates paid across all Medicaid populations in *Table 1*.

Payment Responsibility for Acute Care and Behavioral Health Services

A new AHCCCS policy clarifies payer responsibility in situations where member patients use both acute care and behavioral health services during an inpatient visit. The new policy requires that Acute Care plans pay the entire claim if the principal diagnosis is related to acute care while Regional Behavioral Health Authorities pay the entire claim when the principal diagnosis is related to behavioral health services. The new policy results in a small cost increase to DHS Behavioral Health Service (BHS) capitation rates and a small cost decrease to AHCCCS Acute Care capitation rates. AHCCCS actuaries estimate that the net impact of the revision will be a savings.

Monthly Capitation Rates

The table below summarizes the proposed rates and General Fund impact for the 6 Medicaid populations.

Table 1

Proposed Capitation Rates and General Fund Impacts

($ in millions)

Populations	Previous Rates	Proposed Rates	Annualized GF Impact
AHCCCS Acute Care	$ 268.28	$ 276.59	$ 30.2
ALTCS Elderly & Physically Disabled	$ 3,158.02	$ 3,195.74	$ 2.9
Children's Rehabilitative Services	$ 692.38	$ 700.01	$ 0.7
Comprehensive Medical & Dental Program	$ 239.41	$ 248.27	$ 0.3
DES Developmentally Disabled	$ 3,345.48	$ 3,358.45	$ 1.4
DHS Behavioral Health Services	$ 89.41	$ 90.87	$ 6.8
Total			**$ 42.3**
AHCCCS Fee For Service Offset 1/			**$ (40.4)**
Net Impact			**$ 1.9**

1/ Reflects reductions to AHCCCS fee for service costs associated with incorporating FQHC/RHC reimbursement in capitation rates.

RS/JS:kp
Attachment

AHCCCS
Arizona Health Care Cost Containment System

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

March 20, 2015

The Honorable Justin Olson
Arizona State House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Representative Olson:

AHCCCS is amending Contract Year Ending (CYE) 2015 (October 1, 2014, through September 30, 2015) capitation rates for contracted Managed Care Organizations (MCOs). The CYE 2015 rates were previously approved by the Joint Legislative Budget Committee on September 30, 2014. AHCCCS has submitted amended capitation rates with an April 1, 2015, effective date to the Centers for Medicare and Medicaid Services (CMS) for approval in accordance with federal requirements. AHCCCS respectfully requests to be placed on the agenda of the next Joint Legislative Budget Committee (JLBC) meeting to review the capitation rate amendments.

In summary, these updates include the following changes: AHCCCS is implementing a new contract mandate requiring MCOs to pay the all-inclusive per visit Prospective Payment System (PPS) rates for Federally Qualified Health Centers/Rural Health Clinics (FQHCs/RHCs); clarifying payer responsibility when both physical and behavioral health services are included on the same claim; and a requirement to cover incontinence briefs in order to prevent skin breakdown for adults in the Arizona Long Term Care Services (ALTCS) program. A chart is included on the next page to assist with the impacts of each adjustment by program

Background
The April 1, 2015 rates include adjustments for the following issues:

FQHC Reimbursement
Under federal law, AHCCCS is required to reimburse FQHCs and RHCs all-inclusive per visit PPS rates for FQHC/RHC services. This rate was designed to approximate full-cost reimbursement. Historically, the payment methodology has included a combination of MCO claims payments followed by wrap-around payments made by the AHCCCS Administration to bring FQHCs/RHCs up to the PPS rates. An examination of the payment data revealed that when the MCOs paid rates to the FQHCs/RHCs that were equivalent to all other providers for similar services, they were paying approximately one-third of the total FQHC/RHC costs for enrolled members; the Administration was paying two-thirds of the total FQHC/RHC costs for enrolled members as part of the wrap-around payments. This payment split distorts the total cost of care for managed care enrolled members, and total payments for FQHC/RHC services, by obscuring the majority of the payments as an AHCCCS FFS expense. In an effort to increase transparency regarding total FQHC/RHC costs for enrolled members, effective April 1, 2015, the Contractors will begin reimbursing FQHCs and RHCs at the all-inclusive per visit rates on a per claim basis. Funding these provider rates in the MCO capitation rates will ultimately result in a budget-neutral shift from the AHCCCS FFS line to the capitation line.

Physical Health/Behavioral Health Payment Responsibility
Recent administrative hearings regarding MCO responsibility for covering inpatient hospital services when both medical and behavioral health services are provided during the same inpatient hospital stay

have identified a need for AHCCCS to clarify existing rule and policy. The clarification in both the rule and policy amendments emphasizes that payer responsibility for inpatient hospital claims' payments shall be based on the principal diagnosis on the claim, even when both physical and behavioral services are found on the same claim. Thus a claim with a physical health principal diagnosis code is paid by the Acute Care MCO, and a claim with a behavioral health principal diagnosis code is paid by the Behavioral Health MCO (the Regional Behavioral Health Authority – RBHA). A review of historical payments revealed that, under certain circumstances when both physical and behavioral health services were provided during the same inpatient stay, Acute Care MCOs sometimes paid claims even when the principal diagnoses were for behavioral health. For this reason, funding included in the Acute Care capitation rates, based on historical inpatient hospital expenditures for claims with principal behavioral health diagnoses, needs to be removed from the Acute Care capitation rates and added to the RBHA capitation rates. Because Acute Care MCOs traditionally pay higher rates for inpatient hospital services than RBHAs, the shift in funding is not budget neutral.

Incontinence Briefs
AHCCCS had been involved in litigation (*Alvarez v. Betlach*), regarding coverage of incontinence supplies for adults, which ended on December 15, 2014, when the United States Supreme Court refused to hear AHCCCS' appeal of the Court of Appeals decision in this case. That refusal upheld coverage of incontinence briefs for preventive purposes in the lawsuit brought by several adult ALTCS members. As a result of the Supreme Court action, incontinence briefs for ALTCS members age 21 years and older are covered when medically necessary for preventive purposes. Funding is added to the capitation rates for the ALTCS program, both for the Elderly and Physically Disabled (EPD) and the Developmentally Disabled (DD) populations.

<u>Capitation Rate Adjustments</u>

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

	Total Fund Impact							
Program	FQHC PPS Rates	BH/PH	Incontinence Briefs	Misc	Total	Total State Impact	Total Federal Impact	% Impact
Acute Care	$ 69,800,000	$ (3,200,000)		$ 2,061,000	$ 68,661,000	$ 18,792,500	$ 49,868,500	3.0%
Children's Rehabilitative Services (CRS)	$ 1,140,000			$ 29,700	$ 1,169,700	$ 368,900	$ 800,800	1.1%
Arizona Department of Health Services (ADHS)/Behavioral Health Services (BHS)	$ 14,900,000	$ 1,600,000		$ (2,748,700)	$ 13,751,300	$ 3,763,700	$ 9,987,600	1.6%
Arizona Long Term Care System (ALTCS) Division of Developmental Disabilities (DDD)	$ 895,000		$ 1,470,000	$ 99,700	$ 2,464,700	$ 777,400	$ 1,687,300	0.4%
ALTCS Elderly & Physically Disabled (EPD)	$ 821,000		$ 5,230,000	$ 194,800	$ 6,245,800	$ 1,969,900	$ 4,275,900	1.2%
Comprehensive Medical and Dental Program (CMDP)	$ 434,000			$ 9,400	$ 443,400	$ 139,800	$ 303,600	3.6%
Total	$ 87,990,000	$ (1,600,000)	$ 6,700,000	$ (354,100)	$ 92,735,900	$ 25,812,200	$ 66,923,700	2.1%

Notes
1) Period from 4/1/15 to 9/30/15, except CMDP which is from 4/1/15 to 6/30/15
2) Misc is impact due to premium tax, risk contingency, admin and member month changes

The actuarial certifications for each AHCCCS program for these April 1, 2015 rate amendments are attached for your reference, and include more detail on these adjustments as well the capitation rate development.

Should you have any questions on these adjustments, please feel free to contact Shelli Silver, Assistant Director, at shelli.silver@azahcccs.gov or (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable Don Shooter
Richard Stavneak, Joint Legislative Budget Committee
Christina Corieri, Governor's Office, Policy Advisor for Health and Human Services
John Arnold, Governor's Office of Strategic Planning & Budgeting
Beth Kohler, AHCCCS Deputy Director

Please contact JLBC at 602-926-5491 if you would like additional information from the agency's submission.