JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, June 19, 2018

1:00 p.m.

Senate Appropriations, Room 109

JLBC

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF
REPRESENTATIVES

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

JOINT LEGISLATIVE BUDGET COMMITTEE
Tuesday, June 19, 2018
1:00 P.M.
Senate Appropriations, Room 109

MEETING NOTICE

- Call to Order

- Approval of Minutes of April 18, 2018.

- DIRECTOR'S REPORT (if necessary).

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

- **ARIZONA DEPARTMENT OF CORRECTIONS - Review of Inmate Health Care Per Diem Change for FY 2019.

- SECRETARY OF STATE - Review of Expenditure Plan for Other Help America Vote Act (HAVA) Projects Line Item.

- AHCCCS/DEPARTMENT OF ECONOMIC SECURITY/DEPARTMENT OF CHILD SAFETY - Review of Capitation Rate Changes for Plan Year 2019.

- ATTORNEY GENERAL
  - *A. Review of Uncollectible Debts.
  - *B. Review of FY 2019 Internet Crimes Against Children Expenditure Plan.

5. *DEPARTMENT OF CHILD SAFETY - Review of Line Item Transfers.

6. DEPARTMENT OF ECONOMIC SECURITY
   *A. Review of Developmental Disabilities Line Item Transfers.
   *B. Review of Developmental Disabilities Equity Expenditures.

7. *ARIZONA DEPARTMENT OF EDUCATION - Review of Joint Technical Education District Quarterly Report.

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

9. *ARIZONA DEPARTMENT OF ADMINISTRATION - Review of the Arizona Financial Information System Transaction Fee.

10. ARIZONA DEPARTMENT OF ADMINISTRATION - AUTOMATION PROJECTS FUND
   ***A. Review of FY 2019 Criminal Justice Information System Replacement (Department of Public Safety Subaccount).**
   ***B. Review of Arizona Strategic Enterprise Technology Projects (ADOA Subaccount).**
   ***C. Review of E-Licensing Project (Department of Financial Institutions Subaccount).**

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

** **Committee may go into Executive Session for Agenda Item #1 to hear additional testimony under the provisions of A.R.S. § 38-431.03(A)(2) regarding confidential contractual information and A.R.S. § 38-431.03(A)(4) for consultation with attorneys regarding litigation.**

The Chairman reserves the right to set the order of the agenda.
~~6/11/18~~
6/14/18
lm

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

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

JOHN KAVANAGH
CHAIRMAN
OLIVIA CAJERO BEDFORD
KAREN FANN
STEVE FARLEY
DAVID C. FARNSWORTH
KATIE HOBBS
WARREN PETERSEN
KIMBERLY YEE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF REPRESENTATIVES

DAVID LIVINGSTON
VICE-CHAIRMAN
JOHN M. ALLEN
LELA ALSTON
RUSSELL "RUSTY" BOWERS
CHARLENE R. FERNANDEZ
VINCE LEACH
MICHELLE UGENTI-RITA
VACANT

MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

April 18, 2018

The Chairman called the meeting to order at 9:05 a.m., Wednesday, April 18, 2018, in Senate Appropriations Room 109. The following were present:

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

APPROVAL OF MINUTES

Hearing no objections from the members of the Committee to the minutes of January 8, 2018 and February 20, 2018, Chairman John Kavanagh stated that the minutes would stand approved.

CONSENT AGENDA

The following items were considered without discussion.

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

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) requires the Joint Legislative Budget Committee (JLBC) to review a DCS report of quarterly benchmarks for assessing progress made in increasing the department's number of FTE Positions, meeting caseload standards for caseworkers, reducing the number of backlog cases and open reports, and reducing the number of children in out-of-home care. DCS is requesting Committee review of its FY 2018 third quarter benchmarks. The JLBC Staff provided options.

(Continued)

ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) - Review of Emergency Telecommunication Services Revolving Fund Expenditure Plan.

Laws 1998, 4th Special Session, Chapter 6 requires JLBC to review ADOA's wireless services portion of its Emergency Telecommunications Services Revolving Fund (ETSF) expenditure plan. ADOA requested Committee review of the $5,594,700 wireless portion of the FY 2018 ETSF expenditure plan. The JLBC Staff provided options.

ADOA/ARIZONA STATE LOTTERY COMMISSION - Review of Server Migration and Hardware Refresh (Automation Projects Fund).

A.R.S. § 41-714 requires JLBC to review an ADOA expenditure plan for the Automation Projects Fund (APF) expenditures prior to the expenditure of monies. The Lottery requested the Committee review $597,400 in proposed FY 2018 expenditures from the Automation Projects Fund (APF) for an Information Technology (IT) server migration project and a hardware refresh. The JLBC Staff provided options and potential provisions:

A. *Committee review does not commit the Legislature to any ongoing funding.*

B. *Prior to the expenditure of any monies, the Lottery shall submit a Project Investment Justification (PIJ) to the Arizona Department of Administration Arizona Strategic Enterprise Technology office for review and approval.*

DEPARTMENT OF ECONOMIC SECURITY (DES) - Review of Information Technology Security Plan (Automation Projects Fund).

A.R.S. § 41-714 requires JLBC to review an ADOA expenditure plan from the APF prior to the expenditure of monies. DES has requested that the Committee review $1,101,100 in proposed expenditures for information technology security. The JLBC Staff provided options.

ARIZONA DEPARTMENT OF EDUCATION (ADE) - Review of State Aid Correction for Chino Valley Unified.

A.R.S. § 15-915B requires the Superintendent of Public Instruction to adjust state aid for a school district in the current year if its governing board requests the recalculation of state aid for a prior year due to a change in assessed valuation that occurred as the result of a judgment in state tax court, subject to review by the JLBC. ADE requested Committee review of its plan to provide the Chino Valley Unified School District (CVUSD) with $143,500 in corrected state aid funding due to a settlement in Arizona Tax Court regarding property taxes paid in prior years by Drake Cement, LLC. The JLBC Staff provided options.

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

Laws 2016, Chapter 4 requires JLBC to review ADE's most recent quarterly report on Joint Technical Education District (JTED) program and courses and A.R.S. § 15-393.01 requires JLBC to review the annual JTED report for FY 2017. ADE requested review of ADE's October 1, 2017 – December 31, 2017 JTED quarterly report and its FY 2017 JTED annual report. The JLBC Staff provided options.

(Continued)

NORTHERN ARIZONA UNIVERSITY (NAU) - Review of Expenditure and Performance Report of Nonprofit Biotechnology Research Appropriation.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 132) appropriates $3,000,000 each year from FY 2015 to FY 2019 to NAU for a grant to a nonprofit biomedical research entity. JLBC is required to review a report on the expenditures and performance of the grant recipient by February 1 of each year. NAU requested Committee review of its CY 2017 report prepared by the recipient of the funds, the Translational Genomics Research Institute (TGen). The JLBC Staff provided options.

Representative Bowers moved that the Committee give a favorable review, including provisions as outlined in the JLBC Staff analysis, to the 7 consent agenda items listed above. The motion carried.

REGULAR AGENDA

ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY (ADEQ) - Review of Vehicle Emissions Contract Modifications.

Mr. Josh Hope, JLBC Staff, stated that pursuant to A.R.S. § 49-545, ADEQ is required to submit any proposed modification or amendment to the Vehicle Emissions Inspection (VEI) contract with an independent contractor to the Committee for review before being adopted. ADEQ is seeking retroactive review of contract modifications to:

- Restore the Voluntary Vehicle Repair and Retrofit Program (VVRRP);
- Adjust staffing and scope of work requirements; and
- Prohibit the vendor from participating in a boycott of Israel, in compliance with state statute.

The JLBC Staff provided options.

Mr. Misael Cabrera, Director, ADEQ, responded to member questions.

Mr. Jonathan Quinsey, Environmental Science Specialist, Air Quality Vehicle Emissions Control Program, ADEQ, responded to member questions.

Representative Livingston moved that the Committee give a favorable review of ADEQ's VEI contract modifications with the following provision:

A. ADEQ shall report to the Committee by May 15, 2018 on how they will revise procedures to ensure timely submissions to the Committee for all JLBC requirements.

The motion carried.

DCS - Review of Line Item Transfers.

Mr. Patrick Moran, JLBC Staff, stated that pursuant to footnotes in the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) and the FY 2018 General Appropriation Act (Laws 2017, Chapter 305), JLBC is required to review transfers between DCS line items. The JLBC Staff provided options.

Mr. Michael Faust, Deputy Director, DCS, responded to member questions.

(Continued)

Representative Livingston moved that the Committee give a favorable review of the following FY 2017 and FY 2018 transfers:

General Fund (FY 2018)

- *$7,680,000 into the Adoption Services line item.*
- *$(6,500,000) out of the Foster Care Placement line item.*
- *$(680,000) out of the Independent Living Maintenance line item.*
- *$(500,000) out of the Permanent Guardianship line item.*

Expenditure Authority (FY 2018)

- *$1,500,000 into the In-Home Mitigation line item.*
- *$(1,500,000) out of the Out-of-Home Support Services line item.*

Expenditure Authority (FY 2017)

- *$100,000 into the Emergency and Residential Placement line item.*
- *$(100,000) out of the Foster Care Placement line item.*

The motion carried.

Without objection, the meeting adjourned at 9:39 a.m.

Respectfully submitted:

K Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director

Senator John Kavanagh, Chairman

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

1

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Micaela Larkin, Senior Fiscal Analyst ML

SUBJECT: Arizona Department of Corrections - Review of Inmate Health Care Per Diem Rate Change for FY 2019

Request

Pursuant to an FY 2019 General Appropriation Act footnote (Laws 2018, Chapter 276), the Arizona Department of Corrections (ADC) must present an expenditure plan for Committee review prior to implementing any changes in inmate health care capitation rates. ADC has submitted an expenditure plan to increase the inmate health care per diem from $12.54 to $15.164 effective July 1, 2019.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

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

A. On or before August 15, 2018, the department shall provide the Committee a report on how the increased per diem rate will address performance measure compliance pursuant to the *Parsons v. Ryan* litigation.

B. A favorable review does not constitute endorsement of appropriations to pay for increased health care costs.

(Continued)

Key Points

1) ADC received 2 bids for a new 10-year contract for inmate health care.
2) ADC has instead extended the current contract for 1 year with its current vendor.
3) Shortly after session ended, ADC announced a per diem change from $12.54 to $15.164 for FY 2019.
4) Due to a lack of details about the Executive's $30 M policy issue for an inmate health care increase, the final budget included $15 M.
5) The FY 2019 rate increase is expected to cost $29 M, or $14 M above the budgeted amount.
6) In light of pending litigation, ADC also plans to request an additional $1.0 M for increased monitoring capabilities.

Analysis

Background

On March 4, 2013, ADC entered into a contract with the current vendor, Corizon, to provide inmate health care services at a per diem of $10.10 to replace the original vendor, Wexford. After several adjustments over the years, the FY 2018 daily rate is $12.54.

During the past year, ADC evaluated proposals for a new long-term contract to start at the beginning of FY 2019 for a 5-year contract with the option for a single 5-year renewal. On May 8, 2018, ADC ended this search and announced a 1-year extension of the Corizon contract at a $15.164 daily rate.

The Executive originally requested $30 million in the FY 2019 budget for per diem rate changes. Due to a lack of details about the Executive's request, the final budget ultimately included $15 million. The FY 2019 per diem rate will raise the state's cost by $29 million, or $14 million more than the budgeted amount. In addition, ADC anticipates requesting a supplemental of $1 million for increased contract monitoring to ensure compliance with the *Parsons v. Ryan* stipulation agreement.

The 1-year extension:

- Increases vendor staffing by 122 FTE Positions and set terms of minimum required staffing for each complex.
- Stipulates there is no cap on contract sanctions during FY 2019 and ends performance incentives the vendor was eligible for in FY 2018. In FY 2018, sanctions were limited to $90,000 per month during July 1, 2017 to October 31, 2017. A subsequent contract amendment ended the sanctions cap from November 1, 2017 to June 30, 2018.
- Includes $5.1 million for Hepatitis C drug costs.

It is not clear how the increased funding will address the performance measures compliance raised in the *Parson v. Ryan* litigation (see following section). The Committee may consider a provision requiring ADC to provide a report on how the per diem increase will address such compliance.

ADC has said that the 1-year extension will "allow for the exploration of different service models." On June 1, 2018, the department issued a Request for Proposals for a new 5-year contract with new terms to start in July 2019. The department has requested proposals be submitted by August 15, 2018, with the evaluation completed by early January 2019.

(Continued)

Parsons v. Ryan Litigation

The terms of the 1-year extension also address issues in the ongoing *Parsons v. Ryan* litigation. This federal court suit alleged inadequate inmate health care in Arizona state prisons, the plaintiffs are represented by the American Civil Liberties Union (ACLU), Arizona Center for Disability Law, and the Prison Law Office. Key points in the litigation are as follows:

- March 2012: Parsons vs. Ryan filed in United States District Court.
- February 2015: The Court approves the settlement agreement.
    - Settlement made changes to policies for solitary confinement and mental health treatment.
    - ADC agreed to the monitoring of 103 health care performance measures.
    - Plaintiffs were to continue to monitor the state in complying with the terms.
- November 2016: The Court found ADC to be in violation of agreement.
    - Defendants and Plaintiffs were to work on a remediation plan for the deficiencies.
- October 2017: The Court issued an order that ADC should show cause why it not be sanctioned for certain performance measures that have failed to meet the substantial compliance threshold of the agreement governing the case.
- Spring/Summer 2018: The court is currently considering 2 significant issues in the litigation: (1) whether any of the performance measures may be removed from judicial oversight, and (2) the nature and extent of potential sanctions for failing to meet certain performance measures.

Vendor Contract - Sanctions and Incentive Payments

The vendor must adhere to 103 performance standards at 10 different prisons. Since not all standards apply at each prison, there are a total of 894 different targets. Under the old contract, the vendor was to be fined $5,000 a month for failure to meet a specific performance measure at a prison. For FY 2018, the vendor was also eligible to receive incentive payments for meeting certain overall compliance standards. The incentive payments no longer remain under the 1-year extension.

Under the 1-year extension, contract sanctions will be incurred as follows with no total dollar cap:

- 1 - 9 measures violated at $2,500 per measure.
- 10 - 19 measures violated at $5,000 per measure.
- 20 - 29 measures violated at $7,500 per measure.
- 30 -39 measures violated at $10,000 per measure.
- 40 - 49 measures violated at $15,000 per measure.
- 50 + measures violated at $20,000 per measure.

ML:kp

Arizona Department of Corrections

1601 WEST JEFFERSON
PHOENIX, ARIZONA 85007
(602) 542-5497
www.azcorrections.gov

DOUGLAS A. DUCEY
GOVERNOR

CHARLES L. RYAN
DIRECTOR

May 29, 2018

The Honorable John Kavanagh, Chairman
Joint Legislative Budget Committee
1716 West Adams
Phoenix, Arizona 85007

Re: Expenditure Plan for Inmate Health Care

Dear Senator Kavanagh:

Pursuant to Laws 2018, 2nd Regular Session, Chapter 276 (SB 1520), Section 22, the Arizona Department of Corrections (ADC) respectfully submits for review an expenditure plan for the Inmate Health Care Contracted Services SLI.

ADC recently canceled the health care RFP and extended its current inmate health care contract by one year, beyond the original 5 year term (from June 30, 2018 to June 30, 2019). This enables ADC to explore different service models and reissue a new RFP for inmate healthcare services.

The 1 year contract extension amends the per diem from $12.54 to $15.16 and has a total estimated annual contract value of $188,596,200. The increase is due to numerous factors, including significantly increased pharmaceutical and staffing expenditures. For example, the contract allocates $5,100,000 for Hepatitis C pharmaceutical costs and funding for an additional 121.8 medical and mental health FTE positions. The estimated cost increase from the increased per diem is estimated to be $32,634,700 ($2.624 per diem increase * 365 days * 34,074 inmates).

$3,634,700 of the increase was funded by savings from a reduction to the assumed average daily population from 34,369 to 34,074 ($1,350,200) and an increased assumption to the level of Medicaid claims activity ($2,284,500). An additional $15,000,000 was funded as a placeholder during the recently concluded legislative session. In order to fully fund the contract ADC estimates an additional $14,000,000 is required. Please refer to the enclosed document for additional funding detail.

In addition, ADC plans to implement increased contract monitoring and oversight to enhance its existing efforts to ensure increased vendor compliance with the *Parsons v. Ryan and Pratt* stipulated agreement. The estimated annual cost of these necessary resources is $1,000,000. ADC intends to request a supplemental appropriation during the upcoming budget cycle to address these needs.

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

Sincerely,

FOR:

Charles L. Ryan
Director

Enclosure

cc: The Honorable David Livingston, Vice-Chairman, JLBC
Matthew Gress, Director, Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Ryan Vergara, Senior Budget Analyst, Office of Strategic Planning and Budgeting
Micaela Larkin, Fiscal Analyst, Joint Legislative Budget Committee

ARIZONA DEPARTMENT OF CORRECTIONS
FY 2019 HEALTH CARE SPECIAL LINE ITEM (SLI)

	Inmate Population	Per Diem	Amount	Medicaid	Net SLI Amount
FY 2018 Inmate Health Care Contracted Services SLI	34,369	$ 12.540	157,311,700	(8,500,000)	148,811,700
FY 2019 State Inmate ADP Adj.	(295)		(1,350,200)	-	(1,350,200)
Increased Medicaid Claims				(2,284,500)	(2,284,500)
Reallocation of Base Funding		$ 0.292	3,634,700	-	3,634,700
Increased Per Diem Funding Need		$ 2.332	29,000,000	-	29,000,000
FY 2019 Estimated Per Diem Funding Requirement	34,074	$ 15.164	188,596,200	(10,784,500)	177,811,700
FY 2019 Inmate Health Care Contracted Services SLI					163,811,700
Estimated Per Diem Funding Shortfall					14,000,000
Increased Monitoring Team					1,000,000
Total Estimated Funding Shortfall					15,000,000

2

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Micaela Larkin, Senior Fiscal Analyst ML

SUBJECT: Secretary of State - Review of Expenditure Plan for Help America Vote Act (HAVA) Projects

Request

Pursuant to an FY 2019 General Appropriations Act footnote (Laws 2018, Chapter 276), the Secretary of State (SOS) is requesting review of its expenditure plan for the "Other Help America Vote Act (HAVA) Projects" line item. SOS has presented a broad expenditure plan which covers how all of Arizona's current federal HAVA monies will be expended over the next 5 fiscal years (FY 2019 - FY 2023).

The Secretary of State expenditure plan totals $8,887,500 (including state matching funds) and will be used to: 1) Develop and implement a new voter registration database (the Access Voter Information Database, or "AVID"); 2) Fund the state contribution to maintain AVID through FY 2023; 3) Pay for the final maintenance and closure of Arizona's existing voter registration system; and 4) Implement a variety of election security improvements at the state and county levels.

Committee Options

The Committee has at least the following 3 options:

1. A favorable review.

2. A favorable review of the $2.3 million for completing the voter registration database and $479,100 for the election security assessment in FY 2019. SOS would return to the Committee later this year to seek review of the remaining monies once its assessment is complete. In returning to the Committee, SOS would provide more information on its process for distributing grants to the counties to improve their election systems.

(Continued)

3. Unfavorable Review

Under any option, the Committee may also consider the following provisions:

A. The Committee's review only addresses FY 2019 expenditures. SOS shall return to the Committee for further review prior to expending any funds in FY 2020.
B. SOS shall notify the Committee of any changes to the FY 2019 expenditure plan that exceed $100,000 and the Chairman may determine whether the changes require further Committee action.
C. The Committee intends that SOS only pay 25% of the operating costs of the existing voter registration system in FY 2019 so that the full Legislature may consider the appropriate cost sharing arrangement for future years in the next Regular Session.

Key Points

1) HAVA provides monies to states for implementing federal requirements for federal elections.
2) Arizona recently received $7.5 M in new federal monies to improve election security to go along with $1.4 M of existing funds.
3) SOS proposes to expend $4.1 M of that amount in FY 2019, including:
   - $2.3 M to finish developing and to manage the new voter registration system.
   - $479,100 for an election security assessment.
   - $410,600 for 50% of the cost of operating the current voter registration system (up from 25% now).
   - $678,300 for county grants.
   - $279,200 for other costs.

Analysis

Background

Enacted in 2002, the federal Help America Vote Act (HAVA) imposes several requirements on states with respect to the conduct of federal elections. The federal government recently approved new funding for the program, including $7.5 million for Arizona. The state is required to provide a $373,200 matching amount. SOS will use monies from its operating budget for their matching share.

Among the various authorized uses of HAVA, the federal government has highlighted that the new allocation should be used to enhance cybersecurity measures including the implementation of audits, replacement of equipment, the upgrade of computer systems, and the establishment of cybersecurity best practices.

Funding

Beginning in FY 2019, the Secretary of State will have will have $8.9 million available in the Election Systems Improvement Fund. This amount includes: $1.1 million of prior year HAVA monies, $7.5 million from the new federal HAVA monies, and $373,200 for the state's matching funds (from the agency's operating budget) for the new HAVA allocation.

The monies are to be expended by FY 2023.

(Continued)

Expenditure Plan

According to SOS, the $8.9 million of available HAVA monies will be spent as outlined in *Table 1.* The Legislature appropriated $2.1 million to the Statewide Voter Registration System line item for the development costs of a new voter registration system and $5.4 million for the Other HAVA Projects line item with a footnote requiring an expenditure plan be reviewed by JLBC for this line item. The remaining $1.1 million of remaining HAVA monies can be expended under the authority of the FY 2018 appropriation to the Secretary of State.

As shown in *Table 1*, the agency expects to expend $4.1 million in FY 2019, and $4.8 million from FY 2020 to FY 2023. Given that spending priorities may change over time, the Committee may consider a provision limiting its review to FY 2019 expenditures.

Table 1

FY 2019 – FY 2023 Expenditure Plan

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
HAVA Fund Balance	**$8,887,500**	**$4,741,500**	**$3,554,600**	**$2,369,200**	**$1,185,200**
Voter Registration System (AVID)					
Development Costs	$2,063,300				
Project Management	235,500				
New Voter Registration Development	**$2,298,800**				
State's Share for Final Year (FY 2019) of Existing System	**$410,600**				
State's Share AVID Operational Costs for FY 2020 - 2023		**$343,600**	**$342,100**	**$340,700**	**$341,900**
Subtotal - Voter Registration System Related Costs	**$2,709,400**	**$343,600**	**$342,100**	**$340,700**	**$341,900**
Cyber Security					
County Sub-Grants	$678,300	$678,300	$678,300	$678,300	$678,300
Personnel	172,700	109,500	109,500	109,500	109,500
Equipment	105,000				
Training	1,500	20,000	20,000	20,000	20,000
Election Security Assessment	479,100				
All Other Costs	0	35,500	35,500	35,500	35,500
Subtotal - Cyber Security	**$1,436,600**	**$843,300**	**$843,300**	**$843,300**	**$843,300**
Total	**$4,146,000**	**$1,186,900**	**$1,185,400**	**$1,184,000**	**$1,185,200**

Voter Registration System

The Secretary of State's expenditure plan includes $2.7 million for FY 2019 and $1.4 million from FY 2020 to FY 2023 to support the state's voter registration system.

The plan includes $2.1 million for the development costs of a new system and $235,500 for consultant costs for the project in FY 2019. SOS has indicated the new voter registration system (AVID) will address several issues with the current system. The current system is designed to operate on a precinct-based voting system only, where the new AVID system includes the capability to allow for a broader "voter center" based system in which voters cast their ballot at a reduced number of centralized locations.

(Continued)

In addition, the AVID system would support "real-time pollbooks", which would allow county officials and poll workers to simultaneously access voter registration information at all polling places during an election.

Other deliverables for the new AVID system include modern security controls and better data integration with other systems, such as Maricopa and Pima counties (who also maintain separate voter registration databases) and ADOT Motor Vehicle Division (who also receive new voter registration applications or address changes).

Beyond the $2.3 million included in the current SOS FY 2019 expenditure plan, during FY 2018 SOS has expended approximately $1.5 million of existing HAVA funds for development of the new AVID voter registration system.

SOS proposes spending $410,600 for 50% of the final year operating costs for the old voter registration system in FY 2019. Prior to FY 2019, the state had paid 25% of the operating costs with the counties paying the remainder. SOS intends to continue this 50% cost sharing through FY 2023.

The Committee may consider a provision to have SOS only fund 25% of the operating cost in FY 2019 so that the full Legislature may consider the appropriate cost sharing arrangement for future years during the next Regular Session.

Cyber-Security

The expenditure plan proposes $1.4 million in cyber security expenditures in FY 2019 and $3.4 million in FY 2020 through FY 2023.

- SOS has issued an RFP to conduct a security assessment of the state and county elections websites. The cost is estimated at up to $479,100. The assessment is expected to be completed this fall. Since the assessment could affect the cyber security expenditure plan, the Committee may consider the option of only reviewing the voter registration database and the assessment expenditures at this time. Upon completion of the assessment, the Committee would then review the remainder of the cyber security expenditure plan.
- The state also plans to spend $172,700 for personnel in FY 2019. For FY 2019, this funds 2 outside consultants to implement the recommendation of the assessment and 1 FTE Position to serve as a liaison with the counties. After FY 2019, only the liaison position would be funded.
- There is an annual allocation of $678,300 for county grants in FY 2019 and each year thereafter. Counties will be able to request funds to fix security issues and or purchase equipment that improves elections security. As part of Option 2, the Committee may consider requiring SOS to submit additional information in terms of how they would award the grants and prioritize the distribution of funds among the counties.
- In addition, the plan funds $105,000 in equipment in FY 2019 and $55,000 in training and other costs from FY 2020 to FY 2023.

ML:kp

MICHELE REAGAN
Secretary of State
State of Arizona

May 29, 2018

RECEIVED
MAY 29 2018
JOINT BUDGET COMMITTEE

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

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

Re: **Expenditure Plan for Help America Vote Act Funds**

Dear Senator Kavanagh and Representative Livingston:

The Fifty-third Legislature, Second Regular Session, Chapter 276 (Senate Bill 1520), requires that "[b]efore expending the monies for other help America vote act ("HAVA") projects the secretary of state shall submit an expenditure plan for review by the joint legislative budget committee that includes, at a minimum, the planned expenditures and timeline for the expenditures by year." Please accept this letter and attached information as a request to expend $1,403,465.72 over the next several months to enhance and improve our cyber security posture and finalize other expenditures as we prepare for the 2018 elections. In addition, we have included a forecast of additional expenditures in future years from the "other help America vote act" budget account.

The Federal Election Assistance Commission has notified the Secretary of State that we are to receive $7,463,675 in new federal funds. Taken together with the existing balance, expenditures, and projected collections in the HAVA account (aka the Election Systems Improvement Fund), we project to end FY2018 with a balance of $8,514,339.

1700 West Washington Street, Floor 7
Phoenix, Arizona 85007-2808
Telephone (602) 542-4285 Fax (602) 542-1575
www.azsos.gov

The intent of the new funds is to improve the administration of elections, including technology enhancements and making certain election security improvements. Election security and integrity have been the top priority for my administration, and the hard work to update outdated systems has already begun. In November of 2017, a contract was issued to Sutherland Government Solutions, Inc. for the acquisition of a new statewide voter registration database ("AVID") that will replace our currently aging system ("VRAZII") on or before June 30, 2019. The above reference bill gives my office spending authority for the remainder of the implementation purchase.

With the approval of JLBC, we will move forward with the following HAVA Projects:

Security Assessment
On May 11, 2018, my office issued a request for proposal to all vendors currently on the existing statewide contracts for assessment of current infrastructure. The deliverables include a public facing document (The Arizona Election Security Plan) that outlines best practices, engagement and training plans, and an incident response plan. The private facing document (STA Security Plan) will discuss remediation of found issues and an improvement plan that includes security controls and policies. My staff is currently evaluating the responses and the successful vendor will begin work on June 20, 2018.

County Investment
In Arizona, election security is required from the state down to ensure integrity; we are only as strong as our weakest link. On June 7, 2018 my office will be hosting a meeting with all county recorders and election directors to discuss how best to help with their efforts. We have already started a bi-weekly conference call with county IT staff to share information on current known threats, best practices, and information sharing. Finding issues is only half the battle; remediating issues is the second. We will engage with a consultant who is an expert in cyber security to travel to and assist county IT staff in finding solutions. It is also the intent to help finance software and hardware that may ensure the integrity of the county systems at a reduced cost due to the buying power of the state as a whole.

Sub Grant Process
The Department of State has long administered federal grant programs that include a sub grant program to provide funds to counties. We intend to use the exact same process, which has significant county involvement in deciding how sub grants are awarded. This involvement includes the development of grant priorities, review of proposals, ongoing tracking, and ensuring completion of the approved projects.

Thank you for your time regarding this matter. Should you have any questions, please feel free to reach out to Deputy Secretary of State, Lee Miller, at 602-542-4919 or lmiller@azsos.gov.

Sincerely,

Michele Reagan
Arizona Secretary of State

Attachments

cc: Mr. Richard Stavneak, Director, JLBC
Ms. Micaela Larkin, Analyst, JLBC
Mr. Matthew Gress, Director, OSPB
Mr. Fletcher Montzingo, Budget Manager, OSPB

HAVA Spending Plan
FY2019-FY2023
JLBC Budget

		FY19	FY20	FY21	FY22	FY23
Current Fund Balance		8,514,339.55	$ 4,741,653.46	$ 3,554,711.10	$ 2,369,265.23	$ 1,185,225.87
State HAVA Match		373,184.00				
	Balance	8,887,523.55	4,741,653.46	3,554,711.10	2,369,265.23	1,185,225.87
Voting Equipment						
Total Voting Equipment		-	-	-	-	-
Election Auditing						
Total Election Auditing		-	-	-	-	-
Voter Registration Systems						
VRAZII M&O						
State Contribution		410,544.12				
AVID Implementation Costs		2,063,300.00				
AVID Project Management		235,456.00				
AVID M&O						
State Contribution			$ 343,638.00	$ 342,141.50	$ 340,735.00	$ 341,921.50
Total Voter Registration System		2,709,300.12	343,638.00	342,141.50	340,735.00	341,921.50
Cyber Security						
Personnel		172,665.60	109,500.00	109,500.00	109,500.00	109,500.00
Equipment		105,000.00				
Sub Grants		678,304.37	678,304.37	678,304.37	678,304.37	678,304.37
Training		1,500.00	20,000.00	20,000.00	20,000.00	20,000.00
All Other Costs		479,100.00	35,500.00	35,500.00	35,500.00	35,500.00
Total Cyber Security		1,436,569.97	843,304.37	843,304.37	843,304.37	843,304.37
Communications						
Total Communications		-	-	-	-	-
Cash on Hand		4,741,653.46	3,554,711.10	2,369,265.23	1,185,225.87	(0.00)

5/29/2018

MICHELE REAGAN
Secretary of State
State of Arizona

MEMORANDUM

TO:	SECRETARY REGAN
FROM:	KEN MATTA
SUBJECT:	ELECTION SECURITY OVERVIEW
DATE:	MAY 26, 2018
CC:	JOINT LEGISLATIVE BUDGET COMMITTEE

You asked that I provide you with an overview of the Election Security protocols the Department of State is implementing. We are focused on four major topics.

Assessment – The United States Department of Homeland Security will perform a Risk & Vulnerability Assessment on our office environment and the state voter registration system (VRAZII). We have issued a RFP for a vulnerability assessment on our public-facing websites and applications.

Create Policy – Cyber security best practices and procedures are not unique to this State or even the public sector. Many private and public sector organizations have already spent the time and effort to develop business processes, training programs, and employee engagement methodologies that can easily be adapted to the needs of the Department of State and our county partners. A component of the RFP discussed above is to provide us with suggested relevant policy and procedure enhancements to create a culture of security within our organization. Because our needs are not unique, we believe this can be an "out of the box" solution.

Remediate – The end product of the security and vulnerability assessment is a prioritized remediation plan. Some of the remediation is technical in nature - patching and configuring cyber resources, implementing new commercial security controls. Even more important is training and process enhancements for non-technical employees. We will secure additional human resources to actively remediate known risks both at the State and county level. Again, some of these programs are technical and some are focused on employee awareness, engagement, and training.

Engage Counties – We will coordinate cyber security assistance from Federal, State, and private sector entities that provide services for free or steeply discounted prices. Some security products for the counties will be available at bulk purchase prices. We are working on implementing a sub grant process (very similar to the successful LSTA program) for counties to request HAVA funds for purchasing equipment and software to enhance election security. To engage the counties in the election security process, we will facilitate meetings and discussions to shape the security policies that affect us all. We will provide technical human resources to implement security controls and remediate risks found during the contractor assessments. To ensure continuity in process, an Election Security Officer position will be created to oversee these efforts and interface with the counties.

-KM

3

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Senior Fiscal Analyst PM

SUBJECT: AHCCCS/Department of Economic Security/Department of Child Safety - Review of Capitation Rate Changes for Plan Year 2019

Request

Pursuant to an FY 2018 General Appropriation Act footnote, the state Medicaid agencies must present their plans to the Committee for review prior to implementing any changes in capitation rates. The Executive request includes new plan year (CYE) 2019 capitation rates for the Department of Economic Security's (DES) Arizona Long Term Care System (ALTCS) program, DES' Targeted Case Management (TCM) program, and the Department of Child Safety's (DCS) Comprehensive Medical & Dental Program for children in foster care.

Committee Options

The Committee has at least the following 3 options:

1. A favorable review.

2. A favorable review, excluding the DES ALTCS administrative cost increases in excess of the 3.5% budgeted adjustment.

3. An unfavorable review.

Option 2 is based on insufficient information from the Executive regarding ALTCS administrative cost increases.

Under any option, the Committee may also consider the following provisions:

(Continued)

A. On or before June 29, 2018, AHCCCS shall provide to the JLBC Staff the DDD administrative cost justification submitted to the federal government.

B. On or before October 1, 2018, AHCCCS and DES shall jointly report on the implementation of case manager caseload ratio changes in the TCM program.

Key Points

1) AHCCCS is proposing CYE 2019 capitation rate adjustments of:
   - 2.9% for DD Long Term Care.
   - 2.7% for DD Targeted Case Management (TCM).
   - 23.4% for CMDP.
2) The changes exceed the General Fund budget by $1.6 M.
3) Of that amount, $2.0 M is due to an 11.8% DES administrative cost increase. We are seeking more information.
4) The 23.4% CMDP increase partly reflects utilization changes as well as non-benefit increases.

Analysis

The Federal government agrees to pay a flat per-member, per-month amount for each type of Medicaid enrollee. Capitation rates are developed by AHCCCS actuaries for all Medicaid programs. *Table 1* below includes a comparison of CYE 2018 rates and CYE 2019 rates.

Table 1

June Capitation Revisions

	CYE 2018 1/	CYE 2019	Change from Prior Year	Fiscal Impact ($ in M)
Developmental Disabilities (DD) ALTCS	3,781.34	3,892.14	2.9%	$(2.7)
DD Targeted Case Management	160.11	164.41	2.7%	0.9
Comprehensive Medical & Dental Program	226.19	279.18	23.4%	3.4

1/ Reflects blend of rate changes effective July 1, 2017, October 1, 2017, and January 1, 2018.

DES - ALTCS Developmental Disabilities

The DES ALTCS program provides long term care services, acute care, and behavioral health services to individuals with intellectual disabilities, autism, cerebral palsy, epilepsy, or children under age 6 and at risk of developing such a diagnosis. To qualify, individuals must be at risk of immediate institutionalization in the absence of the availability of home and community-based services.

ALTCS DD long term care capitation rates are increasing by 2.9%, effective July 1, 2018. The FY 2019 budget had assumed an increase of 3.5%, in addition to funding for Proposition 206 rate adjustments. As a result, the increase is below budget by $(2.7) million from the General Fund ($9.0 million Total Funds). AHCCCS states, however, that further provider rate adjustments are expected to be implemented as part of the October rate update. The acute care portion of the capitation rate will also be updated in October.

Included in the adjustments is an 11.8% increase for DD administrative costs. This amount is $2.0 million General Fund ($6.7 million Total Funds) above the 3.5% increase funded in the budget.

(Continued)

According to AHCCCS, the 11.8% increase is primarily due to a rebase using DES' actual administrative expenditures from CYE 2017, which exceeded the amounts originally presumed by AHCCCS actuaries, rather than prospective increases in administrative costs in CYE 2019. The agency did not provide details, however, on the reason for the higher-than-anticipated expenditures from CYE 2017.

DES submits an administrative expense request to AHCCCS as part of capitation rate development, which AHCCCS then reviews for reasonableness to determine whether administrative cost adjustments shall be incorporated into the capitation rate. The JLBC Staff has requested a copy of this request to shed light on the reason for the higher-than-anticipated CYE 2017 costs. The Committee may consider Provision A, which requires AHCCCS to share a copy of the administrative expense request with JLBC on or before June 29, 2018.

DES - DD Targeted Case Management

DES also administers the Targeted Case Management (TCM) program. TCM provides Medicaid-funded case management services to clients with a DD diagnosis that do not qualify for ALTCS based on the functional disability requirements, but are financially eligible for AHCCCS services.

The TCM rate is increasing by 2.7%, which generates costs that are approximately $920,000 General Fund ($3.0 million Total Funds) above the amounts funded in the FY 2019 budget. The budget had incorporated an Executive proposal to increase the TCM caseworker caseload ratio from 1:40 to 1:80, which was estimated to generate savings of $(948,300) from the General Fund (Total Funds $3.1 million Total Funds). According to AHCCCS, the caseload ratio change was not incorporated in the capitation rates because DES is still in the process of developing an implementation plan. DES indicated that they plan to implement the change effective July 1, 2018, but that any savings would only be recognized in the capitation rates after implementation instead of prospectively.

During the regular session, there was some concern about increasing the caseload ratio. The Executive's rationale was that a 1:80 caseload ratio for TCM would have been equivalent to the caseload ratio for DD state-only clients that are ineligible for TCM. Given these concerns, the Committee may consider Provision B, which requires AHCCCS and DES to report on the status of the implementation of the TCM caseload ratio change by October 1, 2018.

DCS - Comprehensive Medical and Dental Program (CMDP)

CMDP provides health care services for children in foster care. The proposed FY 2019 capitation rate change is a 23.4% increase. Relative to the 2.5% increase assumed in the FY 2019 budget, the proposed rate increases costs to the General Fund by $3.4 million ($11.2 million Total Funds) in FY 2019. The increase consists of:

- 13.2% for utilization and unit cost changes. This increase includes a base adjustment to reflect higher-than-budgeted utilization and unit costs than was assumed in prior capitation rates, as well as projected increases in CYE 2019 compared to CYE 2018. AHCCCS believes the magnitude of the increase may partly reflect a higher average acuity among CMDP enrollees as a result of a declining out-of-home population.
- 10.2% for non-benefit costs, including administration and care management staff. DCS care managers contact the child's caregiver following placement in out-of-home care to ensure the child receives any medically necessary services on a timely basis, and provide care coordination to children that have ongoing medical needs following the initial placement.

(Continued)

DCS reports that it currently has 27 existing care manager positions within CMDP administration that have not received dedicated funding from the capitation rate in prior years. The capitation adjustment funds these existing staff, and provides funding for 4 additional care managers in FY 2019 to accommodate the transfer of Children's Rehabilitative Services for foster children to CMDP.

AHCCCS believes the administrative cost increases also reflect fixed administrative costs spread out over a smaller population of CMDP enrollees.

PM:kp

AHCCCS
Arizona Health Care Cost Containment System

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

May 29, 2018

RECEIVED
MAY 30 2018
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Dear Senator Kavanagh:

The Arizona Health Care Cost Containment System (AHCCCS) has completed actuarial analysis on select Managed Care Organization (MCO) capitation rates that are effective from July 1, 2018 through June 30, 2019 and respectfully requests to be placed on the agenda of the next JLBC meeting to review these rates.

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

Capitation rates are certified by actuaries and must be recertified every year to coincide with MCO annual contract periods. Most AHCCCS contracts are on an October 1 through September 30 schedule. Capitation rates for DES/DDD and DCS/CMDP are on a July 1 through June 30 contract year. AHCCCS is requesting review of DES/DDD and DCS/CMDP rates that are effective beginning July 1, 2018.

AHCCCs anticipates these capitation adjustments will be funded within existing resources and will provide more information on other potential budgetary impacts when rates for other lines of business are finalized.

Background and Summary

The proposed rate adjustments for the CMDP and DDD programs were submitted to CMS with July 1, 2018 through June 30, 2019 effective dates. The changes to these two programs for CYE 2019, over the most recently submitted CYE 2018 rates (effective January 1, 2018) are detailed in Table I below.

Table I

Program	CYE 2019 Rate Change (over most recently submitted rates effective 1/1/2018)
DCS/CMDP	23.2%
DES/DDD	2.3%

The utilization and unit cost trends for CMDP and DDD are detailed in the attached actuarial certifications. There were no program or provider rate changes effective July 1, 2018 impacting these rates. Table II below contains information regarding the projected expenditure impacts of CYE 2019 rates for CMDP and DDD compared to previously approved CYE 2018 rates. Note – the CYE 2019 population is expressed as member months.

Table II

Program	CYE 18 Rate	CYE 19 Rate	CYE 19 Population	Expenditures with CYE 18 Rate	Expenditures with CYE 19 Rate	Change Inc.(Dec.)
CMDP	$226.52	$279.18	167,674	$37,981,700	$46,811,200	$8,829,500
DDD [1/]	$3,804.90	$3,892.14	390,553	$1,486,013,200	$1,520,087,100	$34,073,900

1/ Reflects regular DDD rate only. CYE 2019 adjustments for targeted case management additionally increase projected expenditures by $271,500 over the CYE 2018 rate.

AHCCCS typically adjusts provider rates and makes other program changes, if there are any changes, effective October 1 annually. The CYE 2019 CMDP and DDD rates will be amended to reflect those changes and will be presented again at a future JLBC meeting.

CMDP Rate Detail

The overall rate adjustment for CMDP in CYE 2019 is an increase of 23.2% from the most recently submitted rates effective January 1, 2018. Several factors contributed to this increase:

- 7.2 percentage points are attributable to rebasing gross medical expenses to reflect the more current actual experience of the program. The observed increase in expenses is likely attributable to higher utilization resulting from the care management "onboarding" initiative by CMDP to ensure new members receive timely services, as well as the potential higher acuity of current CMDP members.
- 6.2 percentage points are attributable to benefit cost assumptions, including utilization and unit cost trends.
- 6.8 percentage points are attributable to recognition of care management costs as a non-benefit cost component of the CMDP rate. Previous rate certifications for CMDP did not discretely identify and fund allowable care management activities performed by CMDP program staff. DCS/CMDP has since identified the costs of specific care management activities, which are now included in the capitation rate.
- 1.7 percentage points are attributable to increased administrative expenses, including spreading fixed administrative costs across fewer member months.
- 1.3 percentage points are attributable to the addition of care management and administrative expenses associated with the anticipated transition of Children's Rehabilitative Services (CRS) activities to CMDP, effective October 1, 2018. In advance of the programmatic transition, CMDP is required to hire and train staff for this purpose, effective July 1, 2018.

The CYE 2019 rate increase of 23.2% is in contrast to rate decreases of -9.4% in CYE 2017 and -3.3% in CYE 2018. In the same period July 2016 to April 2018, enrollment in CMDP has declined by -19.6%.

The significant contraction of program membership in a short period of time means that fixed administrative and care management costs are now spread out across fewer member months, and so reflect a higher proportion of the overall capitation rate. The steep decline in membership has also resulted in more volatility in medical expenses due to changes in the acuity mix within a smaller risk group.

DDD Rate Detail

The overall rate adjustment for the DDD program in CYE 2019 is an increase of 2.3% from the most recently submitted rates effective January 1, 2018.

- 1.5 percentage points are attributable to rebased medical expense experience and benefit cost assumptions, including utilization and unit cost trends.
- 0.8 percentage points are attributable to increased administrative and case management expenses.

The CYE 2019 DDD rates continue the funding included in the CYE 2018 rates for labor costs associated with January 1, 2018 minimum wage increases mandated under state Proposition 206 and Flagstaff Proposition 414. As noted previously, AHCCCS expects to amend the CYE 2019 rates at a later date for further adjustments to rates that will take effect after July 1, 2018, which will include adjustments for mandated January 1, 2019 minimum wage increases.

Should you have any questions on any of these issues, please feel free to contact Shelli Silver, Assistant Director, at (602) 417-4647.

Sincerely,

Thomas J. Betlach
Director

cc: The Honorable David Livingston, Arizona House of Representatives
Matthew Gress, Office of Strategic Planning and Budgeting
Richard Stavneak, Joint Legislative Budget Committee
Christina Corieri, Senior Policy Advisor, Office of the Governor
Bret Cloninger, Office of Strategic Planning and Budgeting

4A

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

JOHN KAVANAGH
CHAIRMAN
OLIVIA CAJERO BEDFORD
KAREN FANN
STEVE FARLEY
DAVID C. FARNSWORTH
KATIE HOBBS
WARREN PETERSEN
KIMBERLY YEE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF
REPRESENTATIVES

DAVID LIVINGSTON
VICE-CHAIRMAN
JOHN M. ALLEN
LELA ALSTON
RUSSELL "RUSTY" BOWERS
CHARLENE R. FERNANDEZ
VINCE LEACH
MICHELLE UGENTI-RITA
VACANT

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Sam Beres, Fiscal Analyst SB

SUBJECT: Attorney General - Review of Uncollectible Debts

Request

Pursuant to A.R.S. § 35-150E, the Attorney General (AG) requests Committee review of its listing of uncollectible debts to be removed from the state's accounting system. The listing totals $41,262,369 for debts listed as uncollectible in FY 2018 and prior years.

Recommendation

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

Key Points

1) The State Comptroller may remove uncollectible debts from the state accounting system after their review by the Committee.
2) The FY 2018 listing includes $41.3 M in uncollectible debt.
3) The majority (64.1%) of the $41.3 M has been deemed uncollectible due to the debtor being a defunct corporation or LLC.
4) 89.1% of the total debt is owed to 2 state agencies - the Department of Revenue (62.2%) and AHCCCS (26.9%).

(Continued)

Analysis

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

The AG's Collection Enforcement Unit functions as a collection service for debts owed to the state. The unit returns 65% of collected monies to the client agencies and retains the remaining 35% for unit operational costs. While the Collection Enforcement Unit is able to collect from many individuals and businesses that owe monies to the state, some debts are uncollectible for a variety of reasons. Pursuant to A.R.S. § 35-150E, the State Comptroller may remove uncollectible debts from the state accounting system after receiving an annual notice of uncollectible debt from the AG and its review by the Committee. The AG's report to JLBC includes the following:

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

Since 2011 the Committee has given favorable reviews of uncollectible debt listings totaling $310.1 million *(see Table 1)*.

Table 1

Favorably Reviewed Uncollectible Debt

Year Reviewed	**Uncollectible Debt Listing ($ in Millions)**
2011	$17.2
2012	30.4
2013	44.9
2014/15	88.4
2016	78.3
2017	50.9
Total	**$ 310.1**

Since its last report, the AG's office has again reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the AG advises that $41.3 million owed to the state is uncollectible as of April 30, 2018. Due to its length, the specific listing of uncollectible debts does not appear in the attached agency material. Please contact the JLBC Staff for the complete listing.

Of the $41.3 million in uncollectible debt:

- A total of 77.9% is classified as uncollectible due to the debtor being a defunct corporation/LLC (64.1%) or because the collection cost would exceed the amount owed (13.8%). The remaining 22.1% is associated with other specified reasons *(see Table 2).*
- A total of 89.1% of the total debt is owed to 2 state agencies - the Department of Revenue (DOR) (62.2%) and AHCCCS (26.9%). The remaining debt is associated with 27 other specified agencies (*see Table 3*).

(Continued)

- Nine cases include debts of more than $500,000, totaling $13.4 million and making up 32.4% of all debts in this report. Of these cases, 5 are owed to AHCCCS, 3 to DOR, and 1 to the State Treasurer (*see Table 4*). The debts owed to AHCCCS represent cases in which the agency was unable to recoup overpayments made to vendors for various services.
- A total of 20.3% was determined to be uncollectible in FY 2016, 75.7% in FY 2017, and 3.9% in FY 2018. A small portion of the total debt (0.01%) was determined to be uncollectible prior to FY 2016.

Table 2

Uncollectible Debt by Reason

Reason	Amount Recommended for Write-Off	Percentage
Defunct Corporation/LLC	$26,467,500	64.1%
Collection Cost Would Exceed Amount Owed	5,691,400	13.8
No Assets/No Wages/Negative Credit	2,190,000	5.3
Lack of Supporting Documentation	1,967,300	4.8
Debt Discharged in Bankruptcy	1,960,500	4.7
Debtor is Deceased	1,865,000	4.5
Offer in Compromise Satisfied	653,700	1.6
Unable to Locate Debtor	321,700	0.8
Settled	116,800	0.3
Other	28,500	0.1
Total	**$41,262,400**	**100%**

Table 3

Uncollectible Debt Recommended for Write-Off by Client Agency

Agency	Amount Recommended for Write-Off	Percentage
Department of Revenue	$25,664,600	62.2%
Arizona Health Care Cost Containment System	11,093,400	26.9
State Treasurer	3,536,900	8.6
State Retirement System	280,300	0.7
Department of Transportation	108,500	0.3
All Others	578,700	1.3
Total	**$41,262,400**	**100.0%**

(Continued)

Table 4

Largest Individual Cases of Uncollectible Debt

Agency	Amount Recommended for Write-Off	Reason Uncollected
State Treasurer	$3,536,900	Defunct Corporation/LLC
AHCCCS	3,233,100	Defunct Corporation/LLC
AHCCCS	1,334,600	Defunct Corporation/LLC
AHCCCS	1,245,200	Lack of Supporting Documentation
AHCCCS	1,183,100	Defunct Corporation/LLC
Department of Revenue	894,200	Defunct Corporation/LLC
AHCCCS	761,200	Defund Corporation/LLC
Department of Revenue	609,400	Debt Discharged in Bankruptcy
Department of Revenue	576,000	Defunct Corporation/LLC
Total	**$13,373,700**	

Table 5

Uncollectible Debt Recommended by Fiscal Year Close Date

Fiscal Year	Amount Recommended For Write-Off	Percentage
2013	$15	<1.0%
2014	300	<1.0
2015	4,000	<1.0
2016	8,395,100	20.3
2017	31,236,200	75.7
2018	1,626,800	3.9
Total	**$41,262,400**	**100.0%**

SB:kp

MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL

CIVIL LITIGATION DIVISION
BANKRUPTCY COLLECTION AND ENFORCEMENT SECTION

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

June 5, 2017

HAND DELIVERED

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

RE: FY2013 beginning July 19, 2012 through April 30, 2018 for Not-Referred Non-DOR Uncollectible Debt Report
FY2017 beginning May 1, 2017 through April 30, 2018, FY2018 Referred Non-DOR Uncollectible Debt Report
FY2017 beginning July 1, 2016 through June 29, 2017 DOR Uncollectible Debt Report

Dear Senator Kavanagh:

As requested by the Joint Legislative Budget Committee ("JLBC") pursuant to A.R.S. § 35-150(E), enclosed are the FY2013 beginning July 19, 2012 through April 30, 2018 for Not-Referred Non-DOR Uncollectible Debt Report, FY2017 beginning May 1, 2017 through April 30, 2018, FY2017 Referred Non-DOR Uncollectible Debt Report and the FY2017 DOR Uncollectible Debt Report ("the Reports").

The Reports include: 1) debt owed to the State that was referred to the Collection Enforcement Revolving Fund ("CERF") for collection and determined to be uncollectible; and 2) debt owed to the Department of Revenue ("DOR") and other State agencies, boards and commissions that was not referred to the CERF and was deemed uncollectible by the agencies. With respect to the DOR debt listed in the Reports as uncollectible, for FY 2017 the Attorney General's Office is relying upon the certification by DOR set forth in the memorandum dated May 24, 2018, from DOR to the Attorney General's Office and entitled, "Fiscal Year 2017 Certification of Cases for Abatement" ("Certification"). The Certification states that the debt described in the Certifications meets the criteria pursuant to A.R.S. § 42-1004B, and for liabilities discharged in bankruptcy, pursuant to the United States Bankruptcy Code, and that DOR has validated through its internal policies and process that it verified the reasons for abatement, as stated in the Certifications, and that they are true and accurate.

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

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

The Reports provide a reason each debt is deemed uncollectible. The reasons include case settled, debtor deceased, unable to locate debtor, collection costs would exceed the amount to be collected, debtor has neither assets nor wages, debtor lives and/or works on a Reservation, debt discharged in bankruptcy and Corporation/LLC defunct.

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

Please contact either of the undersigned if you have any questions.

Sincerely,

Don J. Lawrence, Jr.
Section Chief Counsel
Bankruptcy Collection & Enforcement
Office of the Attorney General

Enclosures
cc: Representative David Livingston, JLBC Vice-Chairman (with attachments)
Matthew Gress, OSPB Director (with attachments)
Sam Beres, JLBC Analyst (with attachments)
D. Clark Partridge, State Comptroller (with attachments)
Richard Stavneak, JLBC Director (with attachments)
Paul Watkins, AGO Division Chief of Civil Litigation

Doc #4483909

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

4B

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Sam Beres, Fiscal Analyst SB

SUBJECT: Attorney General - Review of FY 2019 Internet Crimes Against Children Expenditure Plan

Request

Pursuant to an FY 2019 General Appropriation Act (Laws 2018, Chapter 276) footnote, the Attorney General (AG) has submitted for review an expenditure plan for the $1,250,000 FY 2019 appropriation from the Internet Crimes Against Children (ICAC) Enforcement line item.

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.

Key Points

1) The Internet Crimes Against Children (ICAC) Task Force receives annual appropriations of $350,000 from the General Fund and $900,000 from the ICAC Enforcement Fund.
2) The appropriation would continue to fund 2 AG FTE Positions and 4 Phoenix Police Department FTE Positions, as well as other operational costs.
3) From July 1 through December 1, 2017, 1,776 reports had been received, 967 investigations had been launched, 126 indictments or arrests had been made, and 20 offenders were incarcerated.

Analysis

Background
Established by the Legislature in FY 2015, the ICAC line item provides funding for the operation of the ICAC Task Force program. As of April 2018, $1.8 million of pre-FY 2019 monies remain available for expenditure.

(Continued)

From July 1 through December 1, 2017, 1,776 reports involving the sexual exploitation of children had been received, 967 investigations had been launched, 126 indictments or arrests had been made, and 20 offenders were incarcerated.

Expenditure Plan

The AG's FY 2019 expenditure plan continues AZICAC funding at $1.3 million, which includes ongoing funding for 6 FTE Positions in AZICAC and the AG's Office, one-time equipment purchases, training, and other operational costs of the task force. Although these expenditures are intended for FY 2019, it is possible that some of these monies may be expended in FY 2020 as these appropriations are non-lapsing through June 30, 2020. The AG is proposing the following allocations:

- <u>$536,100 for 4 FTE Positions within AZICAC and Overtime</u> - $416,500 would continue to fund a portion of the salary and Employee Related Expenditure costs of a Forensic Examiner, Investigator, Special Detail Police Assistant, and Contract Specialist in the Phoenix Police Department that would also be full-time staff within AZICAC. A further $119,600 would be utilized for overtime and standby staff costs of the task force.

- <u>$68,000 for Equipment and Supplies</u> - Desktop computers, forensic and information technology equipment, external hard drives, and crime scene and office supplies.

- <u>$125,000 for Training and Travel</u> - Airfare, hotel, and per-diem costs as well as costs associated with gaining certification training in forensic skills and relevant tactical training programs.

- <u>$170,900 for Other Operational Costs</u> - Educational materials for schools and community outreach, vehicle maintenance, and software and hardware upgrades.

- <u>$350,000 for 2 FTE Positions within the AG's Office</u> - This would continue the prior year's funding of attorney and investigative staff within the AG's Office that handle the prosecution of sexual exploitation cases. Included in this amount is $41,000 in indirect expenses.

The proposed allocation of the FY 2019 appropriations is largely unchanged from the FY 2018 allocation.

SB:kp

MARK BRNOVICH
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
OPERATIONS DIVISION/BUDGET & FINANCE SECTION

LIZETTE SAMSON
CHIEF FINANCIAL OFFICER

May 29, 2018

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

RE: Internet Crimes Against Children Appropriation Expenditure Plan

Dear Sir;

In accordance with the general appropriations act, attached for JLBC review is the FY 19 budget for the Internet Crimes Against Children program for the Office of the Attorney General and the pass-through funding to the Phoenix Police Department.

Sincerely,

Lizette Samson
Chief Financial Officer
Arizona Office of the Attorney General

2005 N. CENTRAL AVENUE, PHOENIX, AZ 85004 • 602.542.8445 • LIZETTE.SAMSON@AZAG.GOV

OFFICE OF THE ATTORNEY GENERAL
FY 2019 Planned Expenditures AGO/ICAC Appropriation
General Fund

TITLE: **AGO/ICAC FY 2018-2019 Expenditure Plan**

PRIORITY:

Cost Summary FY2019

Expenditures		ICAC
FTEs	*Attorney, Investigator, and Support Staff, not to exceed 2.0 FTEs*	2.0
Personal Services (PS)		$ 169,000
Employee Related Expenses (ERE)		115,000
	Total Payroll	**284,000**
Other Operating Expenses:		
	Telecommunications, Supplies, Training, Bar Dues, Conference Fees, Equipment and Travel	25,000
	Total Other Operating Expenses	**25,000**
	Indirect Costs	**41,000**
	TOTAL	**$ 350,000**

City of Phoenix Police Department
2018 Internet Crimes Against Children (ICAC)
Agreement with the Arizona Attorney General's Office
Budget Narrative

1 Year Budget Request

PERSONNEL:
Salary for sworn and civilian personnel is being requested. Sworn personnel include a Forensic Investigator to provide on scene forensic analysis of a suspect's computer and storage drives and an Internet Crimes Against Children (ICAC) Investigator for follow-up investigations of suspected internet crimes against children. Civilian personnel include a Police Assistant Special Detail to assist in the gathering and processing of evidence and a Contract Specialist hired to assist in the daily administrative operations of the Phoenix Police Departments ICAC task force. All salaried positions are currently filled. Overtime is requested for detectives and civilian staff to allow for investigations and other ICAC related work to be completed during non-duty hours. Standby time is requested to allow detectives to be available for callout when needed for ICAC related activity.

Salaried Positions	**Year 1**	**Total**
Police Assistant, Special Detail, Civilian	$51,438	**$51,438**
Contract Specialist, Civilian	$44,678	**$44,678**
Forensic Examiner Investigator, Sworn	$72,426	**$72,426**
ICAC Investigator, Sworn	$72,426	**$72,426**
Overtime Positions		
Detective Overtime	$52,000	**$52,000**
Civilian Overtime for unit Secretary, Police Assistant and Contract Specialist.	$9,500	**$9,500**
Standby Pay		
Detectives Stand By "Non-duty" Day	$10,000	**$10,000**
Detectives Stand By Work Day	$13,000	**$13,000**
Total Costs	**$325,468**	**$325,468**

FRINGE BENEFITS:
The fringe benefits for salaried personnel include:
6.2% FICA, 1.45% Medicare, 0.15% LTD insurance, 1.50% industrial/workman's compensation insurance 0.08% unemployment, 0.08% life insurance, 1.76% for Deferred Compensation, and monthly rates of $925.90 for Health Insurance, and $71.00 for Dental Insurance. Retirement of 32.16% is included for the Police Assistant Special Detail and 55.81% for the Detective positions.

Fringes on Salaried Positions	**Year 1**	**Total**
Police Assistant Special Detail, Civilian	$34,240	**$34,240**
Contract Specialist, Civilian	$10,706	**$10,706**
Forensic Examiner Investigator, Sworn	$65,293	**$65,293**
ICAC Investigator, Sworn	$65,293	**$65,293**

City of Phoenix Police Department
2018 Internet Crimes Against Children (ICAC)
Agreement with the Arizona Attorney General's Office
Budget Narrative

The fringe benefits for overtime include:
Civilian positions are 6.2% FICA, 1.45% Medicare, 1.49% Industrial/workman's compensation insurance, 0.15% LTD insurance and 32.16% Retirement. Sworn officer positions have 1.45% Medicare, 1.49% Industrial/workman's compensation insurance, 0.15% LTD insurance, 1.12% Deferred compensation and 55.81% Retirement. There are no fringe benefits associated with Stand-by pay.

Fringes for Overtime	**Year 1**	**Total**
Detective Overtime	$31,210	**$31,210**
Civilian Overtime	$3,938	**$3,938**
Total Costs	**$210,680**	**$210,680**

TRAVEL:
Travel and registration costs include funding for both City of Phoenix sworn and civilian personnel to attend mandatory certification training on investigative tools and techniques. Travel expenditures will also be necessary for ICAC investigators to conduct follow-up investigations and to assist ICAC affiliates with complex investigations. The below travel costs are estimated, as dates and locations of training and conferences are yet to be determined. Travel costs will include airfare, lodging, meals, ground transportation and course registration in the following budgeted line items:

Travel Category	**Year 1**	**Total**
Mandatory training for all City of Phoenix ICAC investigators and civilian support staff:		
Certification training required of all ICAC investigators: *ICAC-IT, ICAC-Undercover Investigations, Peer-to-Peer Investigations, cell phone investigation classes, Basic Data Recovery and Analysis, On-site forensic preview training.*	$40,000	**$40,000**
Ongoing training to identify best investigative practices and emerging trends: *ICAC National Conference-Atlanta, Crimes Against Children Conference-Dallas, Northwest Regional ICAC Conference-Seattle. Dates to be determined.*	$30,000	**$30,000**
Civilian support staff training: *Research, intelligence and analysis training, Microsoft Office training (Additional classes that are not available thru the City of Phoenix), mapping and other investigative software tools to be used in support of ICAC investigations, dates to be determined.*	$10,000	**$10,000**
Additional ICAC related training yet to be determined or announced.	$15,000	**$15,000**
Required Certification Training for City of Phoenix Computer Forensic Examiners: *IACIS Computer Forensic Training dates to be determined for 2 employees.*	$20,000	**$20,000**
Investigative travel for City of Phoenix ICAC investigators and civilian support staff: *Investigative travel to further investigations or assist affiliates.*	$10,000	**$10,000**
Total Costs	**$125,000**	**$125,000**

City of Phoenix Police Department
2018 Internet Crimes Against Children (ICAC)
Agreement with the Arizona Attorney General's Office
Budget Narrative

EQUIPMENT:
Updated desktop computers will be need for Phoenix ICAC staff members to investigate and document internet crimes. Universal Forensic Extraction Devices (UFED) are needed to equip ICAC investigators with the ability to access locked personal electronic devices such as cell phones and tablets to obtain evidence. A supply of passport drives are being requested to allow investigators to send seized photographs of victims to the Child Victim Identification Project. Due to the nature of these materials, these drives must be securely shipped to the Child Victim Identification Project and there is a lengthy turnaround time before the drives are returned to the Police Department.

Equipment Category	Year 1	Total
10 Dell Desktop Computers with monitors, keyboards and mice, to upgrade current desktops used by ICAC Detail (10 X $2,000 ea.)	$20,000	**$20,000**
Universal Forensic Extraction Device (UFED) for PC, Cellebrite cell phone forensic system to include cables and adapters with yearly recurring license fees (2 X $15,500 ea.)	$31,000	**$31,000**
2TB passport external hard drives to be used for Child Victim Identification Project submissions (50 X $80.00 ea.)	$4,000	**$4,000**
Total Costs	**$55,000**	**$55,000**

SUPPLIES:
General office supplies for use by Phoenix ICAC Task Force personnel at the office and in the field are being requested. Various crime scene supplies and equipment are being requested for use in processing ICAC crime scenes.

Supplies Category	Year 1	Total
Office supplies including paper, binders, notebooks, pens/pencils, staplers/staples, binder clips, Other Miscellaneous items including various adapters, thumb drives, external drives, etc.	$5,000	**$5,000**
Crime scene investigative supplies including protective over garments, masks and shoe covers. Storage containers push carts and furniture dollys, lighting stands, extension cords.	$7,972	**$7,972**
Total Costs	**$12,972**	**$12,972**

CONSTRUCTION: No Cost

CONSULTANTS/CONTRACTS: No Cost

OTHER COSTS:
Items requested and summarized below are: Maintenance costs for ICAC vehicles purchased with prior ICAC agreement funding. Specialty hardware and software upgrades for the Phoenix ICAC unit. Investigator packages for up to four affiliates and one supervisor package are requested to provide to affiliates who need updated equipment and have not received these in the past. Prosecutor packages for up to five County Attorney offices who have not received these in the past. Software and hardware updates for ICAC Affiliates who have received investigator or supervisor packages in the past, but need updates are requested. Educational and outreach items are requested for community engagement and public awareness.

City of Phoenix Police Department
2018 Internet Crimes Against Children (ICAC)
Agreement with the Arizona Attorney General's Office
Budget Worksheet

BUDGET SUMMARY

Budget Category	Budget Year 1	Budget Total
A. *Personnel*	325,468	325,468
B. *Fringe Benefits*	210,680	210,680
C. *Travel*	125,000	125,000
D. *Equipment*	55,000	55,000
E. *Supplies*	12,972	12,972
F. *Construction*	0	0
G. *Consultants/Contracts*	0	0
H. *Other Costs*	170,880	170,880
Total Direct Costs	**900,000**	**900,000**
I. *Indirect Costs*	0	0
TOTAL PROJECT COSTS	**900,000**	**900,000**
Non-State Request	0	**0**
State Request	**900,000**	**900,000**
TOTAL PROJECT COSTS	**900,000**	**900,000**

5

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF
REPRESENTATIVES

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Senior Fiscal Analyst PM

SUBJECT: Department of Child Safety - Review of Line Item Transfers

Request

Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, the Department of Child Safety (DCS) is requesting Committee review of a $410,000 Federal TANF Block Grant transfer from the Out-of-Home Support Services line item to the Kinship Stipend line item.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) DCS is requesting a $410,000 TANF transfer into the Kinship Stipend line item in FY 2018 to address higher-than-budgeted caseload growth.
2) The transfer would be financed from a $(410,000) reduction of TANF from Out-of-Home Support Services.
3) The FY 2019 budget does not adjust the Kinship Stipend appropriation.
4) DCS is determining whether an enrollment cap is needed to keep the program within budget.

Analysis

The Kinship Stipend line item currently provides a $75/month stipend to unlicensed kinship caregivers with incomes below 200% of the Federal Poverty Level who do not receive other financial

(Continued)

assistance from DCS. The enacted FY 2018 budget included $2.0 million from the General Fund for the Kinship Stipend, which is sufficient to fund an average of 2,222 enrollees. The department reports average monthly population through April was 2,784 clients, or about 562 clients above the caseload funded in the original FY 2018 budget.

The $410,000 transfer of Federal TANF Block Grant monies into the Kinship Stipend line is intended to address the higher-than-budgeted caseload growth. These monies would be transferred from the Out-of-Home Support Services line item, which DCS estimates will have a surplus in FY 2018 due to declining out-of-home caseloads.

The FY 2019 budget does not adjust the $2.0 million appropriation for the Kinship Stipend. As a result, to the extent that higher-than-budgeted caseloads continue next year, the department would either have to repeat this transfer or make changes to the program. The department is considering whether an enrollment cap is needed to keep the program within budget next year. An FY 2019 General Appropriation Act footnote continues to require DCS to submit any proposed changes in eligibility for the program or the amount of the stipend to JLBC for review before implementation.

PM:kp

Arizona Department of Child Safety

Douglas A. Ducey
Governor

Gregory McKay
Director

May 31, 2018

The Honorable John Kavanagh
Chairman, Joint Legislative Budget Committee
1700 West Washington
Phoenix, Arizona 85007

Re: FY 18 Appropriation Transfer Request

Dear Representative Livingston,

The Department of Child Safety requests to be placed on the Joint Legislative Budget Committee agenda for the Other Appropriated Funds appropriation transfer request below:

Summary of Requested Appropriation Transfer for FY18

Special Line Item	General Fund (in $1,000)	Other Appropriated Funds (in $1,000)
Kinship Stipend	$0	$410.00
Out of Home Support	$0	($410.00)
TOTAL	**$ 0.0**	**$0.0**

Expenditure Authority Appropriation Requests – FY18

Pursuant to Laws 2017, First Regular Session, Chapter 305, Section 19, the amount appropriated for any line item may not be transferred to another line item or the operating budget unless the transfer is reviewed by the Joint Legislative Budget Committee. The Department requests that the committee review the following "Other Appropriated Funds - TANF" transfer request:

- Kinship Stipend: The Department requests a total of $410 thousand Other Appropriated Funds to be transferred from Out of Home Support line item into Kinship Stipend line item.

Sincerely,

Gregory McKay
Director

cc: Representative David Livingston, Arizona State Senate
Matthew Gress, Office of Strategic Planning and Budgeting
Richard Stavneak, Joint Legislative Budget Committee
Patrick Moran, Joint Legislative Budget Committee
Sarah Pirzada, Office of Strategic Planning and Budgeting

6A

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Senior Fiscal Analyst PM

SUBJECT: Department of Economic Security - Review of Developmental Disabilities Line Item Transfers

Request

Pursuant to an FY 2018 General Appropriation Act (Laws 2017, Chapter 305) footnote, before transferring any funds into or out of certain Division of Developmental Disabilities (DDD) line items, the Department of Economic Security (DES) must submit a report for review by the Joint Legislative Budget Committee (JLBC).

DES proposes to transfer $19,000,000 of total funds (General Fund and Federal Funds) out of the Home and Community Based Services - Medicaid line item as follows:

- $12,600,000 into the DDD Operating Lump Sum line item.
- $6,400,000 into the Case Management - Medicaid line item.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

(Continued)

Key Points

1) DES is requesting transfers of $12.6 M into DDD Operating and $6.4 M into Case Management for higher-than-budgeted costs.
2) The transfers would be financed by a decrease of $(19.0) M from Home and Community-Based Services.
3) The proposal mirrors transfers from FY 2016 and FY 2017 that were previously favorably reviewed by the Committee.
4) The FY 2019 budget rebases the DDD line items to reduce the need for future transfers.

Analysis

As a result of DES moving significant funding out of service lines into administration and case management in previous years, the FY 2018 budget continued a footnote requiring Committee review of any funding being transferred in or out of the DDD Operating Budget line and the Case Management lines to provide oversight if the department proposes to increase or decrease administrative resources.

Table 1 displays DES' plans to transfer $(19.0) million of total funds out of the Medicaid Home and Community Based Services line item in FY 2018. The transfer will include a corresponding increase of $12.6 million for DDD's operating budget and $6.4 million for Medicaid Case Management.

The Committee favorably reviewed similar transfers requested by DES in FY 2016 and FY 2017, but prior budgets have not attempted to permanently adjust the allocation of DDD funding to reflect these transfers. To minimize the need for transfers in future years, the FY 2019 budget aligns the DES budget structure with the capitation rates established by AHCCCS actuaries. Since the capitation rates are required to be actuarially sound, the new budget structure should ensure the DES' actual expenses are similar to the amounts budget by line item.

Table 1

DDD Medicaid Appropriation Total Fund Transfers

Line Item	FY 2018 Original Appropriation	FY 2018 Request	FY 2018 Final Appropriation
DDD Operating Lump Sum	$23,819,600	$12,600,000	$36,419,600
Case Management - Medicaid	59,316,300	6,400,000	65,716,300
HCBS - Medicaid	1,163,987,200	(19,000,000)	1,144,987,200

PM:kp

DEPARTMENT OF ECONOMIC SECURITY
Your Partner For A Stronger Arizona

Douglas A. Ducey
Governor

Michael Trailor
Director

MAY 29 2018

RECEIVED
MAY 29 2018
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh, Chairman 2018
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable David Livingston, Vice-Chairman 2018
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Kavanagh and Representative Livingston,

The Arizona Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for review of appropriation transfer plans for the Division of Developmental Disabilities (DDD) as required in Laws 2017, First Regular Session, Chapter 305, Section 31:

> Before transferring any monies in or out of the case management - medicaid, case management – state-only, and DDD operating lump sum line items, the department of economic security shall submit a report for review by the joint legislative budget committee.

DES additionally requests to be placed on the next JLBC agenda for review of transfer plans for DDD as required in Laws 2017, First Regular Session, Chapter 309, Section 18:

> *A. Notwithstanding section 36-2953, subsection H, Arizona Revised Statutes, as amended by this act, the department of economic security may use unexpended and unencumbered monies from capitation payments in the department long-term care system fund established by section 36-2953, Arizona Revised Statutes, as amended by this act, for state-only program expenses within the division of developmental disabilities. Before making any expenditures authorized by this subsection, the department of economic security shall submit an expenditure plan for review by the joint legislative budget committee.*
> *B. Subsection A of this section applies retroactively to from and after June 30, 2018.*
> *C. This section is repealed from and after June 30, 2019.*

Appropriation Transfer

DES plans to transfer Long Term Care System Fund- Federal Match appropriation authority into the DDD Operating Lump Sum and Case Management- Medicaid line items. The Arizona Long Term Care System (ALTCS) program experiences annual growth in members and capitation which necessitates additional authority each fiscal year. However, additional authority was historically added only in the Home and Community Based Services (HCBS) line item instead of proportionally allocated across all ALTCS-Medicaid line items.

DDD FY 18 Appropriation Transfers			
Line Item	**Current Budget**	**Transfer Request**	**Adjusted Budget**
DDD Operating Lump Sum	23,819,600	12,600,000	36,419,600
Case Management - Medicaid	59,316,300	6,400,000	65,716,300
HCBS - Medicaid	$1,163,987,200	$(19,000,000)	$1,144,987,200

DDD Operating Lump Sum

The transfer is in line with prior and current year client growth, which drives growth in operating needs. Specifically, in FY 2018, vacancies in network staff were filled to ensure network sufficiency with the growing population. Since FY 2015, the approved budget loaded all appropriation increases for the DDD Title XIX program into the HCBS line item and DES would later request reallocation of the funds to the line items with actual cost increases.

Case Management - Medicaid

Caseload ratios drive growth in the Case Management - Medicaid line item. Average ALTCS member growth is projected to be 4.5 percent in FY 2018, which requires additional case managers to maintain the contracted case manager to client ratio, resulting in the need for additional authority in the line item.

Equity Transfer

DES plans to transfer unexpended and unencumbered monies from capitation payments in the department long-term care system fund to cover expenses within the DDD state-only program. Ongoing funding in the state-only program has remained consistent despite significant member growth in-line with and often exceeding the ALTCS program's annual growth in members. The requested transfers are listed by line item below.

DDD FY 18 Fund Balance Transfers	
Line Item	**Transfer Request**
State Funded Long Term Care	7,400,000
HCBS – State-Only (CES)	750,000
HCBS – State-Only (AzEIP)	850,000
Case Management – State-Only	3,900,000
Medicare Clawback	50,000
Total	**$12,950,000**

State Funded Long Term Care (SFLTC)

The SFLTC special line item funds services that are non-reimbursable by federal Medicaid Title XIX dollars. Residential room and board costs for ALTCS members make up 99 percent of this line. The structural shortfall in this line item has been covered by excess fund balance for several years. Of the requested $7.4M, approximately $1.3M is needed to cover expenditures from FY 2017, and the remaining $6.1M is needed to cover expenditures from FY 2018. DES will receive an additional $6.4M of funding in FY 2019 to help alleviate this issue going forward.

HCBS – State Only (CES)

The Cost Effectiveness Study (CES) is a mandated requirement by the Centers for Medicare and Medicaid Services (CMS) as part of the State's 1115 waiver to ensure that Home and Community Based Services

(HCBS) are more cost effective than an institutional placement. In some cases, clients' care in the home setting is more costly than institutional placement; the excess cost must be paid with General Fund. In the past year, HCBS rates increased due to the increase in the state's minimum wage to a level that exceeded the appropriation. In FY 2019, DES will implement new private institution contracts that will result in an updated CES rate structure and eliminate this issue.

HCBS – State-Only (AzEIP)

The Arizona Early Intervention Program (AzEIP) evaluates and serves children from birth to three years who have disabilities or significant developmental delays by providing supports to families within their homes and communities to enhance their ability to care for their children. AzEIP has experienced a steady increase in referrals for its services each fiscal year. The increase in referrals is due to many factors, including national and state initiatives to increase the early identification of infants and toddlers with disabilities and the requirements of the Child Abuse Prevention and Treatment Act (CAPTA). The Individuals with Disabilities Education Act (IDEA) Part C federal grant requires that AzEIP accept and evaluate all referrals, yet the IDEA Part C award has not increased at a pace to address the continued growth AzEIP has experienced. The HCBS State-Only appropriation is insufficient to mitigate the difference between the federal award and AzEIP's costs, resulting in historical fund balance transfers to cover the costs of the continual increases in this population. The Department is working diligently to review and assess the validity of all referrals into program.

Case Management – State-Only

The Case Management State-Only special line item funds case management for clients who are not eligible for developmentally disabled services under the Title XIX ALTCS program. This line must cover expenditures for case management provided to State-Only clients, as well as the general fund match required for the Targeted Case Management (TCM) Title XIX program. As case management services are performed holistically, costs are allocated between the Medicaid and State-Only line items based on the results of the federally-approved Arizona Random Moment Sample (ARMS) survey. The results of the ARMS survey have been shifting from Medicaid to State-Only and TCM due to the significant growth in these member populations. In the past, the DES has utilized prior year TCM fund balance to cover the general fund structural shortfall; however, the TCM fund balance was exhausted in FY 2016 and is no longer a viable solution. In FY 2017, this shortfall was mitigated using excess fund balance.

Medicare Clawback

DES is not required to pay for prescription drug costs for clients who are also eligible for Medicare. Instead, DES is required to make "Clawback" payments to Medicare based on a certain percentage (76.2 percent in calendar year 2018) of the estimated drug costs. Due to timing, the funding provided in FY 2018 was less than the estimated drug costs.

If you have any questions, please contact Wesley Fletcher, Chief Financial Officer, at (602) 542-6080.

Sincerely,

for MT

Michael Trailor
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Matthew Gress, Director, Governor's Office of Strategic Planning and Budgeting
Steve Yarbrough, President, Arizona State Senate
J.D. `, Speaker, Arizona House of Representatives
Holly Henley, Director, Arizona State Library, Archives and Public Records

6B

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Senior Fiscal Analyst PM

SUBJECT: Department of Economic Security - Review of Developmental Disabilities Equity Expenditures

Request

Pursuant to Section 18 of the FY 2018 Health Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 309), the Department of Economic Security (DES) must submit an expenditure plan to the Committee for its review before expending "equity" monies on state-only programs within the Division of Developmental Disabilities (DDD). Equity monies are unexpended and unencumbered capitation payments received by DDD for clients enrolled in the Arizona Long Term Care System (ALTCS).

DES is proposing to allocate $12,950,000 of equity monies for the following DDD state-only programs:

- $7,400,000 for residential room and board costs, primarily for ALTCS clients.
- $750,000 for Cost-Effectiveness Study (CES) clients.
- $850,000 for the Arizona Early Intervention Program (AzEIP).
- $3,900,000 for case management services for state-only clients.
- $50,000 for Medicare Clawback Payments.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of all proposed state-only program expenditures.

2. An unfavorable review of all proposed state-only program expenditures.

(Continued)

Key Points

1) DES is proposing to spend $13.0 M of excess DDD capitation revenues ("equity") on DDD state-only program shortfalls.
2) The $13.0 M includes $1.3 M for an outstanding FY 2017 shortfall in room and board and $11.7 M for FY 2018 shortfalls.
3) All equity is required to be returned to the General Fund in FY 2019, so this funding is one-time.
4) The FY 2019 budget includes $11.8 M from other fund sources (including $8.8 M General Fund) to address these shortfalls in FY 2019.

Analysis

Most clients enrolled in Arizona's DD program are members of ALTCS. ALTCS provides acute care, behavioral health, and long term care services to low-income individuals with disabilities that are at immediate risk of institutionalization without appropriate services due to functional limitations. DES receives a per-member, per-month capitation payment from the Arizona Health Care Cost Containment System (AHCCCS) of approximately $3,900 for each ALTCS client to finance these services. If the actual cost of delivering services is less than that amount, DES accumulates "equity."

Since 2014, state law has required any equity to be returned to the General Fund at the end of the following fiscal year in which capitation payments were received. As a result of ongoing funding shortfalls in DDD state-only programs, however, the FY 2018 Health BRB allowed DES to use equity monies for DDD state-only programs on a one-time basis through the end of FY 2018, subject to review of the department's expenditure plan by the Committee.

The department is proposing to expend $13.0 million of equity monies to address shortfalls in state-only program, including $1.3 million to retroactively address an FY 2017 shortfall and $11.7 million for FY 2018 shortfalls. These equity expenditures are one-time, as DES will be required to transfer all equity to the General Fund in FY 2019. As a result, the FY 2019 budget increases DES' appropriation by $11.8 million from other fund sources, including $8.8 million from the General Fund, $1.9 million from the Spinal and Head Injuries Trust Fund, and $1.1 million from the Special Administration Fund to address these shortfalls in FY 2019.

DES' expenditure plan by program is outlined in detail below:

Room and Board: $7.4 million

State law authorizes DES to use 70% of a client's Supplemental Security Income (SSI) check or other income sources to finance room and board costs, but these collections are lower than program costs. As a result, DES is requesting to use $1.3 million to address expenses still outstanding from FY 2017, and another $6.1 million for the shortfall in FY 2018.

The FY 2019 budget provides an ongoing increase of $6.4 million from the General Fund for room and board expenses in FY 2019, which the department believes is sufficient to eliminate the shortfall on an ongoing basis.

CES Client Services: $750,000

The Cost Effectiveness Study (CES) rate represents DES' estimate of the cost of an ALTCS DD client's care if the client were placed in an appropriate institutional setting. The federal waiver for the DD program

(Continued)

requires a client's home and community-based services costs to be at or below the cost of an institutional setting. DES provides additional services on a state-only basis to CES clients who experience service reductions as a result of the CES requirements.

The FY 2018 budget includes $120,000 from the Special Administration Fund for CES services. DES estimates its cost of CES client services in FY 2018 will be $2.0 million, or $1.9 million above the $120,000 appropriation, and is proposing to use $750,000 of equity funds to address the shortfall. The remaining $1.2 million would be funded from DES' existing General Fund appropriation in the Home and Community-Based Services - State-Only line item.

Laws 2018, Chapter 346 includes an increase of $1.1 million from the Special Administration Fund in FY 2019 for CES Client Services, which should reduce the shortfall in FY 2019. In addition, DES recently completed a rebase of the CES rates following a re-bid of private institutional care contracts, which should reduce the number of clients exceeding the CES rate in FY 2019.

Arizona Early Intervention Program (AzEIP): $850,000

AzEIP provides screening and intervention services for children under age 3 that have not reached 50% of the developmental milestones for their age, such as cognitive development or social and emotional development. The FY 2018 budget included $6.3 million from the General Fund, in addition to $9.4 million in non-appropriated federal Individuals with Disabilities Education Act (IDEA) funds, or a total of $15.7 million. DES estimates that actual FY 2018 AzEIP costs will be $850,000 more than currently available funding, and is proposing to use equity to address the shortfall.

DES believes that most of the funding shortfall is attributable to growing screening costs. The FY 2019 budget provides one-time funding of $1.9 million from the Spinal and Head Injuries Trust Fund in FY 2019 to address funding shortfalls, and requires DES to report by December 1, 2018 on its plans to reduce screening costs in the program.

State-Only Case Management: $3.9 Million

DES provides case management services to both ALTCS and state-only clients to help coordinate services. The FY 2018 budget includes $3.9 million for state-only case management and $6.5 million in non-appropriated federal Medicaid funds for Targeted Case Management (TCM), for a total of $10.5 million. DES estimates that the actual case management costs are $3.9 million more than the currently allocated funding, and is proposing to use equity funds to address the shortfall. The department believes that the higher-than-budgeted cost is associated with member growth in state-only populations.

The FY 2019 budget addresses the shortfall in state-only case management with $2.4 million in new General Fund monies, and assumes $(948,300) in General Fund savings associated with increasing the TCM caseload ratio from 1:40 to 1:80.

Medicare Clawback: $50,000

DES is required to pay "Clawbacks" to the federal government to partly offset Medicare's cost of providing prescription drug coverage to DDD clients that are dually eligible for Medicaid and Medicare. These payments were originally estimated at $4.0 million for FY 2018, but DES' actual required payment is $4.1 million. The FY 2019 budget increases funding for the Clawback to $4.2 million in FY 2019, so this is not expected to be an ongoing shortfall.

PM:kp

DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Douglas A. Ducey
Governor

Michael Trailor
Director

MAY 29 2018

RECEIVED
MAY 29 2018
JOINT BUDGET COMMITTEE

The Honorable John Kavanagh, Chairman 2018
Joint Legislative Budget Committee
Arizona State Senate
1700 West Washington Street
Phoenix, Arizona 85007

The Honorable David Livingston, Vice-Chairman 2018
Joint Legislative Budget Committee
Arizona House of Representatives
1700 West Washington Street
Phoenix, Arizona 85007

Dear Senator Kavanagh and Representative Livingston,

The Arizona Department of Economic Security (DES) requests to be placed on the Joint Legislative Budget Committee's (JLBC) next agenda for review of appropriation transfer plans for the Division of Developmental Disabilities (DDD) as required in Laws 2017, First Regular Session, Chapter 305, Section 31:

> Before transferring any monies in or out of the case management - medicaid, case management – state-only, and DDD operating lump sum line items, the department of economic security shall submit a report for review by the joint legislative budget committee.

DES additionally requests to be placed on the next JLBC agenda for review of transfer plans for DDD as required in Laws 2017, First Regular Session, Chapter 309, Section 18:

> *A. Notwithstanding section 36-2953, subsection H, Arizona Revised Statutes, as amended by this act, the department of economic security may use unexpended and unencumbered monies from capitation payments in the department long-term care system fund established by section 36-2953, Arizona Revised Statutes, as amended by this act, for state-only program expenses within the division of developmental disabilities. Before making any expenditures authorized by this subsection, the department of economic security shall submit an expenditure plan for review by the joint legislative budget committee.*
> *B. Subsection A of this section applies retroactively to from and after June 30, 2018.*
> *C. This section is repealed from and after June 30, 2019.*

Appropriation Transfer

DES plans to transfer Long Term Care System Fund- Federal Match appropriation authority into the DDD Operating Lump Sum and Case Management- Medicaid line items. The Arizona Long Term Care System (ALTCS) program experiences annual growth in members and capitation which necessitates additional authority each fiscal year. However, additional authority was historically added only in the Home and Community Based Services (HCBS) line item instead of proportionally allocated across all ALTCS-Medicaid line items.

1789 W. Jefferson, Mail Drop 1111, Phoenix, AZ 85007 • P.O. Box 6123, Phoenix, AZ 85005
Telephone (602) 542-5757 • Fax (602) 542-5339 • https://des.az.gov/

DDD FY 18 Appropriation Transfers			
Line Item	Current Budget	Transfer Request	Adjusted Budget
DDD Operating Lump Sum	23,819,600	12,600,000	36,419,600
Case Management - Medicaid	59,316,300	6,400,000	65,716,300
HCBS - Medicaid	$1,163,987,200	$(19,000,000)	$1,144,987,200

DDD Operating Lump Sum

The transfer is in line with prior and current year client growth, which drives growth in operating needs. Specifically, in FY 2018, vacancies in network staff were filled to ensure network sufficiency with the growing population. Since FY 2015, the approved budget loaded all appropriation increases for the DDD Title XIX program into the HCBS line item and DES would later request reallocation of the funds to the line items with actual cost increases.

Case Management - Medicaid

Caseload ratios drive growth in the Case Management - Medicaid line item. Average ALTCS member growth is projected to be 4.5 percent in FY 2018, which requires additional case managers to maintain the contracted case manager to client ratio, resulting in the need for additional authority in the line item.

Equity Transfer

DES plans to transfer unexpended and unencumbered monies from capitation payments in the department long-term care system fund to cover expenses within the DDD state-only program. Ongoing funding in the state-only program has remained consistent despite significant member growth in-line with and often exceeding the ALTCS program's annual growth in members. The requested transfers are listed by line item below.

DDD FY 18 Fund Balance Transfers	
Line Item	Transfer Request
State Funded Long Term Care	7,400,000
HCBS – State-Only (CES)	750,000
HCBS – State-Only (AzEIP)	850,000
Case Management – State-Only	3,900,000
Medicare Clawback	50,000
Total	**$12,950,000**

State Funded Long Term Care (SFLTC)

The SFLTC special line item funds services that are non-reimbursable by federal Medicaid Title XIX dollars. Residential room and board costs for ALTCS members make up 99 percent of this line. The structural shortfall in this line item has been covered by excess fund balance for several years. Of the requested $7.4M, approximately $1.3M is needed to cover expenditures from FY 2017, and the remaining $6.1M is needed to cover expenditures from FY 2018. DES will receive an additional $6.4M of funding in FY 2019 to help alleviate this issue going forward.

HCBS – State Only (CES)

The Cost Effectiveness Study (CES) is a mandated requirement by the Centers for Medicare and Medicaid Services (CMS) as part of the State's 1115 waiver to ensure that Home and Community Based Services

(HCBS) are more cost effective than an institutional placement. In some cases, clients' care in the home setting is more costly than institutional placement; the excess cost must be paid with General Fund. In the past year, HCBS rates increased due to the increase in the state's minimum wage to a level that exceeded the appropriation. In FY 2019, DES will implement new private institution contracts that will result in an updated CES rate structure and eliminate this issue.

HCBS – State-Only (AzEIP)

The Arizona Early Intervention Program (AzEIP) evaluates and serves children from birth to three years who have disabilities or significant developmental delays by providing supports to families within their homes and communities to enhance their ability to care for their children. AzEIP has experienced a steady increase in referrals for its services each fiscal year. The increase in referrals is due to many factors, including national and state initiatives to increase the early identification of infants and toddlers with disabilities and the requirements of the Child Abuse Prevention and Treatment Act (CAPTA). The Individuals with Disabilities Education Act (IDEA) Part C federal grant requires that AzEIP accept and evaluate all referrals, yet the IDEA Part C award has not increased at a pace to address the continued growth AzEIP has experienced. The HCBS State-Only appropriation is insufficient to mitigate the difference between the federal award and AzEIP's costs, resulting in historical fund balance transfers to cover the costs of the continual increases in this population. The Department is working diligently to review and assess the validity of all referrals into program.

Case Management – State-Only

The Case Management State-Only special line item funds case management for clients who are not eligible for developmentally disabled services under the Title XIX ALTCS program. This line must cover expenditures for case management provided to State-Only clients, as well as the general fund match required for the Targeted Case Management (TCM) Title XIX program. As case management services are performed holistically, costs are allocated between the Medicaid and State-Only line items based on the results of the federally-approved Arizona Random Moment Sample (ARMS) survey. The results of the ARMS survey have been shifting from Medicaid to State-Only and TCM due to the significant growth in these member populations. In the past, the DES has utilized prior year TCM fund balance to cover the general fund structural shortfall; however, the TCM fund balance was exhausted in FY 2016 and is no longer a viable solution. In FY 2017, this shortfall was mitigated using excess fund balance.

Medicare Clawback

DES is not required to pay for prescription drug costs for clients who are also eligible for Medicare. Instead, DES is required to make "Clawback" payments to Medicare based on a certain percentage (76.2 percent in calendar year 2018) of the estimated drug costs. Due to timing, the funding provided in FY 2018 was less than the estimated drug costs.

If you have any questions, please contact Wesley Fletcher, Chief Financial Officer, at (602) 542-6080.

Sincerely,

for MT

Michael Trailor
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Matthew Gress, Director, Governor's Office of Strategic Planning and Budgeting
Steve Yarbrough, President, Arizona State Senate
J.D. `, Speaker, Arizona House of Representatives
Holly Henley, Director, Arizona State Library, Archives and Public Records

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: May 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Steve Schimpp, Deputy Director SS

SUBJECT: Arizona Department of Education - Review of Joint Technical Education District Quarterly Report

Request

The Arizona Department of Education (ADE) requests Committee review of its most recent quarterly report on JTED program and courses pursuant to Laws 2016, Chapter 4.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the report.

2. An unfavorable review of the report.

Key Points

1) ADE has reviewed 922 of 2,200 local JTED programs to date (211 during the past quarter).
2) All but 6 were approved for continued Basic State Aid funding (2 disapproved during past quarter).
3) Non-compliant programs typically lacked a properly certified teacher or approved curriculum.
4) The remaining 1,200+ local programs will be reviewed by December 31, 2018.

Analysis

Laws 2016, Chapter 4, Section 6 added new requirements for JTED programs and courses and requires ADE to review existing JTED programs and courses to see if they remain eligible for Basic State Aid (BSA) funding under the new requirements. JTED programs or courses that do not meet the new

(Continued)

requirements are not eligible for continued BSA funding. Chapter 4 requires ADE to submit quarterly reports to the Committee through December 31, 2018 for review on its progress and the subsequent approval or rejection of currently-eligible JTED programs and courses.

Prior Reports

ADE previously submitted quarterly reports to the Committee for JTED reviews conducted between April 1, 2016 and December 31, 2017. Those reviews covered 66 of 73 state-level JTED programs and 711 of 2,200+ local level programs. The remaining 7 state-level programs did not have any enrolled students, so could not be reviewed. The remaining 1,500 (approximately) local-level programs were not visited by December 31, 2017, but ADE planned to do so by December 31, 2018 (the Chapter 4 deadline for completing JTED program reviews).

Of the 66 state-level programs reviewed prior to December 31, 2017:

- 58 are eligible for continued BSA funding
- 7 are ineligible
- 1 is on hold and has not been reviewed (the Food Products and Processing Systems program)

Four local-level programs were found to be ineligible for continued BSA funding prior to December 31, 2017.

ADE reviewed an additional 211 local level programs (922 cumulatively) between January 1, 2018 and March 31, 2018. Two of those programs were found to be ineligible for continued BSA funding *(see first 2 programs listed in Table 1).* No additional state level programs were reviewed during that time.

Of the 922 local level programs reviewed to date, only 6 were found to be ineligible for BSA funding. Those programs typically are ineligible because they lack a properly-certified teacher or approved curriculum *(see Table 1).*

Table 1

Ineligible Local Level JTED Programs

Program	District/School	JTED	Deficiency
Law and Public Safety	Kingman USD/Kingman HS	WAVE	Certified Teacher
Fire Service	Lake Havasu USD/Lake Havasu HS	WAVE	Curriculum
Air Force JROTC	Peoria USD/Cactus HS	West-MEC	Certified Teacher & misc.
Medical Assisting Services	Peoria USD/Peoria HS	West-MEC	Certified Teacher (closed)
Automotive Technologies	Peoria USD/Ironwood HS	West-MEC	Assessments
Music and Audio Production	Antelope Union/Antelope Union HS	STEDY	Curriculum & misc.

Reviews of JTED programs and courses are now based on modified statutory requirements established by Laws 2017, Chapter 279 *(see Appendix 1).* Chapter 279 no longer requires a JTED program to lead to industry-based certification or licensure if not available, which could make it easier for some JTED programs and courses to remain eligible for BSA funding under Chapter 4.

SSc:kp
Attachment

Appendix 1

Criteria for Evaluating JTED Programs
(A.R.S. §15-391, paragraph 5)

15-391. Definitions

In this article, unless the context otherwise requires:

5. "Joint technical education district program" means a sequence of courses that is offered by a joint technical education district and that meets all of the following requirements:

(a) Is taught by an instructor who is certified to teach career and technical education by the state board of education or by a postsecondary educational institution.

(b) Requires an assessment that demonstrates the level of skills, knowledge and competencies necessary to be successful in the designated vocation or industry or an assessment necessary for certification, if appropriate, or for career readiness and entry-level employment, in and acceptance by that vocation or industry. Any assessment adopted pursuant to this subdivision shall require a passing score of at least sixty percent.

(c) Requires specialized equipment and specialized materials in order to provide instruction to students that exceeds the cost of a standard educational course.

(d) Requires a majority of instructional time to be conducted in a laboratory environment, field-based environment or work-based learning environment, and requires career and technical student organization participation, except for community college courses.

(e) Demonstrates alignment through a curriculum, instructional model and course sequence to meet the standards of a career and technical education preparatory program as determined by the career and technical education division of the department of education.

(f) Has a defined pathway to career and postsecondary education in a specific vocation or industry as determined by the career and technical education division of the department of education.

(g) Is approved by the career and technical education division of the department of education based only on the requirements prescribed in this paragraph after the submission of all required documentation.

(h) Is certified by the joint technical education district governing board to have met all the requirements prescribed in this article.

(i) Is offered only to students in grades nine, ten, eleven and twelve.

(j) Fills a high-need vocational or industry need as determined by the career and technical education division of the department of education.

(k) Requires a single or stackable credential as described in subdivision (l) of this paragraph or a skill that will allow a student to obtain work as described in subdivision (l) of this paragraph on graduation before receiving an associate degree or baccalaureate degree.

(l) Leads to certification or licensure, if available, or to career readiness and entry-level employment where relevant certification or licensure does not exist in that industry, in the designated vocation or industry that has been verified and accepted by that vocation or industry and that qualifies the person for employment. If there is no certification or licensure that is accepted by the vocation or industry, or if business practicalities do not require certification or licensure, completion of the program must qualify the student for at least entry-level employment.

(m) Requires instruction and instructional materials in courses that are substantially different from and exceed the scope of standard instruction and that include vocational skills, competencies and knowledge to be successful in the designated joint technical education district program vocation or industry.

(n) An industry or vocation has agreed to provide financial or technical support to the joint technical education district for a specific joint technical education district program. For the purposes of this subdivision, "financial support" includes in-kind contributions and donations.

(o) A joint technical education district has demonstrated a need for extra funding in order to provide the joint technical education district program.

RECEIVED
MAY 24 2018
JOINT BUDGET COMMITTEE

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

May 24, 2018

Dear Chairman Kavanagh,

The purpose of this letter is to fulfill statutory requirements pursuant to Senate Bill 1525 (Laws 2016, Chapter 4, Section 6). The Department of Education (Department) is required to submit a quarterly report to the Joint Legislative Budget Committee (JLBC) to evaluate Joint Technical Education (JTED) programs progress, the approval or rejection of current eligible JTED programs and JTED courses. Additionally, the Department shall submit a copy of this report to the JLBC for review. Attached is the JTED Quarterly Reports dated March 31, 2018.

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

Sincerely,

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

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Fiscal Analyst GP

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

Request

Pursuant to Laws 2018, Chapter 278 (the FY 2019 Criminal Justice Budget Reconciliation Bill) and A.R.S. § 41-1724G, the Arizona Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2019 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies. The Subaccount is funded primarily from a $4.00 surcharge on criminal violations.

DPS has submitted for review its proposal to distribute $1,345,800 of the $2,395,800 FY 2019 appropriation from the Subaccount to continue to fund 3 existing programs: Detention Liaison Officer Program ($500,000), Border County Officers ($495,800), and Border Crimes Unit ($350,000). The FY 2019 expenditure plan for these programs is largely unchanged from FY 2018. DPS plans to submit to the Committee an allocation plan for the Border Security and Law Enforcement Grants ($1,050,000) for review prior to distributing the funding.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

(Continued)

Key Points

1) DPS is requesting review of $1.3 M of its $2.4 M GIITEM Subaccount appropriation.
2) DPS proposes continuing to fund 3 existing programs:
   - Detention Liaison Officers Program ($500,000)
   - Border County Officers Program ($495,800)
   - Pima County Border Crimes Unit ($350,000)
3) DPS will submit to the Committee for review at a later date an allocation plan for the Border Security and Law Enforcement Grants ($1,050,000).

Analysis

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

The subaccount monies are distributed by DPS to county sheriffs and other local law enforcement agencies to fund border security programs, personnel, and safety equipment. The proposed DPS expenditure plan would allocate the entire FY 2019 GIITEM Border Security and Law Enforcement Subaccount appropriation to 4 existing programs. They are currently requesting review of the following 3:

- Detention Liaison Officers Program - $500,000 to hire detention and correctional officers that serve within jails and state prisons to gather intelligence from inmates about illegal activities along the border. This is $15,000 less than the amount that the Committee reviewed in FY 2018. This program currently funds 5 detention officers in 4 counties, and 5 correctional officers and 2 investigators in southern Arizona prisons. The FY 2019 plan would eliminate funding to Yuma County. Local agency recipients of the funding pay 25% of the payroll costs of the positions.
- Border County Officers Program - $495,800 to hire county sheriff deputies and municipal police officers that work as part of the GIITEM Task Force's Border District investigating border-related crimes such as drug trafficking and human smuggling. This is $20,800 more than the amount that the Committee reviewed in FY 2018. The program currently funds officer and deputy positions with the Coolidge, Oro Valley, San Luis, and Somerton Police Departments, and 3 positions in the Cochise County Sheriff's Office. The FY 2019 plan would eliminate funding to Coolidge and Somerton Police Departments, and add funding for Casa Grande Police Department and the Yuma County Sheriff's Office. Recipients of the funding pay 25% of the payroll costs of the positions.
- Pima County Border Crimes Unit - $350,000 to fund a portion of the costs of hiring 10 Pima County Sheriff's deputies that focus exclusively on border-related crimes. This allocation is the same as the amount reviewed by the Committee in FY 2018.

The department plans to work with the Arizona Sheriff's Association (ASA) to determine how the Border Security and Law Enforcement Grants will be distributed. DPS has allocated $1,050,000 for this program. This amount is unchanged from FY 2018. DPS will submit an expenditure plan to the Committee for review. In FY 2017, each county Sheriff received $70,000. In FY 2018, at the request of the ASA, Cochise County, Santa Cruz and Yuma County Sheriffs' offices each received $350,000.

Table 1 below provides the full FY 2018 expenditure plan approved by the Committee and the proposed FY 2019 plan.

(Continued)

Table 1

DPS Expenditure Plan – GIITEM Subaccount

	FY 2018 Approved Allocation	FY 2019 Proposed Allocation 1/
Detention Liaison Officers Program		
Cochise County Sheriff's Office	$ 37,500	$ 40,500
Pima County Sheriff's Office	87,300	94,300
Pinal County Sheriff's Office	47,700	51,500
Santa Cruz County Sheriff's Office	52,100	56,300
Yuma County Sheriff's Office	52,100	-
Department of Corrections	238,300	257,400
Subtotal	**$515,000**	**$500,000**
Border County Officers Program		
Casa Grande Police Department	-	$ 67,500
Cochise County Sheriff's Office	$ 201,900	210,800
Coolidge Police Department	74,500	-
Oro Valley Police Department	77,000	80,400
San Luis Police Department	66,700	69,600
Somerton Police Department	54,900	-
Yuma County Sheriff's Office	-	67,500
Subtotal	**$475,000**	**$495,800**
Pima County Border Crimes Unit	**$350,000**	**$350,000**
Border Security and Law Enforcement Grants		
Cochise County Sheriff's Office	$ 350,000	-
Santa Cruz County Sheriff's Office	350,000	-
Yuma County Sheriff's Office	350,000	-
Unallocated 2/	-	$1,050,000
Subtotal	**$1,050,000**	**$1,050,000**
Total	**$2,390,000**	**$2,395,800**

1/ Represents estimated new proposed allocation from the subaccount.

2/ DPS will submit an expenditure plan to the Committee for the Border Security and Law Enforcement Grants FY 2019 allocation at a later date.

RS/GP:kp

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

"Courteous Vigilance"

DOUGLAS A. DUCEY Governor
FRANK L. MILSTEAD Director

RECEIVED
MAY 29 2018
JOINT BUDGET COMMITTEE

May 29, 2018

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

Dear Senator Kavanagh:

Pursuant to Laws 2018, Chapter 278, Section 8, the Department of Public Safety is submitting its entire FY 2019 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount (Subaccount) to the Joint Legislative Budget Committee for review.

The FY 2019 General Appropriations Act appropriates $2,395,800 from the Subaccount to DPS. Pursuant to A.R.S. § 41-1724, "…monies in the subaccount shall be used for law enforcement purposes related to border security, including border personnel". The monies may also be used for "…safety equipment that is worn or used by a peace officer who is employed by a county sheriff."

DPS intends to continue funding the four existing programs that have previously been given a favorable review by the JLBC. The Department's overall FY 2019 expenditure plan is as follows:

Detention Liaison Officer Program	$500,000
Border County Officers	495,800
Border Crimes Unit	350,000
Border Security and Law Enforcement Grants	1,050,000
TOTAL	**$2,395,800**

The above expenditure plan is substantially similar to the FY 2018 plan.

Detention Liaison Officer Program

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

The program currently funds detention officer positions in each of Cochise, Pima (2), Pinal, and Santa Cruz Counties, and 5 correctional officers and 2 investigators in southern Arizona prisons operated by the Department of Corrections. At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated $500,000 for the program in FY 2019. Local agencies pay 25% of the payroll costs of their positions. The DLO Program was first reviewed by JLBC in August 2007.

Border County Officers

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

The program currently funds officer and deputy positions with the Casa Grande, Oro Valley, San Luis, and Yuma Police Departments, and with the Cochise County Sheriff's Office (3). At any given time, the agencies participating in the program may shift based on jurisdictions' ability and willingness to participate and on program budget constraints. DPS has allocated $495,800 for the program in FY 2019. Local agencies pay 25% of the payroll costs of their positions. The Border County Officers Program was first reviewed by JLBC in August 2007.

Border Crimes Unit

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

DPS has allocated $350,000 for the project in FY 2019. Pima County pays for all costs above the $350,000 level. The Pima County portion exceeds 25% of the payroll costs for the 10 positions. The BCU was first reviewed by JLBC in August 2007.

Border Security and Law Enforcement Grants

In recent years, DPS has conferred with the Arizona Sheriffs' Association (ASA) on the distribution of the Border Security and Law Enforcement Grants. We have contacted the ASA about the FY 2019 distribution plan but have not reached a resolution. For historical perspective, the following table shows the FY 2017 and FY 2018 allocations of these monies:

County Sheriff	FY17 Allocations	FY18 Allocations	FY19 Plan
Apache	$70,000	$0	TBD
Cochise	$70,000	$350,000	TBD
Coconino	$70,000	0	TBD
Gila	$70,000	0	TBD
Graham	$70,000	0	TBD
Greenlee	$70,000	0	TBD
La Paz	$70,000	0	TBD
Maricopa	$70,000	0	TBD
Mohave	$70,000	0	TBD
Navajo	$70,000	0	TBD
Pima [1/]	$70,000	0	TBD
Pinal [2/]	$70,000	0	TBD
Santa Cruz	$70,000	$350,000	TBD
Yavapai	$70,000	0	TBD
Yuma	$70,000	$350,000	TBD
TOTAL	**$1,050,000**	**$1,050,000**	**$1,050,000**

[1/] Per the submitted distribution plan, DPS intends to reimburse the Pima County Sheriff's Department an additional $350,000 for eligible Border Crimes Unit costs. In addition, the Criminal Justice Budget Reconciliation Bill has allocated $400,000 from the GIITEM Fund to PCSD in FY 2018 and FY 2019.
[2/] The Pinal County Sheriff's Office has been allocated an additional $500,000 in FY 2017 through FY 2019 from the GIITEM Fund pursuant to A.R.S. § 41-1724.

DPS will present a grant allocation plan to the JLBC for review at a future meeting. We anticipate the plan will be finalized over the summer. The "delay" in reviewing the grant allocations should have no effect on the receiving counties operations, as the allocations are typically made in October (50%) and April (50%) due to cash flow limitations of the GIITEM Subaccount.

Grant recipient agencies may use the funding for any purpose consistent with statute. As required by statute, in order to receive the funding, recipient agencies must certify each fiscal year to the DPS Director that the agency is complying with A.R.S. §11-1051 to the fullest extent of the law. If one or more sheriffs' offices do not accept the funding, DPS intends to prorate unobligated amounts over those agencies that do accept the grants.

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

Sincerely,

Frank L. Milstead, Colonel
Director

C: Representative David Livingston, Vice-Chairman
Matthew Gress, OSPB Director
Richard Stavneak, JLBC Director

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 12, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Fiscal Analyst GP

SUBJECT: Arizona Department of Administration - Review of the Arizona Financial Information System Transaction Fee

Request

Pursuant to A.R.S. § 41-740.01, the Arizona Department of Administration (ADOA) requests review of its proposed 32.9 cent transaction fee charged to state agencies for the operation of the Arizona Financial Information System (AFIS).

Committee Options

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

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

A. On or before December 1, 2018 ADOA shall submit to the Joint Legislative Budget Committee the FY 2018 AFIS transaction count by agency and fund source.

(Continued)

Key Points

1) Transaction fee is determined by dividing the cost of operating the AFIS system by the number of total transactions in the most recent year.
2) Current fee of 32.5 cents per transaction is based on FY 2018 operating costs and FY 2016 transaction count.
3) FY 2019 AFIS operating appropriation and FY 2017 AFIS transaction count results in a fee of 32.9 cents per transaction.

Analysis

Background

A.R.S. § 41-740.01 allows ADOA to collect a per transaction usage fee from agencies to recover the ongoing operating costs associated with AFIS and requires Committee review prior to ADOA changing the transaction fee.

At the Committee's June 20, 2017 meeting, ADOA proposed calculating the transaction fee by dividing the total AFIS operating costs by the total annual AFIS transactions. The FY 2018 General Appropriation Act included $9.5 million and 28 FTE Positions from the AFIS Collections Fund in FY 2018 for operating costs. ADOA reported annual AFIS transactions for FY 2016 of about 29.0 million, which amounted to a fee of 32.5 cent fee per transaction. The Committee gave a favorable review of the 32.5-cent transaction fee at that meeting.

Agencies are not charged per transaction, but are charged based on the number of actual transactions from the most recent year, multiplied by the transaction fee. Agencies are typically billed at the beginning of the fiscal year.

Fee Proposal

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) included $9,406,300 and 28 FTE Positions from the AFIS Collections Fund in FY 2019 for AFIS operations.

ADOA reports that in FY 2017 AFIS processed 28.6 million transactions. This results in a charge of approximately 32.9 cents per transaction. Agencies' charges for FY 2019 may change from their FY 2018 charges, but the budget does not allocate any adjustments for this purpose.

GP:kp

Douglas A. Ducey
Governor

Gilbert Davidson
Chief of Operations
and Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

GENERAL ACCOUNTING OFFICE

100 NORTH FIFTEENTH AVENUE · SUITE 302
PHOENIX, ARIZONA 85007

Phone: (602) 542-5601 · Fax: (602) 542-5749

PM 1 2 3 4 5 6 7 8 9 10 11 12 AM 1 2 3 4 5 6 7 8 9 10 11 12
RECEIVED
MAY 30 2018
JOINT BUDGET COMMITTEE

May 25, 2018

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

Dear Senator Kavanagh:

We request placement on the next Joint Legislative Budget Committee (JLBC) meeting agenda to review the FY19 cost allocation to State agencies for the Arizona Financial Information System (AFIS). Pursuant to A.R.S. § 41-740.01, the department is required to submit a proposed fee to the JLBC before establishing or charging a fee.

The proposed fee related to the cost allocation is determined by dividing the $9,406,300 FY19 appropriation amount for AFIS, by the allocable FY17 transaction count of 28,596,444. This results in a charge of approximately 32.9 cents per transaction. The detailed allocation has been submitted to staff. The amount will be appropriately revised for any back of the bill adjustments that affect the AFIS appropriation.

Thank you for your attention to this request. If you have any questions or need any additional information please call me at 542-5405.

Sincerely,

D. Clark Partridge

D. Clark Partridge
State Comptroller

cc:
Richard Stavneak, JLBC
Rebecca Perrera, JLBC
Jack Brown, JLBC
Gilbert Davidson, ADOA
Elizabeth Thorson, ADOA
Matthew Gress, OSPB
Bill Greeney, OSPB
Jacob Wingate, OSPB
Derik Leavitt, ADOA
Elizabeth Bartholomew, ADOA

10A

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 14, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Fiscal Analyst GP

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of FY 2019 Criminal Justice Information System Replacement (Department of Public Safety Subaccount)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $2,806,200 in proposed FY 2019 expenditures from the Automation Projects Fund (APF) - Department of Public Safety (DPS) Subaccount for upgrades to the Criminal Justice Information System (CJIS). This is the second year of a 3-year project. In FY 2018, ADOA/DPS received $2,343,000 for the first year of the project. DPS plans to request $2,301,000 to complete the project in FY 2020.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

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

A. A favorable review does not constitute endorsement of General Fund appropriations to pay for future development costs or operating costs.

(Continued)

Key Points

1) DPS proposes expending $2.8 M for the second year of a 3-year project to update the Criminal Justice Information System.
2) DPS will continue to upgrade their "hot files" applications and begin work on the criminal history database.
3) DPS projects the total 3-year cost of the project to be $7.5 M. Without funding in FY 2020, DPS reports no part of the project could be completed.

Analysis

Background

CJIS is the state's central repository for criminal history information including criminal history records, wanted persons, stolen vehicles, stolen property, and other information used in background checks.

The FY 2018 budget appropriated $2,343,000 to DPS from the APF for the first year of the 3-year project. The JLBC gave a favorable review of that expenditure plan at its September 15, 2017 meeting. The Information Technology Authorization Committee (ITAC) approved the entire project at their August 30, 2017 meeting.

Current Request

The FY 2019 budget appropriates $2,806,200 to ADOA from the APF DPS Subaccount to upgrade CJIS. The budget funds this appropriation through a corresponding transfer from the Highway Patrol Fund to the APF DPS Subaccount. Currently, CJIS utilizes an old coding language which is incompatible with many applications. DPS proposes to modernize the applications, databases, and software languages. Some of these applications are more than 30 years old and DPS has difficulty finding qualified employees to maintain the software. DPS reports that the upgrade to new systems will allow for a more flexible environment for future support and future applications, and will allow for the hiring of developers with modern skills.

With FY 2019 funding, DPS will continue to upgrade their "hot files," which include information used to identify and locate wanted and missing persons, unidentified persons and stolen property (such as vehicles, guns, boats and other personal property). DPS will also begin upgrading their criminal history database.

In addition to modernizing the CJIS applications, the project will complete the migration of all CJIS components from the DPS mainframe to existing servers in the DPS data center.

Completion of the project is contingent upon additional funding in FY 2020 totaling $2,301,000. Without this funding, DPS reports that none of the components could be completed. Given the need for added funding to complete the project, the Committee may consider a provision stating that a favorable review does not constitute endorsement of a General Fund appropriation for the remaining unfunded costs.

Once completed, DPS expects ongoing maintenance costs of $300,000 to $400,000, which DPS plans to pay for using their existing base budget.

(Continued)

DPS has provided an expenditure plan for the project's FY 2019 funding (*see Table 1 below).* The expenditures in FY 2019 are all one-time development costs.

Table 1

DPS CJIS Project Phase 2 Expenditure Plan

Expense	Amount
Database Creation and Customization (partial payment)	$1,961,650
Application Development	267,900
Hot Files Test and Roll Out	236,900
Project Management	231,750
Third-Party Review	108,000
Total	**$2,806,200**

Third-Party Review

Pursuant to A.R.S. § 18-104A1(g), DPS has contracted with an independent third-party vendor to provide quarterly reports on the project. The April third-party review does not identify any significant risks, and acknowledges that DPS has addressed many of the previous concerns identified in the review process. The report does, however, identify a few further concerns for the project:

A. Several project activities were not completed on time, posing a risk to the project schedule.
B. The independent reviewer has had limited access to project artifacts and meetings.
C. Quality and performance measures are not currently defined for the project.
D. Testing activities and details are unclear and ownership of activities are not clearly documented.
E. Training information is at a high level and requires additional details.

The April report does express optimism that these concerns will be addressed by DPS in future reporting periods.

GP:kp

Douglas A. Ducey
Governor

Gilbert Davidson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007
(602) 542-1500

RECEIVED
JUN 01 2018
JOINT BUDGET COMMITTEE

May 29, 2018

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

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

Dear Senator Kavanagh and Representative Livingston:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 and 2019 of the Automation Projects Fund (APF) projects related to Department of Administration, Department of Financial Institutions, and Department of Public Safety. The monies have been appropriated to support APF expenditure plans.

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

Sincerely,

Gilbert Davidson
Interim Director

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

ARIZONA DEPARTMENT OF PUBLIC SAFETY

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

"Courteous Vigilance"

DOUGLAS A. DUCEY Governor **FRANK L. MILSTEAD** Director

1 2 3 4 5 6 7 8 9 10 11 12 PM 1 2 3 4 5 6 7 8 9 10 11 12 AM

RECEIVED

MAY 29 2018

JOINT BUDGET COMMITTEE

May 29, 2018

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

Dear Senator Kavanagh:

Pursuant to A.R.S. 41-714, Automation projects fund, the Department of Public Safety (DPS) requests to be placed on the next Joint Legislative Budget Committee's (JLBC) agenda for review of its expenditure plan for the Arizona Criminal Justice Information System (Project Information and Justification: CJIS Applications Conversion from Mainframe to Open Systems) technology project.

In conjunction with a multiphase project to replace an old Message Switch, DPS is in the process of moving the Criminal Justice Applications (Hot Files, e.g., Wanted Persons and Stolen Vehicles and Criminal History Files) from the existing Mainframe to a new open system. The move of these CJIS applications to the new Open System will allow DPS to continue to provide databases and applications for the Arizona Criminal Justice Information System (ACJIS) to all law enforcement and criminal justice agencies, in-state and across the country, as mandated by A.R.S. 41-1750.

In addition, archaic applications, databases and languages will be transitioned to the new system. This will allow for more a flexible environment for future applications, and will allow for the hiring of developers with modern system skills. The proposed multi-year solution will include software licensing, software configuration, consulting, on-going maintenance and support.

DPS was appropriated $2,343,000.00 through the Automated Project Fund in FY 2018 for phase 1 of this 3-phase project. To date, the Department has expended $2,057,885.91 of this funding and is on track to complete phase 1 on schedule. We expect the full amount of the FY 2018 appropriation to be expended by June 30, 2018.

DPS has been appropriated funding in the amount of $2,806,200.00 from the Automation Project Fund (APF) for FY19. DPS plans to expend the funds in the following manner:

Milestone	Amount	Projected Date of Expenditure
Public Consulting Group - Quarter 1 (1st Report) [1/]	$27,000.00	September-18
Remainder of Application Development, Unit Test and Promoting to Test	$267,900.00	December-18
Public Consulting Group – Quarter 2	$27,000.00	December-18
Hot Files User Acceptance Test (UAT)	$206,000.00	January-19
Public Consulting Group- Quarter 3	$27,000.00	March-19
Hot File Production Rollout, promote Code to Production	$30.900.00	March-19
Project Management - Partial Payment [2/]	$231,750.00	March-19
Partial CCH – Arizona State Specific Customizations	$1,899,850.00	June-19
Public Consulting Group – Quarter 4	$27,000.00	June-19
Partial Database creation and support for Arizona Specific Customizations	$61,800.00	June-19
Total	$2,806,200.00	

[1/] Pursuant to A.R.S § 18-104 an external third-party project manager is required for information technology projects with costs exceeding $5,000,000.

[2/] Represents the FY 2019 payment to the application developer, CPI, for annual administrative. The other "partial payments" for this purpose were made/will be made in FY 2018 and FY 2020 (assuming FY 2020 project costs are appropriated) for a total amount of $625,000

DPS will need to request funding for FY20 estimated at $2,301,000.00 for project completion. Attached for your information is a copy of the Project Information and Justification (PIJ) document.

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

Sincerely,

Frank L. Milstead, Colonel
Director

cc: Representative David Livingston, Vice-Chairman
Matthew Gress, OSPB Director
Richard Stavneak, JLBC Director

Attachment

10B

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

HOUSE OF REPRESENTATIVES

DATE: June 14, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Senior Fiscal Analyst RP

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of Arizona Strategic Enterprise Technology Projects (ADOA Subaccount)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the Committee review $12,248,900 in proposed FY 2018 and FY 2019 expenditures from the Automation Projects Fund (APF) for information technology (IT) projects at the Arizona Strategic Enterprise Technology (ASET) Office in ADOA.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request

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

A. A favorable review does not constitute endorsement of appropriations for future year development or operating costs.

(Continued)

Key Points

1) ADOA proposes expending $11.8 M including:
   - $1.1 M to upgrade the Human Resource Information System.
   - $3.0 M to complete e-Procurement replacement.
   - $4.7 M to relocate the state data center to a private facility.
   - $2.9 M for statewide cyber security controls.
   - $500,000 to expand agency website capabilities.
2) Projects may increase ongoing operating costs at ADOA.

Analysis

Background

The Automation Projects Fund consists of monies appropriated to it by the Legislature and administered by ADOA. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the JLBC for review.

All IT projects over $25,000 are reviewed by ASET through the Project Investment Justification (PIJ) process. If an IT project's development cost exceeds $1.0 million, statute requires the project to receive additional approval by the Information Technology Authorization Committee (ITAC). ITAC consists of members from both the public and private sectors and is staffed by ADOA. Projects over $5.0 million require independent third-party oversight. If a project funds internal staff, training, or operating costs, ADOA does not require ITAC or ASET approval.

Current Request

ADOA was appropriated $13.2 million in FY 2018 and $9.0 million in FY 2019 from non-General Fund sources for ASET projects. Of this amount, ADOA is currently proposing an expenditure plan totaling $11.8 million from the APF ($3.3 million from its FY 2018 appropriation and the total $8.5 million FY 2019 appropriation.). *Table 1* outlines the ADOA's current request.

Table 1

FY 2018 - FY 2019 ASET-APF Appropriations

ASET Project	FY 19 Appropriation	June 2018 Request
HRIS Replacement Feasibility Study/Upgrade 1/	$ 821,900	$ 1,107,400
e-Procurement System Replacement	3,000,000	3,000,000
State Data Center Relocation	4,697,000	4,697,000
Security, Privacy, and Risk 1/	0	2,945,900
Digital Government	500,000	0
Project Management	0	0
Total	**$9,018,900**	**$11,750,300**

1/ Includes amounts from unexpended FY 2018 APF Appropriation

(Continued)

Because many of the proposed projects have ongoing operating costs, the Committee may consider a provision stating the Committee review does not commit the Legislature to additional funding.

Human Resource Information System (HRIS) Upgrade
HRIS is the state's system for human resource management including payroll, benefits, and employee performance management. The system has an annual operating cost of $4.6 million. ADOA reports that the system has not been upgraded by the current vendor since 2012 and is therefore no longer supported.

The FY 2018 budget included $500,000 to complete a study to replace HRIS. Based on the outcome of the study, ADOA proposes to upgrade the system rather than replace it. The total upgrade cost is $2,320,700 which includes upgrading the system to the vendor's current version and moving the system out of the SDC to the vendor's cloud. ITAC approved the project in March 2018. In addition, the vendor will operate and maintain the system.

ADOA requests review of $1.1 million from the APF which consist of $285,500 of unspent FY 2018 HRIS funds and $821,900 from the FY 2019 APF appropriation. In addition, ADOA will redirect $1.1 million from its Human Resources operating budget in FY 2018 through FY 2020 to complete the project.

In a recent letter to agency directors, ADOA reported that that the upgraded system requires minimum desktop computer requirements. Agencies may need to upgrade their computers to comply with these requirements and access the upgraded system online. ADOA has not yet determined the cost of these potential upgrades *(see provision A)*.

e-Procurement
The FY 2018 budget appropriated $9.0 million to replace the state's e-procurement system, ProcureAZ. The system serves as an online, publicly available, official procurement record and allows state agencies to manage solicitations, requisitions, and purchase orders, and notify registered vendors of available solicitations. ADOA is requesting a review of the $3.0 million FY 2019 appropriation to complete the project.

In March 2017, ADOA awarded a contract to a vendor, Ivalua, to implement the new e-procurement system. ADOA reported that the total project cost was $12.1 million *(See Table 2 below)*. In September 2017, the Committee failed to pass a favorable review of ADOA's expenditure plan for the project. ADOA has proceeded with the project.

The project is scheduled to be complete in December 2018. ADOA reports that the ongoing operating costs for the new system are $1.3 million annually for its 10-year contract.

Table 2

e-Procurement Project Development Costs

Component	Amount
Software Development	$10,381,400
AFIS Integration/ ProcureAZ Decommission	1,000,000
ADOA Internal Cost	700,000
Total	**$12,081,400**

(Continued)

State Data Center Relocation
ADOA's ASET office operates and maintains the State Data Center (SDC), housed at 1510 West Adams Street. In FY 2017, ADOA began a project to relocate the SDC to a privately-operated facility. The state would lease space at the facility and the private operator would be responsible for facility maintenance. ADOA employees would continue to staff the SDC.

At prior meetings, the Committee favorably reviewed earlier stages of the project. ADOA now requests review of its total $4.7 million FY 2019 APF appropriation for the third and final phase of a project to physically relocate the SDC to the third-party off-site facility by December 2018.

The relocation would leave the 28,300-square foot building at 1510 West Adams Street vacant. ADOA proposes an expenditure from its FY 2019 building renewal appropriation to demolish the building. This request is on the JCCR June 2018 agenda.

Security, Privacy, and Risk
ADOA's ASET Office is responsible for directing state policy to prevent cyber-attacks and data breaches. ADOA was appropriated $7.3 million in FY 2018 for cyber security projects. To date, the Committee has reviewed $4.1 million for ongoing cyber security operating costs including 13 statewide security controls. ASET is requesting review of $2.9 million from its FY 2018 appropriation to implement 3 additional security controls focused on internal IT users. For example, ADOA will attempt to induce state users to respond to fraudulent emails with personal information for the purposes of identifying vulnerabilities and training.

ADOA's proposal would purchase 2-year licenses upfront for these 3 controls for an annualized cost of approximately $1.5 million. ADOA has insufficient funds to continue licenses in FY 2021. *(See provision A.)*

RP:kp

Douglas A. Ducey
Governor

Gilbert Davidson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

RECEIVED
JUN 01 2018
JOINT BUDGET COMMITTEE

May 29, 2018

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

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

Dear Senator Kavanagh and Representative Livingston:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 and 2019 of the Automation Projects Fund (APF) projects related to Department of Administration, Department of Financial Institutions, and Department of Public Safety. The monies have been appropriated to support APF expenditure plans.

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

Sincerely,

Gilbert Davidson
Interim Director

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

FY19 Automation Projects Fund (APF; A.R.S. § 41-714)

Favorable Review Request for June 2018 JLBC Meeting

Agency-Division	Project Name	JLBC Favorable Review Request	PIJ/ASET/ITAC Status
ADOA	**State Data Center**	**4,697,000**	
ADOA	**Human Resource Information System**	**821,900**	
ADOA	**e-Procurement System**	**3,000,000**	
DFI	**e-Licensing**	**1,400,000**	
DPS	**Updates to the Criminal Justice Information System**	**2,806,200**	
	Total FY19 APF June 2018 Request	**$12,725,100**	
	Total FY19 APF Funds No Review Requested	$10,400,000	
	Total FY19 APF Funds Favorably Reviewed	$0	
	Total FY19 Appropriated APF Budget	**$23,125,100**	

ADOA/ASET

Project Name	FY19 Description	FY19 Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ ITAC Status	JLBC Fav. Rev. Status
State Data Center FY19 (PIJ ID AD16015)	This is the last Phase of a multi-year project. As of the May 2018 financial close, the $5.7M FY17 appropriation has been fully expended and the $3.4M FY18 appropriation is projected to have approximately $1.2M remainder at the start of FY19. In order to vacate the 1510 Data Center building by December 31, 2018, the release of this money is crucial in that timeline. See attached breakdown of items needed for relocation completion.	$4,697,000	$4,697,000	Approved	**Pending**
Human Resource Information System (PIJ ID AD18008)	The proposal is to move from the State Data Center by December 31st, and upgrade to S3 v10 and LTM v11 in the Infor CloudSuite with Infor providing managed application services for the HRIS product.	$821,900	$821,900	Approved	**Pending**
e-Procurement System (PIJ ID AD16008)	Implementation of the current e-procurement system has achieved the initial goal of establishing a single statewide standardized system. Standardization to a single system has provided the necessary foundation upon which increasing value added lean efforts can be launched. In addition, investment in a procurement solution will address the current compatibility issues. The system must integrate with the Arizona Financial Information System (AFIS) to allow for Purchase Order and Invoice transactions to flow from the e-Procurement tool to AFIS to record the appropriate accounting information. The integration between the two systems is currently problematic and inefficient, causing agencies to add additional staff to manage the procure-to-pay process.	$3,000,000	$3,000,000	Approved	**Pending**
Total			$8,518,900		

DFI

Project Name	FY19 Description	FY19 Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ ITAC Status	JLBC Fav. Rev. Status
e-Licensing (PIJ ID BD18001)	The State of Arizona has created an Enterprise contract for Budget Units (BU) authorized to issue licenses, permits or other such documents to individuals, professionals, and organizations to engage in a regulated business or professional activity. This solution proposes and Enterprise e-Licensing Software as a Service (SaaS) Solution that is specifically configurable to the needs of Budget Units including license workflow management for businesses vs professional licensing. The SaaS solution that enables all licensing-related activities within the BU's. This technology solution will be a web-based application hosted, and Vendor Managed. Furthermore, this solution will be implemented on a SalesForce platform that will allow for integration with current systems in place at DFI and new technologies implemented in the future at DFI.	$1,400,000	$1,400,000	Pending	**Pending**
Total			**$1,400,000**		

DPS

Project Name	FY19 Description	FY19 Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ ITAC Status	JLBC Fav. Rev. Status
Updates to CJIS FY19	In conjunction with a multiphase project to replace an old Message Switch, DPS is in the process of moving the Criminal Justice Applications (Hot Files, e.g., Wanted Persons and Stolen Vehicles and Criminal History Files) from the existing Mainframe to a new open system. The move of these CJIS applications to the new Open System will allow DPS to continue to provide databases and applications for the Arizona Criminal Justice Information System (ACJIS) to all law enforcement and criminal justice agencies, in-state and across the country, as mandated by A.R.S. 41-1750.	$2,806,200	$2,806,200	ITAC Approved	**Pending**
Total			**$2,806,200**		

FY18 Automation Projects Fund (APF; A.R.S. § 41-714)

Favorable Review Request for June 2018 JLBC Meeting

Agency-Division	Project Name	JLBC Favorable Review Request	PIJ/ASET/ITAC Status
ADOA	Insider Threat Risk Management	2,945,900	Pending ITAC Approval
ADOA	Feasibility Study to Replace Human Resource System	200,000	Pending ITAC Approval
ADOA	Project Management (HRIS Upgrade Project Management)	85,500	Pending ITAC Approval
	Total FY18 APF June 2018 Request*	**$3,231,400**	
	Total Favorably Reviewed FY18 APF Funds	$45,980,100	
	FY18 APF Funds Not Yet Reviewed by JLBC	$6,553,400	
	Broadband Expansion Fund	$3,000,000	
	Total FY18 Appropriated APF Budget	**$58,764,900**	

*Includes $285,500 approved for a different purpose and requesting to repurpose funds.

ADOA/ASET

Project Name	FY18 Description	FY18 Project Budget	Fav. Rev. Req'd Amt.	PIJ/ASET/ ITAC Status	JLBC Fav. Rev. Status
Insider Threat Risk Management (PIJ ID AD18011)	The primary function of the State of Arizona governmental agencies is to serve the citizens of Arizona. As such, citizens entrust the State with personal information, health information, financial information, and more. It is the duty of the State to do everything possible to safeguard this information, and protect this data from any unintended consequences. To that end, ADOA-ASET has an Enterprise Security team that is responsible for administering a suite of security controls that helps protect the State's IT systems, applications, networks, devices, and other assets. These standardized enterprise security solutions deployed throughout the State will enable agencies to effectively address insider threats, while allowing collaboration and sharing of threat information at a lower cost of ownership.	$7,303,500	$2,945,900	Will seek ITAC approval on June 13, 2018	**Pending**
Feasibility Study to Replace HRIS	Following the results of the feasibility study, the proposal is to move from the State data center by December 31st, and upgrade to S3 v10 and LTM v11 in the Infor CloudSuite with Infor providing managed application services for the HRIS product. This project was originally reviewed for the Feasibility Study and requesting approval to utilize the balance of the FY18 project for the HRIS upgrade itself.	$500,000	$200,000	Will seek ITAC approval June or July	**Pending**
Project Management	The original approval for the project was to fund project managers and business analysts for Automation Projects Fund (APF) oversight. This request is to repurpose funds to pay for a project manager that oversees the HRIS upgrade.	$1,500,000	$85,500	Will seek ITAC approval June or July	**Pending**
Total			$3,231,400		

ADOA Request for JLBC Committee Review of FY 2019 Data Center Appropriation

Summary Overview

Description

There are more than 140 state entities that leverage the State Data Center's (SDC) infrastructure, services, and capabilities for mission-critical services. The SDC is an aging facility and it is no longer sustainable, so the infrastructure and hardware are scheduled to be moved to the I/O Data Center. The current facility is hard-wired through the State-owned fiber/copper networks to over 35 facilities and 11,000 users on the Capitol Mall, including the Governor's Tower and as a result, serves as a major point of entrance and exit of Information Technology (IT) services into the State-owned fiber/copper networks. One important component of the move is connecting the I/O Data Center facilities to the networks. Abandonment of the State-owned fiber/copper networks will result in extensive carrier cost for service delivery to each facility.

A Shared Hosted Data Center (SHDC) must:

- Be at minimum a Tier III as defined by Telecommunications Industry Association(TIA)-942: Data Center Standards.
- Be large enough to allow for possible expansion, if the State desires to consolidate IT hardware from other State agencies into the Data Center
- Have both white (raised floor) space and Modular space
- Meet all state & federal security requirements

The associated technology solution must:

- Provide redundancy by design
- Allow leveraging and extending of State-owned Fiber networks
- Allow multi-agency service hand off via equipment specifications

Benefits to Moving to the I/O Data Center:

- **Service Enhancement**
  - Leverage a Tier III DataCenter physical security and environment, an improvement over the current facility
- **Problem Avoidance**
  - Reduce major IT system outage due to environmental issues, i.e. electrical or building cooling systems
- **Risk Avoidance**
  - Moving a critical system out of an aging building
- **Cost Avoidance/Reduction**
  - Leverages the DWDM* with no additional carrier charge, which allows for the disconnection of the dedicated carrier connection from facilities on the Capitol Mall to the I/O Data Center

*A Dense Wavelength Division Multiplexing (DWDM) is an optical multiplexing technology used to increase bandwidth over existing fiber networks. DWDM works by combining and transmitting multiple signals simultaneously at different wavelengths on the same fiber.

Current Request

ADOA is requesting JLBC review of the FY19 Automation Project Fund (APF) appropriation of $4,697,000 to complete the final two phases of the migration to I/O Data Center. These phases are running concurrently and will be completed December 31, 2018. The decommissioning of the building will start January 1, 2019 and finish no later than January 31, 2019.

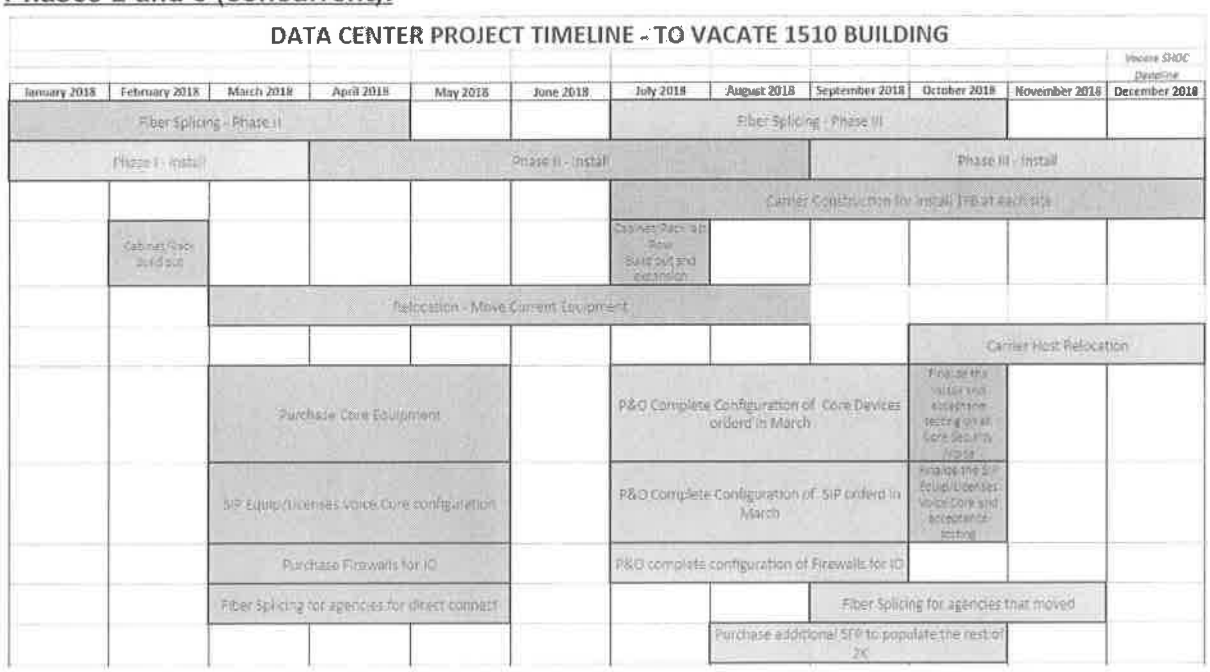
Expenditure Budget by Appropriation and Phase

Description	FY17	FY18	FY19
Phase 1 - Initial Build-Out of I/O			
I/O Build-out, Fiber Splicing, Labor, DWDM, Switching Equipment	$ 1,769,862		
Phase 2 - Agency On-Boarding to I/O			
Rack Build-out, Fiber-Splicing, Switching Equipment, Labor, DWDM	$3,930,138	$1,022,814	
Phase 3 -Move COREs from SDC			
Equipment, Labor, Expand capacity of I/O, DWDM		$ 2,382,286	$4,697,000
Total Appropriation	**$5,700,000**	**$3,405,100**	**$4,697,000**

Phase 1 - Build Infrastructure at I/O - *Completed*
Phase 2a - Move Hosted Agency servers from SDC
Phase 2b - Move ADOA and supported agencies to I/O
Phase 2c - Move ADOA Security Firewall to I/O
Phase 3 - AZNet equipment to I/O from SDC

Project Plan

Phases 2 and 3 (concurrent):



Shared Hosted Data Center Project FY 2019

	FY19 Updated
Ongoing Expenditure (Operational Cost)	**FY19 Updated**
DWDM Annual Maintenance	$ 48,000
1 FB Phone Lines- Mall Emergency/Elevator Connections	$ 10,000
One time expenditure (Development Cost)	
Required to complete the core relocation	
Virtual Gateways-(VG350) Convert Analog Services on the Mall	$ 300,000
Power/Infrastructure Upgrades- Capitol Mall to Support Virtual Gateways	$ 75,000
Carrier Construction - Install 1FB at Each Site/ Back Ups	$ 100,000
SIP Equipment & Licenses - Voice Core Services	$ 300,000
Carrier Host Relocation - New Mall Ingress Site	$ 335,000
Rack and Power for Rows 3&4 - I/O Build/Expansion	$ 135,000
Complete Top of Rack Switching	$ 500,000
Mall Fiber Splicing For Analog Services	$ 100,000
Relocation of Current Equipment(Servers)	$ 400,000
Core Equipment at I/O and ADOA Security and Voice	$ 1,600,000
Labor and Install	$ 500,000
Building additional capacity	
I/O Additional Capacity Build Out- Next Phases for Other Agency Transitions	$ 294,000
	$ 4,697,000

<u>ADOA Request for JLBC Review of FY 2019 HRIS Upgrade Appropriations</u>

Summary Overview

<u>Description</u>

At the end of 2017, ADOA commissioned Accenture to study the current Human Resources Information System (HRIS) to identify improvement opportunities, options, and a recommended roadmap for HRIS investments that are aligned with the State's business imperatives and industry leading practices.

The State is currently using an outdated version of the HRIS software applications which require extensive support services through the Infor software company, far beyond the typical extended support service program. The HRIS applications need upgrades to avoid risks of data loss or system failure associated with an outdated system. This will also allow HRIS to return to standard Infor support services and avoid further extended support costs. HRIS has an estimated 600+ customizations built around specialized business processes that present challenges in attempting to upgrade, since these customizations are not supported by Infor. The business requirements for these customizations will be assessed and risks mitigated in development and transition to Infor. Additionally, the Infor applications are hosted in the State of Arizona Data Center which is scheduled to close on December 31st, 2018.

ADOA will implement a recommendation from the feasibility study to address the issues facing the State. The State will:

1) **Upgrade Infor to v10/v11 Cloud Applications:** Upgrade the Infor applications from version 9 to version 10 (with some new Infor Global Human Resources version 11 applications) and have these new applications hosted on Infor/Amazon Cloud. This will allow ADOA to meet the deadline to vacate the State Data Center and to eliminate the costly extended software support currently required for the version 9 applications.
2) **Optimize HCM/Payroll Business Processes:** Once upgraded, the State will work to optimize the human capital and payroll business processes with the Infor Cloud solutions to eliminate many of the inefficiencies that currently exist, in accordance with the recommendation from the Accenture study..

The State has contracted with Infor Client Services (ICS) to provide the technical consulting team to perform the upgrade. The State has also contracted with GlobalStar Consulting to provide an experienced Infor project manager to fulfill the State's project management responsibilities.

<u>Current Request</u>

ADOA is requesting JLBC review of three appropriations from the Automation Projects Fund associated with this project.

1) FY 2019 HRIS Upgrade - $821,000 (Laws 2018, Chapter 276, Section 118)
2) FY 2018 Feasibility Study Remaining Funds - $200,000 (Laws 2018, Chapter 276, Section 2)
3) FY 2018 PMO Reallocation Funds - $85,000 (Laws 2018, Chapter 276, Section 2(C))

These funds will cover the costs for phases 1 and 2, along with necessary discretionary hours, described below:

Expenditure Budget

Upgrade Costs

Description	FY18	FY19	FY20
Phase 1	$440,104	$637,003	
Travel Phase 1	$26,100	$26,100	
Training	$50,000		
Discretionary Hours	$45,375	$136,125	
Contract PM - Phase 1	$125,400	$171,600	
Business Analyst - Phase 1	$98,600	$150,800	
Phase 2		$296,986	$76,894
Travel Phase 2		$28,286	$11,314
Upgrade Cost Total	**$785,579**	**$1,446,900**	**$88,208**

Phase 1- Human Resources and Payroll upgraded by 12/31/2018: Upgrade the State's current platform from version 9 to CloudSuite version 10, upgrade current Talent Management to system CloudSuite version 11, and change core system of record functions to the vendor's cloud supported system.

Phase 2- Benefits and Leave Planning by 8/31/2019: Upgrade the State's Leave Planning (LP) and Benefits administration from version 10 to version 11.

Fund Sourcing by Appropriation

APF Appropriations for Review	FY18	FY19	FY20
HRIS Upgrade Appropriation		$821,900	
Remainder of Feasibility Study Appropriation		$200,000	
Reallocation of PMO Appropriation	$85,500		
Subtotal APF for Review	***$85,500***	***$1,021,900***	***$0***
HR Operating Budget	$700,079	$425,000	$88,208
Fund Sourcing Total	**$785,579**	**$1,446,900**	**$88,208**

<u>ADOA Request for JLBC Review of FY 2019 eProcurement/ Source to Pay Appropriation</u>

Summary Overview

<u>Description</u>

The goal of the eProcurement/Source to Pay (S2P) solution is to provide end-to-end automation; reduce maverick spend; and enhance spend management, data quality and availability, and supplier management across the S2P processes spanning Procurement and Accounting.

Souce to Pay, a cloud based software solution from Ivalua, Inc., was selected through the Request for Proposal (RFP) process to replace ProcureAZ, the State of Arizona's online procurement portal. Ivalua has subcontracted the implementation services effort to KPMG's Procurement Advisory group. Additionally, the State has directly engaged CGI to provide integration services for the Arizona Financial Information System (AFIS) and Periscope to provide ProcureAZ offboarding and data migration services. This project has been a statewide effort beginning with requirements gathering, vendor selection, system design, and software build throughout the project life cycle.

<u>Status</u>

The project is on schedule with two planned releases. The first release will replace the existing ProcureAZ system withS2P for all State employees on October 15, 2018. The second release will provide further enhancements for the system. The project is tracking to the planned cost schedule. The project has ten major work streams with associated milestones to include mobilize, build, test, train, deploy, sustain, supplier enablement, change management and program management. These work streams are staffed by both internal and external resources to ensure project success.

Key Milestones/Deliverables Completed (see schedule below):

- Functional Designs for Supplier Management, Source to Contract and Purchase to Pay
- Technical Designs for AFIS integrations
- Two positive reviews of progress in the system construction, as it will be structured in the first release
- Cutover Strategy (functional and technical)
- Test Strategy (system integration, User Acceptance)
- Training Plan and Curriculum
- Supplier Enablement Strategy
- Organizational Readiness Strategy
- Organizational Change Readiness Assessment I

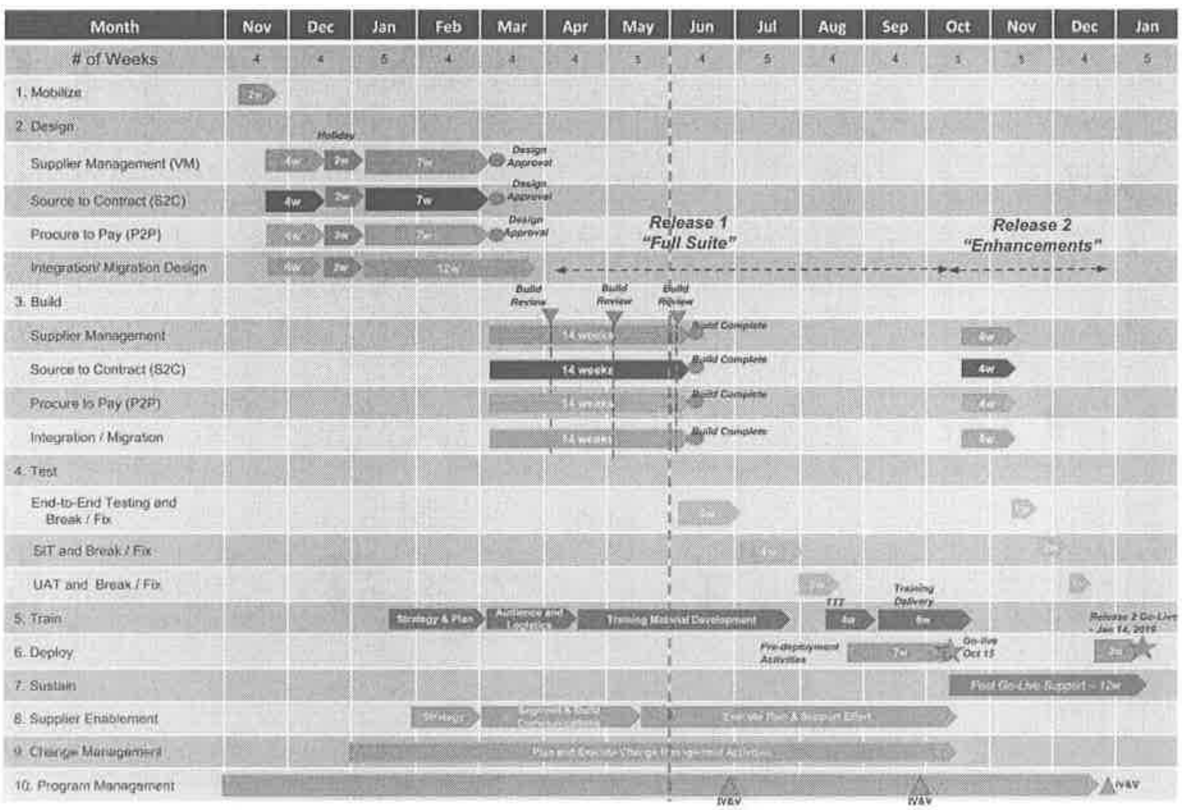
<u>Current Request</u>

ADOA is requesting review of the FY19 appropriation of FY19 $3,000,000 to complete the project. The total project cost is $12,000,000. Of this total cost, $9,000,000 was appropriated in FY18 and the remaining $3,000,000 was appropriated in FY19. A favorable review of the FY19 appropriation will allow the e project to be completed by the scheduled completion date of January 14, 2019.

Appropriation Budget

Description	FY18	FY19	Total
Ivalua Software Subscription Fees	$1,954,750	-	$1,954,750
Ivalua/KPMG Software Implementation Services	$5,689,950	$2,553,750	$8,243,700
3rd Party Integration and Data Migration Services	$829,600	$339,850	$1,169,450
RFP, IV&V and PM Contractors	$525,700	$106,400	$632,100
Total	**$9,000,000**	**$3,000,000**	**$12,000,000**

Project Plan



ADOA Request for JLBC Committee Review of FY 2018 Cyber Security Appropriations

Summary Overview

Description

The primary function of the State of Arizona governmental agencies is to serve the citizens of Arizona. As such, citizens entrust the State with personal information, health information, financial information, and more. It is the duty of the State to do everything possible to safeguard this information, and protect this data from any unintended consequences. To that end, ADOA-ASET has an Enterprise Security team that is responsible for administering a suite of security controls that helps protect the State's IT systems, applications, networks, devices, and other assets.

Background

ADOA-ASET follows the National Institute of Standards and Technology (NIST) Cybersecurity framework, which recommends a number of controls with the purpose of assessing and improving the State's ability to prevent, detect, and respond to cyber attacks. The Enterprise Security team currently oversees and manages a suite of 13 enterprise solution controls (out of a potential 20), and now seeks to deploy three additional enterprise security controls to fill existing gaps that place the State at risk.

While the existing 13 controls deployed protect against known "external" threats, the State lacks a comprehensive enterprise approach to effectively address the growing "insider" threats. Thus, State data continues to be at risk, as most Agencies do not currently have solutions capable of monitoring and defending against insider threats.

Problem

Insider threats in cyber security are often associated with malicious users, but employees and/or contractors can inadvertently cause a data breach. A prime example would be a loss of credentials due to phishing or theft. Another example is when an employee, through carelessness, invites malware into the system by clicking on a link in a spam email or unknowingly bringing an infected device to work. Other honest mistakes include sending sensitive files to the wrong address. All of these are only a small list of ways in which employees can inadvertently compromise State data and cost the State money.

Proposed Solution

The three additional controls that are being added to the portfolio of Enterprise Security products were selected after extensive research and discover and include:

> **Cloud Access Security Broker (CASB):** A Cloud Access Security Broker is a software-based solution that allows an organization to bridge its security policies from an organization's existing infrastructure to its cloud-hosted solutions. CASB solutions are also widely utilized to provide visibility into what cloud-hosted technologies employees may be utilizing that are not sanctioned by the organization, commonly referred to as "Shadow IT".

User and Entity Behavior Analytics (UEBA): User and Entity Behavior Analytics offer profiling and anomaly detection of users and other entities (hosts, applications, network traffic and data repositories) based on a range of analytics approaches. Typically this is done by using a combination of basic analytics methods such as signatures and pattern matching as well as more advanced analytics such as machine learning. UEBA solutions discover potential incidents and provide actionable insights based on the activity of users and other entities that is anomalous to the standard profiles. Examples of these activities include unusual access to systems and data by trusted insiders or third parties, and breaches by external attackers evading preventative security controls.

Phishing: Phishing prevention tools attempt to prevent or reduce risks when scammers use fraudulent email or texts or copycat websites to get users to share valuable personal information – such as account numbers, Social Security numbers, or login accounts and passwords. Phishing emails can also be used to get access to computers or networks and install programs like malware or ransomware, that can lock users out of files on their computers.

Justification

This project will provide cost effective, best in class, enterprise security insider threat control solutions across State agencies which will help protect against cyber-attacks and data ex-filtration. The project will primarily utilize cloud-hosted solutions, and will take advantage of enterprise purchasing power to negotiate lower per-seat pricing.

These standardized enterprise security solutions deployed throughout the State will enable agencies to effectively address insider threats, while allowing collaboration and sharing of threat information at a lower cost of ownership.

This project aligns directly with ADOA-ASET's Strategic Goal of "Secure the Enterprise" and has indirect impacts on the RiskSense Security Goals, as this enterprise project helps transform and improve the way the State manages cyber security. This approach allows for consistent application of industry best practices through strategically sourced enterprise tools and services that enhance the speed, reduces costs, and increases the effectiveness of cyber security procurements.

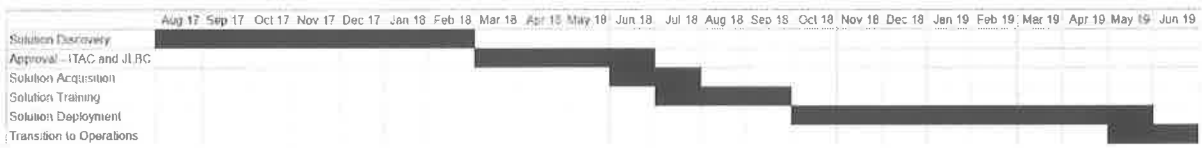
Cost

Description	FY18	FY19	FY20*
CASB	$1,400,000	$0	$800,000
UEBA	$1,449,760	$0	$658,880
Phishing	$96,096	$0	$48,048
TOTALS	$2,945,856	$0	$1,506,928

The three new controls will be purchased, bundling two years of licensing, using a portion of the available FY 2018 appropriation from the Automation Projects Fund. This approach has a $0 cost in FY 2019 and allows ADOA-ASET to review the effectiveness of the solutions, and account for changes in technology or threat patterns prior to committing to additional costs.

*FY20 expenses will only be realized if continued appropriations are made. Contracts will be written with funds availability clauses.

Project Schedule



Solution Discovery included research and discovery of products and vendors. Other agencies were partnered with to ensure that the solutions met the State's various needs. Request for information were solicited. Multiple vendors provided demonstrations. From those vendors, proof of concepts were conducted.

Approval is required by ITAC. The project will go before ITAC on June 13th. ADOA-ASET will be requesting a favorable review from JLBC on June 19th.

Solution Acquisition is expected to take less than two weeks following JLBC favorable review.

Solution Training will occur with the vendors and ADOA-ASET and agency security personnel to ensure that the solutions are successfully implemented. Training and professional services were included in the quotes.

Solution Deployment will follow the model that the 13 existing controls used with improvements from lessons learned along the way.

Transition to Operations is a time that the project will move into normal operations. All processes will be documented during this time to ensure successful continued operations of these three new security controls.

10C

STATE OF ARIZONA

Joint Legislative Budget Committee

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

(602) 926-5491

azleg.gov

DATE: June 14, 2018

TO: Members of the Joint Legislative Budget Committee

FROM: Jeremy Gunderson, Fiscal Analyst

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of E-Licensing Project (Department of Financial Institutions Subaccount)

Request

Pursuant to A.R.S. § 41-714, the Arizona Department of Administration (ADOA) has requested that the JLBC review $1,400,000 in proposed expenditures from the Department of Financial Institutions Subaccount of the Automation Projects Fund (APF) for a new e-licensing system at the Department of Financial Institutions (DFI).

Committee Options

The Committee has at least the following 2 options:

1. A favorable review.

2. An unfavorable review.

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

A. 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, DFI must amend the PIJ to reflect the changes and submit it to ADOA-ASET for review and approval prior to further expenditure of funds.

B. A favorable review is contingent upon the Information Technology Authorization Committee's (ITAC) approval of the project.

(Continued)

Key Points
1) The FY 2019 budget allocated $1.4 m from a DFI Fund in for an e-licensing system.
2) ITAC has yet to approve DFI's IT plan.

Analysis

Background
DFI regulates state-chartered financial institutions. The department's duties include licensing 26 different categories of financial institutions, financial enterprises, and real estate appraisers, as well as examinations of those entities for financial soundness and compliance with state and federal laws and regulations.

Initial E-Licensing Project
As part of the FY 2014 budget, DFI was granted authority to spend up to $850,000 from the non-appropriated Receivership Revolving Fund for an e-licensing system. The project was split into 3 phases. Phase 1 included the creation of a scanning and data warehousing solution that involved all mail, licensing applications, and incoming documents to be digitally scanned and placed in an electronic warehouse with access by all employees. This phase was completed in June 2015, at a cost of $70,000 for installation and ongoing licensing and maintenance costs of $223,300. The ongoing costs were moved to the Financial Services Fund in FY 2016.

The final 2 phases were intended to include the e-licensing functions, data conversion, and examination management functions for the department's Financial Enterprise Division and Financial Institutions Division. Total expenditures from the Receivership Revolving Fund through January 2018 were $693,000. However, the final 2 phases were beset with delays and were never completed.

90/10 Statewide E-Licensing
In order to modernize state board application systems, standardize user experiences, and reduce overall costs, ADOA implemented a new licensing system in February 2018 that uses cloud-based software configured to each individual agency's needs and is hosted by a third-party.

Thirteen 90/10 regulatory boards in the state who operated with limited or no e-licensing functionality participated in the first phase of the project. The FY 2018 budget transferred $595,500 from these boards' funds to the APF for development costs. *Table 2* lists the 13 boards participating in the project as well as the amount transferred from each board's fund in FY 2018.

In its June 2017 meeting, JLBC gave a favorable review of the $595,500 in development expenditures for this project.

Current Proposal
The FY 2019 General Appropriation Act transferred $1.4 million from the Receivership Revolving Fund to the APF-DFI Subaccount and then appropriated these funds for e-licensing and examination management software. The new project will utilize the existing state contract for statewide e-licensing. The solution will be a web-based software as a service (SaaS) model. As with the statewide e-licensing projects, the software implementation will be managed by a private vendor.

(Continued)

ITAC has yet to approve this project. The costs of the project are estimates based on initial quotes from vendors.

Project Costs
Development costs for the project are estimated to total $1.4 million. This amount includes $93,000 in licensing fees while the project is being developed, $840,000 software implementation, and $473,000 for data migration and legacy system decommissioning, as shown in *Table 1*. Ongoing costs will be paid from the DFI operating budget, and are estimated to be $90,900 annually.

Table 1
DFI E-Licensing Project Costs

Development Costs	**FY 2019**
SalesForce Licenses	$ 93,000
SalesForce Implementation	840,000
Data Migration/Legacy System Decommission	473,000
TOTAL	**$1,406,000**
Ongoing Costs	
SalesForce Licenses	$ 90,900

(Continued)

Table 2

Board Fund Transfers to APF in FY 2018

Agency/Fund	FY 2018
Acupuncture Board of Examiners	
Acupuncture Board of Examiners Fund	$45,900
Board of Athletic Training	
Athletic Training Fund	45,900
Board of Barbers	
Board of Barbers Fund	40,000
Board of Funeral Directors' and Embalmers'	
Board of Funeral Directors' and Embalmers' Fund	27,500
Board of Occupational Therapy	
Occupational Therapy Fund	45,900
Board of Dispensing Opticians	
Board of Dispensing Opticians Fund	27,500
Board of Optometry	
Board of Optometry Fund	45,900
Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers	
Board of Nursing Care Institution Administrators' Licensing and Assisted Living Facility Managers' Certification Fund	27,500
Board of Physical Therapy	
Board of Physical Therapy Fund	45,900
Board of Podiatry Examiners	
Podiatry Fund	27,500
Board for Private Postsecondary Education	
Board for Private Postsecondary Education Fund	80,200
Board of Psychologist Examiners	
Board of Psychologist Examiners Fund	91,700
Board of Respiratory Care Examiners	
Board of Respiratory Care Examiners Fund	44,100
TOTAL	**$595,500**

JG:kp

Douglas A. Ducey
Governor

Gilbert Davidson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

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

RECEIVED
JUN 01 2018
JOINT BUDGET COMMITTEE

May 29, 2018

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

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

Dear Senator Kavanagh and Representative Livingston:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal years 2018 and 2019 of the Automation Projects Fund (APF) projects related to Department of Administration, Department of Financial Institutions, and Department of Public Safety. The monies have been appropriated to support APF expenditure plans.

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

Sincerely,

Gilbert Davidson
Interim Director

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

DFI Request for JLBC Review of FY 2019 Digital Transformation and eLicensing Development Appropriation

Summary Overview

Description

The Department of Financial Institutions (DFI) current Information Technology (IT) infrastrastructure is severely outdated. It is made up of six separate systems with no integration between third party systems, creating multiple manual integration points to accomplish daily functions. Each of these systems has high risk vulnerabilities due to minimal support and dated knowledge of applications; one of which currently runs on a version of software that has not been updated in almost two decades. This system's limitations leave minimal room to meet new demand for volume and functionality required to carry out the requirements of DFI.

Implementing a Digital Transformation will:

- Allow for automated integrations with the Nationwide Multistate Licensing System (NMLS), current and future Document Management Systems, & online payment/licensing systems.
- Reduce the current six internal systems used down to one internal system as an agency-wide solution.
- Consolidate the current requirement for DFI to maintain and manage a physical server environment.
- Align DFI with Statewide initiatives to use enterprise technology solutions, move to the cloud, 100% paperless transitions and improve customer facing applications such as eLicensing.
- Allow for DFI to align with current technologies that better protect customer and state data.
- Enable DFI to continually adjust to business needs and industry standards within one system.
- Connect DFI's records with other state agencies such as the Attorney General's Office for Actions & Orders.

Benefits to the Proposed Digital Transformation:

- **Service Enhancement**
  - Superior customer experience delivered by automating the current manual processes and providing easier access and visibility to all services provided by DFI.
- **Cost Avoidance**
  - Reducing the year over year spend on physical tools such as servers, software renewals, paper and manual processes included to maintain each in the current state.
  - Increasing visibility and efficiency of current tasks by automating processes, thus reducing the time and materials required to operate, potentially creating cost savings.
- **Risk Avoidance**
  - Eliminating security risks with current digital systems.
  - Decommissioning of legacy systems, and eliminating all of the current critical security vulnerabilities *(details below).*

Current Security Vulnerabilities Associated with DFI Server Environment

The most recent security assessment of the DFI server environment performed by the ADOA-ASET Cyber Security Team found that the current environment leaves DFI open to many critical vulnerabilities which could result in permanent lost off data, as well as system and/or data compromise.

Some causes of these vulnerabilities are:

- Insufficient environment controls (temperature & humidity).
- Compromised data (access to servers from many DFI and non-DFI personnel).
- Insufficient redundancy for network or power failure.
- Required use, to perform daily functions, of software that is no longer supported and can no longer be updated/patched.
  - FoxPro v5.0 was released in 1996 and all support for FoxPro v.1.0-9.0 stopped in January 2015.

Current Request

DFI is requesting JLBC review of the FY19 Automation Project Fund (APF) appropriation of $1,400,000 to complete the proposed Digital Transformation and eLicensing system. This proposed solution will begin July 2, 2018 and finish no later than April 1, 2019. The high-level work includes: data clean-up, migration, consolidation and transfer to the new system, multiple interfaces, project management, project oversight, change management, training, licenses, and decommissioning of current systems as required by the State of Arizona.

DFI Digital Transformation + eLicense Cost Analysis

Description	FY19
SalesForce Basic Gov. License	$60,000
SalesForce Unlimited Edition Gov. Cloud	$2,600
SalesForce LGTNG User License	$28,500
Salesforce Community License	$1,900
Deloitte (26 week implementation)- SalesForce Implementation - Data Migration and System Design/Integrations, UAT, Support	$840,000
MSS Technologies (9 months) - Professional Services - Project Management, Legacy System Data Clean-up, Project Oversight, Decommission of Legacy Systems, Extended Training and End User Support Post Go-live.	$473,000
Total Estimated Spend	$1,406,000

NOTE: Estimated spend is based off of initial quotes from both MSS Technologies and Deloitte. Full Statement of Work (SOW), including final quotes, to be agreed upon prior to expenditure of any funds. 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, the Department of Financial Institutions must amend the PIJ to reflect the changes and submit it to ADOA-ASET, ITAC & JLBC for review and approval prior to any expenditure of funds. Any cost exceeding $1.4 will be paid for by the Department of Financial Institutions through other funding sources.

Proposed Timeline - (July 2, 2018 - April 1, 2019)

NOTE: Proposed timeline and full detailed Statement of Work for Deloitte and MSS Technologies to be determined during kick-off meeting, tentatively scheduled to take place after JLBC favorable review.