Arizona Department of Administration
Information Technology Services

JLBC: Shelli Carol
OSPB: Matt Gottheiner

DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
OPERATING BUDGET			
Full Time Equivalent Positions	214.0	180.4	180.4
Personal Services	7,893,000	8,908,300	8,908,300
Employee Related Expenditures	2,074,900	2,592,200	2,592,200
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	3,038,200
Equipment	8,492,400	10,168,800	9,418,700
PROGRAM TOTAL	**25,460,100**	**25,879,900**	**25,138,300**
FUND SOURCES			
Other Appropriated Funds			
Automation Operations Fund	0	23,710,900	22,967,900
Technology and Telecommunications Fund	25,460,100	0	0
Telecommunications Fund	0	2,169,000	2,170,400
SUBTOTAL - Other Appropriated Funds	25,460,100	25,879,900	25,138,300
SUBTOTAL - Appropriated Funds	**25,460,100**	**25,879,900**	**25,138,300**
Other Non-Appropriated Funds	15,507,200	35,681,600	34,681,600
TOTAL - ALL SOURCES	40,967,300	61,561,500	59,819,900

CHANGE IN FUNDING SUMMARY

	FY 2006 to FY 2007 JLBC	
	$ Change	% Change
Other Appropriated Funds	(741,600)	(2.9%)
Total Appropriated Funds	(741,600)	(2.9%)
Non Appropriated Funds	(1,000,000)	(2.8%)
Total - All Sources	(1,741,600)	(2.8%)

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.

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

Comments: In FY 2004, the department employed a customer survey methodology different from the one used in other years. This methodology depended on self-selected respondents. These customers were more likely to give high satisfaction ratings, causing artificial inflation of the FY 2004 result.

• Customer satisfaction rating for Statewide Telecommunications Management Contract services (Scale 1-8)	--	--	N/A	7.0

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.

• Customer satisfaction rating for mainframe services based on annual survey (Scale 1-8)	5.4	7.8	6.2	7.0

Comments: In FY 2004, the department employed a customer survey methodology different from the one used in other years. This methodology depended on self-selected respondents. These customers were more likely to give high satisfaction ratings, causing artificial inflation of the FY 2004 result.

RECOMMENDED CHANGES FROM FY 2006

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 the new Arizona Network (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 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.

Therefore, 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 is preparing its initial contract and carrier cost rate structure by agency and fund type, according to Laws 2003, Chapter 263. JLBC Staff has requested that TPO submit this schedule for JLBC review by February 15, 2006.

Operating Budget

The JLBC recommends $25,138,300 for the operating budget in FY 2007. This amount consists of:

	FY 2007
Automation Operations Fund	$22,967,900
Telecommunications Fund	2,170,400

These amounts include the following adjustments:

Standard Changes OF 8,500
The JLBC recommends 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

Eliminate One-Time Equipment OF (750,100)
The JLBC recommends 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 $9,418,700 remaining in the division's equipment budget, $9,116,700 supports ongoing software licensing and maintenance contracts, while $302,000 would fund the fourth year of a 4-year personal computer upgrade project.

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JLBC RECOMMENDED FORMAT — Lump Sum by Fund

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes
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.

Deleted Footnotes
The JLBC recommends deleting the footnote on appropriation adjustments for TPO projects. Laws 2005, Chapter 301 amended A.R.S. § 41-712 to require that agencies directly pay the primary contractor for projects. Therefore, TPO does not require an adjustable appropriation.

Auditor General Recommendation
The Auditor General completed an audit of the Information Services Division and Telecommunications Program Office in FY 2006. The Auditor General found that the division should improve information security throughout its services. The Auditor General recommended designating a chief security officer, obtaining an independent security assessment, and requesting statutory authority to enforce security policies and procedures on AZNet. The Auditor General anticipated that the division's security needs might require additional staff and resources, but did not have a cost estimate for these items.

Additionally, the Auditor General found that TPO should improve its oversight of the Statewide Telecommunications Management Contract. The Auditor General recommended greater scrutiny, using either internal staff or a consultant, as the primary contractor conducts an IT inventory across state agencies. The Auditor General anticipated that this oversight might require additional staff or resources, but did not have a cost estimate for this item.

Lastly, the Auditor General reiterated ADOA estimates that agency telecommunication bills will rise in FY 2007 and beyond.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY