JOINT LEGISLATIVE BUDGET COMMITTEE

Tuesday, November 17, 2026

1:00 p.m.

Senate Hearing Room 1

STATE OF ARIZONA

Joint Legislative Budget Committee

STATE SENATE

DAVID C. FARNSWORTH
CHAIRMAN
LELA ALSTON
BRIAN FERNANDEZ
MARK FINCHEM
JOHN KAVANAGH
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MICHAEL WAY

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

Tuesday, November 17, 2026
1:00 P.M.
Senate Hearing Room 1

MEETING NOTICE

- Call to Order

- Approval of Minutes of September 30, 2026.

- EXECUTIVE SESSION

A. ATTORNEY GENERAL - Consideration of Proposed Settlements Per Rule 14.

B. JLBC Annual Performance Review Per Rule 7.

C. ARIZONA DEPARTMENT OF ADMINISTRATION - Risk Management Annual Report Per Rule 14.

D. DEPARTMENT OF EDUCATION - Review of Assessment Contracts (A.R.S. § 38-431.03)

1. JLBC STAFF - Consider Approval of Index for Arizona Department of Administration – School Facilities Division Construction Costs.

2. ATTORNEY GENERAL - Review of Uncollectible Debts.

3. ARIZONA DEPARTMENT OF ADMINISTRATION/AUTOMATION PROJECTS FUND - Review of Proposed DOR Mainframe Migration Project and AHCCCS AI Call Center Integration.

4. ARIZONA DEPARTMENT OF CORRECTIONS - Review of Inmate Health Care Contracted Rate Change.

The Chairman reserves the right to set the order of the agenda.
~~11/09/2026~~
11/16/2026
KP

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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

September 30, 2026

The Chairman called the meeting to order at 1:33 p.m., Wednesday, September 30, 2026, in Senate Hearing Room 109. The following were present:

Members:	Senator Farnsworth, Chairman Senator Alston Senator Epstein (Temporary member in place of Senator Kuby) Senator Fernandez Senator Finchem Senator Kavanagh Senator Werner	Representative Austin Representative Gress Representative Nguyen (Temporary member in place of Representative Way) Representative Stahl Hamilton
Absent:	Senator Kuby Senator Mesnard	Representative Blattman Representative Carbone Representative Livingston, Vice-Chairman Representative Olson Representative Way

APPROVAL OF MINUTES

Representative Gress moved that the Committee approve the minutes of May 6, 2026. The motion carried by voice vote.

EXECUTIVE SESSION

Representative Gress moved that the Committee go into Executive Session. The motion carried by voice vote.

At 1:36 p.m. the Joint Legislative Budget Committee went into Executive Session.

Representative Gress moved that the Committee reconvene into open session. The motion carried by voice vote.

At 2:47 p.m. the Committee reconvened into open session.

A. ATTORNEY GENERAL (AG) - Consideration of Proposed Settlements under Rule 14.

Representative Gress moved that the Committee approve the recommended settlements proposed by the AG's office in the cases of:

- *Phillip Tau, et al. v. State of Arizona, et al.*
- *Sumlee Anderson, Sonia Calderon, and Michelle Curiel, individually and on behalf of individuals similarly situated v. Arizona Board of Regents and The University of Arizona Global Campus*

The motion carried by voice vote.

B. DEPARTMENT OF EDUCATION (ADE) – Review of Proposed New Multi-State Alternate Assessment Contract.

A.R.S. § 15-741.03 requires ADE to submit for review by the Joint Legislative Budget Committee a new or renewed contract for any portion of the statewide assessment. ADE requested review of a new Multi-State Alternate Assessment contract.

Representative Gress moved that the Committee give a favorable review to ADE's new Multi-State Alternate Assessment contract. The motion carried by voice vote.

REGULAR AGENDA

1A. ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Consider Approval of State Employee Travel Rate Adjustments.

Mr. Ethan Scheider, JLBC Staff, stated A.R.S. § 38-624(B) and (C) require the Joint Legislative Budget Committee to approve any changes to ADOA's maximum reimbursement rates for lodging, meal, and mileage expenses. ADOA proposed travel reimbursement increases to align with federal rates as follows: 1) the July 1, 2026 federal rate of $0.76 per mile for personal vehicle mileage; 2) the federal lodging daily reimbursement rates effective October 1, 2026 and 3) the federal daily meal reimbursement rates effective October 1, 2026, less $10 a day.

ADOA proposed travel reimbursement increases to align with current federal rates. The JLBC Staff provided options and a potential provision:

A. Committee approval does not constitute an endorsement of additional appropriations to cover higher reimbursement costs.

Representative Gress moved that the Committee approve ADOA's recommended increases to travel rates for state employees. The motion carried by voice vote.

1B. ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Review of Automation Project Fund Proposed Expenditures.

Mr. Ethan Scheider, JLBC Staff, stated A.R.S. § 41-714 requires Joint Legislative Budget Committee review prior to any monies being expended from the Automation Projects Fund (APF). ADOA requested to spend a total of $13,465,000 from the APF on 3 projects as follows:

- $375,000 for ADOA State Web Portal Software and Security Upgrades.
- $150,000 for Arizona Medical Board Website Modernization.
- $12,940,000 for Arizona Health Care Cost Containment System (AHCCCS) Medicaid Enterprise System IT Upgrades, consisting of:
  - $8,517,100 to continue a multi-year mainframe replacement project;
  - $3,626,100 to continue eligibility system upgrades; and
  - $796,800 for AI call center integration.

The review of APF funding excluded the $796,800 for AI call center integration, as ADOA and AHCCCS had not yet responded to questions concerning the extent of AI utilization in call handling services. After adjusting for this excluded item, the total request was $12,668,200.

The JLBC Staff provided options.

Mr. Jeff Tegan, Assistant Director, CFO, AHCCCS, responded to member questions.

Representative Gress moved *that the Committee give a favorable review of ADOA's request to spend a total of $12,668,200 from the APF on 3 projects.* The motion carried by voice vote.

2. ATTORNEY GENERAL (AG) – Review of Coordinated Reentry Expenditure Plan.

Mr. Jacob Cross Mayhew, JLBC Staff, stated A.R.S. § 44-*1531.02(C) requires the AG to submit an expenditure plan for review by the Joint Legislative Budget Committee before spending* any monies from the Consumer Remediation Subaccount of the Consumer Restitution and Remediation Revolving Fund. JLBC Staff distributed a handout (Attachment 1).

Of the $17,000,000 FY 2027 appropriation for coordinated reentry planning services grants, the budget requires the Attorney General to distribute $2,000,000 each to Coconino, Maricopa, Mohave, Navajo, Pima, Pinal, and Yavapai counties to support existing coordinated reentry planning services programs; to distribute $2,000,000 to La Paz County to establish a new coordinated reentry planning services program; and to distribute the remaining $1,000,000 as a grant to establish a statewide coordinated reentry planning services database. The AG's submission is consistent with the statutory language. The JLBC Staff provided options and a potential provision:

A. The AG shall report to the Committee the grant recipient and any sub-grantees selected to create the statewide coordinated reentry planning services database. The report shall also address the scope of work and the expected deliverables.

Representative Gress moved *that the Committee give a favorable review of the FY 2027 Coordinated Reentry expenditure plan with the JLBC Staff provision.* The motion carried by voice vote.

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

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

A. ACJC shall submit a preliminary proposal by May 15, 2027, if the federal guidelines have not yet been received for 2027.

Representative Gress moved that the Committee give a favorable review of the FFY 2026 Edward Byrne Memorial Justice Assistance Grant federal application with the JLBC Staff provision. The motion carried by voice vote.

4A. ARIZONA DEPARTMENT OF EDUCATION (ADE) – Review of Basic State Aid Recalculation.

Ms. Emmalyn Meyer, JLBC Staff, stated A.R.S. § 15-915(B) allows a school district to have its K-12 Basic State Aid funding recalculated if court rulings change property values in its district, subject to review by the Joint Legislative Budget Committee. ADE requested review of a Basic State Aid recalculation totaling $127,700 across 3 districts. The JLBC Staff provided options.

Representative Gress moved that the Committee give a favorable review of ADE's Basic State Aid recalculation. The motion carried by voice vote.

4B. ARIZONA DEPARTMENT OF EDUCATION (ADE) – Review of K-12 Broadband Connectivity Projects.

Ms. Emmalyn Meyer, JLBC Staff, stated A.R.S. § 15-249.07 requires ADE to submit for review by the Joint Legislative Budget Committee its annual report on K-12 broadband connectivity construction projects. The JLBC Staff provided options.

Representative Gress moved that the Committee give a favorable review of ADE's FY 2027 Broadband for Education Initiative Report. The motion carried by voice vote.

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

Ms. Emmalyn Meyer, JLBC Staff, stated pursuant to A.R.S. § 41-1724(G) and A.R.S. § 41-1724(H), DPS is required to submit to the Joint Legislative Budget Committee for review its FY 2027 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expenditure. DPS requested review of $1,796,400 from its FY 2027 appropriation to fund 3 existing programs. The JLBC Staff provided options.

Representative Gress moved that the Committee give a favorable review of the expenditure plan of $1,796,400 of the $2,430,700 FY 2027 appropriation to fund 3 existing programs: Detention Liaison Officer Program ($420,000), Border County Officers Program ($576,400), and Border Security and Law Enforcement Grants ($800,000). The motion carried by voice vote.

6. ARIZONA DEPARTMENT OF ADMINISTRATION (ADOA) – Update on Employee Health Insurance Trust Fund (Discussion Only).

Mr. Chandler Coiner, JLBC Staff, provided the Committee an update on the state employee health plan.

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

Without objection, the meeting adjourned at 4:09 p.m.

Respectfully submitted:

Kristy Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director

Senator David Farnsworth, Chairman

NOTE: A full audio recording of this meeting is available at the JLBC Staff Office, 1716 W. Adams. A full video recording of this meeting is available at https://www.azjlbc.gov/jlbc-meetings/.

ARIZONA SHERIFFS' ASSOCIATION

1910 W. Jefferson Phoenix, Arizona 85009
Telephone: (602) 252-6563 Facsimile: (602) 254-0969

David Clouse, Navajo County Sheriff, President
Will Ponce, La Paz County Sheriff, vice President

The Arizona Sheriffs Association is the one united credible voice representing law enforcement and public safety for the counties of Arizona

September 29, 2026

The Honorable David C. Farnsworth, Chair
The Honorable David Livingston, Vice Chair
Members of the Joint Legislative Budget Committee
Phoenix, Arizona 85007

Re: Coordinated Reentry Expenditure Plan – Statewide Reentry Database

Dear Chairman Farnsworth, Vice Chairman Livingston, and Members of the Committee:

On behalf of the Arizona Sheriffs' Association and Arizona's county sheriffs, I am writing regarding the Attorney General's Coordinated Reentry Expenditure Plan currently before the Joint Legislative Budget Committee.

The Association supports the continued investment in coordinated reentry programs throughout Arizona and the FY 2027 appropriation for the statewide coordinated reentry database. The Legislature has provided $1 million for the development and maintenance of this statewide resource, which provides greater coordination and consistency across county reentry efforts.

The Arizona Sheriffs' Association is prepared to serve as the grant recipient responsible for developing and managing the statewide database. As the organization representing county sheriffs and working directly with the agencies operating these programs, ASA is positioned to coordinate this work across jurisdictions while maintaining direct accountability for implementation.

The Association stands ready to work closely with the Attorney General's Office and participating counties, appropriately manage any vendors, and provide the Attorney General, JLBC, and the Legislature with all required fiscal, programmatic, and performance reporting. We welcome that accountability and understand the importance of ensuring that this investment produces a useful and sustainable statewide resource.

Thank you for your consideration and for your continued attention to Arizona's coordinated reentry efforts.

Respectfully,

David Clouse
President
Navajo County Sheriff

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DATE: November 10, 2026

TO: Members of the Joint Legislative Budget Committee

FROM: Gordon Robertson, Senior Fiscal Analyst

SUBJECT: JLBC Staff – Consider Approval of Index for Arizona Department of Administration – School Facilities Division Construction Costs

Request

A.R.S. § 41-5741D3(c) requires that the cost-per-square-foot factors used in the Arizona Department of Administration (ADOA) School Facilities Division (SFD) new school construction formula "shall be adjusted annually for construction market considerations based on an index identified or developed by the Joint Legislative Budget Committee (JLBC) as necessary but not less than once each year."

Committee Options

The Committee has at least the following options:

1. Approve a 5.19% adjustment in the cost-per-square-foot factors. The adjustment is based on the Rider Levett Bucknall (RLB) Phoenix construction cost index, which the Committee has used since 2013. *(See Table 1)*
2. A different adjustment factor. ADOA has not offered a recommended adjustment.

Table 1
Cost-Per-Square-Foot Amounts

	K-6	7-8	9-12
Current Cost-Per-Square Foot Amounts	$ 358.46	378.44	438.11
Committee Option - Phoenix Construction Index 5.19%	377.06	398.08	460.85

Key Points

1) JLBC is annually required to adjust SFD new construction cost-per-square-foot factors.
2) Based on a local Phoenix construction cost index, prices have increased by 5.19% in the last year.
3) The Committee has used this same index for the last 13 years.
4) SFD's preliminary capital plan anticipates 5 schools beginning construction in FY 2028 and finishing in FY 2029.
5) The 5.19% adjustment would increase the cost of these projects by $7 million in each of FY 2028 and FY 2029.
6) This estimate is subject to change if SFD updates its final FY 2028 construction projects by December 15, 2026.

Analysis

Background Information

Statute establishes funding amounts per square foot of space for new construction for grades K-6, 7-8, and 9-12. SFD may adjust the formula based on geographic or site conditions as defined in statute. Statute requires that the Committee adjust the cost-per-square-foot amounts at least once per year for construction market considerations.

Table 2 outlines the rate increases over the last 13 years. During 2009 – 2015, the Committee adopted a 0% adjustment, as the Great Recession caused construction costs to remain below the levels of November 2008.

Table 2
Previous Cost Per Square Foot Rate Changes

Date Approved	Rate Increase
JLBC Approved Inflation Factor	
December 2013	0.00%
December 2014	0.00%
December 2015	0.00%
December 2016	4.31%
December 2017	3.12%
December 2018	6.19%
December 2019	5.29%
December 2020	2.76%
December 2021	6.63%
December 2022	7.27%
December 2023	6.52%
December 2024	3.88%
January 2026	4.80%
Legislative Rate Change	
July 2021 - FY 2022 Budget	60.00%

Apart from the Committee's annual inflation adjustment, the FY 2022 budget increased the cost-per-square-foot factors by 60% to address longer term construction market changes in school building standards, design, and technology requirements. This 60% legislative rate change was applied to FY 2022 school awards and retroactively to schools that had not started construction.

Adjustment Options

The Committee has used the RLB Phoenix construction cost index methodology since 2013. Since the Committee last approved an adjustment in January 2026, the RLB index has increased by 5.19%.

The ADOA School Facilities Division has not offered a recommended adjustment.

Fiscal Impact

The most recent list of new construction awards from SFD is from the current capital planning cycle that started in December 2025. Based on the new construction projections from SFD's December 2025 meeting, the state would begin construction on 10 new projects during the upcoming 3-year budget planning cycle (FY 2028 – FY 2030).

Based on the 5 projects provisionally approved to begin construction in FY 2028, the proposed 5.19% construction funding increase would increase the cost of those FY 2028 projects by $6.7 million in each of FY 2028 and FY 2029 (funding for large projects is split across 2 fiscal years).

This cost estimate is subject to change, as SFD is scheduled to approve a final list of schools to be funded in the FY 2028 budget by December 15, 2026. This revised list of schools will receive the Committee's approved inflation adjustment and the projects will be included in the state's upcoming 3-year budget projection cycle (FY 2028 – FY 2030).

GR:kp

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DATE: November 10, 2026

TO: Members of the Joint Legislative Budget Committee

FROM: Jacob Cross Mayhew, Fiscal Analyst

SUBJECT: Attorney General – Review of Uncollectible Debts

Request

Pursuant to A.R.S. § 35-150E, the Attorney General (AG) requests Committee review of its listing of uncollectible debts to be removed from the state's accounting system. The listing totals $108,778,600 for debts listed as uncollectible in FY 2026 and prior years.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

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

A. On or before March 31, 2027, the Attorney General shall submit a report to the JLBC Staff on the total dollar amount of debts under active debt collection proceedings by the Attorney General's Collection Enforcement Unit.

Key Points

1) The State Comptroller may remove uncollectible debts from the state accounting system after their review by the Committee.
2) The AG's report includes $109 million in uncollectible debt, compared to $43 million last year.
3) Most of this increase is due to removing old debt from the system so that it does not have to be entered into ADOR's new IT system.
4) This old debt is at least 15 years old and with no payment from the debtor in the last 2 years.
5) Removing the debt from the accounting system does not result in the debt being forgiven. The AG can still pursue collection upon the receipt of new information on a case.

Analysis

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

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

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

Since 2016 the Committee has given favorable reviews of uncollectible debt ranging from $16.4 million in FY 2022 to $78.3 million in 2016 *(see Table 1)*.

Table 1
Favorably Reviewed Uncollectible Debt

Year Reviewed	Uncollectible Debt Listing ($ in Millions)
2016	78.3
2017	50.9
2018	41.3
2019	31.2
2020	34.2
2021	21.1
2022	16.4
2023	31.0
2024	30.2
2025	43.0
2026 Request	108.8

Since its last report for FY 2025, the AG's office has again reviewed the cases assigned to the Collection Enforcement Unit. Based on this review, the AG advises that $108.8 million owed to the state is uncollectible as of June 30, 2026. 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.

The Committee may also consider a provision requiring the AG to report to the JLBC Staff by March 31, 2027, on the total dollar amount of debts under active debt collection proceedings by the Collection Enforcement Unit. The report would cover only debts referred to the AG and would not include debts held by state agencies that were not referred to the Collection Enforcement Unit, including debts processed by the Department of Revenue's own collection unit. The report therefore would not measure total collectible debt owed to the state.

Of the $108.8 million in uncollectible debt:

- A total of 89.6% is uncollectible because of administrative necessity (59.2%), because the debtor is a defunct corporation/LLC (19.4%), or because there are no assets/no wages/a negative credit report (11.0%). The remaining 10.4% is uncollectible for other reasons *(see Table 2)*.
- "Administrative Necessity" is a new category of uncollectible debt used to describe DOR tax debt that is older than 15 years with no payment from the debtor in the last 2 years.
- DOR is currently transitioning to a new IT tax system. Given the declining likelihood of collection, DOR does not want to transfer a large amount of historical data associated with these old debts to the new system.
- Providing a favorable review to remove uncollectible debt from the accounting system does not interfere with the AG's and DOR's legal authority to collect these debts

Table 2

Uncollectible Debt by Reason

Reason	Amount Recommended for Removal	Percentage
Administrative Necessity	$64,359,700	59.2%
Defunct Corporation/LLC	21,119,500	19.4
No Assets / No Wages / Negative Credit Report	11,968,500	11.0
Debtor Is Deceased	4,971,000	4.6
Debt Discharged in Bankruptcy	2,587,000	2.4
Collection Cost Would Exceed Amount Owed	1,991,500	1.8
Insufficient Info / Evidence to File Suit	884,000	0.8
Settled	741,400	0.7
Unable to Locate Debtor	155,800	0.1
Total	**$108,778,600** 1/	**100.0%**

1/ Does not sum due to rounding.

- A total of 97.5% of the total debt is owed to the DOR. The remaining debt is associated with 26 other specified agencies (*see Table 3*).

Table 3

Uncollectible Debt Recommended for Write-Off by Client Agency

Agency	Amount Recommended for Removal	Percentage
Department of Revenue	$106,055,500	97.5%
Arizona Health Care Cost Containment System	787,000	0.7
Arizona Department of Transportation	665,400	0.6
Arizona Department of Veterans' Services	460,500	0.4
Arizona Department of Education	232,500	0.2
Arizona State Retirement System	228,400	0.2
All Others	577,700	0.4
Total	**$108,778,600** 1/	**100.0%**

1/ Does not sum due to rounding.

JM:kp

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

KRIS MAYES
ATTORNEY GENERAL

OFFICE OF THE ARIZONA ATTORNEY GENERAL
CIVIL LITIGATION DIVISION
BANKRUPTCY COLLECTION AND ENFORCEMENT SECTION

SHYLA R. FREESTONE
SECTION CHIEF COUNSEL
DIRECT: 602-542-8300
SHYLA.FREESTONE@AZAG.GOV

June 1, 2026

HAND DELIVERED

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

RE: May 1, 2025 through April 30, 2026 Not-Referred Non-DOR Uncollectible Debt Report
May 1, 2025 through April 30, 2026 Referred Non-DOR Uncollectible Debt Report
July 1, 2024 through June 30, 2025 DOR Uncollectible Debt Report

Dear Representative Farnsworth:

As requested by the Joint Legislative Budget Committee ("JLBC") pursuant to A.R.S. § 35-150(E), enclosed are the May 1, 2025 through April 30, 2026 Not-Referred Non-DOR Uncollectible Debt Report, May 1, 2025 through April 30, 2026 Referred Non-DOR Uncollectible Debt Report, and July 1, 2024 through June 30, 2025 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, the Attorney General's Office is relying upon the certification by DOR set forth in the memorandum dated May 20, 2026, from DOR to the Attorney General's Office entitled, "Fiscal Year 2025 Certification of Cases for Abatement" ("Certification"). The Certification states that the debt described in the Certification meets the criteria pursuant to A.R.S. § 42-1004B and pursuant to the United States Bankruptcy Code for liabilities discharged in bankruptcy, and that DOR has validated through its internal policies and processes that it verified the reasons for abatement, as stated in the Certification.

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

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

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

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

Please contact the undersigned if you have any questions.

Sincerely,

Shyla R. Freestone
Section Chief Counsel
Bankruptcy Collection & Enforcement
Arizona Attorney General's Office

Enclosures
cc: Representative David Livingston, JLBC Vice-Chairman (with attachments)
Richard Stavneak, JLBC Director (with attachments)
Ben Henderson, OSPB Director (with attachments)
Gordon Robertson, JLBC Analyst (with attachments)
Ashley DiMaggio Ruiz, State Comptroller (with attachments)
Felecia Rotellini, AGO Division Chief of Civil Litigation (with attachments)
Shyla R. Freestone, AGO Section Chief Counsel of BCE (with attachments)
Nick Debus, AGO Director of Government Affairs (with attachments)

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DATE: November 10, 2026

TO: Members of the Joint Legislative Budget Committee

FROM: Ethan Scheider, Fiscal Analyst

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of Proposed DOR Mainframe Migration Project and AHCCCS AI Call Center Integration

Request

A.R.S. § 41-714 requires Committee review prior to any monies being expended from the Automation Projects Fund (APF). The Arizona Department of Administration (ADOA) requests Committee review of 2 projects:

1) $1,425,000 for a Department of Revenue (DOR) Mainframe Modernization, and

2) $796,800 for Arizona Health Care Cost Containment System (AHCCCS) AI Call Center Integration.

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) ADOA is requesting review of 2 Automation Project Fund (APF) FY 2027 appropriations.
2) ADOA/DOR was appropriated $1.4 million to transition DOR's IT operation from a mainframe to a cloud-based platform.
   - DOR and AHCCCS are the only 2 state agencies still on the state's mainframe and they will both transition off that platform by October 2027.
3) ADOA/AHCCCS was appropriated $796,800 from the General Fund (and $5.2 million from federal funds) to use Artificial Intelligence (AI) to enhance AHCCCS operations.
   - While AHCCCS uses AI call center agents to respond to a limited number of questions, this project will expand that capacity and generate automated chat summaries for live agents.
   - AHCCCS will use AI to review provider claims for potential fraud and refer high risk claims to live claims specialists for further review.

Analysis

DOR Mainframe Modernization

The FY 2027 budget appropriated $1.4 million to ADOA from the DOR APF subaccount via the DOR Administrative Fund. DOR currently utilizes the ADOA shared mainframe to host various systems and services for the agency and taxpayers. As the ADOA mainframe is scheduled to be retired, this project is intended for the agency to migrate their applications from the ADOA mainframe to a new cloud-based platform. The new cloud-based platform would replace the obsolete functions of the current mainframe and offers automated file exchanges and single sign-on.

ADOA estimates the project will be completed in October 2027. ADOA is requesting committee review of the entire $1.4 million FY 2027 appropriation.

AHCCCS AI Call Center

ADOA/AHCCCS have requested review of $796,800 General Fund (and $5.2 million federal funds) from a FY 2027 APF appropriation for Medicaid modernization to enhance its use of AI in AHCCCS operations. ADOA expects the project to be completed by July 2027.

AHCCCS currently utilizes an "AI agent" (an automated chatbot) to respond to some questions from the public by phone or chat. The public can currently reach a live service representative if the AI agent does not address their issue. The project would replace the current AI chatbot software with a new, more advanced model to expand the capabilities of the AI call center. The new model would allow for the automated resolution of an increased number of public inquiries. A caller can still be escalated to a live service representative at AHCCCS if their inquiry cannot be resolved with AI self-service.

Additionally, the AI agent would produce automated chat summaries as a record of the conversation for part of the case file for use in escalated calls or in future transactions with the same person.

ADOA reports several other functions associated with the expansion of AI at the call center, including increased fraud detection capabilities. For example, AHCCCS will be able to use AI in the review of provider claims to assess fraud risk. High-risk claims will be referred to live claim specialists for further review.

ES:kp

ARIZONA
DEPARTMENT OF ADMINISTRATION

Katie Hobbs
Arizona Governor

Elizabeth Alvarado-Thorson
ADOA Director

October 27, 2026

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

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

Dear Representative Livingston and Senator Farnsworth:

The Arizona Department of Administration (ADOA) is submitting this request for review of Fiscal Year 2027 Automation Projects Fund (APF) expenditure plans for the following projects:

- **Arizona Department of Revenue - ADOR**
  - Mainframe Modernization (Draft PIJ RV27008)
- **Arizona Health Care Cost Containment System - AHCCCS**
  - MES Modernization – Vendor Support (Draft PIJ HC27004)

Sincerely,

J.R. Sloan
State CIO

Enclosures
cc: Richard Stavneak, Director, JLBC Staff
Ben Henderson, Director, OSPB
Elizabeth Alvarado-Thorson, Director, ADOA
Geoff Paulsen, JLBC Staff
Destin Moss, JLBC Staff
Zach Harris, OSPB Staff
Rémy Gaudin, OSPB Staff
Spencer Fulton, OSPB Staff
Jacob Wingate, Chief Financial Officer, ADOA
Haleh Farhad, Director of Strategic Oversight, ADOA

Favorable Review Request Summary				
Agency	Project Name	APF Appropriation	Favorably Reviewed	Favorable Review Requested
ADOR	Mainframe Modernization	$1,425,000	$0	**$1,425,000**
AHCCCS	AI Call Center	$12,940,000	$0	**$796,780**

Agency:	Arizona Department of Revenue
Project Name:	Mainframe Modernization
PIJ ID:	RV27008
This Ask Report Pertains To:	*FY2027 Appropriation of $1,425,000 - Expires 06/30/2028 Per: Laws 2026, 57th Legislature (2nd Regular Session), Chapter 126, Section 7*

CURRENT REQUEST:

The Department of Administration (ADOA), on behalf of the Arizona Department of Revenue (ADOR), is requesting a favorable review of $1,425,000 appropriated from the Automation Projects Fund (APF) in FY 2026–2027 (Laws 2026, Chapter 126 / Senate Bill 1847, Section 7) to migrate ADOR's core tax audit, warrant processing, inquiry, and interest calculation applications off the legacy State's mainframe to a modernized cloud-native environment on Amazon Web Services (AWS). The figures detailed in this request are preliminary estimates intended for initial cost forecasting. Upon the conclusion of ADOR's current solicitation process, the selected vendor's fixed-price agreement will replace these estimates. Ultimately, the finalized project cost is capped and shall not exceed the appropriated $1,425,000.

FY 2026-2027 Appropriation	FY 2026-2027 Favorably Reviewed	FY 2026-2027 Current Request	FY 2026-2027 APF Remaining Balance
$1,425,000	$0	$1,425,000	$1,425,000

Project Description:

The Arizona Department of Revenue (ADOR) Mainframe Modernization Project is an AI-driven cloud migration initiative to refactor core tax audit assessment (AU10) and state warrant payment (600 Warrants) applications off legacy z/OS mainframe infrastructure and onto commercial AWS (.NET on ECS Fargate and RDS SQL Server). ADOR, in active partnership with the vendor to be selected through its current solicitation, will utilize agency-approved AI tooling (Claude Code models in AWS Bedrock and AWS Transform CLI) to translate legacy (COBOL, CICS, and VSAM datasets) application logic into modern microservices with strict functional equivalence. The project replaces the legacy 3270-type interfaces, Control-D batch reporting, and Resource Access Control Facility (RACF) security controls with cloud-native web services and federated Single Sign-On (Okta/Active Directory) in compliance with the IRS Publication 1075 and NIST 800-53 security standards.

Background:

The Arizona Department of Revenue (ADOR) operates its primary tax audit assessment (AU10) and state warrant payment processing (600 Warrants) applications—along with supporting inquiry (IQ01), interest calculation (AQ01), security (SS01/SS03), and reporting (Control-D) systems—on a legacy z/OS mainframe running COBOL, CICS, and VSAM. AHCCCS and AHCCCS Hawaii will exit the mainframe platform by December 2027. Completing this modernization on time enables ADOR to exit the mainframe platform prior to December 2027, preventing the incurrence of potentially higher operational cost.

Method of Procurement (for initial requests):

ADOR issued a Request for Task Order under an existing State contract to vendors with demonstrated legacy-to-cloud modernization experience. The solicitation sets a not-to-exceed amount of $1,425,000, requires a fixed price, and requires compliance with IRS Publication 1075 and NIST 800-53 Moderate controls. ADOR expects to select a vendor and obtain a written fixed price before JLBC's November meeting. If selection is not completed by this date, ADOR will provide the selected vendor and final price to JLBC staff prior to contract execution. Contract execution remains contingent upon Information Technology Authorization Committee (ITAC) approval scheduled for November 18, and a favorable JLBC review.

Solution:

ADOR is currently soliciting vendors to achieve the desired targeted architecture using agency-approved AI tooling (Claude Code and AWS Transform) to refactor mainframe logic into an event-driven architecture on AWS commercial cloud environment utilizing native services such as ECS Fargate containers, RDS SQL Server, S3, EventBridge. The project replicates current functional capabilities without introducing process scope redesign, replacing legacy mainframe Resource Access Control Facility (RACF) access controls with federated cloud identity (Okta/Active Directory) complying with the IRS Publication 1075 and NIST 800-53 security standards.

Benefits:

Cost Avoidance: Fully vacating the mainframe by October 2027, eliminates the risk of incurring $12,000,000 in sole-tenant hosting annual costs.
System Modernization: Replaces obsolete mainframe screens, CICS transactions, and RACF security with modern cloud microservices, automated file exchanges, and Single Sign-On (SSO).
Improved Reliability & Testing: Expands ADOR's testing capacity from 2 mainframe environments to a 4-environment cloud model (Dev, Test, UAT, Prod) utilizing multi availability zone redundancy.
Accelerated Delivery: Utilizes agentic AI code extraction and refactoring to achieve full cutover within a fixed 11-month delivery timeline.
User Friction & Manual Workarounds: Replaces text-based 3270 type "green screens" with intuitive web interfaces, eliminating manual tracking on spreadsheets and extensive IT support tickets for routine account adjustments.
Processing Bottlenecks: Eliminates the updated methodologies of overnight batches processing and file transfer stalls that could impact weekly citizen refund checks and unclaimed property payouts.
Ongoing Costs: ADOR expects ongoing AWS run costs to be roughly equal to current ADOA hosted mainframe costs; however, because both are billed on usage, run costs could rise if more code or data migrates than currently planned; ADOR will monitor usage and report material changes. No additional ongoing appropriation is requested.

PROJECT GOALS / MILESTONES:

Description	*Start Date (Est.)*	*End Date (Est.)*	*Duration (weeks/ months)*
Discovery and Design: Scope portfolio, establish context repository, define security/architecture requirements, testing strategy, and refined cost/schedule baseline.	11/23/2026	01/03/2027	6 weeks (~1.5 months)
Modernize Pilot Phase: Build AWS Dev/Test environments, automated testing frameworks, data flows, and execute proof-of-value pilot on AU10 audit intake.	01/04/2027	02/28/2027	8 weeks (~2.0 months)
Modernize & Migrate Phase: Construct UAT/Prod environments, execute full AI-driven code refactoring (AU10 & 600 Warrants), data conversion routines, and training materials.	03/01/2027	07/18/2027	20 weeks (~5.0 months)
User Acceptance Testing (UAT) Phase: Execute UAT Pass 1 & Pass 2 with business auditors, resolve technology defects, and deliver end-user training.	07/19/2027	08/29/2027	6 weeks (~1.5 month)
Deploy & Cutover Phase: Deploy finalized code/frameworks to production, execute production data conversion, Go/No-Go decision, and cutover.	08/30/2027	09/12/2027	2 weeks (~0.5 months)
Hypercare & Transition Phase: Provide post-launch production stabilization, user support, knowledge transfer, and formal handoff to internal ADOR support teams	09/13/2027	10/31/27	7 weeks (~2.0 month)

PROJECT COST DETAIL:

Financial Category	*Dollar Amount*
Professional Services - Co-delivery vendor labor across all delivery milestones (Estimate & Plan, Pilot, Modernize & Migrate, UAT, Cutover, Hypercare) for AU10 and 600 Warrants refactoring.	$1,325,000
Software - AWS services Cost: Cost for project development– project start through day 1 go-live of new applications; AWS Dev, Test, UAT, and Production infrastructure cost; Development, test and release management tooling.	$100,000
License & Maintenance Fees- SaaS fees	$0
Total Cost for FY [2027-2028]	**$1,425,000**

Agency:	Arizona Health Care Cost Containment System (AHCCCS)
Project Name:	MES Modernization – Vendor Support
PIJ ID:	HC27004
This Ask Report Pertains To:	BFY27 Appropriation of $12,940,000 - Expires 6/30/28 Per: Laws 2026, Second Regular Session, Chapter 126, Section 7

CURRENT REQUEST:

The Department of Administration on behalf of Arizona Health Care Cost Containment System (AHCCCS), is requesting favorable review of $796,780 appropriated from the Automation Projects Funds in FY 2027 to support the AI Call Center Integration project. AHCCCS will expand upon their investment in ServiceNow to support Call Center activities.

Upon approval of the Automation Projects Funds request, AHCCCS will present to the Information Technology Authorization Committee (ITAC) specific project fund allocation through the change request process.

FY 2026-2027 Appropriation	FY 2026-2027 Favorably Reviewed	FY 2026-2027 Current Request	FY 2026-2027 APF Remaining Balance
$12,940,000	$12,143,220	$796,780	$0

**Federal expenditure authority corresponding to these funds will total $89,100,000 over FY 2027 - FY 2028*

Project Description:

The MES Modernization Program includes updating the Medicaid claims processing system while also maintaining the Fraud, Waste and Abuse (FWA) claim pre-processing and a post-payment Program Integrity (PI) analytics module. Additionally, AHCCCS will expand upon their investment in ServiceNow to support Call Center activities. The MES Modernization project is the final phase in transitioning the Prepaid Medicaid Management Information System (PMMIS) to a new cloud-based platform and implementing modules in ServiceNow, which began in 2023 with the System Integration (SI) Platform project. The new system will enable AHCCCS to continue to comply with rules and cybersecurity requirements established by the Centers for Medicare and Medicaid Services (CMS) while significantly improving the system's fraud detection capabilities.

Upon favorable review of the Automation Projects Funds (APF) request, AHCCCS will present to the Information Technology Authorization Committee (ITAC) for approval of the AI Call Center project.

Background:

AHCCCS's existing AI-powered call center bots are in full production but do not yet extend AI-assisted automation across the full range of member and provider inquiries for eligibility verification, claim status, provider lookup and across all contact channels (voice, chat, SMS) with integrated case management in ServiceNow. Routine inquiries in the gap channels still require live-agent handling, and escalated inquiries do not consistently arrive with full case context due to the manual method of consolidating a case into email for escalated distribution, increasing average handling time and operational cost.

Method of Procurement (for initial requests):

The procurement methodology to support the described work will be a procurement from existing contracts through NASPO or other state contracting mechanisms in place.

Solution:

To support the AI Call Center Integration, AHCCCS is seeking to further invest in their expenditure on a successful ServiceNow implementation and integrate the call center with ServiceNow Artificial Intelligence (AI) to produce call notes and call summarization, to supplement the current process. All calls will continue to be recorded, and periodic audits will be performed to ensure that the call notes and summarization generated by ServiceNow AI is accurate. This will continue the ongoing optimization of Call Center functionality to better support the citizens of Arizona. An additional benefit of this enhancement will be in setting the foundation of analyzing patterns and comparing them with known fraud indicators, helping to identify potential fraud attempts in near real-time. Due to the complexity of integrating the systems and sensitivity of using artificial intelligence, AHCCCS is looking to have support from an experienced vendor.

Accenture LLP was selected via competitive Task Order YH26-0031 (awarded July 22, 2026) to configure and integrate an AI module into AHCCCS's existing ServiceNow platform, integrating with the Genesys contact center platform. The solution routes voice, chat, and SMS interactions through Genesys to an AI bot layer (Natural Language Understanding) that answers routine questions from ServiceNow's knowledge base, creates/updates ServiceNow cases for complex issues, and escalates unresolved interactions to a live agent with full transcript and case context.

Due to the large number of projects underway while still maintaining the day-to-day business of managing the Medicaid Program, AHCCCS needs additional support from contracted project managers and business analysts with an understanding of the new technology, experience with supporting large scale projects, ability to support CMS required Certification and Outcome reporting, and knowledge in Medicaid. This will allow current staff to focus on day-to-day operations in support of member services and ongoing projects within the agency.

The professional services support will achieve compliance with Centers for Medicare & Medicaid Services (CMS) requirements to improve interoperability and sustainability of technology solutions that support Medicaid service delivery.

The requested support is associated with the AI Call Center project:

- **HC27004 AI Call Center** (To be submitted in preparation for the December ITAC meeting):
    - Vendor Implementer
    - Project management and business analysis support

Benefits:

Full-channel AI automation with the new AI Call Center Integration project is expected to reduce average handling time and operational cost, improve member and provider satisfaction and engagement, and preserve seamless escalation to live agents, with case details captured upfront, when automated resolution is not possible. AHCCCS's strategic objective is to leverage technology to enhance healthcare administration and member engagement.

The new solution will provide faster routing and validation through automated validation to ensure calls are routed to the correct team prior to an agent engaging and handling time will be reduced through the pre-loading of case context and summaries for the agents.

Member/Applicants will have increased self-service, allowing callers to check application status, missing factors, ID cards, health plan changes, and password resets, among other items. Providers will be able to perform an increased amount of self-serve activities as well.

Chat support will include pre-chat validation, automated chat summaries, PII/PHI redaction, quality assurance alerts, keyword alerts, and system issue alerts.

The retirement of the existing Call Center licensing costs will save the agency approximately $2,000,000 per year in operating costs while improving the effectiveness of the live agents.

PROJECT GOALS/MILESTONES:

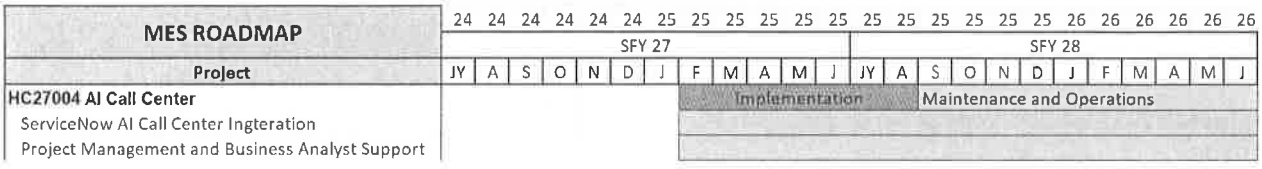
Projects for the MES Modernization are multiyear projects. The AI Call Center Integration project is a new initiative, and full milestone schedules are still being finalized.

Milestone / Task	*Start Date*	*Finish Date*	*Duration*
HC27004 AI Call Center Integration	12/1/26	6/30/27	7 months

PROJECT COST DETAIL:

Financial Category	*Dollar Amount*
Professional Services (**APF**) - AI Call Center Integration, Project Management	$746,780.00
IV&V (If Applicable) (**APF**)	$50,000.00
Professional Services (**Federal**) - AI Call Center Integration, Project Management	$5,214,237.00
Total Cost for FY [2027-2028]	**$6,011,017.00**

Integrated Timeline:



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

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LELA ALSTON
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MARK FINCHEM
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HOUSE OF
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MICHAEL WAY

DATE: November 16, 2026

TO: Members of the Joint Legislative Budget Committee

FROM: Jordan Johnston, Principal Fiscal Analyst

SUBJECT: Arizona Department of Corrections – Review of Inmate Health Care Contracted Rate Change

Request

Laws 2026, Chapter 126 (the FY 2027 General Appropriations Act) requires the Arizona Department of Corrections (ADC), prior to implementing any changes in contracted rates to a healthcare vendor, to submit an expenditure plan for review by the Committee. ADC requests review of a $46.3 million appropriation from the FY 2027 General Appropriations Act to implement an inmate healthcare contracted rate change.

ADC requested to be placed on the agenda for this item on September 8 but provided no information on its proposal at that time. ADC provided its proposal this morning, Monday, November 16.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.

2. An unfavorable review of the request.

Key Points

1) The FY 2027 General Appropriations Act appropriated $46.3 million to ADC to further comply with the prison health care injunction.
2) The department states that the $46.3 million will be distributed to the state's contracted health care provider, NaphCare, as follows:
   a) $35.9 million on 115 additional staff, a 3% cost of living adjustment and further adjustments to reflect the current level of care
   b) $9.2 million on new hire and retention incentives
   c) $663,800 on medical equipment
   d) $550,000 on IT infrastructure requirements
3) In addition to the outlined expenditure plan, the contract amendment includes language regarding hiring goals, reporting requirements, quarterly distribution schedules, and sanctioning language associated with failure to fill staffing vacancies.

Analysis

ADC currently contracts with a private health care vendor, NaphCare, to provide comprehensive medical, mental health, and dental care to inmates housed in state-operating correctional facilities. The current contract with the health care vendor became effective in October 2022 for a 5-year term through the end of September 2027, with a renewal option for an additional 5 years.

The FY 2027 budget includes $451.4 million for the Jensen v. Thornell Compliance line item to cover inmate health care costs for the agency. Of this amount, the budget included a $46.3 million increase to further comply with the health care injunction. The funding was provided to the department with the intent of hiring additional health care positions.

The department has provided a breakdown of the $46.3 million increase in inmate healthcare funding in *Table 1* below.

Table 1
Health Care Injunction Funding Expenditure Plan

Category	Allocation
New Staffing and COLA	$35,867,700
New Hire and Retention Incentives	9,230,000
Medical Equipment	663,800
IT Infrastructure Requirements	550,000
Total	**$46,311,500**

The $46.3 million in increased healthcare funding consists of the following components:

- $35.9 million to meet court ordered requirements.
  - A hiring goal of 115.1 new healthcare positions. The contract amendment specifies that the contracted healthcare vendor must prioritize higher skilled positions identified under the court's final staffing plan from June 2025.
  - A 3% cost-of-living adjustment (COLA) set retroactively to July 1, 2026 and effective for FY 2027.
  - A rate increase to cover increased costs of the base rate from the currently contracted healthcare positions.

- $9.2 million for new hire and retention incentives. Upon meeting specified staffing levels, the contracted vendor would receive quarterly allotments of the $9.2 million over the course of calendar 2027.
- $663,800 for medical equipment for the newly hired positions.
- $550,000 to meet the IT infrastructure requirements under the court's final staffing plan.

In addition to the increased funding, the FY 2027 budget included a footnote stating that the monies will only be available to the contracted vendor upon a signed amendment to the contract that includes hiring goals, reporting requirements, quarterly distribution schedules, and sanctioning language associated with failure to fill staffing vacancies. These components are outlined on page 3 of their attached request.

JJ:kp

DEPARTMENT OF CORRECTIONS, REHABILITATION & REENTRY

701 E Jefferson St.
Phoenix, AZ 85034

602.542.5497

KATIE HOBBS
GOVERNOR

RYAN THORNELL, PH.D
DIRECTOR

September 8, 2026

The Honorable David Farnsworth
Chairman, Joint Legislative
Budget Committee
Arizona State Senate
1700 W. Washington
Phoenix, Arizona 85007

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

Subject: Review of FY 2027 Inmate Health Care Contracted Service Rate Change

Dear Senator Farnsworth and Representative Livingston:

The Arizona Department of Corrections, Rehabilitation, and Reentry (ADCRR) requests placement on the next meeting agenda of the Joint Legislative Budget Committee (JLBC) to review plans for the FY 2027 inmate health care contracted service rate change as required by a FY 2027 General Appropriations Act footnote (Laws 2026, Chapter 126 (SB 1847), Sec. 23).

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

Sincerely,

Ryan Thornell
Director

cc: Richard Stavneak, Director, Joint Legislative Budget Committee
Ben Henderson, Director, Governor's Office of Strategic Planning and Budgeting
Jordan Johnston, Principal Fiscal Analyst, Joint Legislative Budget Committee
Luke VanderSchaaff, Budget Analyst II, Governor's Office of Strategic Planning and Budgeting

Addendum

Review of FY 2027 Inmate Health Care Contracted Service Rate Change: Contract Amendment 21

In accordance with Laws 2026, Chapter 126, Section 23, ADCRR submits its inmate healthcare contracted rate review for JLBC review. The FY 2027 General Appropriations Act includes a distribution of up to $45,097,700 contingent on an executed contract amendment meeting specific statutory criteria. This detail is provided as an update to the September 8, 2026 JLBC agenda request.

Background

ADCRR contracts with a private health care provider (NaphCare Arizona LLC) to provide comprehensive medical, mental health, and dental care to inmates housed in state-operated correctional facilities. The current contract was awarded in May 2022 and became effective in October 2022 for an initial 5-year term through September 30, 2027, with a renewal option for an additional 5 years.

For FY 2027, the General Appropriations Act appropriated $451,390,400 for the new *Jensen v. Thornell Compliance* special line item (SLI) appropriation. The newly restructured SLI includes base health care contract funds $380.98M and an increase of $46.31M for court-mandated healthcare staffing, IT & Medical equipment requirements and $24.10M from other SLI consolidations.

Jensen v. Thornell Compliance SLI Summary

	FY 27	FY 26	total
inmate healthcare contracted services	-$380,978,900	$380,978,900	$0
non contract medication	-$15,000,000	$15,000,000	$0
injunction-related IT upgrades	-$2,400,000	$2,400,000	$0
base appropriation total	-$398,378,900	$398,378,900	$0
new FY27 budget line Jensen v. Thornell Compliance	$398,378,900	$0	$398,378,900
FY27 Funding Changes			
additional staffing and recruitment & retention strategies	$45,097,700	$0	$45,097,700
non contract medical equipment & IT infrastructure requirements	$1,213,800	$0	$1,213,800
non contract medication increase	$6,700,000	$0	$6,700,000
Total Appropriated inmate healthcare funding	$451,390,400	$398,378,900	$53,011,500

FY 2027 General Appropriations Act Requirements

Laws 2026, Ch. 126, Sec. 23 (FY 2027 General Appropriations Act) specifies four explicit conditions that must be incorporated into an executed contract amendment before up to $45,097,700 in contingency funding may be distributed.

Contract Amendment 21 addresses each requirement as follows:

General Appropriations Act Requirement	Contract Amendment 21 Implementation
1. Increase Staffing Levels: Increases health care staffing levels in accordance with department directives.	**Section 1.2:** Adds 115.1 FTE positions effective December 1, 2026, increasing total contracted FTEs from 1,625.60 to 1,740.70 FTE. Enforces specific credentialing standards for physicians, medical directors, OB/GYNs, psychiatrists, and psychology associates in accordance with Section 6.4 of the federal court injunction and court orders.
2. Quarterly Reporting: Adopts quarterly reporting to ADCRR, OSPB, and JLBC staff detailing prior quarter staffing levels by position type, FTE count, progress towards goals, and justification of variances.	**Section 1.6:** Requires Contractor submission within 15 calendar days following each quarterly period to ADCRR, OSPB, and JLBC staff. Specifies report contents to include historical staffing levels, progress metrics, and variance justifications. Reporting template subject to ADCRR approval within 30 days.
3. Quarterly Distribution Schedule: Adopts a quarterly distribution schedule based on the health care provider meeting and maintaining required staffing levels.	**Section 1.3:** Establishes a quarterly incentive distribution totaling up to $9,230,000 (Period 1: $3,692,000 / 40%; Period 2: $2,769,000 / 30%; Period 3: $1,846,000 / 20%; Period 4: $923,000 / 10%). Release is contingent on achieving overall and position-specific staffing goals (85% to 95% filled). **Section 1.4** institutes a 1% distribution clawback/reduction per vacancy if benchmarks are not maintained.
4. Staffing Offsets: Failure to fill staffing vacancies consistent with prescribed staffing levels will result in staffing offsets.	**Section 1.3:** Imposes progressive staff vacancy offsets: vacant net FTE increase hours subject to 110% offset (March 2027), 120% (April 2027), 125% (May 2027), and 130% for all 1,740.70 FTEs beginning June 1, 2027.

Key Fiscal and Contractual Provisions of Contract Amendment 21

The proposed rate changes and contract terms incorporate these adjustments:

1. **Per Inmate Per Day (PIPD) Restructuring:** Effective December 1, 2026, the PIPD rate is increased to incorporate additional staffing capacity and consolidate prior pass-through payments from Amendments 14, 15, and 16 directly into the base daily rate.
2. **Cost-of-Living Adjustment (COLA):** Allocates a 3% COLA retroactive to July 1, 2026 for FY 2027, paid via a PIPD increase of $1.272. **Contractor releases all prior year COLA claims and must furnish detailed accounting records upon request.**
3. **Staffing Incentive Distributions:** Contingent tranche distributions up to $9,230,000 tied directly to verified quarterly staffing progress.

Contract Amendment 21 PIPD Change Summary

	Current PIPD	$42.472
Description	Annual Amount as PIPD	Revised PIPD
3% COLA	$1.272	$43.744
Pass through amendment consolidation	$2.621	$46.365
Add 115.1 FTE	$2.273	$48.638

Effective date of 3% COLA: July 1, 2026
Effective date of remaining components: December 1, 2026

Arizona Department Of Corrections, Rehabilitation & Reentry

FY 2027 Jensen v. Thornell Compliance SLI Analysis

Contract Amendment 21 Impact

			FY 2027 Estimated Expenditures
Inmate Health Care Contracted Services			
# of Days		365	
Contractual Fixed Population		25,000	
Rates:			
Current Contract Rate Per Inmate Per Day Rate	$	42.472	$387,557,000
Contract Per Inmate Per Day Rate 7/01/26 to 6/30/27 (3% CPI)	$	1.272	$11,607,000
Contract Per Inmate Per Day Rate- 12/01/26 to 6/30/27 Pass Through Amendment Consolidation	$	2.621	$13,891,300
Contract Per Inmate Per Day Rate- 12/01/26 to 6/30/27 add 115.1 FTE	$	2.273	$12,046,900
Contract Per Inmate Per Day Rate Contract Amendment 21 fully executed	$	48.638	

FY 2027 Estimated Expenditure	$425,102,200
Contract Adjustments	-$27,569,291
Total FY 2027 Estimated Expenditure	$397,532,909

Health Care Injunction Costs Breakdown

Court Ordered +228.6 FTE	35,867,700
Recruitment and Retention Staffing Incentive	9,230,000
Medical Equipment	663,800
IT Infrastructure Requirements	550,000
Total	46,311,500

Appropriation Detail	Appropriation
Inmate Health Care Contracted Services	380,978,900
Health Care Injection Costs	46,311,500
Non-Contract Medication	21,700,000
Injunction-Related IT Upgrades	2,400,000
Total Appropriation Detail	451,390,400