

Arizona Department of Administration
Information Technology Services

A.R.S. § 41-711 and 41-712

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	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	214.0	180.4	180.4
Personal Services	7,893,000	9,053,300	9,428,800
Employee Related Expenditures	2,074,900	2,634,400	3,044,900
Professional and Outside Services	1,513,100	1,120,100	1,120,100
Travel - In State	44,300	45,500	45,500
Travel - Out of State	8,000	15,300	15,300
Other Operating Expenditures	5,434,400	3,029,700	3,735,500
Equipment	8,492,400	10,168,800	9,947,000
OPERATING SUBTOTAL	25,460,100	26,067,100	27,337,100
SPECIAL LINE ITEMS			
Statewide Telecommunications Management Contract Lease Payment	0	0	894,000
PROGRAM TOTAL	25,460,100	26,067,100	28,231,100^{1/}
FUND SOURCES			
General Fund	0	0	894,000
<u>Other Appropriated Funds</u>			
Automation Operations Fund	0	23,874,900	24,289,400 ^{2/}
Technology and Telecommunications Fund	25,460,100	0	0
Telecommunications Fund	0	2,192,200	3,047,700
SUBTOTAL - Other Appropriated Funds	25,460,100	26,067,100	27,337,100
SUBTOTAL - Appropriated Funds	25,460,100	26,067,100	28,231,100
Other Non-Appropriated Funds	15,507,200	35,681,600	34,681,600
TOTAL - ALL SOURCES	40,967,300	61,748,700	62,912,700

COST CENTER DESCRIPTION — The Information Technology Services Division includes the Data Center, which provides centralized processing services and information technology (IT) consulting for approximately 70 state agencies. The division also houses the Telecommunications Program Office (TPO), which manages the Statewide Telecommunications Management Contractor's provision of statewide voice and data communications, as well as the statewide distribution of emergency telecommunications equipment. The Automation Operations Fund and the Telecommunications Fund, respectively, derive from charges to agencies utilizing these IT services. With the signing of the Statewide Telecommunications Management Contract in January 2005, the TPO functionally replaced the Arizona Telecommunications Service (ATS). Laws 2005, Chapter 301 placed this change in statute.

	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 Approved
PERFORMANCE MEASURES				
• Customer satisfaction rating for the Wide Area Network (MAGNET) (Scale 1-8)	5.7	7.4	6.3	7.0

^{1/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Fund.

^{2/} The appropriation for the Automation Operations Fund is an estimate representing all monies, including balance forward, revenue and transfers during FY 2007. These monies are appropriated to the Department of Administration for the purposes established in A.R.S. § 41-711. The appropriation shall be adjusted as necessary to reflect receipts credited to the Automation Operations Fund for Automation Operation Center projects. Expenditures for all additional Automation Operation Center projects shall be subject to review by the Joint Legislative Budget Committee, following approval of the Government Information Technology Agency. Expenditures for each additional project shall not exceed the specific revenues of that project. (General Appropriation Act footnote)

PERFORMANCE MEASURES (Cont'd)	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 Approved
<ul style="list-style-type: none"> Customer satisfaction rating for Statewide Telecommunications Management Contract services (Scale 1-8) Comments: The agency did not submit information for this measure. FY 2005 was the first year of the Statewide Telecommunications Management Contract. Of agencies transitioned to the new contract during FY 2005, 76% gave TPO assistance an average satisfaction rating of 4.5 out of 8, while 52% gave support for new or upgraded telecommunications an average satisfaction rating of 4.8 out of 8. 	--	--	N/A	7.0
<ul style="list-style-type: none"> Customer satisfaction rating for mainframe services based on annual survey (Scale 1-8) 	5.4	7.8	6.2	7.0

Operating Budget

The budget provides \$27,337,100 for the operating budget in FY 2007. This amount consists of:

	FY 2007
Automation Operations Fund	\$24,289,400
Telecommunications Fund	3,047,700

Statewide Adjustments

The budget includes an increase of \$786,000 for statewide adjustments. This amount consists of:

Automation Operations Fund	657,500
Telecommunications Fund	128,500

(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

Rent Increases

The budget includes an increase of \$8,500 in FY 2007 for lease-purchase and privatized lease-to-own agreements. This amount consists of:

Automation Operations Fund	7,100
Telecommunications Fund	1,400

The budget also includes the following adjustments:

Automation Issues

Enterprise Data Storage Upgrade

The budget provides an increase of \$500,000 from the Automation Operations Fund in FY 2007 for an enterprise data storage upgrade. The Data Center will replace its existing storage hardware, which is at capacity and no longer under warranty. The project's expenditures will decline to \$250,000 in FY 2008. The project is scheduled to conclude by the end of FY 2008.

Eliminate One-Time Equipment

The budget provides a decrease of \$(750,100) from the Automation Operations Fund in FY 2007 to eliminate funding for equipment. These monies funded the purchase

of new network infrastructure and security devices in FY 2006.

Of the division's total FY 2007 equipment budget of \$9,947,000, \$9,145,000 finances ongoing software licensing and maintenance contracts, \$302,000 supports the fourth year of a 4-year personal computer upgrade project, and \$500,000 funds the Enterprise Data Storage Upgrade above.

Telecommunication Issues

Contractor Support

The budget provides an increase of \$725,600 from the Telecommunications Fund in FY 2007 to support the Statewide Telecommunications Management Contractor. This amount consists of \$275,600 for operating supplies, \$145,900 for data processing, \$275,800 for rent, and \$28,300 for equipment.

The management contract stipulates that the TPO provide these items free of charge to the contractor, allowing the contractor to offer lower rates to state agencies. The department neglected to include these costs in its original presentation of the telecommunications contract budget in FY 2006.

Special Line Items

Statewide Telecommunications Management Contract Lease Payment

The budget provides \$894,000 from the General Fund for the Statewide Telecommunications Management Contract Lease Payment in FY 2007.

New Payment

The budget provides an increase of \$894,000 from the General Fund in FY 2007 to make the first of 5 annual payments on a 5.5% lease. This lease financed the \$3.5 million transition from ATS to the new Arizona Network (AZNet). The TPO chose this option in order to reduce the fiscal impact of the contract on agencies in FY 2006.

The payment schedule stipulates annual amounts of \$851,800 from FY 2008 through FY 2010, with a final payment of \$425,900 in FY 2011. The total debt service for the lease will be \$3,875,300. (Please see the *Other Issues* section below for a more thorough discussion of *Statewide Telecommunications Management Contract funding*.)

Other Issues

Laws 2003, Chapter 263 required the Arizona Department of Administration (ADOA) to contract for the privatization of the state's telecommunication services. With approval from the Information Technology Authorization Committee and a favorable review from the Joint Committee on Capital Review, ADOA signed the Statewide Telecommunications Management Contract in January 2005.

Originally, ADOA reported this contract would cost the state approximately \$179 million over a 5-year term. The agency anticipated that the state might also spend \$36 million for associated upgrades and service requests over the 5 years. ADOA further believed the state might avoid up to \$9.7 million of telecommunications cost increases during that period.

However, as TPO began implementing individual department transitions from ATS to AZNet, the office discovered that total state spending on telecommunication services in FY 2005 was below that for FY 2004, the year on which the Statewide Telecommunications Management Contract based its pricing. These reductions occurred as state agencies pursued their own telecommunication savings strategies, delayed telecommunications network investments in anticipation of the contract, and reallocated telecommunication dollars to other agency priorities.

Therefore, while the primary contractor and TPO have put short-term redistributions in place to prevent substantial cost increases to any agency for FY 2006, TPO reports that all agencies will experience higher telecommunication bills in FY 2007. To limit this spending growth, TPO negotiated changes to the Statewide Telecommunications Management Contract that:

- Reduced the cost of internet-based telephone service to match that of regular telephone service under the contract.
- Provided (in FY 2006 only) a new category of cheaper rural telecommunications service, the restricted seat, which carries no service guarantees and less built-in maintenance.
- Allowed financing for the \$3.5 million transition to AZNet through a 5-year, 5.5% lease.
- Increased the term of the contract from 5 to 7 years.

As compared to earlier estimates, ADOA now reports the Statewide Telecommunications Management Contract will cost the state approximately \$172 million over the first 5 years of its term. The agency anticipates that the state might also spend \$52 million for associated upgrades and service requests, including the transition itself, over 5 years. ADOA also believes that the state now faces similar telecommunications cost increases to those existing prior to the contract, although the increases will fund telecommunications infrastructure improvements under the contract.

TPO prepared an initial contract and carrier cost rate structure by agency and fund type, which the JLBC heard in February 2006. The Committee deferred action to the Legislature as a whole, which chose to incorporate a statewide adjustment.

Statewide Adjustments

The budget provides a one-time increase of \$9,331,100 in FY 2007 for statewide adjustments to offset certain agencies' increased telecommunication bills. This amount consists of:

General Fund	5,300,600
Other Appropriated Funds	4,030,500

(Please see the *Statewide Adjustments* section at the end of this *Appropriations Report* for a distribution by agency.)

These amounts represent telecommunication expenditure changes between FY 2005 and FY 2007. Individual agencies will use the amounts to make payments directly to the primary contractor (for management and carrier expenses), as well as into the Telecommunications Fund (for TPO overhead).

Totaling the *Statewide Telecommunications Management Contract Lease Payment* Special Line Item with the statewide General Fund adjustment above, the budget provides an overall increase of \$6,194,600 from the General Fund for management contract increases in FY 2007.