

## *Arizona Department of Administration - Automation Projects Fund*

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
<b>GENERAL FUND TRANSFERS <sup>1/</sup></b>			
AFIS Replacement	18,400,000	18,400,000	9,202,000
General Fund Transfer (ADE)	5,400,000	10,400,000	5,400,000
General Fund Transfer (DOR)	1,700,000	1,700,000	1,700,000
General Fund Transfer (DCS)	0	5,000,000	0
<b>TOTAL - ALL PROJECTS</b>	<b>25,500,000</b>	<b>35,500,000</b>	<b>16,302,000</b>
<b>FUND SOURCES</b>			
General Fund	25,500,000	35,500,000	16,302,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>25,500,000</b>	<b>35,500,000</b>	<b>16,302,000</b>
<b>TOTAL - ALL SOURCES</b>	<b>25,500,000</b>	<b>35,500,000</b>	<b>16,302,000</b>
<b>INDIVIDUAL PROJECTS - Automation Projects Fund <sup>2/</sup></b>			
<b>Department of Administration</b>			
<i>Full Time Equivalent Positions</i>	20.0	75.0	75.0
AFIS Replacement	17,879,500	26,533,000	9,202,000
<b>ASET Initiatives</b>			
State Data Center	1,847,400	2,900,000	0
Security, Privacy, and Risk	1,525,800	3,125,000	0
Enterprise Architecture	741,800	500,000	0
Project Management	1,176,500	2,151,700	2,150,000
E-Government	2,718,200	325,000	0
Web Portal Transition Costs	1,229,100	0	0
ASET Initiatives Subtotal	9,238,800	9,001,700	2,150,000
<b>Department of Administration Subtotal</b>	<b>27,118,300</b>	<b>35,534,700</b>	<b>11,352,000</b>
<b>Department of Corrections</b>			
AIMS Replacement	0	8,000,000	0
<b>Department of Environmental Quality</b>			
E-Licensing	4,483,500	6,800,000	0
<b>Department of Education</b>			
Education Learning and Accountability System	7,000,000	12,000,000	7,000,000
<b>Department of Child Safety</b>			
CHILDS Replacement	0	5,000,000	0
<b>Department of Revenue</b>			
DOR Automation Projects	1,324,800	0	0
Tax Analysis Improvements	0	1,700,000	1,700,000
Tobacco Tax System	0	1,000,000	0
<b>Department of Revenue Subtotal</b>	<b>1,324,800</b>	<b>2,700,000</b>	<b>1,700,000</b>
<b>TOTAL - ALL PROJECTS</b>	<b>39,926,600</b>	<b>70,034,700</b>	<b>20,052,000</b>

<sup>1/</sup> General Fund monies are transferred into the APF to finance certain projects. See Table 2 for Non-General Fund transfers into the APF. These individual transfers are discussed in the narrative as part of the individual projects listed in the APF section.

<sup>2/</sup> Represents expenditures from the APF.

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
<b>FUND SOURCES</b>			
<u>Other Appropriated Funds</u>			
Automation Projects Fund	34,331,300	70,034,700	20,052,000
SUBTOTAL - Other Appropriated Funds	34,331,300	70,034,700	20,052,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>34,331,300</b>	<b>70,034,700</b>	<b>20,052,000</b>
Other Non-Appropriated Funds	5,595,300	0	0
<b>TOTAL - ALL SOURCES</b>	<b>39,926,600</b>	<b>70,034,700</b>	<b>20,052,000</b>

**AGENCY DESCRIPTION** — Laws 2012, Chapter 298 established the Automation Projects Fund (APF), administered by the Arizona Department of Administration (ADOA). Monies in this appropriated fund are designated to implement, upgrade, or maintain automation and information technology projects for any state agency. Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to JLBC for review.

### **Background**

The FY 2013 Government Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 298) established the APF, administered by ADOA and consisting of monies appropriated by the Legislature. The FY 2014 Budget Procedures BRB (Laws 2013, 1<sup>st</sup> Special Session, Chapter 6) subjected the APF to legislative appropriation. The fund is exempt from lapsing. Monies in the fund are to be used to implement, upgrade or maintain automation and information technology projects for any state agency.

Pursuant to A.R.S. § 41-714, before monies are expended from the fund, ADOA must submit an expenditure plan to the Joint Legislative Budget Committee (JLBC) for review.

A FY 2015 General Appropriation Act footnote requires ADOA to submit quarterly reports, within 30 days of the end of the calendar quarter, to the JLBC on the progress of all automation projects funded through the APF, including the projects' expenditures to date, deliverables, timeline for completion, and current status. A separate General Appropriation Act footnote specifies that funds for agency projects financed through the APF may not be used for any other agency without prior review by the JLBC.

Pursuant to A.R.S. § 41-3504, any large-scale information technology (IT) projects in the APF with a total cost greater than \$5,000,000 must receive relevant third-party analysis from an independent contracted vendor before receiving approval from the Information Technology Authorization Committee (ITAC). The third-party consultant is required to review and provide guidance on the technology approach, scope, estimated cost, timeline for completion and overall feasibility of the project.

### **Department of Administration**

#### **AFIS Replacement**

The Baseline includes \$9,202,000 and 60 FTE Positions from the APF in FY 2016 for the final year of a 4-year project to replace the state's financial and accounting system, the Arizona Financial Information System (AFIS). The project name is Business Re-Engineering Arizona (BREAZ). FY 2016 adjustments would be as follows:

	<b>FY 2016</b>
<b>Expenditure Alignment</b>	<b>GF \$(9,198,000)</b>
	<b>OF (17,331,000)</b>

The Baseline includes a decrease of \$(9,198,000) in the General Fund transfer and a decrease of \$(17,331,000) from the APF in FY 2016 to align expenditures with the final year of a 4-year project to replace AFIS, the state's financial and accounting system. *(Please see the Arizona Department of Administration section for more information.)*

The FY 2016 \$9,202,000 General Fund and accompanying Other Fund appropriation are both from the FY 2014 General Appropriation Act. Since these monies have already been appropriated, they would not be included in the FY 2016 General Appropriation Act.

In total, the Automation Projects Fund appropriation is reduced by \$(17,331,000), which consists of \$(9,198,000) General Fund and \$(8,133,000) in revenues from IT charges. Since the General Fund monies were deposited into the APF, the total Other Fund change of \$17,331,000 includes both the General Fund and revenues from IT charges. *(Please see the FY 2015 Appropriations Report for history of this funding.)*

The 4-year project is estimated to cost \$73,000,000. The main project components are:

Vendor Contract	\$47,700,000
ADOA and Other Staffing	16,000,000
Third Party Oversight	5,200,000
Contingency Costs	4,100,000
<b>Total</b>	<b>\$73,000,000</b>

ADOA has awarded a \$47,700,000 contract to Consulting for Government and Industry (CGI) to construct the new AFIS system over 4 years. This amount includes \$32,700,000 for the vendor, \$12,600,000 for software licensing and maintenance, \$1,300,000 for hardware, and \$1,100,000 for other costs, including disaster recovery hosting. The vendor is devoting as many as 81 FTE Positions to this project, with some located on-site.

Project costs for the state are estimated to total \$16,000,000 through FY 2016. The most significant portion of state staffing costs will be \$11,700,000 allocated to hiring 40-43 FTE Positions during the design, build, and test phases of the project. Included in this total will be FTE Positions devoted to developing financial reports for the various AFIS functions and business modules, in addition to technical developers and analysts who will focus on programming and data security.

Given the complexity of large-scale IT projects, ADOA has contracted with a third-party consultant to assist in the oversight of the replacement of AFIS, including providing estimates for remaining expenditures, and guidance on the scope of the new system. Initially \$3,000,000 was allocated to the consultant for the planning stages of the project. An additional \$2,200,000 was allocated to fund the consultant through FY 2016, for a total cost of \$5,200,000 for project oversight.

Due to possible unforeseen costs, the expenditure plan sets aside \$4,100,000 for contingency purposes. The new AFIS system is scheduled to “go live” on July 1, 2015.

**ASET Initiatives**

The Baseline includes \$2,150,000 and 15 FTE Positions from the APF in FY 2016 for ongoing IT projects by the Arizona Strategic Enterprise Technology (ASET) Office in ADOA. The 15 FTE Positions will assist in managing all projects funded from the APF. FY 2016 adjustments would be as follows:

**ASET Alignment OF (6,851,700)**

The Baseline includes a decrease of \$(6,851,700) from the APF in FY 2016 to align expenditures with ongoing IT projects by the ASET Office in ADOA.

The FY 2016 \$2,150,000 appropriation will be financed by a transfer from the ADOA State Web Portal Fund to the APF.

The \$2,150,000 APF appropriation will fund project management in the ASET Office in ADOA. This includes Personal Services and Employee Related Expenditures to

manage all projects funded through the APF, and to provide assistance to other state agencies for their IT projects. This amount would fund the Oversight team that manages APF projects.

**Department of Corrections**

**AIMS Replacement**

The Baseline includes no funding from the APF in FY 2016 for the replacement of the Adult Inmate Management System (AIMS) at the Department of Corrections (ADC) as new monies will not be required until FY 2017. FY 2016 adjustments would be as follows:

**Expenditure Alignment OF (8,000,000)**

The Baseline includes a decrease of \$(8,000,000) from the APF in FY 2016 to align expenditures for the AIMS project within the ADC.

A total of \$16,000,000 (\$8,000,000 in FY 2014 and \$8,000,000 in FY 2015) has already been appropriated for replacement of the AIMS system. The AIMS system will assist in the tracking, identification, population management, sentencing calculations, and the appeals and grievances processes for inmates in the correctional system.

A contract has been awarded to a vendor to oversee the modification of a commercial “off the shelf” system to fit the needs of ADC. Of the total project cost of \$24,000,000, \$16,300,000 is allotted to pay the vendor. The remainder of the project costs include:

- \$3,200,000 for training costs (overtime that will be needed) as staff learn how to use the program and for dedicated staff for the implementation phase.
- \$2,950,000 for cost contingencies.
- \$700,000 for equipment.
- \$450,000 for the costs associated with the system interfacing with other state agencies, law enforcement entities, and the courts.
- \$400,000 for the cost of third-party consultant review for the AIMS project.

The department estimates an ongoing maintenance cost of \$1,600,000 annually.

With the projected schedule, the department anticipates the transition stage of setting up the new system occurring in fall 2016 to winter 2017.

In addition, the Baseline would continue to appropriate any remaining FY 2015 AIMS project balances for use in FY 2016.

A FY 2015 General Appropriation Act footnote stipulates that AIMS funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and ADC shall provide ITAC and JLBC with a recent report from this contracted third party when seeking review of AIMS funding, as required by A.R.S. § 41-714.

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***Department of Environmental Quality***

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***E-Licensing***

The Baseline includes no funding from the APF in FY 2016 for E-Licensing. FY 2016 adjustments would be as follows:

**Expenditure Alignment OF (6,800,000)**

The Baseline includes a decrease of \$(6,800,000) from the APF in FY 2016 for the Department of Environmental Quality (DEQ) E-Licensing project. In FY 2015, \$6,800,000 was appropriated for this project to automate business processes within DEQ, consisting of 3 components:

- Professional and Outside Services \$6,450,000
- Equipment \$250,000
- Software \$100,000

Between FY 2014 and FY 2015, a total of \$11,800,000 has been appropriated to automate 34 business processes (12 processes in FY 2014 and 22 processes in FY 2015) within DEQ. The 34 automated processes will allow customers to conduct permitting, billing, payment, and data submissions online.

In addition, the Baseline would continue to appropriate any remaining FY 2015 DEQ project balances for use in FY 2016 (*see the FY 2015 Appropriations Report for history of this funding*).

A FY 2015 General Appropriation Act footnote stipulates that DEQ funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DEQ were required to provide ITAC and JLBC with a recent report from this contracted third-party when seeking review of DEQ funding, as required by A.R.S. § 41-714.

JLBC received the first third-party report in March 2014. The March 2014 report notes that DEQ’s approach to the project has “a credible path to success.” The report also provided recommendations for process improvements and suggestions for increasing user engagement with the new

software. At the same time as the third-party review, DEQ adjusted the scope of the project to address external feedback for more functionality. Instead of developing fillable forms for 80 business processes in FY 2015, the portal will provide deeper functionality and assistance to users for 22 business processes.

At its June 2014 meeting, the JLBC favorably reviewed DEQ’s proposed FY 2015 expenditure plan of \$6,800,000 with the provision that the ADOA and DEQ provide the results of the quarterly third-party reviews of the E-Licensing project to JLBC Staff.

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***Department of Education***

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***Education Learning and Accountability System***

The Baseline includes \$7,000,000 from the APF in FY 2016 for further development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE). ELAS will allow ADE to collect, compile, maintain and report student level data for students enrolled in public schools. FY 2016 adjustments would be as follows:

**Remove One-Time Funding GF (5,000,000)  
OF (5,000,000)**

The Baseline includes a decrease of \$(5,000,000) from the General Fund and a corresponding decrease of \$(5,000,000) from the APF to eliminate a one-time increase in program funding as specified in the Legislature’s 3-year spending plan. The FY 2016 appropriation of \$7,000,000 consists of the following:

General Fund	5,400,000
ELAS Fund	1,600,000

In addition, the Baseline would continue to appropriate any remaining FY 2015 ELAS project balances for use in FY 2016. Beyond FY 2016 Baseline changes, the JLBC Staff estimates that the ADE ELAS project will require \$5,400,000 General Fund through FY 2018.

Since FY 2014, \$19,000,000 (\$7,000,000 in FY 2014 and \$12,000,000 in FY 2015) has been appropriated for the ELAS project (*see the FY 2015 Appropriations Report for history of this funding*).

A General Appropriation Act footnote stipulates that ADE’s ELAS funding is contingent upon the use of a contracted independent third-party consultant to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope throughout the life of the project. A FY 2015 General Appropriation Act footnote in the ADE budget requires ADE to report ELAS progress on a quarterly basis, in consultation with ADOA. (*Please see*

the Arizona Department of Education Footnotes section for more information.)

At its June 2014 meeting, the JLBC favorably reviewed ADE’s proposed FY 2015 expenditure plan of \$12,000,000 with the provision that the ADOA and ADE provide the results of the new third-party review to the JLBC Staff by January 15, 2015, in order to evaluate the budget for ELAS in FY 2016.

The most recent report was published in October 2014. The October 2014 report notes that the current scope and approach of the project continues to represent industry best practice, and that ADE continues to improve its technology approach and cost management systems. The report also notes several issues that could impede project quality assurance, if not addressed. These issues include the following:

- Delays in the development of ELAS content management, learning management, and teacher observation tools, specifically for district use.
- Lack of functionality for teachers to upload student performances using formative assessment data (e.g., weekly quizzes).
- Content specialists are not ready to lead teacher in-service on how best to use ELAS for instructional purposes.
- An uncertain go-live date for replacing the Student Accountability Information System (SAIS), which computes state financial aid payments to schools. SAIS replacement delays are due to the technical specifications for its uniform data standards and a delay in developing the “middle section” of the SAIS IT system. The delays prevent school-based IT vendors from redesigning their own student information systems (SIS) that would allow schools to input student data, like daily student attendance counts, into SAIS.

The report warns that the above issues “will likely erode confidence and support for ELAS” and recommends ADE to establish a “clear plan, schedule and communication strategy... as soon as possible to manage the expectations of the districts.” SAIS was originally scheduled to go-live in June 2015. The October 2014 quarterly report projects that date to now be June 2016.

**Department of Child Safety**

**CHILDS Replacement**

The Baseline includes no funding from the APF in FY 2016 to replace the Children’s Information Library and Data Source (CHILDS) operated by the newly-established Department of Child Safety (DCS) as new monies will not

be required until FY 2017. FY 2016 adjustments would be as follows:

**Expenditure Alignment**                      **GF (5,000,000)**  
**OF (5,000,000)**

The Baseline includes a decrease of \$(5,000,000) from the General Fund and a corresponding decrease of \$(5,000,000) from the APF in FY 2016 to align expenditures for the CHILDS project within DCS.

Beyond FY 2016 Baseline changes, the JLBC Staff estimates that the CHILDS replacement will require \$5,000,000 from the General Fund in FY 2017 and FY 2018 above its FY 2016 appropriation.

In addition, the Baseline would continue to appropriate any remaining FY 2015 DCS project balances for use in FY 2016.

CHILDS is the management information system used to document the status, demographics, location and outcomes for every child in the care of DCS. The system assists with various business processes including hotline intake, initial assessments and investigations, case management, adoptions, eligibility determinations, staff management, provider management and payment processing.

The total cost for the project was originally estimated to be between \$40,000,000 and \$80,000,000, depending on the technology approach used during replacement. DCS believes that the project will qualify for a 50% federal match rate.

In September 2014, DCS received ASET approval of its plan for the first 2 phases of CHILDS replacement. During Phase 1, DCS will contract with a consultant to prepare the CHILDS replacement request for proposal (RFP). The consultant is to have experience with Statewide Automated Child Welfare Information Systems, processing requirements, advanced technology products, and information security requirements. The consulting firm is to produce (1) a definition of user requirements (functional and non-functional) to a level of detail sufficient to complete all competitive bidding for Phase 2 of the project; (2) an alternative analysis, cost benefit analysis, feasibility study, and a final report; and (3) an implementation budget and cost allocation formula.

During Phase 2, DCS will implement the RFP, selecting a vendor to design, develop, and implement the chosen CHILDS replacement solution in accordance with certain standards. Phase 2 of CHILDS replacement will span multiple fiscal years.

DCS has issued the Phase 1 RFP and plans to award the RFP in early 2015, after the plan is reviewed by JLBC. DCS was appropriated \$5,000,000 from APF for CHILDS replacement in FY 2015. The department estimates that it will spend between \$500,000 and \$1,500,000 of its FY

2015 APF appropriation on Phase 1. DCS anticipates the Phase 2 RFP will be issued in late 2015 or early 2016. DCS plans to spend the remainder of the \$5,000,000 appropriation on the first part of Phase 2.

Since DCS will not be in a position to utilize additional resources beyond the initial \$5,000,000 until after FY 2016, no additional resources for CHILDS replacement will be needed in FY 2016. The department, however, may require additional resources for CHILDS replacement in FY 2017.

A General Appropriation Act footnote stipulates that CHILDS replacement funding is contingent upon the department contracting with a third-party consultant to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope throughout the life of the project. ADOA and DCS are to provide ITAC and JLBC with a recent report from this contracted third party when seeking review of CHILDS replacement funding, as required by A.R.S. § 41-714. DCS is required to provide further ongoing reports to JLBC, as part of the quarterly benchmark report required in Laws 2014, 2<sup>nd</sup> Special Session, Chapter 2.

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**Department of Revenue**

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**DOR Automation Projects**

The Baseline includes \$1,700,000 from the APF in FY 2016 for tax analysis IT projects at the Department of Revenue (DOR). FY 2016 adjustments would be as follows:

**Remove One-Time Funding OF (1,000,000)**

The Baseline includes a decrease of \$(1,000,000) from the APF in FY 2016 to eliminate one-time funding for the tobacco tax processing project. The \$1,000,000 FY 2015 APF appropriation was financed by a transfer from the Traditional Medicaid Services line item in AHCCCS to the APF. In FY 2015, DOR developed an automated tobacco tax processing and revenue accounting system to reach compliance with the Tobacco Master Settlement Agreement.

The \$1,700,000 of funding in FY 2016 will allow the department to further capture and analyze Individual Income Tax return data and potentially automate corporate tax returns. *(Please see Other Issues for Legislative Consideration section for a broader description of this issue.)*

The project will allow DOR to capture itemized deduction data and credit carry-forward data in the Taxpayer Accounting System (TAS). This data was not previously captured into TAS and is tracked manually. This IT project will increase the department’s efficiency in

reporting tax credit information and to begin exploring electronic tax filing for corporate income tax returns.

Beyond FY 2016 Baseline changes, the JLBC Staff estimates that the DOR Tax Analysis Improvement project will require \$1,700,000 General Fund through FY 2018.

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**FORMAT — Lump Sum by Project**

**FOOTNOTES**

*Standard Footnotes*

ADE - ELAS Project

In addition to the \$7,000,000, any remaining balances as of June 30, 2015 from fees collected from universities and community college districts in the Education Learning and Accountability Fund established by A.R.S. § 15-249.02, are appropriated for implementing, upgrading and maintaining the Student Longitudinal Data System and the Education Learning and Accountability System established pursuant A.R.S. § 15-249.

It is the intent of the Legislature that the appropriations made by this subsection be used first to complete the replacement of the Student Accountability Information System established by A.R.S. § 15-1041. The Department of Education shall provide quantifiable deliverables of the Legislature’s intended progress to the Information Technology Authorization Committee established by A.R.S. § 41-3521, and to the Joint Legislative Budget Committee before seeking review of the \$7,000,000 FY 2016 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714.

The funding for the Department of Education’s automation project is contingent on the use of a contracted independent third-party consultant to evaluate and assess the project’s feasibility, estimated expenditures, technology approach and scope throughout the life of the project. The Department of Administration and the Department of Education shall provide a recent report by the third-party consultant to the Information Technology Authorization Committee and Joint Legislative Budget Committee before seeking review of the \$7,000,000 FY 2016 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714. Following the initial review of FY 2016 expenditures, the Department of Education shall provide ongoing reports from the third-party consultant to the Joint Legislative Budget Committee on the progress of the project, as determined by the Joint Legislative Budget Committee.

Other

In addition to the initial review of expenditures from the Automation Projects Fund by the Joint Legislative Budget Committee, pursuant to A.R.S. § 41-714, monies appropriated for projects at each state agency from the

Automation Projects Fund established by A.R.S. § 41-714, may not be used for projects at any other state agency without prior review by the Joint Legislative Budget Committee.

The Department of Administration shall submit to the Joint Legislative Budget Committee, within 30 days of the last day of each calendar quarter, a quarterly report on the implementation of projects described in this section, including the projects' expenditures to date, deliverables, timeline for completion and current status.

Any remaining balances on June 30, 2015 in the Automation Projects Fund established by A.R.S. § 41-714, from monies appropriated in FY 2015 are appropriated to the Department of Administration in FY 2016 for the same purposes specified in FY 2015. The Department of Administration shall report any expenditure of remaining balances from previous fiscal years in the Automation Projects Fund in the department's quarterly report to the Joint Legislative Budget Committee.

*New Footnotes*

DOR - Automation Projects

The \$1,700,000 FY 2016 appropriation for the Department of Revenue automation project would include the following provisions:

- a) On or before November 1, 2015, the Department of Administration and the Department of Revenue shall provide a report to the Information Technology Authorization Committee, the Joint Legislative Budget Committee, and the Governor's Office of Strategic Planning and Budgeting on the feasibility to implement electronic filing of corporate income tax returns before seeking review of the \$1,700,000 FY 2016 expenditure from the Automation Projects Fund, as required by A.R.S. § 41-714.
- b) On or before September 30, 2015, the Department of Revenue shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on the amounts of individual income tax credits claimed in FY 2015.

*Deletion of Prior Year Footnotes*

The Baseline would not continue the footnote requiring any large-scale IT projects in the APF established with a total cost greater than \$5 million to receive relevant third-party analysis from an independent contracted vendor before receiving approval from ITAC pursuant to Laws 2014, Chapter 14, Section 2. This provision is now permanent law under A.R.S. § 41-3504.

The Baseline would discontinue several footnotes requiring agencies to seek third-party review of projects before expending an allocation of funding from the APF, as the following projects have no new funding in FY 2016:

- ADC - AIMS Replacement
- DCS - CHILDS Replacement
- DEQ - E-Licensing Project

Third-party review requirements, however, remain in place for projects funded in the FY 2015 budget.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

*Long-Term Budget Impacts*

Beyond FY 2016 Baseline changes for APF, the JLBC Staff estimates that 3 APF projects will require \$12.1 million General Fund in FY 2017 and FY 2018 above their FY 2016 appropriation. The FY 2017 and FY 2018 APF projects and funding amounts are as follows:

- ADE - ELAS Project 5,400,000
- DCS - CHILDS Project Replacement 5,000,000
- DOR - Tax Analysis Improvements 1,700,000

*Reporting Capital Gains Growth in DOR*

The JLBC Staff has recommended several enhancements to DOR's tax analysis. Some of the costs of these enhancements are offset by revenues generated from more timely and accurate tax analysis allowing the department to more easily prevent tax fraud. To facilitate these enhancements, the Baseline includes 2 separate appropriations to DOR for automation projects:

- 1) FY 2015 Appropriation (\$1.7 million) – Intended for a more complete automation of Individual Income Tax credit data and capital gains reported by taxpayers. For Individual Income Tax filings which are made electronically (90% of returns), DOR currently stores tax expenditure data for each filing, however there has been limited computer programming to aggregate this data. In addition, most tax expenditure data from paper returns is not captured. Given these limitations, DOR is unable to analyze tax expenditure data from Individual Income Taxpayers in an efficient and timely manner. The FY 2015 appropriation is expected to:
  - Improve Tax Analysis Capabilities - Enable tax return data to be analyzed more quickly, while also providing more complete data from both electronic and paper filings. Currently, when possible, DOR collects certain tax credit data. The FY 2015 funding would allow DOR to collect and store information on a wider range of tax policies (such as exemptions, deductions and subtractions).
  - Timely Tax Credit Reporting - While DOR currently reports on tax credit usage, that data is often delayed 1 to 2 years. It is expected that the FY 2015 funding will allow DOR to produce tax credit usage data within several months after the end of a fiscal year.
  - Improved Audit Capabilities - With more complete and timely tax expenditure data, DOR estimates it will be able to generate a net positive \$2.3 million General Fund impact. Capturing more return data in the system is estimated by

DOR to increase audit revenues by \$2.1 million annually, as improvements will allow for shifting of staff resources to audits more likely to have a revenue impact. DOR estimates that the project will reduce operating costs by \$(247,400), reduce the amount of audit leads that would not recover any taxes (from 4,800 to 2,300 audits), and allow for shifting of staff resources to audits that would have a revenue impact.

At its December 2014 meeting, the JLBC favorably reviewed DOR's proposed expenditure plan for the FY 2015 appropriation, including a provision requiring DOR to report to JLBC by February 3, 2015, as to whether the FY 2015 automation changes will permit the publication of fiscal year income tax credit data within 90 days after the end of a fiscal year. The Baseline proposes to include this 90-day deadline for reporting FY 2015 tax credit usage.

2) FY 2016 Appropriation (\$1.7 million) - Intended to continue to improve tax analysis, which could include, among other projects:

- Paper Tax Filing Automation - Currently, 10% of individual income tax filings are processed by paper which requires DOR to scan each paper return and manually enter certain data electronically. The FY 2016 funding amount could enable the department to use optical scanning to reduce staff time associated with transferring paper tax return data into electronic form.
- Automate Corporate Income Tax Returns - Currently, Corporate Income Tax returns are processed only by paper. The FY 2016 funding amount could potentially begin the process of automating these filings.

#### ***APF Revenues and Transfers***

Since the APF's inception in FY 2013, state agencies have transferred monies into the APF to finance specific IT projects. *Table 2* summarizes APF revenues from FY 2014 through FY 2016.

<b>Automation Projects Fund</b>			
(\$ in thousands)			
	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>
<b>Beginning Balance</b>	11,035.4	40,697.4	0
<b>Revenues</b>			
General Fund Appropriation	18,400.0	18,400.0	9,202.0
General Fund Transfer (ADE)	5,400.0	10,400.0	5,400.0
General Fund Transfer (DOR)	1,700.0	1,700.0	1,700.0
General Fund Transfer (DCS)		5,000.0	
Automation Charges	17,013.6		
ADE Education Learning and Accountability Fund	1,600.0	1,600.0	1,600.0
ADOA Automation Operations Fund	8,130.0	9,057.3	
ADOA State Web Portal Fund	4,000.0		2,150.0
ADOA Information Technology Fund	345.0		
ADC Inmate Store Proceeds Fund	5,500.0		
ADC State Revolving Fund	2,500.0		
ADC Prison Construction and Operation Fund		5,500.0	
ADC Corrections Fund		2,500.0	
AHCCCS Traditional Medicaid Services		1,000.0	
DEQ Emissions Inspection Fund	5,000.0	6,800.0	
<b>Total Funds Available</b>	<b>80,624.0</b>	<b>102,654.7</b>	<b>20,052.0</b>
Total Expenditure (Current FY Appropriation)	34,331.3	70,034.7	20,052.0
Total Expenditure (Previous FY Appropriation) <sup>1/</sup>	5,595.3	32,620.0	0
<b>Total Expenditures</b>	<b>39,926.6</b>	<b>102,654.7</b>	<b>20,052.0</b>
<b>Ending Balance</b> <sup>2/</sup>	<b>40,697.4</b>	<b>0.0</b>	<b>0.0</b>

<sup>1/</sup> Assumes all \$32.6 million in FY 2015 will be expended and will not carry forward into FY 2016.  
<sup>2/</sup> FY 2014 ending balance matches ADOA FY 2016 Budget Year Request Sources and Uses line item.

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
<b>Automation Projects Fund</b> (ADA2566/A.R.S. § 41-714)		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated by the Legislature.		
<b>Purpose of Fund:</b> To implement, upgrade, or maintain automation and information technology projects for any state agency. The FY 2014 Budget Procedures BRB (Laws 2013, 1st Special Session, Chapter 6) subjected this fund to legislative appropriation.		
<b>Appropriated Funds Expended</b>	34,331,300	70,034,700
<b>Non-Appropriated Funds Expended</b>	5,595,300	0
<b>Prior Year Appropriation</b>	0	32,620,000
<b>Year-End Fund Balance</b>	40,697,400	0