

JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, December 14, 2023

2:00 p.m.

Senate Room 1



STATE OF ARIZONA

Joint Legislative Budget Committee

STATE
SENATE

1716 WEST ADAMS
PHOENIX, ARIZONA 85007

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JOINT LEGISLATIVE BUDGET COMMITTEE

Thursday, December 14, 2023

2 P.M.

Senate Hearing Room 1

MEETING NOTICE

- Call to Order
- [Approval of Minutes of November 9, 2023.](#)
- EXECUTIVE SESSION
 - A. Attorney General - Consideration of Proposed Settlements under Rule 14.
 - B. JLBC Annual Performance Review Per Rule 7.
- 1. [*ARIZONA DEPARTMENT OF ADMINISTRATION - Consider Approval of State Employee Travel Rate Adjustments.](#)
- 2. ARIZONA DEPARTMENT OF ADMINISTRATION/AUTOMATION PROJECTS FUND
 - [*A. Review of Human Resources Information System.](#)
 - [*B. Review of Department of Revenue Integrated Tax System Modernization.](#)
- 3. [*DEPARTMENT OF EDUCATION - Review of AzSCI Science Contract Renewal.](#)
- 4. [*DEPARTMENT OF CHILD SAFETY - Review of Line Item Transfers.](#)
- 5. [*DEPARTMENT OF ECONOMIC SECURITY - Review of Plan for the Arizona Training Program at Coolidge.](#)
- 6. [*DEPARTMENT OF PUBLIC SAFETY - Review of the Expenditure Plan for the Gang and Immigration Intelligence Team Enforcement Mission \(GIITEM\) Border Security and Law Enforcement Subaccount.](#)

7. *STATE DEPARTMENT OF CORRECTIONS - Review of Bed Capacity Changes.
 8. *JLBC STAFF - Consider Approval of Index for Arizona Department of Administration - School Facilities Division Construction Costs.
- * Consent Agenda - These items will be considered in one motion and no testimony will be taken.

The Chairman reserves the right to set the order of the agenda.

12/05/2023

KP

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.



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MINUTES OF THE MEETING

JOINT LEGISLATIVE BUDGET COMMITTEE

November 9, 2023

The Chairman called the meeting to order at 1:14 p.m., Thursday, November 9, 2023, in Senate Hearing Room 1. The following were present:

Members:	Senator Kavanagh, Vice-Chairman Senator Alston Senator Bennett Senator Diaz	Representative Biasiucci Representative Carter Representative Dunn (Temporary member) Representative Gress Representative Salman Representative Schwiebert Representative Stahl Hamilton
Absent:	Senator Borrelli Senator Fernandez Senator Hoffman Senator Mesnard	Representative Chaplik
Excused:		Representative Livingston, Chairman

APPROVAL OF MINUTES

Senator Kavanagh moved that the Committee approve the minutes of October 10, 2023. The motion carried by voice vote.

1. ARIZONA DEPARTMENT OF CORRECTIONS (ADC) - Review of Inmate Healthcare Contract Rates.

Mr. Geoff Paulsen, JLBC Staff, stated a FY 2024 General Appropriations Act footnote requires ADC to submit an expenditure plan for review by the Committee prior to implementing any change in contracted rates for the state's inmate health care vendor. The JLBC Staff provided options.

Ryan Thornell, Director, Department of Corrections, responded to member questions.

(Continued)

Richard Evitch, Assistant Director, Financial Services, Department of Corrections, responded to member questions.

Representative Dunn moved that the Committee give a review of the ADC request except for an unfavorable review of the \$1.64 per diem associated with the costs of administering Medicaid reimbursement claims. As part of its review, the Committee included the following provisions:

1. *A review by the Committee does not constitute endorsement of a General Fund appropriation for an FY 2024 supplemental or a specific FY 2025 appropriation for Inmate Healthcare.*
2. *Starting on December 15th 2023, and the 15th of every month thereafter through July 2025, ADC shall submit a report to the JLBC Staff on the previous month's vacancy savings and year-to-date vacancy savings relative to the appropriated budget. ADC shall report the monthly actuals for personal services, employee-related expenditures and overtime as compared to their monthly appropriation allocation for those line items based on the FY 2024 and FY 2025 appropriations.*
3. *Any FY 2024 supplemental request submitted by the Executive shall be accompanied by a detailed estimate of the department's fiscal year-end vacancy savings and a description of how those savings would be used for addressing the department's injunction costs beyond the proposed contracted rates.*
4. *On or before January 26, 2024, ADC shall submit a report to the JLBC Staff detailing the healthcare vendor's methodology for determining the contracted administrative costs associated with Medicaid reimbursement.*

The motion carried by voice vote.

Without objection, the meeting adjourned at 1:54 p.m.


Respectfully submitted:

Kristy Paddack

Kristy Paddack, Secretary

Richard Stavneak

Richard Stavneak, Director


Senator John Kavanagh, Vice-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/>.



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DATE: December 7, 2023

TO: Members, Joint Legislative Budget Committee

FROM: Destin Moss, JLBC Staff

SUBJECT: Arizona Department of Administration - Consider Approval of State Employee Travel Rate Adjustments

Request

A.R.S. § 38-624C requires the Arizona Department of Administration (ADOA) to establish maximum reimbursement amounts for lodging, meal, and mileage expenses taking into consideration the amounts established by the federal government. These reimbursements compensate state employees traveling on official state business. Statute requires Committee approval of any rate change.

ADOA proposes an increase to both the personal vehicle mileage reimbursement rate and maximum lodging rates to align with new federal rates. ADOA does not propose any change to the current meal reimbursement rates.

Legislator mileage reimbursement rates are already tied to the federal rate by statute and would not be affected by the Committee's action.

Committee Options

The Committee has at least the following 2 options:

1. Approve the ADOA recommended maximum lodging, meal, and mileage rates.
2. Approve some other adjustment or maintain the current travel reimbursement rates.

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

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

(Continued)

Key Points

- 1) ADOA would increase travel rates to the current federal standard as noted:
 - mileage reimbursement would increase from 62.5 cents to the federal rate of 65.5 cents.
 - the standard lodging rates would increase by \$9, or roughly 9.2%. Non-standard rates would increase on average \$10, or 6.5%.
- 2) ADOA has the authority to waive the lodging reimbursement caps if circumstances warrant.
- 3) ADOA does not estimate the cost of its proposal. JLBC Staff can only estimate the fiscal impact of the increased mileage rate, which we expect would have a total funds impact of \$75,000 (excluding Universities and School Districts).

Analysis

Mileage

Annually, the federal government hires a specialized transportation-consulting firm to study nationwide travel market conditions. Factors considered include the average costs of depreciation, maintenance, repairs, fuel, and insurance. Based on this study, the U.S. General Services Administration (GSA) establishes a mileage reimbursement rate, which is used for federal government employees and IRS tax purposes. The federal government updates the rates in January each year, most recently increasing the rate from 62.5 cents to 65.5 cents in January of 2023.

ADOA proposes to match the federal rate and increase state employee mileage rates from 62.5 cents to 65.5 cents per mile. In FY 2023, the state reimbursed state employees a total of \$1,561,000 for mileage. JLBC Staff estimate that ADOA's proposed increase would have an annualized impact of roughly \$75,000, of which approximately \$34,500 would come from the General Fund.

The state's public universities also use ADOA mileage reimbursement rates. Increasing the state reimbursement rate may lead to increases in reimbursements paid by the state's public universities. In addition, A.R.S § 15-342 requires school districts to use the travel rates set by ADOA. We do not have sufficient data to estimate the impact of any rate changes to the universities or school districts.

Lodging

GSA also annually publishes a reimbursement schedule for room rentals based on lodging industry economic data, effective at the beginning of the federal fiscal year (FFY) (October). The federal schedule establishes a standard rate but specifies additional non-standard rates for many cities, with seasonal distinctions in some cases. Lodging is more expensive in non-standard areas than in standard areas, depending on the season. For example, the current federal rate in the District of Columbia (DC) in November is \$193 while the rate in March is \$258.

The Committee last approved adjustments to the lodging rate in December 2022 when it approved adjustments to match the federal rate FFY 2023 rate. ADOA recommends adopting the current FFY 2024 federal lodging rate as the state's maximum lodging reimbursement rate. ADOA's request would change the standard rate from \$98 to \$107, which is an increase of \$9, or 9.2%.

(Continued)

In addition, the request would increase most of the non-standard rates and make a few decreases. For non-standard locations, the average change is \$10, or 6.5%. Due to its length, the list of federal rates appears as an attachment only in the JLBC's online agenda materials.

ADOA does not have an estimated fiscal impact for their proposal because it does not have data for travel reimbursements by location.

Lodging Waivers

There are 2 mitigating factors in evaluating the state lodging rate:

1. The state rate does not apply to conference meetings.
2. The General Accounting Office (GAO) can waive the state rate for non-conference meetings. In addition, GAO may approve reimbursements above the federal rate. If the federal rate is not adopted, GAO would likely receive more requests for rate waivers.

DM:kp

Katie Hobbs
Governor



Ben Henderson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

DIVISION OF BUSINESS & FINANCE
100 NORTH FIFTEENTH AVENUE • SUITE 302
PHOENIX, ARIZONA 85007
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November 9, 2023



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

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

Dear Representative Livingston and Senator Kavanagh,

Pursuant to A.R.S. §§ 38-623 and 38-624, the Arizona Department of Administration (ADOA) is required to establish maximum reimbursement amounts for lodging, meal expenses, and mileage for State travel based on federal guidelines. The Department requests approval from the Joint Legislative Budget Committee (JLBC) for proposed changes to state travel rates to align with the federal rates for vehicle mileage, lodging, and meals.

The U.S. General Services Administration (GSA) annually updates the maximum reimbursement rates allowed for travel by federal government employees on October 1st each year. The GSA sets the rates at 95% of the Average Daily Rate, a customary measure in the lodging industry. Beyond the standard rate, the GSA also publishes non-standard rates as needed to accommodate variations due to geographic regions and seasonal fluctuations.

The GSA publishes new lodging and meal rates annually in August to be effective October 1st. ADOA proposes updating the maximum lodging and meal rates for State travel to align with the

The Honorable David Livingston
The Honorable John Kavanagh
November 9, 2023
Page 2

new GSA rates to be effective after receiving approval since the federal effective date of October 1, 2023, has passed.

The GSA adopts the standard mileage rate for privately-owned vehicles established by the U.S. Internal Revenue Service (IRS). ADOA anticipates the IRS will establish a new rate in December, to take effect January 1, 2024, however at the time of writing, that rate has not been published. ADOA will return to the Committee to propose adopting the new rates if we find doing so is in the best interest of the State. At this time, ADOA proposes updating the State's personally owned vehicle mileage rate to align with the most recent federal rate, which took effect January 1, 2023, at \$0.655 per mile.

Thank you for your attention to this request. If you have any questions or need any additional information, please feel free to call me.

Sincerely,



Michael Wischart
State Comptroller

cc: Richard Stavneak, Director, JLBC Staff
Rebecca Perrera, Assistant Director, JLBC Staff
Sarah Brown, Director, OSPB
Will Palmisano, Senior Budget Manager, OSPB
Jimmy Arwood, Chief Legislative Liaison, ADOA
Jacob Wingate, Chief Financial Officer, ADOA



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Joint Legislative Budget Committee

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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Assistant Director

SUBJECT: Arizona Department of Administration/Automation Projects Fund - Review of Human Resources Information System

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) is requesting review of \$20,647,800 in FY 2024 for ADOA's Human Resources Information System (HRIS).

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. It is the Committee's intent that ADOA narrow the scope of the project if needed to keep the project within the original budget. A review by the Committee does not constitute an endorsement of additional funding.

Key Points

- 1) ADOA requests review of \$20.7 million for second year funding for the HRIS replacement project.
- 2) HRIS manages state employee information, including payroll and benefits. The current system is 20 years old.
- 3) Total project costs are budgeted at \$44.2 million over 3 years including vendor services, equipment, and ADOA internal staff.
- 4) ASET reports the project as "off-track," and may require a change in scope to maintain the original timeline and budget.

(Continued)

Analysis

ADOA operates the Human Resources Information System (HRIS), the state's central hub for salary and benefit administration, employee records, time and leave management, and other workforce data. ADOA's current system consists of a 20-year-old application which will no longer be vendor-supported by 2027. The new system will be maintained by the selected vendor in the cloud with ongoing system upgrades included in the contract. The new configurable system eliminates the need for customization and allows secure accessibility across devices, including phones and tablets.

The total cost for the project over FY 2023-2025 is \$44.2 million, including a cumulative one-time \$16.0 million from the General Fund. The primary costs are \$26.6 million for vendor professional services to implement the system. Project costs also include \$6.8 million in ADOA staffing costs for project management and staff augmentation.

The project is expected to be completed in September 2024 (FY 2025) right before the start of the state's open enrollment period for employee health insurance in October 2024. The ongoing increased cost, if any, to operate HRIS after the IT upgrade is unknown.

A budget footnote requires ADOA to report quarterly on the status of all APF-funded projects. Additionally, pursuant to A.R.S. § 18-104, any large-scale IT projects with a total cost greater than \$5.0 million must receive third-party analysis from an independent contracted vendor. Both ADOA and the third-party report that the HRIS project is "off-track." These reports have identified risks related to the project timeline, resource management, and communication internally in ADOA, with the vendor, and with state agencies.

While ADOA states that they don't anticipate changes to the project's scope are necessary, the third-party analysis notes that the project may require a change in scope to maintain the original timeline and budget. ADOA continues to increase reporting and oversight of this project. As a result, the Committee may consider a provision that is the Committee's intent that ADOA narrow the scope of the project if needed to keep the project within the original budget. A review by the Committee does not constitute an endorsement of additional funding.

RP:kp

Katie Hobbs
Governor



Ben Henderson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 NORTH FIFTEENTH AVENUE • SUITE 302
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November 17, 2023

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

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

Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2024 Automation Projects Fund (APF) expenditure plans for the projects related to the Department of Agriculture—Information Technology Modernization Contract Award (Phase 2), the Arizona Department of Administration (ADOA)—HRIS Modernization and the Department of Revenue—State Tax Accounting and Reconciliation System (STARS).

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

Sincerely,

J.R. Sloan
State CIO

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Enclosures

cc: Richard Stavneak, Director, JLBC
 Sarah Brown, Director, OSPB
 Elizabeth Alvarado-Thorson, Executive Deputy Director, ADOA
 Rebecca Perrera, Assistant Director, JLBC
 Ashley Retsinas, Assistant Director, ADOA
 Jacob Wingate, Chief Financial Officer, ADOA/DBF
 Cameron Dodd, OSPB Staff
 Elizabeth Selby, OSPB Staff
 J.R. Sloan, State CIO
 Duncan Spilsbury, OSPB Staff

Favorable Review Request Summary				
Agency	Project Name	APF Appropriation	Favorably Reviewed	Requesting Amount
AZDA	Agriculture Information Technology Modernization Contract Award (Phase 2)	\$2,000,000	\$300,000	\$1,700,000
ADOA	HRIS Modernization	\$43,045,600	\$22,397,800	\$20,647,800
ADOR	State Tax Accounting and Reconciliation System (STARS) Discovery and Planning Phase	\$58,738,364	\$21,639,879	\$16,656,400

Agency: Arizona Department of Administration - ADOA

Project: HRIS Modernization

Appropriation: \$20,647,800

CURRENT REQUEST

The Department of Administration is requesting a favorable review of \$20,647,800 million appropriated from the Automation Projects Funds in FY 2024 to continue the first phase and begin the second phase of the Human Resources Information System (HRIS) Modernization Project. This project consists of replacement of the State of Arizona's enterprise HRIS before the current system reaches "end of life," expected to occur between 2024 and 2027.

FY 2023 Appropriation	FY 2023 Favorably Reviewed	FY 2024 Appropriation	FY 2024 APF Funds Yet to be Reviewed
\$22,397,800	\$22,397,800	\$20,647,800	\$20,647,800

The State's current aging HRIS is an on-premise, 20-year-old legacy system that has been bolstered over its lifecycle with many third-party HR add-on systems to meet the State's workforce needs. The new, modern HRIS will be a cloud-based solution with an application leader, on par with our peers in state governments nationally. The solution will fill many gaps we currently experience in our existing HRIS. It will be a fully integrated system, allowing users access to the data they need without having to navigate numerous systems and will also enable the decommissioning of the supplemental systems currently deployed. The solution will incorporate user access management best practices and be AZRAMP compliant, ensuring data security and integrity. In addition, the solution can be accessed using multiple device types including mobile phones and tablets, meeting the needs of our diverse workforce and retirees on whatever device they prefer. Robust reporting and dashboards will allow users to analyze and take immediate action on information being reported to them.

The solution will be deployed in a vendor's cloud, with upgrades performed by the vendor as part of the license agreement at scheduled times throughout the year. The solution will be highly configurable and eliminate the need to perform most, if not all, customizations. Additionally, future upgrades will not impact the State's configuration. Regularly scheduled upgrades will allow the State to stay current with new features, industry trends and take advantage of implementing best practices that have been proven throughout both private and public sectors. The many benefits of the new solution will position the State to attract, retain and manage top talent for years to come.

PROJECT DESCRIPTION

Background

The State of Arizona's current HRIS, procured at the turn of the millennium, has been in a state of decline for 10 years. The system is responsible for ensuring the processing of over \$2 billion in annual payroll, human resources employment administration for 44,000 State employees, and benefits administration for employees and retirees of all branches of State government and the three State universities.

The system is operating on legacy software (COBOL) last developed 10 years ago. The current version, v10, is the final version the vendor supports.

The system is expected to reach its end of life by 2027. At that time the vendor will no longer provide application support in the form of critical security patches and updates, compliance updates, or technical support for issues. Use of unsupported software puts the State's critical processes and sensitive information at risk, which includes the personnel records and financial information of its current and former workforce. The State currently relies on the existing staffing to support the system, of which, over half of the team will have reached retirement eligibility by 2027. Without the necessary technical staff to support the system, the State is at risk of needing to hire costly IT contractors with experience programming older systems. Individuals that hold this technical expertise are scarce and come at a premium. By 2027, the technology will be almost 30 years old, running on a programming language that is 70 years old, with capabilities frozen in time since 2011.

For years, ADOA Human Resources has operated without all of the modern HR information system capabilities (see *Solution* below) needed to carry out efficient and compliant HR services. The current system lacks foundational capabilities that come standard in today's modern systems. Multiple third-party systems have been acquired and manual procedures developed to work around outdated and obsolete functionality. Observations of this were captured in the 2018 HRIS Feasibility Study:

- HR procedures are predominantly manual, using multiple types of personnel action forms that are physically executed and not electronic or tracked with case management.
- The metrics needed for agencies' scorecards are not readily available in the HRIS. Without one system of record for HRIS information, copious amounts of employee time and effort is put into collecting, validating, rationalizing and manipulating raw data to extract the numbers required for statewide reporting.
- The current HRIS does not meet the agencies' needs. Examples include future-dated transactions, classification management, time scheduling, human resources administration and reporting. Based on these unmet needs, agencies continue to spend significant funding on stand-alone systems with functionality that is not in the current HRIS or aligned with the enterprise solution.
- Mobile service is not available in the HRIS. Many employees working for agencies such as ADPS, ADCRR, ADCS, and ADOT do not regularly work at a traditional desk, making mobile services vital for their day to day jobs.

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Recent HR modernization projects have demonstrated that with newer systems State HR has significantly improved operational performance.

In 2020, a new recruitment application was implemented that replaced the State's outdated and non-ADA compliant HRIS recruitment and Job Board applications. Results achieved since 2019:

- Average positions filled per recruiter increased by 47%
- 35% fewer Job Postings required to be created, per recruiter, due to advanced automation
- Time to fill improved by an average of 4 days

In 2020, a new engagement survey platform was implemented that replaced a highly manual process. Results achieved:

- 75% less time to administer the survey
- Agency results delivered 6 weeks faster: from 8 to 2 weeks
- Fully automated results available via agency dashboards

The 2018 HRIS Feasibility Report found that by standardizing and automating five core HR business processes through a future-state technology could save up to **3 million** hours of staff time annually.

[See "2018 HRIS Business Process Improvements.pdf"](#)

Solution

Our solution is to implement a full scale, integrated, single platform cloud solution that is an application leader favorable for large government enterprises. It will include the following functions:

- Core HR (personnel transactions, position management, workforce planning, etc.)
- Benefits
- Payroll
- Absence Management
- Time Entry
- Recruitment
- Talent Management (job posting, onboarding, performance management, employee relations, etc)
- HR Service Delivery (enterprise inquiries, central HR response, HR service desk, etc)
- Employee Self-Service

Our solution will allow employees access to the system using multiple device types such as mobile phones, PCs, laptops and tablets, closing a huge gap that many of our employees and retirees are experiencing with the current HRIS.

This solution will align with the State's "Cloud First" policy and create opportunities that come at no additional cost to the State such as automatic upgrades. This will ensure that the State's HRIS will always be using the latest technology, which affords the State the ability to take advantage of industry proven software and processes for years to come. The system will provide intuitive, user-friendly interfaces to help users take advantage of more system functionality and lead to greater opportunity for continual process improvement initiatives for agencies in the years to come.

Benefits

The benefits of this solution are numerous, allowing the State to carry out efficient and compliant HR services by using proven “best practice” business process flows. The modernized HRIS will have superior analytical reporting and dashboards that can be used across the entire state, providing HR personnel the ability to gain powerful people insights, perform “what if” scenarios, and take immediate action on those scenarios when desired. A secure, role-based, and user-friendly interface will allow our employees and retirees access to the system from any device type they choose, from anywhere in the United States.

Further benefits include:

1. **Continuity of Operations:** The fully supported employee payroll, benefits, and human resource system will serve us for years to come. State-controlled configuration will allow us the flexibility for future initiatives.
2. **Group State HR Assets:** By consolidating systems, we will eliminate the need for unique training, testing, upgrades, and integrations for each system.
3. **Industry Best Security:** The system will be designed to achieve best standards for system security, performance, reliability, and availability, while also protecting employee personnel and financial information.
4. **Current Technology:** The system will remove the need to self-fund ongoing system updates and upgrades.
5. **Full Stack HR Support:** The system will provide malleable/configurable HR solutions that support the full employee lifecycle.
6. **Changing Workforce:** HR personnel will be able to respond more effectively to the workforce changes post-pandemic; the system will be more connected, automated, distributed, and provide a better employee experience and service.
7. **Operational Efficiencies:** The system will provide employees the capabilities to more effectively perform their work by having an intuitive user experience, taking advantage of best practice process flows and allowing system access from numerous device types including mobile phones, tablets, laptops, and PCs.
8. **Robust Reporting:** The system will provide a single source for employee data, with analytical reports and dashboards that support decision making and allow users to take immediate action when required.
9. **Digital Assistant:** Using the system's digital assistant, employees will be able to ask and get answers to questions by simply typing them in. The digital assistant can also guide the employee through the process of performing common tasks such as entering time sheets or requesting time off, finally routing the request for approval or denial.

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

PROJECT GOALS/MILESTONES

Description	Start Date (Est.)	End Date (Est.)	Duration within FY 2023 (weeks/months)
Fiscal Year 2023 and Fiscal Year 2024: Phase 1A Timeline: August 2022 - September 2024 This timeline focuses on activities that were started in FY23 and continue through FY25 as Phase 1A completes in September 2024. Human Resources Modules: Payroll, HR, Benefits, Workforce Management, Employee & Manager Self-Service, HR Service Management, Reporting & Analytics			
* Continue Configure and Develop Phase: Requirements gathering; business process reengineering and design with vendor for payroll, core human resources, including classification and compensation, benefit enrollment and management, workforce management, employee and manager self-service, HR service management, report and analytics; project team training, system configuration, security roles configuration, sprints, data conversion development, and unit testing	2/1/2023	8/30/24	19 Months
Continue Integrated System Testing (IST): CGI executed testing of system integration points.	11/1/2023	2/10/24	4 Months
Continue User Acceptance Testing (UAT): State executed testing of business processes, includes agency testing.	2/13/2024	7/30/24	6 Months
Continue Training Material Development: Develop materials that will train the trainers and lead instructors to deliver training to the agencies.	5/1/2023	7/30/24	15 Months
Continue System Demonstrations: Business process demonstrations attended by agencies, users and project stakeholders to gain buy in and agency adoption of the final solution.	10/1/2023	2/30/24	5 Months

* Configure and Develop of HRIS implementation activities will continue through FY 2025. This timeline focuses on activities started and underway in FY 2023 but implementation is expected to take approximately 24 months.

PROJECT COST DETAIL (FY2024 Appropriation Ask)

The figures below represent ADOA's current expenditure plan for the funding included in the FY 2024 enacted budget.

Expenditure Plan FY 2024/FY 2025

Personnel Services	\$4,918,064.64
Personnel Related Expenses	\$1,893,788.84
Professional and Outside Services	\$8,555,634.15
Other Operating Expenses	\$5,130,312.38
Equipment Quality Management/Testing Explanation	\$150,000.00
Total Cost for FY [2024-2025]	\$20,647,800.00



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Assistant Director

SUBJECT: Arizona Department of Administration/Automation Projects Fund – Review of Department of Revenue Integrated Tax System Modernization

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) is requesting review on behalf of the Department of Revenue's (DOR) expenditure plan totaling \$16,656,400 of its \$19,369,400 FY 2024 APF appropriation to complete the planning and discovery phase with the selected vendor for the new tax system.

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 February 28, 2024 and August 30, 2024, DOR shall report to the Committee on its progress in developing a project plan, schedule, and deliverables.
- B. A favorable review is contingent on approval from the Information Technology Authorization Committee (ITAC).

(Continued)

Key Points

- 1) As part of FY 2023 budget, DOR projected a total cost of \$105 million over 6 years to replace its 20+ year old tax system.
- 2) DOR is seeking review of \$16.7 million from the project's second year of funding.
- 3) The request would fund DOR project staff and vendor implementation services through the project's 18-month planning and discovery phase (February 2025).

Analysis

The FY 2023 budget assumed that the total cost to replace the state's tax system would be \$104.8 million over 6 years. Of the total, \$63.8 million would be paid from the General Fund and the remaining \$41.0 million would be assessed to certain state government funds, local governments, and other taxing authorities to recover a portion of the administrative, development, and operating costs for the system.

The selected vendor submitted a bid of \$48.0 million for development costs. This amount, combined with DOR's internal costs of \$49.0 million, results in a total development budget of \$97.0 million. DOR's project budget retains the remaining \$7.8 million amount as a contingency.

The FY 2023 budget appropriated \$15.8 million to DOR to begin the replacement of the state's tax system. In September 2022, the Committee gave a favorable of DOR's plan to spend \$870,900 to begin the scoping and procurement of the new tax system. In June 2023, the Committee gave a favorable review of the \$15.0 million remaining from the FY 2023 appropriation and also favorably reviewed DOR's report on how the project will meet the requirements outlined in statute.

Table 1 outlines DOR's expenditure plan through February 2025. DOR is currently requesting a review of \$16.7 million of its \$19.4 million FY 2024 appropriation (which is non-lapsing through FY 2025). Expenditures include project staff at DOR and vendor implementation, support, and hosting services.

Table 1

FY 2023 and FY 2024 DOR Tax System Appropriation Allocations

	FY 2023		FY 2024 Request	
	Sept. 2022	May 2023	Dec. 2023	Total
DOR Internal Costs				
Personal Services/ERE	\$ 450,100	\$ 252,800	\$ 4,338,300	\$ 5,041,200
Contracted Services	347,400	360,000	1,431,000	2,138,400
Miscellaneous (Hardware, Training)	<u>73,400</u>	<u>0</u>	<u>41,000</u>	<u>114,400</u>
<i>DOR Internal Costs Subtotal</i>	<i>\$ 870,900</i>	<i>\$ 612,800</i>	<i>\$ 5,810,300</i>	<i>\$ 7,294,000</i>
Vendor Costs Subtotal				
Licensing Costs	0	8,066,100	0	8,066,100
Support and Hosting		2,420,000	1,555,000	3,975,000
Implementation Services	<u>0</u>	<u>3,600,000</u>	<u>8,933,100</u>	<u>12,533,100</u>
<i>Vendor Costs Subtotal</i>	<i>\$ 0</i>	<i>\$ 14,086,100</i>	<i>\$ 10,488,100</i>	<i>\$ 24,574,200</i>
3rd Party Independent Verification/Validation	<u>0</u>	<u>250,000</u>	<u>358,000</u>	<u>608,000</u>
Total	\$ 870,900	\$ 14,948,900	\$ 16,656,400	\$ 32,476,200

(Continued)

In August 2023, DOR initiated an 18-month "discovery" phase with the selected vendor to design the system and determine the order of onboarding functionality and tax types. Given the interest in the project, the Committee may consider a provision requiring DOR to report on its progress in the discovery phase.

The project was initially reviewed by the Information Authorization Committee (ITAC) in June 2023. ITAC is scheduled to review the FY 2024 appropriation at its December 13, 2023 meeting. As a result, the Committee may consider a provision making its review contingent on ITAC approval.

RP:kp

Katie Hobbs
Governor



Ben Henderson
Interim Director

ARIZONA DEPARTMENT OF ADMINISTRATION

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

November 17, 2023

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

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

Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Administration (ADOA) is submitting this request for review of fiscal year 2024 Automation Projects Fund (APF) expenditure plans for the projects related to the Department of Agriculture—Information Technology Modernization Contract Award (Phase 2), the Arizona Department of Administration (ADOA)—HRIS Modernization and the Department of Revenue—State Tax Accounting and Reconciliation System (STARS).

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

Sincerely,

J.R. Sloan
State CIO

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Enclosures

cc: Richard Stavneak, Director, JLBC
Sarah Brown, Director, OSPB
Elizabeth Alvarado-Thorson, Executive Deputy Director, ADOA
Rebecca Perrera, Assistant Director, JLBC
Ashley Retsinas, Assistant Director, ADOA
Jacob Wingate, Chief Financial Officer, ADOA/DBF
Cameron Dodd, OSPB Staff
Elizabeth Selby, OSPB Staff
J.R. Sloan, State CIO
Duncan Spilsbury, OSPB Staff

Favorable Review Request Summary				
Agency	Project Name	APF Appropriation	Favorably Reviewed	Requesting Amount
AZDA	Agriculture Information Technology Modernization Contract Award (Phase 2)	\$2,000,000	\$300,000	\$1,700,000
ADOA	HRIS Modernization	\$43,045,600	\$22,397,800	\$20,647,800
ADOR	State Tax Accounting and Reconciliation System (STARS) Discovery and Planning Phase	\$58,738,364	\$21,639,879	\$16,656,400

Agency: Department of Revenue

Project: State Tax Accounting and Reconciliation System (STARS)
Discovery and Planning Phase

Appropriation: Integrated Tax System (ITS) Modernization Project

CURRENT REQUEST

The Department of Administration, on behalf of the Department of Revenue (ADOR), is requesting a favorable review of \$16.6 Million of the \$19.4 Million appropriated from the Automation Projects Funds (APF) in FY 2024 to continue development of the STARS Discovery and Planning Phase. The scope of this funding request is to continue discovery and planning activities through the remaining 12 months of the 18 month discovery and planning period of the project, which is scheduled to end in February 2025.

FY2023 - Pre Contract Award Preparation & STARS Discovery and Planning Phase (6 months)

In fiscal year 2023, ADOR received favorable reviews of the full \$15.8 Million in APF funds appropriated in FY 2023, which was split into two phases. The STARS Pre Contract Award Preparation was the initial phase, aimed at the Request for Proposal (RFP) evaluation and selection of a vendor as well as key data management activities designed to prepare for the development and implementation of the STARS ITS. The STARS Discovery and Planning phase funded the one time software licensing fee, hosting and implementation services for the first 6 months of the 18 month discovery and planning period of the project.

FY 2023 Appropriation	FY 2023 Favorably Reviewed	FY 2023 Current Request	FY 2023 Remaining APF Funds Yet to be Reviewed
\$15,819,800	\$15,819,800	\$0	\$0

FY2024 - STARS Discovery and Planning Phase (12 months)

The scope of the current funding request is to continue to perform discovery and planning activities in coordination with ADOR, stakeholders, and the ITS vendor, GCOM Software. The overall objective of the discovery and planning phase is to develop a deep understanding of the requirements and ADOR's business needs and processes. Understanding the requirements is fundamental for success and foundational to all subsequent work.

The STARS Project Team will use this time to:

- Develop and approve deliverables
- Deploy the initial software environments
- Plan the project phases in more detail
- Perform discovery and initial configuration planning

This request includes both part time and full time hours of ADOR Full Time Employees (FTE) to participate in the project, ITS vendor implementation services, production support services, hosting services and independent validation & verification (IV&V) services.

FY 2024 Appropriation	FY 2024 Favorably Reviewed	FY 2024 Current Request	FY 2024 Remaining APF Funds Yet to be Reviewed
\$19,369,400	\$0	\$16,656,400	\$2,713,000

Solution

The solution procured for the STARS Integrated Tax System Project is called RevHub. RevHub is a single integrated tax system that will house all ADOR business functions, for all tax types. It will provide improved tax administration, expand digital services offerings and will be configurable and adaptable to respond to changes in legislation.

Critical problems addressed by the STARS Project include:

- Multiple open Auditor General findings that cannot be addressed by the current state systems.
- There are currently a variety of systems and other tools being utilized to support operations, which often do not integrate with each other, creating inefficiencies in operations.
- Most of the key systems are old technology and are becoming increasingly difficult and costly to maintain.
- The lack of integration makes taxpayer service and compliance activities difficult.
- The ADOR's current external facing portal does not offer services for all tax types.

Benefits

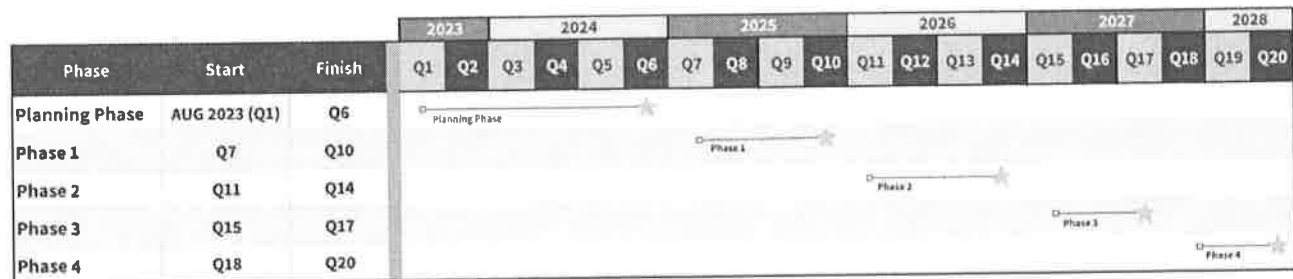
At the conclusion of the implantation project, the new ITS will provide the following benefits:

- Consolidation of all tax type related business functions into a single ITS of record.
- A single self-service portal enabling access to expanded digital services for all tax types.
- Reduction of paper driven tax processes.
- Successful rollout of data and modeling requirements per Laws 2022, Ch. 313, § 107(D).
- Expanded analytics and functionality to lower the Arizona tax gap.
- Closure of the ADOR's remaining open Auditor General findings related to the current state.
- Legislative Agility - Shorten response time to implement legislative changes.

Project Overview

Background

ADOR has started a multi-year effort to replace its current systems of record with a single integrated tax system (ITS). Preparation efforts started in FY 2019, when ADOR started data cleansing and preparation efforts that will continue through the end of the implementation of the ITS. In early 2020, the ADOR conducted a feasibility study with a 3rd party firm. During this study, the ADOR met with and interviewed 10 other states of similar size to discover key lessons learned from their own replacement projects. ADOR also met with numerous external stakeholders who provided input into the current state and its shortcomings. In FY 2022, ADOR developed a business case and budget request (\$104.8 Million over 6 years) to support the executive and legislature in the debate on whether to fund this historic project. In FY23, \$15.8 Million was appropriated to the project. ADOR collaborated with the State Procurement Office to float a request for proposal (RFP) and to award a contract. A contract was awarded to GCOM Software (Team GCOM) on June 23, 2023.



The implementation project will be broken into 5 phases, starting with an initial 18 month discovery and planning phase. The overall objective of the discovery and planning phase is to develop a deep understanding of the requirements and ADOR's business needs and processes. Understanding the requirements is fundamental for success and foundational to all subsequent work. Four subsequent phases will follow to where end user functionality will go live. Key details of the four go live phases will be planned during the discovery and planning phase.

The Discovery and Planning Phase officially began on August 8, 2023. ADOR and Team GCOM immediately started on project initiation activities. This effort will ensure a solid foundation will be in place for the entire project. The project team completed all milestone 1 deliverables as set forth in the project plan, established roles and responsibilities for key team members and completed all project kick off activities. The project now has shifted into execution mode, with discovery sessions initiating in mid October 2023. This request will fund the remaining discovery phase through February 7, 2025.

Method of Procurement - See the Ask Report reviewed by JLBC on June 1, 2023 for details on the method of procurement.

PROJECT COST DETAIL - FY 2024 Request

6000 Personnel Services

6100 Employee Related Expenditures

ADOR will be utilizing both part time and full time hours of Full Time Employees (FTE) for the project. The details are as follows:

5 - FTE Lead Business Subject Matter Experts (SME): These business subject matter experts will participate in STARS preparation activities which include:

- **Discovery and Planning:** The Business SMEs will participate in the discovery and planning activities alongside the vendor and IT staff.
- **Data Management:** Preparation of data for downstream implementation activities - includes data cleansing, migration, correspondence and reporting.
- **Other Activities:** The Business SMEs will also participate in other preparation activities such as developing the communications, change management and stakeholder management plan.

1 - FTE Business Subject Matter Expert (SME): This SME will participate and support activities related to discovery, data preparation, tax forms review and correspondence.

1 - FTE SR. Project Manager (PM): The assigned PM will be responsible for managing all phases of the Project Management Life Cycle (PMLC). Prior to the RFP award the PM will prepare planning tasks to immediately begin work with the selected vendor.

1 - FTE SR. Business Analyst (BA): The assigned BA will support planning and documentation efforts associated with the PMLC in preparation for the project kickoff.

1 - FTE Attorney 3: This Attorney will be dedicated to the tax type profile workstream. The tax type profiles will consist of a statute and rule review that will be critical for requirements gathering with the vendor.

1 - FTE Auditor 3: This Auditor 3 will be responsible for working with Team GCOM in training the analytical models relating to the selection of individual income tax for potential review. The expected output of this analysis will be a prioritized list of taxpayers that are subject to receive letters from ADOR referencing their potential filing delinquency.

1 - FTE Field Collector: This Field Collector will be responsible for working with Team GCOM in training predictive models to prioritize collections cases and improve the financial outcomes of those cases. This Collector will also be responsible for cleansing the current collections inventory in the current system.

Part Time ADOR FTE Staff Hours: The Discovery and Planning activities will require the part time participation of ADOR FTE staff all throughout the organization. ADOR has included a pool of hours in this Ask Report to be utilized for this purpose. As various FTE staff participate in STARS related discovery and planning activities, they will record their time working on the STARS project. STARS APF funds will be utilized to fund PS/ERE for these recorded hours.

All Other Operating Expenditures

ITS Vendor Implementation Services: ADOR and the selected vendor will work together for an estimated 18 months to plan for the entirety of the project. ADOR in coordination with the selected vendor will review current state systems and processes to ensure a complete understanding on how ADOR operates; begin to define a schedule for deliverables included in the RFP; and begin to define core ITS functionality that crosses over future phases to potentially front-load that work to occur during the discovery period.

ITS Vendor Production Support Services: The selected vendor will provide ongoing support and maintenance services of the ITS software once it is installed. The selected vendor will also supply a pool of 6,240 hours (approximately three (3) FTEs) to support ongoing system enhancement and implementation of legislative initiatives at the discretion of ADOR.

ITS Vendor Hosting Services: The ITS vendor is responsible for hosting the ITS system on the cloud in order to meet the State's Cloud First initiative. These services will include all components (e.g., operating system, servers, data center site, network, storage, uninterrupted power supply [UPS], etc.) and the services (e.g., backup, disaster recovery, etc.) required to provide the solution infrastructure as a service.

The hosting costs must be all-inclusive of the setup and support services for the required environment(s), including but not limited to the purchase of hardware, installation services, inspection, licenses (e.g., operating system), HVAC, facility fees, and physical/site security of the environments.

The environments will meet the security standards and compliance certifications including FedRAMP and AZRamp.

Independent Verification & Validation Services (IV&V): Arizona Revised Statute Section §18-104. A. 1. (g) states in relevant part: "If the total project costs exceed \$5,000,000, the department shall require the budget unit to contract with an independent third party to review and guide the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project before making recommendations to the information technology authorization committee. The STARS Project will exceed the \$5M requirement for IV&V services, creating the requirement for these services.

Contractor Services

1 - Senior IT Consultant: The Senior IT Consultant will advise STARS Project Team with expert level IT guidance regarding matters of technology, vendor engagement, and project best practices.

1 - Program Manager: Reporting to and under the supervision of the STARS Executive Sponsor, the Program Manager will coordinate projects needed to reach the targeted goals. It is important that this position is funded before the project commences so they can be adequately prepared.

2 - Senior Project Manager: This contractor will be responsible to coordinate activities associated with STARS workstream efforts including but not limited to pre-conversion data preparation as well as review of forms and correspondence.

2 - Extract, Load, Transform (ETL): The ETL Contractors will work with the business Subject Matter Experts (SMEs) in preparing the agency's data for migration.

1 - Senior Business Analyst: The Business Analyst will work with the business Subject Matter Experts (SMEs) to document Business Requirements.

4 - Data Cleansing Contractors: ADOR is currently working through data cleansing activities on its current state systems. These four contractors will contribute to that effort.

PROJECT GOALS/MILESTONES

<i>Description</i>	<i>Start Date (Est.)</i>	<i>End Date (Est.)</i>	<i>Duration (weeks/months)</i>
Original Milestones			
Project Initiation - Vendor Engagement and Onboarding	8/8/2023	11/8/2023	3 months
Project Initiation - Establish ADOR Project Governance	8/8/2023	11/8/2023	3 months
Phase Initiation - Update Communications and Stakeholder Plans according to Discovery Phase Milestones	8/8/2023	11/8/2023	3 months
Create Organizational Change Management Plan	10/16/2023	2/8/2024	4 months
Human Resources - Onboard STARS Phase Project Staff	10/16/2023	2/8/2024	4 months
Budget & Finance - Statutory Requirement - Assessment Billing (2023)	8/8/2023	2/8/2024	6 months
Budget & Finance - Payment Milestone - Vendor to Invoice according to payment schedule	8/8/2023	2/7/2025	18 months
Budget & Finance - Final Payment Milestone - Quarterly Support, Hosting and Implementation Services Payment	2/28/2025	2/28/2025	1 months
Project Execution - Deploy ITS base cloud and application infrastructure per Pub 1075 regulations	8/8/2023	2/8/2024	6 months
Project Execution - Discovery Phase: ADOR & GCOM to jointly develop the implementation plan for the entirety of the project	10/9/2023	2/7/2025	16 months
Project Execution - Discovery Phase: ADOR and selected Vendor to jointly develop the delivery schedule associated with the deliverables included in the Contract	10/9/2023	2/7/2025	16 months

ARIZONA

DEPARTMENT OF ADMINISTRATION
ARIZONA STRATEGIC ENTERPRISE TECHNOLOGY

Project Execution - Data Management Workstream	8/8/2023	2/7/2025	18 months
Project Monitoring - Statutory Requirement - IV&V Vendor Onboarding and Project Monitoring	8/8/2023	11/8/2023	3 months
Project Monitoring - Statutory Requirement - Tax System Modernization Project Advisory Committee Engagement	8/8/2023	2/8/2024	6 months
New Milestones			
Budget & Finance - Statutory Requirement - Assessment Billing (2024)	9/1/2024	2/7/2025	5 months
Project Execution - Discovery Phase: Participate in Discovery and Planning activities identified in the GCOM Project Schedule.	2/9/2024	2/7/2025	12 months
Project Execution - Discovery Phase: GCOM to deliver agreed upon deliverables according to the Project Strategy document	2/9/2024	2/7/2025	12 months
Project Execution - Discovery Phase: Vendor to deliver the System Security Plan outlining the compliance plan and status for AZRamp, Pub 1075 and FedRAMP.	2/9/2024	2/7/2025	12 months
Project Monitoring - Statutory Requirement - IV&V Project Monitoring	2/9/2024	2/7/2025	12 months
Project Monitoring - Statutory Requirement - Tax System Modernization Project Advisory Committee Activities	2/9/2024	2/7/2025	12 months

PROJECT COST DETAIL

Personal Services/ERE

Full Time Employees \$4,338,300

All Other Operating Expenditures

Contractor Services \$1,431,000

Support, Hosting Implementation \$10,488,100

IV&V \$358,000

Training/Misc Support \$41,000

Total Cost for FY 2024* **\$16,656,400**

*This request is for the use of FY24 Appropriation funds that will start in February FY 2024 up through February budget FY 2025.



STATE OF ARIZONA

Joint Legislative Budget Committee

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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Patrick Moran, Deputy Director

SUBJECT: Department of Education - Review of AzSCI Science Contract Renewal

Request

Pursuant to A.R.S. § 15-741.03, the Arizona Department of Education (ADE) requests Committee review of its contract renewal for the statewide assessment in science (AzSCI).

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 an endorsement of adding funding to ADE's budget for cost increases in the AzSCI contract.

Key Points

- 1) Statute requires ADE to seek JLBC review of contract renewals for any statewide assessment of student performance. The science assessment contract (AzSCI) expires in April 2024.
- 2) Total AzSCI Assessment costs will be \$2.7 million in FY 2025, or an increase of \$636,000 compared with estimated FY 2024 costs.
- 3) We estimate ADE will be able to cover the cost increase with existing resources due to offsetting savings in other assessment contracts.

(Continued)

Analysis

A.R.S. § 15-741 allows the State Board of Education to administer statewide assessments in science, though students may not be required to meet or exceed the assessment. A.R.S. § 15-741.03 requires ADE to seek JLBC review to establish or renew a contract for any portion of the statewide assessment. The AzSCI contract will expire in April 2024. As a result, ADE is submitting the contract renewal for Committee review and is proposing a 1-year extension.

In FY 2025, the AzSCI Assessment will be administered to students in grades 5, 8, and 11. ADE estimates that AzSCI Assessment testing will cost approximately \$2.7 million in FY 2025, or an increase of \$636,000 from FY 2024. The department attributes the increase to costs of developing new AzSCI tests, including accessible versions (e.g. tests with American Sign Language, closed captioning, and Braille materials).

We anticipate ADE will be able to cover the \$636,000 increase with existing resources based on lower expenses for other statewide assessments. In its September 2023 extension of the contract for the assessments in reading and math, ADE estimated total expenditures would decline from \$17.4 million in FY 2023 to \$16.0 million in FY 2024, or a decrease of \$(1.4) million compared with FY 2023. The savings from those assessments would be sufficient to cover the \$636,000 increased cost of the AzSCI exam. The Committee may therefore consider Provision A, which would stipulate that a favorable review does not constitute an endorsement of adding funding to ADE's budget for cost increases in the AzSCI contract.

PM:kp



ARIZONA DEPARTMENT OF
EDUCATION

November 27, 2023

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

Dear Representative Livingston:

The purpose of this letter is to request that one item be included on the agenda for consideration at the next meeting of the Joint Legislative Budget Committee (JLBC) in order to fulfill the statutory requirement outlined below.

1. A.R.S. 15-741.03, which prohibits the Department of Education from renewing any portion of a statewide assessment contract without JLBC review. The AzSCI (Arizona's Science Test) contract is expiring on April 3, 2024, and the Department is seeking JLBC review to renew the contract for an additional year. Additionally, the State Board of Education approved two additional extensions for this contract due to COVID and ADE administering AzSCI for the first time in 2022. Without renewing this contract, the Department will not meet federal and state requirements to administer a Statewide Science assessment aligned to the State's Science Standards.

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

Sincerely,

Melissa Taylor
Director of Government Relations and Public Policy

Attachments:

AzSCI Year 8 Scope of Work
AzSCI Price Sheet 2024-2025

*We are a service organization committed to raising
academic outcomes and empowering parents.*

Scope of Work: April 2024 – March 2025

AzSCI Test Development Activities

1. Estimated item development plan for embedded field test in 2025

a. New Development

Grade	Cluster Sets	Independent Sets
5	6	12
8	6	12
11	5	10

b. Revise/Refield Test in Sp25 or after:

Grade	Cluster Sets	Independent Sets
5	1	0
8	1	0
11	1	1

2. Embedded Field Test Test Design

AzSCI Test Design: Grades 3–5, 6–8, and 11				
Unit	Operational Items from Independent (IN) Sets	Operational Items from Cluster (CL) Sets	FT Items from IN and CL Sets	Total Number of Items
1	15 items (from at least 5 IN sets)	n/a	5 items (from 2 IN sets)	20
2	n/a	15 items (from 3 CL sets)	5 items (from 1 CL set)	20
3	n/a	20 items (from 4 CL sets)	n/a	20

3. Item/Test Development Process – Online Forms

- a. Item Phenomena and Outline Review
- b. Item review in ABBI (2 rounds)
- c. Forms Review in ABBI (2 rounds)
- d. Forms Review in TestNav (3 rounds)
- e. Paper Test Books Development Activities
 - i. Regular Print PDF forms review (3 rounds)
- f. Large Print PDF forms review (2 rounds, work begins after approval of regular print forms)
- g. Braille
 - i. Braille Memo provided to ADE
 - ii. Braille Proofs provided to ADE for Braille Review Committee
 - iii. Pearson applies edits based on Braille Review feedback
 - iv. Braille Review and Approval
- h. American Sign Language
 - i. Forms Review in TestNav

AzSCI Contract Year 8

Psychometrics

4. Psychometric Services will provide oversight for validity, reliability, and the technical quality of the assessment. The Psychometric services provided will include the production an Annual Technical (Tech) Report.
 - a. The Tech Report will be provided in a 508 Compliant format.
 - b. The Tech Report will be modeled on existing AzSCI Technical Reports.
 - c. Arizona owns all data associated with the AzSCI. All data used by Psychometric services will be made available to ADE.

Annual Meetings

5. Up to two face-to-face planning meetings per year at ADE
6. TAC Meeting
 - a. Up to two face to face TAC meetings per year in Phoenix, AZ
 - b. Pearson to arrange for meeting space, meeting meals, TAC member stipend, TAC member travel and lodging.
7. TAC Honorarium \$1,500 per day with an additional \$1,500 allowed for prep-work for each TAC member.

Committee Meetings

8. If applicable, Pearson will cover the cost of meeting space, meeting meals, materials, and mileage for all committee members
9. If applicable, Pearson will provide lodging for committee members in travel status (traveling 50 or more miles one way)
10. If applicable, Pearson will pay a stipend of \$175 to eligible participants or to LEAs for substitute reimbursement
11. Item Content and Bias Review Committee
 - a. 5-day Meeting
 - b. Approximately 42 attendees
12. Community Review Meeting: July 2024
 - a. 1-day meeting held in conjunction with AASA
 - b. Approximately 10 attendees
13. Data Review Meeting
 - a. Approximately 30 attendees
 - b. 3-day meeting
 - c. Pearson Psychometrics and Content Specialists to Support
14. Braille Review Committees – 2 Reviewers
 - a. Initial Braille Review meeting to review entire forms
 - b. Follow up Braille Review meeting to confirm requested edits.

Ancillary Materials

15. Test Administration Directions
 - a. 1 form for grades 5, 8, and 11 for each mode
 - i. Online (Online and SPV (Regular and LP Forms))
 - ii. Braille
 - b. 3 rounds of review
16. Test Coordinators Manual
 - a. 1 form
 - b. 3 rounds of review
17. Critical Dates Calendar/DTC Checklist
 - a. 3 rounds of review
18. PearsonAccess User's Guide (combined with AASA PAN User's Guide)

AzSCI Contract Year 8

- a. 3 Rounds of Review

19. TMS Training Module

- a. Create an AzSCI TMS Training Module
 - i. 2 Rounds Storyboard Review
 - ii. 3 Rounds Production Review
 - iii. Final Deliverable is an interactive training module hosted on the Arizona TMS site
 - 1. Downloadable Transcript
 - 2. Downloadable PowerPoint
 - 3. Module voiced over with studio quality recordings

Packaging and Distribution

20. P&D Set Up

- a. ADE to provide an Organization file to Pearson for loading
- b. ADE to provide a Student Registration Import (SRI) File to Pearson
- c. Pearson to provide file layouts to ADE

21. Test Materials Packaging and Distribution

- a. Material available via Additional Order in PearsonAccess Next
 - i. materials will be shipped via ground shipping
- b. Orders will be approved by ADE in PearsonAccess Next.
- c. District Users will be locked out of PearsonAccess Next until training is complete.
- d. All material deliveries will be trackable in PearsonAccess Next and will require a signature at the designated district shipping address.

Grades 5, 8, and 11 Test Administration

22. Embedded Field Test Operational Test Administration

- a. Four week test window that is to be determined

23. Online Test Administration

- a. Online Tests delivered via TestNav
 - i. Text to Speech (TTS) is enabled on all regular online forms
 - ii. Grade 5 – 14 Operational Forms with embedded field test
 - iii. Grade 8 – 14 Operational Forms with embedded field test
 - iv. Grade 11 – 12 Operational Forms with embedded field test
 - v. Accommodated Online Forms
 - 1. American Sign Language

24. Special Paper Versions (SPV) Test Administration

- a. All SPV materials are available via additional order in PearsonAccess
- b. Braille – 1 form per grade (Grades 5, 8, and 11)
 - i. Braille Test Book
 - ii. Braille Test Administration Directions
 - iii. Ink print Braille Test Book
 - iv. Ink Print version of Braille Form (for Test Administrator to capture responses)
 - 1. Non-scannable form
 - 2. Responses are key entered into PearsonAccess Next for Scoring
 - v. Wiki Sticks
 - vi. Sticky dots
 - vii. Special Instructions
 - viii. Periodic table (Grade 8 and 11)
 - ix. Math Reference Sheet (Grade 11)
- c. Regular Print SPV paper form – 1 form per grade (Grades 5, 8, and 11)

AzSCI Contract Year 8

- i. Non-scannable form
 - ii. Responses are key entered into PearsonAccess Next for Scoring
 - iii. SPV Test Administration Directions will be included in the Online/SPV TAD
- d. Large Print – 1 form per grade (Grades 5, 8, and 11)
 - i. Non-scannable form
 - ii. Responses are key entered into PearsonAccess Next for Scoring
 - iii. LP SPV Test Administration Directions will be included in the Online/SPV TAD

Reporting

25. The following reports and data files will be generated:

- a. State Level
 - i. State Student Data File (SDF) – posted via SFTP
 - ii. Anomaly Analysis Data File – posted via SFTP
 - iii. Item Response File (IRF) – posted via SFTP
- b. District
 - i. District Student Data File – posted via PearsonAccess Next
 - ii. Confidential Roster Report – District level
- c. Schools
 - i. Printed Reports
 - 1. Individual Student Reports – 2 printed copies
 - 2. Interpretive Guide for Families – 1 copy
 - ii. Electronic Reports
 - 1. Individual Student Reports
 - 2. AzSCI Informe del Estudiante
 - 3. Confidential Roster Report – School level



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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Maggie Rocker, Senior Fiscal Analyst

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

Request

Pursuant to an FY 2024 General Appropriation Act footnote, the Committee is responsible for reviewing the transfer of monies between most Department of Child Safety (DCS) line items. To implement an FY 2023 salary adjustment correctly, DCS is requesting to transfer \$651,600 of Federal Expenditure Authority from the Office of Child Welfare Investigations line item to the following: Operating Budget (\$530,900) and Caseworkers line item (\$120,700).

Committee Options

As this is a technical matter, the JLBC Staff recommends a favorable review of the transfer.

Key Points

- 1) The FY 2023 budget included salary increases for all state employees.
- 2) The FY 2024 budget appropriated a corresponding Expenditure Authority increase, but the funding in DCS was partially allocated to a line item that is ineligible for federal funding for personnel costs.
- 3) To implement the Expenditure Authority increase correctly, \$651,600 is to be transferred from the Office of Child Welfare Investigations line item to the Operating Budget (\$530,900) and the Caseworkers line item (\$120,700).

(Continued)

Analysis

The FY 2023 General Appropriation Act (Laws 2022, Chapter 313) included a salary increase for all state employees. The corresponding federal Expenditure Authority increase in DCS was later appropriated in the FY 2024 General Appropriation Act (Laws 2023, Chapter 133). However, a portion of the Expenditure Authority increase was allocated to the Office of Child Welfare Investigations line item, which is ineligible to receive federal funding for personnel costs.

DCS plans to reallocate the funding in the Office of Child Welfare Investigations line item to the Operating Budget (\$530,900) and the Caseworker SLI (\$120,700).

MR:kp



ARIZONA DEPARTMENT of CHILD SAFETY

David Lujan, Director
Katie Hobbs, Governor

September 11, 2023

Representative David Livingston
Chairman
Joint Legislative Budget Committee
1716 West Washington
Phoenix, Arizona 85007

Dear Representative Livingston:

The Department requests to be placed on the Joint Legislative Budget Committee agenda for the following request:

- Salary Increase Expenditure Authority SLI Reallocation Request – FY24

The FY 2024 Office of Child Welfare Investigations (OCWI) line item budget includes an \$651,600 increase of Child Safety Expenditure Authority (EA) associated with salary increases that were part of the FY 2023 budget. OCWI personnel costs are not eligible for federal funding, therefore Expenditure Authority relating to salary increases should not have been allocated to this line item. The EA salary increase adjustment to OCWI in FY 2024 should have been placed in Operating Lump Sum and Caseworker line items. Therefore, the Department requests the Expenditure Authority to be reallocated from the OCWI line item to the Operating Lump Sum and Caseworker line items. The Department will allocate \$530,900 of Expenditure Authority to Operating Lump Sum line item and \$120,700 to Caseworker line item.

BFY	Special Line Item	General Fund (in \$1,000)	Expenditure Authority (in \$1,000)	Total (in \$1,000)
2024	Office of Child Welfare Investigations	\$0.00	(\$651,600)	(\$651,600)
	Operating Lump Sum	\$0.00	\$530,900	\$530,900
	Caseworker	\$0.00	\$120,700	\$120,700
	Total	\$0.00	\$0.00	\$0.00

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Sincerely,

Violeta Pivac

Violeta Pivac
Budget Administrator

Cc:

David Lujan, Director, Arizona Department of Child Safety

Alex Ong, Deputy Director, Arizona Department of Child Safety

Reynaldo Saenz, Assistant Director of Finance and Accounting, Department of Child Safety

Elisabeth Selby, Budget Analyst, Governor's Office of Strategic Planning and Budgeting

Curtis Blanck, Budget Analyst, Governor's Office of Strategic Planning and Budgeting

Maggie Rocker, JLBC Analyst, Joint Legislative Budget



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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Chandler Coiner, Fiscal Analyst

SUBJECT: Department of Economic Security - Review of Plan for the Arizona Training Program at Coolidge

Request

A.R.S. § 36-570 requires the Department of Economic Security (DES) to submit a report for review by the Joint Legislative Budget Committee (JLBC) on or before November 1 of each year on the department's plans for the Arizona Training Program at Coolidge (ATP-C) and associated group homes, including any plans to close the facilities.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the plan.
2. An unfavorable review of the plan.

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

- A. A favorable review by the Committee does not constitute an endorsement of additional appropriations to cover costs associated with the department's plans for ATP-C.

Analysis

ATP-C is a state-run, 24-hour residential facility for persons with a severe or profound cognitive disability. ATP-C consists of several intermediate care facilities (ICFs), which provide institutional services to clients. All ICFs are licensed and Medicare certified as of August 2022. DES reports that ATP-C had an enrollment of 55 in June 2023, a decrease of (3) from a year prior.

(Continued)

At this time, DES has no plans to close the ATP-C ICFs.

In December 2022, DES closed the state-operated group homes (SOGHs) at ATP-C that still remained in operation. The closure of the homes was partly in response to federal regulations concerning home and community-based services that no longer allow group homes to be co-located with an ICF. All members residing at the SOGHs at the time have transferred to one of the on-campus ICFs.

The department's plans for ATP-C includes work on the ICFs to bring electrical wiring up to code. It also plans to consolidate from 7 facilities down to 5 as the population at ATP-C continues to decline due to a 1979 zero-growth policy. The Committee may consider a provision clarifying that the Committee's review does not constitute an endorsement of DES' proposed appropriations for capital projects at ATP-C.

CC:kp



DEPARTMENT OF ECONOMIC SECURITY
Your Partner For A Stronger Arizona

Katie Hobbs
Governor

Vacant
Director

November 1, 2023

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

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

Dear Representative Livingston and Senator Kavanagh:

The Arizona Department of Economic Security (Department) is submitting its annual update on the plans for the Arizona Training Program at Coolidge (ATPC) within the Division of Developmental Disabilities (DDD), pursuant to Arizona Revised Statute § 36-570. At this time, DDD does not have plans to close ATPC.

Background Summary

Over the past year, DDD has continued to improve the clinical care, infrastructure, and overall service provision to its members at ATPC. These improvements reflect a commitment to helping the members at ATPC live self-directed, healthy, and meaningful lives.

Compliance with Home Community-Based Services (HCBS) Rule Obtained

DDD has been working in coordination with the Arizona Health Care Cost Containment System since 2015 to identify a plan to appropriately transition members living in group homes on campus into Intermediate Care Facilities (ICFs) to come into compliance with the HCBS rules issued by the Centers for Medicare and Medicaid Services (CMS). The last of these group homes was closed in December 2022, with all nine members successfully transitioning into one of the ICFs at ATPC.

Future Planning

In 2018, it was determined that the ICFs must undergo renovations to bring the electrical wiring up to code. With the closure of the group homes in 2022, ATPC currently has seven licensed and certified ICFs: 10 Sandstone, 20 Sandstone, 30 Sandstone, 40 Sandstone, 50 Sandstone, 40 Oasis, and 50 Oasis. The seven licensed and certified ICFs are needed to accommodate the residents during the renovations. The plan is to vacate buildings as the renovations are completed to bring the ICFs into compliance with the electrical code. 50 Sandstone, 40 Oasis, and 50 Oasis are completed, with 40 Sandstone currently under renovation. 20 Sandstone is the final building needing these improvements, which will begin once 40 Sandstone is complete.

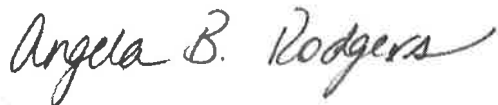
The Honorable David Livingston
The Honorable John Kavanagh
Page 2

It is projected that there will be five licensed and certified ICFs upon completion of the aforementioned projects. The State Operated Residential Services Executive Leadership Team meets anytime there is a change to the census at ATPC to review the current staffing level, resident needs, and if there is a possibility of consolidating ICFs.

As each staff position is vacated at ATPC, the administrator reviews the current needs and determines if that position is necessary to meet the needs of the facility or residents. All positions are reviewed by the Deputy Assistant Director for State Operated Residential Services before posting for recruitment.

If you have any questions, please contact Kathy Ber, Director of Public Affairs, at (602) 542-4669 or kber@azdes.gov

Sincerely,



Angie Rodgers
Executive Deputy Director
Cabinet Executive Officer

cc: Warren Petersen, President, Arizona State Senate
Ben Toma, Speaker, Arizona House of Representatives
Members of the Joint Legislative Budget Committee
Sarah Brown, Director, Governor's Office of Strategic Planning and Budgeting
Richard Stavneak, Director, Joint Legislative Budget Committee
Holly Henley, Director, Arizona State Library, Archives and Public Records



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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Jordan Johnston, Senior Fiscal Analyst

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

Request

Pursuant to A.R.S. § 41-1724G and A.R.S. § 41-1724H, the Arizona Department of Public Safety (DPS) is required to submit for Committee review the entire FY 2024 expenditure plan for the GIITEM Border Security and Law Enforcement Subaccount prior to expending any monies.

The Committee gave a favorable review of a \$1,346,400 expenditure plan from the GIITEM Subaccount in October. DPS has submitted for review its proposal to distribute the remaining \$1,050,000 of the \$2,396,400 appropriation from the Subaccount to fund the Border Security and Law Enforcement Grants program. Six County Sheriffs will receive funding from the program, which is the same number that were funded last year.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the request.
2. An unfavorable review of the request.

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

- A. DPS shall report to the Committee prior to implementing any changes to the proposed FY 2024 allocation of the grants (*see Table 1*). The Chairman shall decide whether the revisions require Committee review.

(Continued)

Key Points

- 1) The Committee gave a favorable review of \$1.3 million of the \$2.4 million FY 2024 GIITEM Subaccount appropriation in October to continue funding 3 existing programs.
- 2) DPS is requesting review of the expenditure plan for the remaining monies to continue funding the Border Security and Law Enforcement Grants program.
- 3) Six rural counties would receive funding, which are the same counties that were funded in FY 2023.
- 4) DPS worked with the Arizona Sheriff's Association to determine the FY 2024 allocation of these funds.

Analysis

Pursuant to A.R.S. § 12-116.04, the GIITEM Border Security and Law Enforcement Subaccount receives revenues from a \$4.00 surcharge 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. At its October 2023 meeting, the Committee gave a favorable review of \$1.3 million of the total \$2.4 million FY 2024 Subaccount appropriation to continue funding the Detention Liaison Officers Program (\$458,300), Border County Officers Program (\$538,100) and the Pima County Border Crimes Unit (\$350,000).

The department has worked 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 total amount and estimated allocation of monies to each county is unchanged from FY 2023.

Table 1 provides the FY 2023 GIITEM Border Security and Law Enforcement Grants expenditure plan reviewed by the Committee and the proposed FY 2024 plan.

Table 1		
FY 2024 GIITEM Border Security and Law Enforcement Grants		
Proposed Expenditure Plan		
	FY 2023 Reviewed Allocation	FY 2024 Proposed Allocation
<u>County Sheriff</u>		
Cochise County Sheriff's Office	\$ 250,000	\$ 250,000
Graham County Sheriff's Office	100,000	100,000
Greenlee County Sheriff's Office	100,000	100,000
La Paz County Sheriff's Office	100,000	100,000
Santa Cruz Sheriff's Office	250,000	250,000
Yuma County Sheriff's Office	<u>250,000</u>	<u>250,000</u>
Total	\$1,050,000	\$1,050,000



ARIZONA DEPARTMENT OF PUBLIC SAFETY
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"Courteous Vigilance"

KATIE HOBBS **JEFFREY GLOVER**
Governor Director

November 14, 2023

Representative David Livingston, Chairman
Joint Legislative Budget Committee
1716 W. Adams
Phoenix, AZ 85007



Dear Representative Livingston:

Pursuant to A.R.S. § 41-1724, the Department of Public Safety (DPS) is submitting the remainder of its FY 2024 expenditure plan for the Gang and Immigration Intelligence Team Enforcement Mission (GIITEM) Border Security and Law Enforcement Subaccount (Subaccount). The JLBC gave a favorable review to the initial portion of the expenditure plan at its meeting on October 10, 2023.

DPS has allocated \$1,050,000 from the Subaccount in FY 2024 for border security and law enforcement grants to county sheriffs. Consistent with previous years, DPS consulted with the Arizona Sheriffs' Association (ASA) on the distribution of the grants. The ASA directed the money to be distributed to the counties as outlined below.

County Sheriff	FY 2024 Plan
Cochise	\$ 250,000
Graham	100,000
Greenlee	100,000
La Paz	100,000
Pima ^{1/}	0
Pinal ^{2/}	0
Santa Cruz	250,000
Yuma	250,000
TOTAL	\$1,050,000

^{1/} The Pima Sheriff's Department has been allocated \$350,000 from the Subaccount for the Border Crimes Unit, as included in the plan reviewed by the JLBC on October 10, 2023.

^{2/} The Pinal Sheriff's Office has been allocated \$500,000 from the GIITEM Fund pursuant to A.R.S. § 41-1724.

Recipient agencies may use the funding for any purpose consistent with statute. As required by A.R.S. § 41-1724, 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. 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.

November 14, 2023

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

Sincerely,

A handwritten signature in black ink, appearing to read 'Jeffrey Glover', with a long horizontal line extending to the right.

Jeffrey Glover, Colonel
Director

c: Senator John Kavanagh, Vice-Chairman
Sarah Brown, OSPB Director
Richard Stavneak, JLBC Director



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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Geoffrey Paulsen, Principal Fiscal Analyst

SUBJECT: Arizona Department of Corrections - Review of Bed Capacity Changes

Request

The FY 2024 General Appropriations Act requires the Arizona Department of Corrections (ADC) to submit a bed capacity report by November 1, 2023. The budget also requires that if, after submitting that report, ADC plans to open or close at least 100 beds they must submit that plan to the Committee for review. ADC now plans to let the Marana prison management-only contract expire, effectively closing the Marana prison. ADC did not submit a plan for review because they do not plan to officially close the beds and remove them from the bed capacity plan. The Chairman has elected to place this item on the review without ADC's submission.

Committee Options

The Committee has at least the following 2 options:

1. A favorable review of the plan.
2. An unfavorable review of the plan.

Analysis

On November 27, 2023, the Governor released a press release announcing that the contract with the private prison vendor currently operating the state-owned Marana prison would end on December 31, 2023 without renewal.

(Continued)

Key Points

- 1) On November 27, 2023, the Executive announced it would let the private prison contract for the state-owned 500-bed Marana prison expire without renewal on December 31, 2023.
- 2) Only 237 of the 500 beds are currently filled.
- 3) ADC expects the elimination of this contract will save \$5 million in FY 2024 and \$10 million per year beginning in FY 2025.
- 4) A budget footnote requires ADC to submit a plan to the Committee for review if they develop a plan to close 100 or more beds if that change was not included in their annual bed capacity report.
- 5) Even though these beds will no longer be utilized, ADC does not plan to remove these beds from their official count and therefore does not believe this requires Committee review.

The current Marana contract includes 500 minimum-security beds at a daily rate of \$59.35 for the first 475 beds, and \$22.00 for any bed utilized above 475. The contract guarantees payment on at least 95% of the beds (475 beds). On November 27, 2023, the population at Marana was 237. Given the contract guarantee, ADC expects the elimination of the contract will save \$5 million in FY 2024 and \$10 million per year beginning in FY 2025. While ADC has not provided details of their calculations, we agree the contract reduction would save those amounts (see *Table 1* for details).

Table 1

Marana Closure Savings

	<u>Beds</u>	<u>Per Diem</u>	<u>Days</u>	<u>Savings</u>
FY 2024 Savings	475	\$59.35	182	\$5,130,800
FY 2025 Savings	475	\$59.35	365	\$10,289,800

According to the press release, ADC will transfer any remaining inmates to other prisons (public and private) where there are beds available. As of November 27, there were 1,786 vacant minimum-security beds in the ADC system, of which 1,491 were in state-operated prisons and 295 were in private prisons (excluding Marana). The Executive also announced that ADC would offer jobs to the 50 employees from the Marana prison at one of the other state-operated prisons, including the nearby Tucson prison complex.

ADC does not plan to officially close the Marana prison, but instead will maintain it “in a ready state” and the beds will remain on the official bed count sheet. As a result, they do not believe this requires Committee review and did not submit a plan for review. However, in order to utilize these beds after December 31, ADC would need to either:

- Obtain a new private prison vendor to manage the facility (this would require a new request for proposals, which requires JLBC review).
- Operate the facility with existing ADC staff (this would require amending the inmate healthcare to provide healthcare at an additional facility).

Either option would likely take at least several months to bring the beds back online and require additional funding beyond the \$10.3 million. As a result, the Chairman believes the plan effectively closes Marana's 500 beds and therefore requires Committee review.

ADCRR to Save \$15 Million By Ending Private Prison Contract for Marana Correctional Facility

News Release

November 27, 2023

State of Arizona Saves Taxpayer Dollars and Protects Public Safety While Eliminating Government Waste

Phoenix, AZ – The Arizona Department of Corrections Rehabilitation and Reentry (ADCRR) announced today the ending of a contract with private prison contractor Management & Training Corporation (MTC), effective December 31, 2023.

MTC operates the Arizona State Prison—Marana, a minimum security prison with capacity for 500 male inmates. Over the last several years however, the facility has averaged an inmate population of 225. Despite the reduced population, ADCRR is required by contract to pay for nearly 475 beds. By ending the contract, the State will save an estimated \$5 million in FY24, and nearly \$10 million in FY25.

"I applaud Director Thornell for his good stewardship of taxpayer dollars," **said Governor Katie Hobbs**. "Because of the Director's leadership, we are cutting down on government waste and saving Arizona taxpayers \$15 million over two years while improving public safety. I look forward to ADCRR's continued work to build a correctional system that is efficient and effective, and keeps Arizonans safe."

"This is more than just good fiscal sense," **ADCRR Director Ryan Thornell said**. "It's about using the totality of ADCRR's state resources more effectively. The ADCRR is able to absorb the inmates from ASP--Marana, into other prisons here in

Arizona. So not only are we demonstrating significant savings, we're demonstrating, with actions, our ability to be more efficient with the resources already provided to us. The ADCRR is as committed to supporting and developing staff, ensuring inmates have access to quality programming that lends itself to rehabilitation and public safety, as much as we are committed to improved fiscal management."

The decision to not renew the contract, is based on a cost benefit analysis of operating the underutilized facility versus transferring inmates to other ADCRR prisons, as bed space is available. No other contacts between ADCRR and private prison operators in Arizona are ending.

The ADCRR system, which operates 15 prisons, including six private prisons (excluding ASP-Marana) will absorb inmates from ASP-Marana into other Arizona prisons, at no impact to the other prisons' budgets, programs, operations, or staffing. MTC has been operating with just over 50 employees. Working in collaboration with the local Workforce Board, ADCRR will prioritize employment opportunities for ASP-Marana staff, at other prisons, including Arizona State Prison Complex in Tucson, the closest to the town of Marana.



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DATE: December 7, 2023

TO: Members of the Joint Legislative Budget Committee

FROM: Rebecca Perrera, Assistant Director

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 6.52% 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

	<u>K-6</u>	<u>7-8</u>	<u>9-12</u>
Current Cost-Per-Square Foot Amounts	\$ 309.11	326.34	377.80
Committee Option - Phoenix Construction Index (6.52%)	329.26	347.62	402.43

(Continued)

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 6.52% in the last year.
- 3) The Committee has used this same index for the last 10 years.
- 4) Based on the most recent data from SFD, the adjustment would increase new construction costs by \$7 million in FY 2025, \$14 million in FY 2026 and \$8 million in FY 2027.
- 5) This estimate is subject to change as SFD updates its new construction projections on December 15.

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.

Table 2 outlines the rate increases over the last 10 years. During 2013 – 2015, the Committee adopted a 0% adjustment, as the Great Recession caused construction costs to remain below the levels of November 2008 (which was the last Committee action before 2013). 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.

Table 2	
Cost per Square Foot Rate Changes	
<u>Date Approved</u>	<u>Rate Increase</u>
<u>JLBC Approved Inflation Factor</u>	
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%
<u>Legislative Rate Change</u>	
July 2021 - FY 2022 Budget	60.00%

Adjustment Options

The Committee has used the RLB Phoenix construction cost index methodology since 2013. Since the Committee last approved an adjustment in December 2022, the RLB index has increased by 6.52%.

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

(Continued)

Fiscal Impact

The most recent list of new construction awards from SFD is from the prior capital planning cycle that started in December 2022. Based on this schedule, the state would be financing 15 projects at a cost of \$462.9 million between FY 2025 and FY 2027. At that dollar amount, a 6.52% increase would cost \$7.0 million in FY 2025, \$13.6 million in FY 2026 and \$8.1 million in FY 2027 million above the assumptions used in the enacted budget.

This cost estimate is subject to change, as SFD is scheduled to award schools to be funded in the FY 2025 budget on December 15, 2023. In addition to these awards, SFD will update its long-term projections for schools to potentially be funded in FY 2026 and FY 2027. This revised list of schools will receive the Committee inflation adjustment and will be included in the state's upcoming 3-year budget projection cycle (FY 2025 – FY 2027).

RP:kp