

Funding Issue 1

Appropriate HAVA Grant Funds

Description of issue and how recommending the agency's request furthers the agency's mandates: The Arizona Secretary of State's Office (SOS) has been awarded a total of \$17,515,974 in Election Security grant funds from the Election Assistance Commission (EAC) between fiscal years 2018 and 2022. Per the EAC, the funds are made available to states to improve the administration of elections for Federal office, including to enhance technology and make certain election security improvements. Arizona law requires these funds to be appropriated by the legislature before they can be used. Arizona has appropriated the bulk of HAVA grant funds for county subgrants, development and administration of the statewide voter registration system (AVID), and the state's portion of maintenance and operations (M&O) on AVID. Additional appropriations have been made to the Secretary of State's office for SOS level expenditures including trainings for the counties, staffing, purchasing and distributing secure USBs to counties for election night reporting, IT related security enhancements, threat liaison officer (TLO) and emergency pollworker programs for counties, and more.

In the FY23 budget the state appropriated \$483,500 to the SOS to cover half of the M&O on AVID and the \$5,352,200 FY20 county subgrant appropriation that was due to lapse at the end of FY22 was extended out to FY23. Aside from the AVID & county subgrant buckets, the SOS office was cut off from access to HAVA funds and, though our office requested an appropriation of \$1,355,000 in new, 2022 HAVA monies that were appropriated by Congress to Arizona in the spring of 2022 (included in the \$17,515,974 total above), no action was taken by the state to make those new funds available to election offices ahead of the 2022 election cycle.

Additionally, some of the county payments for AVID M&O were not made or were not paid in full in FYs 21 and 22, because some of the Recorders disagree with the formula used to determine how the counties split their share. All counties are given a vote on how to split the expense, with the majority vote determining the outcome. Historically, counties have split their half of M&O using county voter registration statistics as the basis for the formula. The methodology for how the counties split their share was called into question by some Recorders several years ago, prior to Secretary Hobbs taking office, but they were ultimately compelled to make their payments despite their disagreement with the formula. Unfortunately, as of late, some of the Recorders have been immovable on the issue and are not open to paying their full share. In FY22 our office was able to absorb the shortfall because we had access to HAVA funds, but that is not the case in FY23.

The SOS estimates a shortfall of up to \$850,000 in FY23 due to not having access to HAVA funding for the office and the counties undercutting their AVID payments.

Proposal: At minimum, \$600,000 should be appropriated in FY24 for the state's share of AVID M&O and potential development needed to that system as a result of changes to election law and the \$5,352,200 FY20 county subgrant appropriation should be extended out to FY24 so that counties can continue to draw down funds. We also suggest that the state consider setting the formula for the county share of AVID M&O in statute. Additionally, the state should be prepared to consider a supplemental appropriation in FY23 to cover unavoidable office expenditures that have historically been paid by HAVA and the shortfall on the county portion of AVID M&O. The outgoing administration will make a concerted effort to identify savings that can supplement the anticipated shortfall and will advise the incoming administration on ways in which they can manage the budget in the second half of the fiscal

year so that the shortfall is minimized as much as possible. We also recommend that the language under ARS § 41-129(B) stating that HAVA monies are subject to legislative appropriation and that the appropriations are subject to the lapsing provisions of section 35-190 be removed from statute. The Secretary of State, the State's Chief Election Officer, should be able to dynamically fund and respond to the needs of election offices throughout the state in a timely way, as intended by Congress, and the requirements under Arizona law significantly slow down access to and/or completely block the Secretary from the funds. If the law is not updated, then we recommend that all unappropriated HAVA balances, totaling approximately \$4,000,000 be appropriated to the office in FY24.

Alternatives Considered and reasons for rejection: The state could appropriate general fund monies for election security expenditures.

Impact of not funding this fiscal year: Federal grant monies would be inaccessible, severing the state's ability to meet its obligations, disperse county subgrants, and dynamically address election security issues, enhance existing technology, and make improvements to the administration of federal elections at both the state and county level. Most importantly, the state would not be able to meet its obligations towards maintenance and operation, as well as hosting, of the statewide voter registration database, known as AVID.

Statutory Reference: ARS § 41-129

Equipment to be purchased: None identified at this time.

Classification of new positions: N/A

Annualization: N/A

Funding Issue 2

Presidential Preference Election

Description of issue and how recommending the agency's request furthers the agency's mandates: The Secretary of State (SOS) is required, by law, to reimburse the counties for their expenditures related to the Presidential Preference Election (PPE) and perform duties in support of the PPE.

In 2020, counties requested \$6,371,361 in reimbursements and, due to reimbursement thresholds set in legislation, were reimbursed an actual total of \$6,146,185. The report submitted to the Joint Legislative Budget Committee (JLBC) by the SOS, outlining the expenditures incurred in 2020, is attached.

In 2016, counties requested \$5,721,435 in reimbursements and were reimbursed a total of \$5,596,056; this included reimbursement to the counties for all new costs to conduct the election. The report that the SOS submitted to JLBC for 2016 expenditures is also attached.

Additionally, the SOS office incurred internal costs of \$26,231 and \$53,472 in 2020 and 2016, respectively. These amounts covered logic and accuracy testing and petition processing expenditures related to the PPE, including travel, supplies, and temporary staff.

Proposal: Appropriate \$7,645,000 to the SOS to carryout statutory obligations related to the 2024 PPE. This is approximately 20% above actual costs in 2020, to account for inflation.

Alternatives Considered and reasons for rejection: N/A

Impact of not funding this fiscal year: The SOS would not be able to carryout it's statutory obligations or reimburse the counties for their expenditures related to the PPE, as required by statute.

Statutory Reference: Title 16, Article 4

Equipment to be purchased: N/A

Classification of new positions: N/A

Annualization: N/A

County	Jan 2, 2020 VR	\$/Voter per Budget Bill	Allotment per Budget Bill	County Claim	Total Reimbursed
Apache	51,219	\$2.00	\$102,438	\$125,679	\$102,438
Cochise	74,720	\$2.00	\$149,440	\$70,108	\$70,108
Coconino	86,945	\$2.00	\$173,890	\$209,507	\$173,890
Gila	30,824	\$2.10	\$64,730	\$35,549	\$35,549
Graham	19,136	\$2.10	\$40,186	\$21,838	\$21,838
Greenlee	4,735	\$2.40	\$11,364	\$15,525	\$11,364
La Paz	10,447	\$2.40	\$25,073	\$21,937	\$21,937
Maricopa	2,398,097	\$1.74	\$4,172,689	\$3,973,050	\$3,973,050
Mohave	124,541	\$1.90	\$236,628	\$110,985	\$110,985
Navajo	65,784	\$2.00	\$131,568	\$117,722	\$117,722
Pima	573,608	\$1.74	\$998,078	\$1,116,057	\$998,078
Pinal	219,013	\$1.60	\$350,421	\$215,130	\$215,130
Santa Cruz	26,732	\$2.10	\$56,137	\$100,314	\$56,137
Yavapai	146,292	\$1.90	\$277,955	\$167,434	\$167,434
Yuma	94,556	\$2.00	\$189,112	\$70,524	\$70,524
Totals			\$6,979,708	\$6,371,361	\$6,146,185

Funding Issue 2
 Presidential Preference Election
 FY20 County Reimbursements



MICHELE REAGAN
Secretary of State
State of Arizona

November 17, 2016

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

RE: Presidential Preference Election Reimbursement Reporting

Dear Mr. Stavneak:

Section 125 of House Bill 2695 (Chapter 117, Laws 2016) required a report to outline the reimbursement of the Presidential Preference Election.

Sincerely,

A handwritten signature in black ink, appearing to be "Liz Atkinson".

Liz Atkinson
Chief Financial Officer

Enclosure

REPORT OF THE SECRETARY OF STATE
REGARDING EXPENSES REIMBURSED
TO ARIZONA'S COUNTIES
ASSOCIATED WITH THE PRESIDENTIAL PREFERENCE ELECTION

Dollars Available to the Counties

The Legislature appropriated \$8.8 million to the Secretary of State's Office to reimburse Arizona's counties for expenses associated with the March 2016 Presidential Preference Election ("PPE"). The amount appropriated was the result of considering two alternative funding methodologies. First, the Secretary was directed to calculate county specific reimbursements amounts using the following formula:

Active Registered Voters on 1/1/2016	Reimbursement Rate per active voter
More than 450,000 active voters	\$2.50 per voter
Between 35,000 and 450,000 active voters	\$3.00 per voter
Less than 35,000 active voters	\$3.50 per voter

Alternatively, the Secretary was to review PPE cost estimates provided to this Office by each county on October 30, 2015. The total amount available to each individual county was to be the lesser of the county's estimated cost or the amount calculated using the formula.

When the above rate rules are applied to each county the following reimbursement maximums are reached:

County Reimbursement Maximum Calculations

County	Active Voters as of 01/01/2016	Reimburse Rate	Rate/Active Voter	County Estimate	Maximum Reimbursement
Apache	47,819	\$ 3.00	\$ 143,457.00	\$ 141,287.05	\$ 141,287.05
Cochise	71,263	\$ 3.00	\$ 213,789.00	\$ 193,461.81	\$ 193,461.81
Coconino	69,923	\$ 3.00	\$ 209,769.00	\$ 211,514.00	\$ 209,769.00
Gila	29,079	\$ 3.50	\$ 101,776.50	\$ 101,916.29	\$ 101,776.50
Graham	17,757	\$ 3.50	\$ 62,149.50	\$ 30,055.74	\$ 30,055.74
Greenlee	4,571	\$ 3.50	\$ 15,998.50	\$ 13,254.14	\$ 13,254.14
La Paz	9,186	\$ 3.50	\$ 32,151.00	\$ 45,551.32	\$ 32,151.00
Maricopa	1,958,568	\$ 2.50	\$ 4,896,420.00	\$ 4,599,351.38	\$ 4,599,351.38
Mohave	111,836	\$ 3.00	\$ 335,508.00	\$ 338,135.35	\$ 335,508.00
Navajo	9,579	\$ 3.00	\$ 178,737.00	\$ 155,783.97	\$ 155,783.97
Pima	484,573	\$ 2.50	\$ 1,211,432.50	\$ 1,714,249.00	\$ 1,211,432.50
Pinal	167,460	\$ 3.00	\$ 502,380.00	\$ 483,161.13	\$ 483,161.13
Santa Cruz	24,004	\$ 3.50	\$ 84,014.00	\$ 46,293.98	\$ 46,293.98
Yavapai	125,736	\$ 3.00	\$ 377,208.00	\$ 358,169.75	\$ 358,169.75
Yuma	73,043	\$ 3.00	\$ 219,129.00	\$ 168,857.09	\$ 168,857.09
SOS Costs			\$ 736,600.00	\$ 736,600.00	\$ 736,600.00
			\$ 9,320,519.00	\$ 9,337,642.00	\$ 8,816,913.04

In this table $\text{Active Voters} \times \text{Reimbursement Rate} = \text{Rate per Active Voter}$, the first cost measurement. The County Estimated column represents the figure provided to this Office by each county as of October 30, 2015. The Maximum Reimbursement column represents the lesser of Rate per Active Voter or the County Estimate. Counties were still required to submit actual expenses to the Secretary, but this final column is the ceiling on what the Legislature authorized the Secretary to reimburse each county.

Categorization of Expenses

Arizona has a uniform State election law as well as an election procedures manual to govern the conduct of elections. However each of Arizona's 15 counties conducts its own election, choosing their own vendors, locations and staffing models. In some of our counties the Records Office is responsible for all aspects and costs of an election (e.g. Maricopa County). In other counties (e.g. Pima County) there is a separate elections department that reports to the Board of Supervisors. In these counties the Elections Department is responsible for costs associated with Election Day, including the costs associated with voting machines. These costs include voting and counting machine acquisition, maintenance and programming. Records are responsible for all other aspects of conducting an election. For purposes of this Report we have categorized all reimbursement claims into one of the following expense categories regardless of which county unit submitted the reimbursement claim.

Official Ballots: Layout and printing of "official" ballot. This will include early, polling place and provisional ballots.

Sample Ballots: Notices sent to every household with a registered vote to provide awareness of ballot layout and races prior to Election Day. Sample ballot costs are significantly less than official ballots, as one sample ballot is sent to a household regardless of how many registered voters live there (with an average of two registered voters per household and the ability to use a lower weight of paper, etc.) while an official ballot has to be printed for every registered voter.

Postage: Costs incurred for the mailing of early ballots, overseas ballots, sample ballots, and other election related mail. Postage expenses are dependent on the type of mail and the availability of permits that provide reduced costs. Also included in this category are costs associated with communicating with Overseas voters.

Election Programming and Supplies: Amounts paid to vendors to program voting machines and provide coding. Supplies include paper, toner, office supplies, and other miscellaneous items. We note that not every county utilizes the services of outside programmers; some counties use their own staff for which reimbursement is not available. In other counties vendors provide programming services as part of ongoing agreements for the county to use their equipment. These programming costs are not segregated from other service agreement expenses.

Personnel: Amounts paid to poll workers, election workers, temporary staffing, and overtime paid to county staff. No regular salaries or employer related expenses were reimbursable. Notwithstanding the no reimbursement for staff rule some counties do use regular county staff to support their election activity. They perceive the advantage of deploying trained staff often with experience working multiple elections through the years preferable to recruiting temporary staff for each election.

Outreach: Printing of notices, Logic and Accuracy testing notices, polling location notices, and any outreach provided by the county to increase voter awareness. Each county has its own outreach plan and may utilize the services of fulltime county staff to execute the plan, in other counties some portion of outreach is done with contractors.

Early Ballot Processing: Printing, affidavit envelopes, carrier envelope, voting instructions and secrecy envelope. Again, some counties outsource this entire activity and others handle it entirely in-house. Each county has their own early ballot process.

Secretary of State Costs: Logic and Accuracy testing, travel, and temporary staff services.

Following is a table that displays these vast cost categories and the expenses each county incurred per category. We caution that simple comparisons among counties by category are likely inappropriate and not valid. Each county runs its own election using what it regards as the best plan that fits the circumstances, resources and needs of that county. The resources and costs associated with each of those plans is reviewed and evaluated by each counties board of supervisors and those boards also approve the poll location plan for each election. Each of our counties has decided for itself the best mix of outsourcing versus insourcing. No two counties have exactly the same plan. Omitted cost information can be a result of reimbursement not being sought, costs lumped without designation to the specific cause (postal meter usage that is not broken down, etc.), or pending reimbursement waiting on additional documentation.

2016 Presidential Preference Actual Costs
 (Costs include both Recorder and Elections Department Expenses)

County	Early Ballots	Equipment	Misc.	Official Ballots	Outreach	Personnel	Supplies	Postage	Sample Ballots	Total
Apache	1,243.25	6,328.87	21.00	23,642.14	2,158.52	43,629.64	740.17	-	-	77,763.59
Cochise	42,516.90	-	-	-	-	-	325.26	1,658.74	-	44,500.90
Coconino	45,000.29	4,821.45	6,171.37	24,579.08	2,935.24	75,113.25	53.93	-	6,907.00	165,581.61
Gila	21,991.54	-	1,275.00	9,704.79	2,420.71	15,306.26	4,789.76	-	-	55,488.06
Graham	4,386.13	-	3,305.04	6,430.01	5,870.04	4,980.78	2,878.57	-	-	27,850.57
Greenlee	1,045.29	3,312.94	-	2,730.13	120.76	2,805.44	841.78	2,397.80	-	13,254.14
La Paz	6,311.36	4,422.22	-	4,566.48	191.88	13,025.69	142.12	-	-	28,659.75
Maricopa	2,002,202.79	16,223.50	24,920.11	348,318.19	130.00	358,814.68	13,659.12	137,608.60	70,105.35	2,971,982.34
Mohave	27,055.43	11,246.10	1,207.24	24,284.21	87.28	81,846.76	1,548.70	241.27	21,521.82	169,038.81
Navajo	-	11,585.90	35.64	23,198.38	5,648.90	45,895.26	2,798.05	-	6,599.45	95,761.58
Pima	585,606.77	1,945.80	36,125.35	175,516.74	1,367.06	383,314.97	14,215.50	-	13,340.31	1,211,432.50
Pinal	96,389.12	955.64	4,075.00	55,342.32	10,319.45	167,388.51	6,582.55	597.99	7,041.21	348,691.79
Santa Cruz	2,766.89	3,021.52	-	6,674.56	-	13,198.22	60.98	-	-	25,722.17
Yavapai	26,053.96	9,599.83	1,139.45	11,715.91	30,693.44	131,084.08	12,512.83	51,026.55	2,138.00	275,964.05
Yuma	27,581.24	9,060.63	1,060.70	7,911.43	12,465.91	18,008.13	405.44	13.26	7,857.11	84,363.85
SOS	-	-	-	-	-	-	-	-	-	53,471.84
	\$ 2,890,150.96	\$ 82,524.40	\$ 79,335.90	\$ 724,614.37	\$ 74,409.19	\$ 1,354,411.67	\$ 61,554.76	\$ 193,544.21	\$ 135,510.25	\$ 5,649,527.54

2016 Presidential Preference Actual Costs
 (Costs include both Recorder and Elections Department Expenses)

County	Allowed per Statutory Max Reimbursement	Requested	Reimbursed	Difference	Actual to max percentage	Cost per active voter
Apache	141,287.05	125,335.80	77,763.59	47,572.21	55%	2.62
Cochise ¹	193,461.81	48,305.11	44,500.90	3,804.22	23%	0.68
Coconino	209,769.00	177,644.33	165,581.61	12,062.72	79%	2.54
Gila	101,776.50	59,048.57	55,488.06	3,560.51	55%	2.03
Graham	30,055.74	28,120.57	27,850.57	270.00	93%	1.58
Greenlee	13,254.14	14,075.67	13,254.14	821.53	100%	3.08
La Paz	32,151.00	28,659.75	28,659.75	-	89%	3.12
Maricopa	4,599,351.38	2,972,160.56	2,971,982.34	178.22	65%	1.52
Mohave	335,508.00	169,038.81	169,038.81	-	50%	1.51
Navajo	155,783.97	95,761.58	95,761.58	-	61%	1.61
Pima	1,211,432.50	1,222,092.55	1,211,432.50	10,660.05	100%	2.52
Pinal	483,161.13	394,611.23	348,691.79	45,919.44	72%	2.36
Santa Cruz ¹	46,293.98	25,722.17	25,722.17	-	56%	1.07
Yavapai	358,169.75	275,964.05	275,964.05	-	77%	2.19
Yuma	168,857.09	84,894.07	84,363.85	530.22	50%	1.16
Secretary of State	736,600.00	53,471.84	53,471.84	-		
Total	\$ 8,816,913.04	\$ 5,774,906.65	\$ 5,649,527.54	\$ 125,379.11		

¹ As of the date of this report, not all information has been submitted for reimbursement which is driving the low Cost/Active Voter amount

Requested vs Reimbursed

To remain in compliance with HB2695 (Chapter 117, Laws 2016) counties were required to provide documentation for all expenses requested for reimbursement. The difference in the amount requested versus reimbursed is attributable to factors such as documentation was not sufficient to support the costs, the amount reimbursed supported more than just the PPE thus reducing the amount actually reimbursed, or lingering issues/questions didn't allow for completion of the reimbursement. The Secretary of State's Office is working with each county on any remaining reimbursement and is being sympathetic to the extreme amount of statewide elections occurring in 2016.

County by County Cost Comparisons

Comparisons of county costs are challenging due to the enormous variability in the number of voters each county is managing as well as the various mechanisms counties provide to voters to cast ballots. Among other things, we did not find that vote centers always made the cost of an election cheaper or more expensive than not using vote centers. We also examined whether counties that had an above mean number of voters on the PEVL ran cheaper elections than those at or below the mean PEVL number. We did not find any correlation here either.

Findings

A statewide election is really 15 separate elections. Each of Arizona's counties buys the necessary goods and services for their own piece of the election using local procurement programs. This departure from a centralized approach generally gives larger counties that have the ability to negotiate better terms a lower cost per voter while the medium/small counties obtain essentially the same services at higher unit costs. It is the recommendation of the Secretary of State that we work with the counties and ADOA Procurement to aggregate costs and procurements wherever reasonably possible so that all counties can enjoy the cost savings associated with volume discounts.

Overall costs might be reduced for all counties in the following areas:

Category	Vendor Count	Amount Spent
Printing	12	\$ 3,036,617.82
Postage	3	\$ 785,456.26
Equipment Programming	3	\$ 126,364.16

Printing: Runbeck Election Services was paid \$2,739,677.08 in printing, processing, and postage costs for the PPE by six counties. The bulk of the printing costs are ballots and sample ballots; every county has to do layout and design, every county has to do sample ballots and official ballots. Every county will also have incidental printing needs associated with the election which will be filled locally on their own but designing ballots, printing pamphlets, printing poll rosters, that is universal. That being said, all 15 counties work under the same statutory schedule for producing various materials for the election. While hypothetically there could be one statewide early ballot printing and mailing contract inevitably any such printer would have to prioritize its workforce among the counties. Which county's work comes first and which last? If the production schedule is missed for a county early in line all the voters in all remaining counties will be affected. To balance economies of scale with the need for redundancy in the event of a problem likely only the nation's very largest printers could compete for a statewide contract. The reduction in competition may very well cancel out savings associated with scale.

Postage: The state and counties incur incidental costs associated with overseas voters but the bulk of the postage expense shown above is money spent with USPS mailing materials in state. The Secretary of State mails every household with a registered voter an election publicity pamphlet. We mail at a unit cost of \$0.11 per pamphlet. The counties postage expense for the PPE varied from \$0.10 per item to \$1.10 and is dependent on the volume of the county and ability to take advantage of bulk zip code processing with the United States Postal Service. This is a cost where all counties could enjoy the benefits of aggregating all mailing under one postal permit. However, as we have repeatedly noted to achieve the lowest possible costs all counties would have to coordinate with one another so

they were meeting a uniform USPS processing standard. One should not assume that it is money well spent for our smallest counties to address and sort their mailings to the same level of granularity as our largest counties.

Programming: Here is an example of the consequences of almost all of the counties centralizing their needs with one vendor. Election Systems & Software provided services to 11 of the 15 counties during the PPE resulting in \$114,083.22 in expenses. This consolidation does come with consequences as ES&S was unable to meet the statutory deadlines for all 11 of these counties.

Summary

A statewide election is really 15 separate elections conducted by Arizona's counties using plans, processes and vendors that each county believes best serves their individual needs. While each county undertakes the same activities to conduct an election the number of school and special districts that have elected members appearing on the same ballot as a president or governor creates enormous differences in the details each county faces to successfully complete an election. The historical independence of each county results in utilization of different vendors, different models and different contracts for the various goods and services associated with an election.

The State faced a similar issue in the matter of school construction. On the one hand a school is a school, on the other Arizona's 230 school districts used to procure school buildings that they thought best met their own needs. The result was enormous variation in the design and cost of each individual school. If the Legislature desired to achieve more uniformity and economies of scale in the business of elections it would likely have to follow the School Facilities Board model: designate a central authority to articulate standards for equipment and processes associated with elections and then to provide the counties with funding to procure the conforming goods and services. Given that elections are a mandatory activity of government articulating uniform standards without

appropriate funding likely creates significant financial challenges for many Arizona counties that would inevitably be met by cuts in spending on other services.

The Presidential Preference Election, which is the subject of this report, is the simplest election undertaken: every ballot is exactly the same. Even where the ballot in Maricopa County is the same as the ballot in Greenlee County this report reveals the plans and processes each county uses create cost differentials among the counties. There are opportunities for counties to take advantage of economies of scale but, in the absence of significant financial support from the State to the counties, likely the most effective path to achieving these savings are to encourage the counties to jointly procure some goods and services on a regional basis. Regional procurement makes the logistical challenges of trying to serve all 15 counties on the same schedule less daunting for any one vendor.