

Arizona Department of Administration

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	528.1	508.1	504.1 ^{1/}
Personal Services	26,336,600	30,046,100	30,046,100
Employee Related Expenditures	9,874,700	11,771,700	11,790,000
Professional and Outside Services	4,938,700	11,759,400	11,759,400
Travel - In State	215,900	316,600	316,600
Travel - Out of State	20,000	41,800	41,800
Other Operating Expenditures	36,299,300	27,956,900	28,027,100
Equipment	3,090,700	4,538,300	4,538,300
OPERATING SUBTOTAL	80,775,900	86,430,800	86,519,300^{2/}
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	7,892,500	8,275,600	8,275,600
Financial Services			
County Attorney Immigration Enforcement	1,152,200	1,213,200	1,213,200 ^{3/}
Named Claimants	283,700	193,600	0
White Mountain Apache Water Rights Settlement	2,000,000	0	0
Human Resources			
Human Resources Information Solution COP	3,319,600	0	0
Information Technology Services			
Public Safety Communications	456,000	549,700	0 ^{4/}
Small-Scale Computing Systems Audit	0	0	0 ^{5/6/}
Statewide Information Security and Privacy Office	690,600	871,700	873,500
Risk Management			
Federal Transfer Payment	3,727,200	10,742,000 ^{7/8/}	0
Risk Management Administrative Expenses	5,769,000	8,746,100	8,747,200
Risk Management Losses and Premiums	26,956,900	45,656,200	44,362,200
Workers' Compensation Losses and Premiums	25,802,200	30,955,200	31,159,200
Support Services			
State Surplus Property Sales Proceeds	1,444,900	1,260,000	1,260,000 ^{9/}
Other			
County TPT Electricity Exemption Backfill	0	0	0 ^{10/11/}
Southwest Defense Contracts	0	0	25,000 ^{12/}
AGENCY TOTAL	160,270,700	194,894,100	182,435,200^{13/}
FUND SOURCES			
General Fund	13,662,700	11,887,900	11,193,000
Other Appropriated Funds			
Air Quality Fund	641,400	927,100	927,100 ^{14/}
Automation Operations Fund	17,167,100	19,108,000	19,120,700 ^{15/}
Capital Outlay Stabilization Fund	16,859,500	18,070,700	18,080,400
Corrections Fund	449,800	572,900	574,100
Federal Surplus Materials Revolving Fund	86,500	464,100	464,100
Information Technology Fund	2,643,100	3,232,300	3,238,100
Motor Vehicle Pool Revolving Fund	8,878,700	10,155,800	10,156,100 ^{16/}
Personnel Division Fund	14,304,700	12,898,700	12,914,000
Risk Management Revolving Fund	72,229,200	103,814,200	91,995,400
Special Employee Health Insurance Trust Fund	9,056,600	5,259,200	5,267,400
State Surplus Materials Revolving Fund	2,462,600	2,399,600	2,399,800 ^{9/}
State Web Portal Fund	220,100	4,250,000	4,250,000
Telecommunications Fund	1,608,700	1,853,600	1,855,000
SUBTOTAL - Other Appropriated Funds	146,608,000	183,006,200	171,242,200
SUBTOTAL - Appropriated Funds	160,270,700	194,894,100	182,435,200

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
Other Non-Appropriated Funds	792,378,200	732,989,900	902,514,700
Federal Funds	6,112,400	4,164,900	2,253,000
TOTAL - ALL SOURCES	958,761,300^{17/}	932,048,900	1,087,202,900

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) provides centralized general support services to state agencies, including accounting, financial, purchasing, building and grounds maintenance, personnel, information technology, motor pool, travel reduction, and risk management services.

- 1/ Includes 3 OF FTE Positions funded from Special Line Items in FY 2015.
- 2/ The department may collect an amount not to exceed \$1,762,600 from other funding sources, excluding Federal Funds, to recover pro rata costs of operating AFIS II. (General Appropriation Act footnote)
- 3/ Of the \$1,213,200 appropriated to the County Attorney Immigration Enforcement line item, \$200,000 must be distributed to the county attorney of a county in this state having a population of 2,000,000 or more persons for the purpose of enforcing Title 23, Chapter 2, Article 2, Arizona Revised Statutes, and \$500,000 must be distributed to the county sheriff of a county in this state having a population of 2,000,000 or more persons for the purpose of enforcing Title 23, Chapter 2, Article 2, Arizona Revised Statutes. Subject to the prior approval of the Joint Legislative Budget Committee, the remaining monies may be distributed to county attorneys and county sheriffs of counties with populations of less than 2,000,000 persons for the purpose of enforcing Title 23, Chapter 2, Article 2, Arizona Revised Statutes. This appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. The appropriated monies may be spent in the sole discretion of the county attorney or county sheriff to whom the monies are distributed for the purpose of enforcing Title 23, Chapter 2, Article 2, Arizona Revised Statutes, without any further approval or other action by the county board of supervisors of the county. Each county shall submit an annual report to the Department of Administration on or before October 1, 2014 on the actual use of the monies in the previous fiscal year and the projected use of the monies in the current fiscal year. The Department of Administration shall report to the Directors of the Governor's Office of Strategic Planning and Budgeting and the Joint Legislative Budget Committee on or before November 1, 2014 on the use of these monies. (General Appropriation Act footnote)
- 4/ On or before October 1, 2014, the department shall submit a report for review by the Joint Legislative Budget Committee of the expenditures to date and progress of implementation for any monies received from the State and Local Implementation Grant Program associated with the National Public Safety Broadband Network Initiative. The Joint Legislative Budget Committee may require the department to submit more frequent reports as necessary for further review. (General Appropriation Act footnote)
- 5/ The General Appropriation Act, as originally passed, included \$500,000 from the Automation Operations Fund in FY 2015 for the Small-Scale Computing Systems Audit Special Line Item. This amount was line-item vetoed by the Governor thus reducing the total appropriation by a corresponding amount.
- 6/ ~~On or before October 1, 2016, the Department of Administration shall report its findings, recommendations and priorities to the Governor, the President of the Senate, the Speaker of the House of Representatives and the Senate and House of Representatives Appropriations Committees. The department shall provide a copy of the report to the Secretary of State.~~ (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.
- 7/ On or before November 1, 2014, the Department of Administration shall submit a plan to reduce the level of federal reimbursement regarding excess balances from funds other than the Special Employee Health Insurance Trust Fund established by A.R.S. § 38-654 for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ It is the intent of the Legislature that the Department of Administration not enter into any agreements to pay for any federal reimbursements related to excess balances in the Special Employee Health Insurance Trust Fund established by A.R.S. § 38-654, or interest payments made for the Human Resource Information Solution Certificate of Participation, unless the proposed agreements are reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 9/ All State Surplus Materials Revolving Fund revenues received by the Department of Administration in excess of the \$2,399,800 in FY 2015 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund receipts in excess of \$2,399,800 in FY 2015, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 10/ The General Appropriation Act, as originally passed, included \$1,300,000 from the General Fund in FY 2015 for the County TPT Electricity Exemption Backfill Special Line Item. This amount was line-item vetoed by the Governor thus reducing the total appropriation by a corresponding amount.
- 11/ ~~The sum of \$1,300,000 is appropriated from the State General Fund in FY 2015 to the Department of Administration for distribution to counties to backfill revenue loss resulting from tax exemptions and exclusions enacted in the 51st Legislature, 2nd Regular Session, relating to electricity used in manufacturing or smelting operations. Before any distribution of this amount, the Department of Administration shall submit an expenditure plan for review by the Joint Legislative Budget Committee.~~ (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.
- 12/ The sum of \$25,000 is appropriated in FY 2015 from the State General Fund to the Department of Administration for distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwest United States. (General Appropriation Act footnote)
- 13/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 14/ The amounts appropriated for the State Employee Transportation Service Subsidy must be used for up to a 50% subsidy of charges payable for transportation service expenses as provided in A.R.S. § 41-710.01, of nonuniversity state employees in a vehicle emissions control area as defined in A.R.S. § 49-541, of a county with a population of more than 400,000 persons. (General Appropriation Act footnote)
- 15/ The appropriation for the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenue and transfers during FY 2015. These monies are appropriated to the Department of Administration for the purposes established in A.R.S. § 41-711. The appropriation is adjusted as necessary to reflect receipts credited to the Automation Operations Fund for automation operation center projects. Before the expenditure of any Automation Operations Fund revenues in excess of \$19,120,700 in FY 2015, the Department of Administration shall report the intended use of monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 16/ It is the intent of the Legislature that the department not replace vehicles until an average of 120,000 miles or more. (General Appropriation Act footnote)
- 17/ Excludes \$16,800,000 from the General Fund and \$11,300,000 from Other Funds in FY 2013 for automation projects originally included in the *FY 2013 Appropriations Report*. The Other Funds amount consists of \$4,200,000 from the Automation Operations Fund, \$5,600,000 from the State Web Portal Fund, and \$1,500,000 from the Information Technology Fund. These amounts are now displayed as part of the ADOA - Automation Projects Fund program.

Operating Budget

The budget includes \$86,519,300 and 501.1 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	\$9,329,100
Air Quality Fund	927,100
Automation Operations Fund	19,120,700
Capital Outlay Stabilization Fund (COSF)	10,430,500
Corrections Fund	574,100
Federal Surplus Materials Revolving Fund	464,100
Information Technology Fund	2,364,600
Motor Vehicle Pool Revolving Fund	10,156,100
Personnel Division Fund	12,914,000
Risk Management Revolving Fund	7,726,800
Special Employee Health Insurance Trust Fund	5,267,400
State Surplus Materials Revolving Fund	1,139,800
State Web Portal Fund	4,250,000
Telecommunications Fund	1,855,000

These amounts fund the following adjustments:

AFIS FTE Realignment

The budget includes a decrease of (20) FTE Positions from ADOA's operating budget in FY 2014 and FY 2015. These FTE Positions are funded from the Automation Projects Fund for the replacement of the state's financial and accounting system, the Arizona Financial Information System (AFIS). As a result, these FTE Positions are displayed in the Arizona Department of Administration - Automation Projects Fund section. *(Please see the Department of Administration - Automation Projects Fund section for more details.)*

Statewide Adjustments

The budget includes an increase of \$88,500 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	\$23,400
Automation Operations Fund	12,700
Capital Outlay Stabilization Fund (COSF)	9,700
Corrections Fund	1,200
Information Technology Fund	4,000
Motor Vehicle Pool Revolving Fund	300
Personnel Division Fund	15,300
Risk Management Revolving Fund	12,100
Special Employee Health Insurance Trust Fund	8,200
State Surplus Materials Revolving Fund	200
Telecommunications Fund	1,400

(Please see the Agency Detail and Allocations section.)

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2015 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2014.

This line item funds utility charges, including electric, water, gas, and garbage disposal for state-owned buildings.

Financial Services

County Attorney Immigration Enforcement

The budget includes \$1,213,200 from the General Fund in FY 2015 for County Attorney Immigration Enforcement. This amount is unchanged from FY 2014.

This line item is for distribution to county attorneys and county sheriffs for the purpose of enforcement of Title 23, Chapter 2, Article 2, Arizona Revised Statutes, which prohibits an employer from knowingly employing unauthorized immigrants.

A General Appropriation Act footnote specifies that, of the \$1,213,200 appropriated to this line item:

- \$200,000 shall be distributed to the county attorney of a county with a population of 2,000,000 or more persons.
- \$500,000 shall be distributed to the county sheriff of a county with a population of 2,000,000 or more persons.
- Subject to prior approval by the Joint Legislative Budget Committee (JLBC), the remaining monies may be distributed to county attorneys and county sheriffs of counties with populations of less than 2,000,000 persons.
- In addition, the footnote requires that each county shall submit an annual report to ADOA by October 1, 2014 on the actual use of the monies in the previous year and the projected use of the monies in the current year. ADOA is required to report to JLBC and OSPB on the use of these monies by November 1, 2014.

At its April 2014 meeting, the JLBC approved a proposal by ADOA to distribute FY 2014 funds to non-Maricopa counties proportionally based on population. ADOA additionally proposed that, if a county officer had previously returned their FY 2013 funding, had reported

no use for their FY 2014 funding, or had failed to report any intended use of their FY 2014 funding, ADOA would not distribute their proportionate share of funds. The Committee approved ADOA's proposal, resulting in a distribution of \$300,500 of the \$513,200 designated for all non-Maricopa counties. The JLBC additionally stipulated that, if a county officer not scheduled to receive funds under ADOA's proposal subsequently requests FY 2014 funding, ADOA may provide their proportionate share at that time, and that any unused funds at the end of the fiscal year shall revert to the General Fund.

Laws 2012, Chapter 346 states that monies distributed to the Apache County Attorney's Office shall indefinitely be used to represent the interests of the people of Arizona and Apache County for legal action against the United States Forest Service for the destruction of endangered species habitat in Arizona caused by the lack of forest thinning and forage fuel removal activities.

Named Claimants

The budget includes no funding from the General Fund in FY 2015 for Named Claimants. This amount funds the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(193,600) from the General Fund in FY 2015 for the elimination of one-time funding of prior year unpaid claims.

The state must annually settle legitimate unpaid claims against received goods and services, as submitted by the various state agencies. Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2014, Chapter 39 appropriates \$193,632.27 from the General Fund in FY 2014 for prior year unpaid claims.

The General Fund is used to pay the Named Claimants bills, but is reimbursed if the claim would have otherwise been paid by another fund source. Of the \$193,632.27, the General Fund will receive \$1,430.00 from the Capital Outlay Stabilization Fund, and \$42,848.72 from the Risk Management Revolving Fund. The total of \$44,278.72 will be deposited in the General Fund as revenue.

Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year.

Information Technology Services

Public Safety Communications

The budget includes no funding from the General Fund in FY 2015 for Public Safety Communications. This amount funds the following adjustments:

Elimination of Commission

The budget includes a decrease of \$(549,700) and (4) FTE Positions from the General Fund in FY 2015 to eliminate the Public Safety Communication Advisory Commission.

The Public Safety Communications Program designs and implements a standard-based system that provides interoperable communications between statewide public safety agencies, and is administered by the Public Safety Communication Advisory Commission (PSCC). PSCC was established in 2004, with a sunset date of July 2014.

Following meetings with the Senate Public Safety and House Public Safety, Military and Regulatory Affairs Committees of Reference, ADOA determined they would not seek an extension of the commission beyond the July 2014 sunset date, with all operations to cease by December 1, 2014 at the latest. In addition to ongoing savings of \$(549,700) from the elimination of the commission, ADOA estimates that approximately \$200,000 will revert to the General Fund in FY 2014 from the commission's FY 2014 budget.

In August 2013, ADOA received a \$3,000,000 federal grant which was to be administered by PSCC. The State and Local Implementation Grant Program (SLIGP) was distributed as part of the National Public Safety Broadband Network (NPSBN) initiative, a national effort to construct a nationwide, standards-based, high-speed data network by reserving a part of the electromagnetic spectrum for public safety. ADOA will continue to administer SLIGP funds through other programs.

With the elimination of the Commission, the FY 2015 General Appropriation Act includes a new footnote requiring ADOA to submit a report by October 1, 2014 to JLBC for review of the expenditures to date and progress of implementation for any SLIGP funds. Additionally, the footnote allows JLBC to require ADOA to submit more frequent reports as necessary for further review.

Small-Scale Computing Systems Audit

The General Appropriation Act, as originally passed, included \$500,000 from the Automation Operations Fund in FY 2015 for a statewide audit of small-scale computing systems. This amount was line-item vetoed by the Governor.

The new line-item would have provided funding to allow the Arizona Strategic Enterprise Technology (ASET) Office within ADOA to conduct a statewide audit of small-scale computing systems, including desktops, laptops, and other systems that support fewer than 10,000,000 transactions per hour, or stores less than 100 billion bytes of data. *(Please see footnotes 5 and 6 for more information.)*

Laws 2012, Chapter 161 required ASET to provide an assessment and report on the state's large-scale computing systems, including mainframes and servers, no later than October 1, 2014. This assessment is funded through the Automation Projects Fund in FY 2014, at an estimated cost of \$400,000.

Statewide Information Security and Privacy Office

The budget includes \$873,500 and 3 FTE Positions from the Information Technology Fund in FY 2015 for the Statewide Information Security and Privacy Office. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,800 from the Information Technology Fund in FY 2015 for statewide adjustments.

The office performs strategic planning, policy development, and risk assessment to protect the state's information resources.

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2015 to eliminate one-time payments to the federal government. This amount funds the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(10,742,000) from the Risk Management Revolving Fund in FY 2015 to eliminate one-time payments to the federal government.

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government which restricts the use of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) included an FY 2014 supplemental appropriation of \$10,742,000 from the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$6,387,000 for FY 2013 fund transfers from 3 separate funds.
- \$3,923,000 for FY 2013 excess retained earnings in 5 different funds.
- \$285,000 for FY 2013 disallowed costs relating to the Government Information Technology Agency (GITA).
- \$50,000 for FY 2013 disallowed costs relating to Attorney General legal services.
- \$97,000 for interest on FY 2013 fund transfers.

In addition, Chapter 18 specifies that it is the intent of the Legislature that ADOA shall not enter into any agreements to pay for any federal reimbursements related to excess retained earnings in the Special Employee Health Insurance Trust Fund (HITF), or interest payments made for the Human Resource Information Solution (HRIS) Certificate of Participation (COP), unless the proposed agreements are reviewed by the JLBC. *(Please see footnote 8 for more information.)*

Chapter 18 also requires ADOA to submit a plan to reduce the level of federal reimbursement regarding excess retained earnings from funds other than the Special Employee Health Insurance Trust Fund for review by the JLBC. *(Please see footnote 7 and the Federal Financial Participation section in Other Issues for more information.)*

Risk Management Administrative Expenses

The budget includes \$8,747,200 from the Risk Management Revolving Fund in FY 2015 for Risk Management Administrative Expenses. This amount funds the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,100 from the Risk Management Revolving Fund in FY 2015 for statewide adjustments.

This line item funds financial and actuarial analyses, relevant investigations, and related travel. This line item also funds legal representation from outside the Office of the Attorney General.

Risk Management Losses and Premiums

The budget includes \$44,362,200 from the Risk Management Revolving Fund in FY 2015 for Risk Management Losses and Premiums. This amount funds the following adjustments:

Risk Management Losses

The budget includes a decrease of \$(1,294,000) from the Risk Management Revolving Fund in FY 2015 for an estimated decrease in Risk Management Losses and Premiums. This decrease is a result of an independent

actuarial review of the department's claims history and exposure.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Workers' Compensation Losses and Premiums

The budget includes \$31,159,200 from the Risk Management Revolving Fund in FY 2015 for Workers' Compensation Losses and Premiums. This amount funds the following adjustments:

Workers' Compensation Losses

The budget includes an increase of \$204,000 from the Risk Management Revolving Fund in FY 2015 for an estimated increase in Workers' Compensation Losses and Premiums. This increase is a result of an independent actuarial review of the state's claims history and exposure.

This line item accounts for the state's liability in workplace injuries. The funding represents payments for workers' compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Support Services

State Surplus Property Sales Proceeds

The budget includes \$1,260,000 from the State Surplus Materials Revolving Fund in FY 2015 for State Surplus Property Sales Proceeds. This amount is unchanged from FY 2014.

This line item separates surplus sales proceeds returned to agencies from the division's operating budget. The surplus property yard returns 90% of sales proceeds to the agency from which the property originated. The yard retains 10% of the proceeds to fund its operations.

Other

County TPT Electricity Exemption Backfill

The General Appropriation Act, as originally passed, included \$1,300,000 from the General Fund in FY 2015 for distribution to counties. This amount was line-item vetoed by the Governor.

The new line-item would have provided funding to backfill counties' revenue loss resulting from tax exemptions and

exclusions enacted in the 51st Legislature, Second Regular Session, relating to electricity used in manufacturing or smelting operations. (Please see footnote 11 for more information.)

Southwest Defense Contracts

The budget includes \$25,000 from the General Fund in FY 2015 for Southwest Defense Contracts. This amount funds the following adjustments:

Southwest Defense Contracts

The budget includes an increase of \$25,000 from the General Fund in FY 2015 for southwest defense contracts.

This line item is for distribution to a nonprofit organization that advocates for the preservation and enhancement of critical defense missions and assets in the southwestern United States. (Please see footnote 12 for more information.)

Other Issues

FY 1999 Reversion

Laws 1997, Chapter 288 appropriated a non-lapsing amount of \$450,000 from the Personnel Division Fund in FY 1999. To date \$273,000 remains unspent. The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 104) specifies that, of the \$450,000 appropriation, \$273,000 shall revert to the General Fund on the general effective date of the act.

Automation Projects

The budget includes \$35,533,000 transferred from the General Fund and department funds to the Automation Projects Fund in FY 2015 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The budget includes \$26,533,000 from the Automation Projects Fund in FY 2015 for the third year of a 4-year project to replace the state's financial and accounting system.

ASET Initiatives

The budget includes \$9,000,000 from the Automation Projects Fund in FY 2015 to fund personnel and information technology projects continued from FY 2014 at the Arizona Strategic Enterprise Technology (ASET) office in ADOA.

(Please see the Department of Administration - Automation Projects Fund section for details regarding these information technology projects.)

Health Insurance Trust Fund

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans.

Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2013, HITF had a balance of \$324,600,000. Recent budgets have included a number of measures to reduce the HITF balance.

The FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) required a \$68,000,000 transfer from the HITF balance to the General Fund. In addition to the \$68,000,000 transfer to the General Fund, Chapter 1 required a \$5,496,000 transfer to the Automation Projects Fund to replace the state's financial and accounting system.

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18, Section 139) required a \$53,900,000 transfer from the HITF balance to the General Fund.

to stabilize the individual market when high cost claimants are able to purchase insurance without being charged a higher rate due to pre-existing conditions. The Federal Government released new rules in March 2014 regarding the delayed implementation of the Affordable Care Act. Part of these revised rules delays a portion of the cost associated with the \$63 per member fee. ADOA now estimates this fee to cost \$5.4 million in FY 2015, and \$1.1 million in FY 2016.

Despite the FY 2014 and previous balance reduction measures, HITF is expected to have a fund balance of \$244,700,000 at the end of FY 2015. Information on HITF receipts, expenses and fund balances are displayed in *Table 1*.

Risk Management Revolving Fund

ADOA's Risk Management Division annually levies a charge on all state agencies to provide funding to pay the state's property and liability losses and workers' compensation losses, and to purchase insurance coverage for losses not covered under our self-insured limits. The revenue generated from the charges to agencies is deposited in the Risk Management Revolving Fund. Property and liability losses, along with workers' compensation losses, comprise the majority of Risk Management Revolving Fund expenditures.

	Estimated FY 2014	Estimated FY 2015
Beginning Balance	\$324.6	\$310.7
Receipts	\$817.5	\$824.5
Expenses	\$757.9	\$827.5
FFP Repayment ^{1/}	0.0	9.1
Transfer	<u>73.5</u>	<u>53.9</u>
Net Expenses	\$831.4	\$890.5
HITF Ending Balance	\$310.7	\$244.7

^{1/} Represents an estimated payment not yet authorized by the Legislature for the transfer of monies made in FY 2014.

Some of the HITF revenues are generated from Federal Funds. As a result, when HITF monies are transferred to the General Fund, the federal government requires that they receive a refund as well, known as a federal financial participation (FFP) repayment. Chapter 18 appropriated \$10,742,000 from the Risk Management Revolving Fund in FY 2014 for an FFP repayment, which included \$3,443,000 for FY 2013 transfers from HITF. While not yet authorized by the Legislature, the FY 2015 FFP repayment for FY 2014 HITF transfers is estimated to be \$9,134,000. This repayment may alternatively be financed from the Risk Management Revolving Fund.

In FY 2015, ADOA projects medical expenditures will increase by 9.7%, raising overall expenses to \$827,500,000. Included in this amount are 2 taxes from the Federal Affordable Care Act. The Patient-Centered Outcomes Research Trust Fee is a \$2 per member fee which will fund comparative effectiveness research at the Patient-Centered Outcomes Research Institute. This fee is estimated to cost \$223,200 in FY 2015. The second fee is a \$63 per member reinsurance fee, and is a transitional fee

	Actual FY 2013	Estimated FY 2014	Estimated FY 2015
Beginning Balance	51,739.0	61,651.3	34,117.7
Revenues	<u>106,982.0</u>	<u>103,706.2</u>	<u>103,706.2</u>
<i>Total Funds Available</i>	158,721.0	165,357.5	137,823.9
Expenditures			
ADOA	68,502.0	93,072.2	91,995.4
Other Agencies	20,895.2	25,657.4 ^{1/}	10,639.4
Legislative Transfers	-	736.2	-
Federal Repayment	3,727.2	10,742.0	-
Admin Adjustment	<u>3,945.3</u>	<u>1,032.0</u>	-
<i>Total Expenditures</i>	97,069.7	131,239.8	102,634.8
Ending Balance	61,651.3	34,117.7	35,189.1
Spending Adjustment ^{2/}	-	15,000.0	30,000.0
Revised Balance	61,651.3	49,117.7	65,189.1

^{1/} Incorporates shifting \$15,018,000 of State Land Department funding from the Risk Management Revolving Fund to the General Fund in FY 2014.

^{2/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance. FY 2015 represents \$15 million from a greater beginning balance and \$15 million from reduced spending in FY 2015.

In recent years, Risk Management expenditures have been significantly lower than fund revenue. Even with transfers of Risk Management monies to other agencies and transfers to the General Fund to help balance the budget, the fund has consistently had an ending balance of approximately \$50,000,000.

Table 2 depicts actual balance, revenue, and expenditure information for FY 2013 as well as the estimated amounts for FY 2014 and FY 2015. ADOA estimates that the ADOA-related expenditures (claims and administrative costs) would be considerably more than what was spent in FY 2013, resulting in significant decreases to the balance in FY 2014 and FY 2015. Due to the unpredictable nature of the Risk Management program, ADOA tends to estimate future expenditures above historical spending levels. Table 2 also includes adjusted expenditure estimates for FY 2014 and FY 2015, which are closer to historical spending levels. Under these adjusted estimates, the balance would be \$49.1 million in FY 2014 and \$65.2 million in FY 2015.

As a result of the large balance in the Risk Management Revolving Fund, monies from the fund have been used to support other agencies in recent years. The use of the funding has typically been in circumstances where the lack of funding would result in potential liability to the state. Risk Management funds have been used to pay for State Land Department operations, Department of Public Safety (DPS) disaster recovery planning, DPS-Capitol Police salaries, and Arizona Navigable Streams Adjudication Commission litigation costs.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government in FY 2014. *(Please see the Federal Transfer Payment Section above, and the Federal Financial Participation Repayment Section below for more information.)*

Federal Financial Participation Repayment

In order to receive Federal Funds, the state enters into a contractual obligation with the federal government which restricts some uses of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds.

Fund Transfers

As part of its budget balancing, the state transferred monies from several ADOA funds to the General Fund in FY 2009 through FY 2012. The federal government contributed to several of those funds. For example, the state's Risk Management Revolving Fund is funded from charges to state agencies. These agencies may use Federal Funds to pay their charge. If part of the fund balance is transferred to the General Fund, the federal government bills the state to have a proportionate share of the transfer paid back to the federal government.

Disallowed Costs

The federal government does not allow the use of Federal Funds to pay state agency charges in certain circumstances. For example, the state's oversight of Information Technology (IT) projects is funded by an assessment charged to each agency as a percentage of payroll expenses. The federal government disallows the use of Federal Funds to be spent on this type of oversight, because the costs to administer the program are charged proportionately to all agencies, and are not based on a fee-for-service model. As a result, the federal government bills the state a proportionate share if state agencies use Federal Funds to pay for these disallowed costs.

Excess Retained Earnings

Certain enterprise funds carry a balance beyond the annual needs of the fund in order to provide some stability of cash flow. The federal government, however, charges the state for their proportionate share of excess fund balances above any amount that would fund more than 1/6th of the fiscal years' expenditures, or 60 days of working capital. In the past, the state has successfully negotiated not to be charged for excess fund balances in the Special Employee Health Insurance Trust Fund (HITF).

FY 2013

In FY 2013, the federal government charged the state \$8,831,300 for fund transfers and disallowed spending of federal monies in FY 2012. This amount consists of:

- \$5,104,100 from the Special Employee Health Insurance Trust Fund (HITF) for FY 2012 transfers to the General Fund.
- \$3,727,200 for disallowed costs relating to Attorney General legal services, statewide IT charges, and fund transfers prior to FY 2013.

The FY 2013 General Appropriation Act appropriated funding from HITF in FY 2013 to settle with the federal government any debts incurred due to HITF transfers to the General Fund in FY 2012. As a result, ADOA negotiated with the U.S. Department of Health and Human Services (HHS) and agreed to repay \$5,104,100 from HITF to settle these debts.

The FY 2014 General Appropriation Act included an FY 2013 supplemental appropriation of \$3,727,300 from the Risk Management Revolving Fund to refund a portion of certain disallowed costs and fund transfers to the federal government. This amount consists of:

- \$618,400 for disallowed costs relating to Attorney General legal services.
- \$341,400 for disallowed costs relating to the statewide IT charges.
- \$2,767,500 for fund transfers prior to FY 2013.

FY 2014

The FY 2015 General Appropriation Act (Laws 2014, Chapter 18) included an FY 2014 supplemental appropriation of \$10,742,000 from the Risk Management Revolving Fund to repay the federal government for certain restricted uses.

This amount includes payments for FY 2013 fund transfers from the Special Employee Health Insurance Trust Fund (HITF). FY 2014 fund transfers from HITF are estimated to result in the federal government billing the state for an additional \$9,134,000 in FY 2015 for their proportionate share.

The FY 2014 \$10,742,000 supplemental consists of the following:

- \$6,387,000 for FY 2013 fund transfers from 3 separate funds, as follows:
 - Automation Operations Fund (\$1,481,000)
 - Risk Management Revolving Fund (\$1,464,000)
 - Special Employee Health Insurance Trust Fund (\$3,442,000)
- \$3,923,000 for FY 2013 excess retained earnings in 5 different funds, as follows:
 - Automation Operations Fund (\$2,794,000)
 - Telecommunications Fund (\$158,000)
 - Personnel Division Fund (\$779,000)
 - Special Services Revolving Fund (\$4,000)
 - Information Technology Fund (\$188,000)
- \$285,000 for FY 2013 disallowed costs relating to the Government Information Technology Agency (GITA).
- \$50,000 for FY 2013 disallowed costs relating to Attorney General legal services.
- \$97,000 for interest on FY 2013 fund transfers.

(Please see the Federal Transfer Payment line item above for more information.)