

Arizona Department of Administration
Human Resources

A.R.S. § 41-761

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	FY 2000 Actual	FY 2001 Estimate	FY 2002 Approved	FY 2003 Approved
PROGRAM BUDGET				
Full Time Equivalent Positions	151.5	151.5	154.5 ^{1/}	157.5 ^{1/}
Human Resources				
<u>Subprograms</u>				
Benefits and Insurance	2,755,900	3,037,800	3,273,300	3,321,500
Open Enrollment SLI	0	489,400	0	0
<u>Subprogram Subtotal</u>	<u>2,755,900</u>	<u>3,527,200</u>	<u>3,273,300</u>	<u>3,321,500</u>
Human Resources Operations	6,568,700	7,360,200	7,702,500	7,999,100
Human Resource Management				
System SLI	1,565,100	1,279,700	4,602,900 ^{2/3/}	7,215,800 ^{2/3/}
<u>Subprogram Subtotal</u>	<u>8,133,800</u>	<u>8,639,900</u>	<u>12,305,400</u>	<u>15,214,900</u>
TOTAL APPROPRIATIONS	10,889,700	12,167,100	15,578,700 ^{4/}	18,536,400 ^{4/}
FUND SOURCES				
Personnel Division Fund	8,133,800	8,639,900	12,305,400	15,214,900
Special Employee Health Insurance				
Trust Fund	2,755,900	3,527,200	3,273,300	3,321,500
<u>Subtotal - Other Appropriated Funds</u>	<u>10,889,700</u>	<u>12,167,100</u>	<u>15,578,700</u>	<u>18,536,400</u>
TOTAL APPROPRIATIONS	10,889,700	12,167,100	15,578,700	18,536,400

COST CENTER DESCRIPTION — *The Human Resources Division serves as the state personnel office, providing recruitment and evaluation services, assisting state agencies with hiring and personnel issues, and administering the state's health insurance plans. The division's operating budget is funded through a charge on state agency payrolls of 0.95% in FY 2002 and 1.04% in FY 2003.*

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• Customer satisfaction with benefit plans (Scale 1-8)	6.0/5.5	NA/5.9	6.5	6.8/7.0
• Customer satisfaction with the open enrollment process (Scale 1-8)	NA	NA	6.5	6.8/7.0
• Average number of days to issue list of job applicants from Resumix to inquiring agency	2.9/2.9	2.8/2.8	2.0	2.0
• Number of employees attending Arizona Healthways events	NA	NA/494	543	597/657

^{1/} Includes 3 and 6 FTE Positions funded from Special Line Items in FY 2002 and FY 2003, respectively.

^{2/} The Human Resources Management System Special Line Item includes \$2,900,000 in FY 2002 and \$5,300,000 in FY 2003 to replace the Human Resources/Payroll System. These amounts are exempt from A.R.S. § 35-190, relating to lapsing of appropriations until June 30, 2004. (General Appropriation Act footnote)

^{3/} Before the expenditure of funds for replacement of the Human Resources/Payroll System, the Arizona Department of Administration shall submit a report for review to the Joint Legislative Budget Committee detailing the expenditure plan for the replacement of the Human Resources/Payroll System. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as a Lump Sum by Fund with Human Resource Management Special Line Item.

Benefits and Insurance Subprogram — This subprogram administers a variety of group insurance plans for employees including medical, dental, and disability. It also administers the state employee Wellness Program. This subprogram is funded from the Special Employee Health Insurance Trust Fund. The approved amount includes an increase of \$170,000 in both FY 2002 and FY 2003 above FY 2001 for consulting costs associated with legislative requests for information. The approved amount also includes a FY 2001 supplemental increase of \$150,000 for data center charges for the Benefits Information Tracking System to increase the appropriation to the level of actual charges. This amount is continued in FY 2002 and FY 2003.

Open Enrollment Special Line Item — Monies in this line item were added by Laws 2000, Chapter 232 (Supplemental Appropriations) to provide funding for a full health insurance open enrollment. The Arizona Department of Administration (ADOA) went out to bid for a new statewide health insurance contract in January 2001 and the open enrollment process began in April 2001. The approved amount includes a FY 2001 supplemental increase of \$489,400 from the Special Employee Health Insurance Trust Fund. Costs associated with a full open enrollment include \$170,000 for consultants to assist with the development and negotiation for the new contracts, \$75,000 for ADOA Information Services Division charges to reprogram the benefits system, \$60,000 for data entry, \$30,000 for temporary help, and \$154,400 for printing, postage and handling.

Human Resources Operations Subprogram — This subprogram provides human resources support to agencies under the ADOA personnel system including developing personnel rules, evaluating and referring job applicants, providing personnel related training courses, and maintaining an employee classification system. This subprogram is funded from the Personnel Division Fund.

Human Resources Management System Special Line Item — This line item funds the operations of the Human Resources Management System (HRMS) including Data Center charges for computer run time. Starting in FY 2002, this line item also includes funding to replace the current HRMS system. The approved appropriation is funded from the Personnel Division Fund. The approved amount includes a FY 2002 increase of \$63,400 above FY 2001 and a FY 2003 increase of \$276,300 above FY 2001 for increased data center usage.

The approved amount also includes a FY 2002 increase of \$2,900,000 and 3 FTE Positions above FY 2001 and a FY 2003 increase of \$5,300,000 and 6 FTE Positions above FY 2001 to replace the Human Resources/Payroll (HRMS) system. Funding is provided for software, outside consultants to design and build the system, data center charges, and a project manager and programmers.

These amounts are non-lapsing until June 30, 2004 (General Appropriation Act Footnote).

At the time the budget was approved, there was still some uncertainty regarding whether ADOA would replace the HRMS system “in-house” or if they would contract with a third party to run their payroll and human resources system. Due to this uncertainty, a new footnote requires ADOA to submit its plan for the HRMS replacement to the Joint Legislative Budget Committee for review prior to the expenditure of funds.

Other Issues: Pro Rata Assessment — Agencies covered by the ADOA personnel system are assessed a percentage of their Personal Services to fund the operations of ADOA’s Human Resources Division. This assessment is deposited into the Personnel Division Fund. In order to fund the HRMS replacement (*see Human Resources Management System Special Line Item*), the General Appropriation Act increased the pro rata share contribution from 0.9% to 0.95% in FY 2002 and 1.04% in FY 2003. The General Appropriation Act also included a General Fund increase of \$663,200 and an Other Fund increase of \$102,600 in FY 2002, and a General Fund increase of \$1,201,700 and an Other Fund increase of \$183,700 in FY 2003 for the contributing agencies to pay ADOA the higher pro rata assessment.

At the time of the JLBC recommendation, the increased pro rata rate was estimated to generate an additional \$972,200 in revenue in FY 2002 and \$1,758,900 in FY 2003. The pro rata rate did not need to be increased to generate the full cost of the HRMS replacement (\$2,900,000 in FY 2002 and \$5,300,000 in FY 2003), as the current rate of 0.9% was generating unused revenues of approximately \$2,900,000 in each year which could be applied toward towards the project.

The increased pro rata rate is now estimated to generate an additional \$631,100 in FY 2002 and \$1,854,100 in FY 2003. Although the revenues from increasing the pro rata rate are not as high as expected in FY 2002, the rate generates otherwise unused revenues of approximately \$2,900,000 in each year, as mentioned above, which will be applied towards funding the HRMS replacement. In FY 2003, however, it is estimated that revenues generated by the increased rate will not be enough to cover the cost of the HRMS replacement and the Human Resources Operations Subprogram operating costs. It is estimated that the Personnel Fund will have a FY 2003 ending fund balance of approximately \$(1,100,000).

Two factors contribute to the lower than expected revenues. First, the Personal Services base on which the pro rata rate will be assessed in FY 2002 and FY 2003 is now estimated to be smaller than what was estimated at the time of the JLBC recommendation. The JLBC recommendation assumed a 2.5% Personal Services

growth in each year above FY 2001, however, it is now estimated that Personal Services will grow by 1% in each year above FY 2001. In addition, the Human Resources Operations Subprogram received an additional appropriation of approximately \$1,000,000 over the biennium for various statewide allocations including increased rent charges and the 5% statewide salary adjustment. These additional amounts were not taken into consideration at the time the JLBC made its recommendation for the new pro rata rate. As a result, the new FY 2003 rate of 1.04% is now expected to generate insufficient revenues to cover the full \$5,300,000 appropriation in FY 2003.

The approved amounts for the HRMS replacement of \$2,900,000 in FY 2002 and \$5,300,000 in FY 2003 are rough estimates of the funding that will be required to get the HRMS replacement project started.

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