

Arizona Department of Administration

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	508.1	504.1	532.1 ^{1/}
Personal Services	27,356,600	30,881,400	30,881,400
Employee Related Expenditures	10,611,000	12,135,800	11,965,700
Professional and Outside Services	6,959,000	8,752,800	8,752,800
Travel - In State	206,500	193,400	193,400
Travel - Out of State	12,100	25,800	25,800
Other Operating Expenditures	27,381,300	34,299,400	33,779,400
Equipment	3,260,100	3,130,700	5,137,800
OPERATING SUBTOTAL	75,786,600	89,419,300	90,736,400
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	7,554,800	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	0	0	7,567,800
County Attorney Immigration Enforcement	973,700	1,213,200	0
Named Claimants	193,600	184,600	0
Information Technology Services			
Public Safety Communications	261,400	0	0 ^{2/}
Statewide Information Security and Privacy Office	784,300	873,500	872,200
Risk Management			
Federal Transfer Payment	10,742,000	18,764,900 ^{3/}	0
Risk Management Administrative Expenses	4,885,200	8,747,200	8,747,200
Risk Management Losses and Premiums	36,214,300	44,362,200	44,362,200
Workers' Compensation Losses and Premiums	26,857,100	31,159,200	31,159,200
Support Services			
Government Transformation Office	0	0	1,000,000
State Surplus Property Sales Proceeds	1,734,900	1,820,000	1,260,000 ^{4/}
Other			
Southwest Defense Contracts	0	25,000	25,000 ^{5/}
AGENCY TOTAL	165,987,900	204,844,700	194,005,600 ^{6/}
FUND SOURCES			
General Fund	11,095,800	11,377,600	10,377,300
<u>Other Appropriated Funds</u>			
Air Quality Fund	732,400	927,100	927,300 ^{7/}
Arizona Financial Information System Collections Fund	0	0	7,567,800
Automation Operations Fund	17,456,400	22,020,700	23,964,100 ^{8/}
Capital Outlay Stabilization Fund	16,372,200	18,080,400	18,082,800
Corrections Fund	413,900	574,100	571,200
Federal Surplus Materials Revolving Fund	54,200	464,100	464,600
Information Technology Fund	2,770,500	3,238,100	2,942,100
Motor Vehicle Pool Revolving Fund	8,890,100	10,156,100	10,148,800 ^{9/}
Personnel Division Fund	12,502,500	12,914,000	12,885,100
Risk Management Revolving Fund	85,242,100	102,457,500	92,022,900
Special Employee Health Insurance Trust Fund	4,149,400	13,570,200	5,262,300
State Surplus Materials Revolving Fund	2,775,900	2,959,800	2,397,900 ^{4/}
State Web Portal Fund	1,725,700	4,250,000	4,543,000
Telecommunications Fund	1,806,800	1,855,000	1,848,400
SUBTOTAL - Other Appropriated Funds	154,892,100	193,467,100	183,628,300
SUBTOTAL - Appropriated Funds	165,987,900	204,844,700	194,005,600

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
Other Non-Appropriated Funds	955,627,700	995,538,300	1,031,554,200
Federal Funds	3,629,000	5,619,700	2,784,900
TOTAL - ALL SOURCES	1,125,244,600	1,206,002,700	1,228,344,700

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.

Operating Budget

The budget includes \$90,736,400 and 501.1 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$8,726,600
Air Quality Fund	927,300
Automation Operations Fund	23,964,100
Capital Outlay Stabilization Fund (COSF)	10,432,900
Corrections Fund	571,200
Federal Surplus Materials Revolving Fund	464,600
Information Technology Fund	2,069,900
Motor Vehicle Pool Revolving Fund	10,148,800
Personnel Division Fund	12,885,100
Risk Management Revolving Fund	7,754,300
Special Employee Health Insurance Trust Fund	5,262,300
State Surplus Materials Revolving Fund	1,137,900
State Web Portal Fund	4,543,000
Telecommunications Fund	1,848,400

These amounts fund the following adjustments:

GAO Cost Shift

The budget includes a decrease of \$(566,000) from the General Fund in FY 2016 for costs shifted to the Arizona Financial Information System (AFIS) line item. General Fund costs associated with the operation of the state financial information system are now allocated to the agencies. *(Please see the General Accounting Office section in Other Issues for more information.)*

Increase Appropriation Authority for Data Center Mainframe

The budget includes an increase of \$2,007,100 from the Automation Operations Fund in FY 2016 for increased operating costs associated with the mainframe at the State Data Center.

Shift 3 FTE Positions from Information Technology Fund to State Web Portal Fund

The budget includes a decrease of \$(292,800) from the Information Technology Fund and a corresponding increase of \$292,800 from the State Web Portal Fund in

- 1/ Includes 31 OF FTE Positions funded from Special Line Items in FY 2016.
- 2/ On or before October 1, 2015, 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)
- 3/ 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)
- 4/ All State Surplus Materials Revolving Fund revenues received by the Department of Administration in excess of the \$2,397,900 in FY 2016 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund receipts in excess of \$2,397,900 in FY 2016, 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)
- 5/ The amount appropriated for Southwest Defense Contracts shall be used 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)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 7/ The amounts appropriated for the State Employee Transportation Service Subsidy shall 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)
- 8/ 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 2016. 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 \$23,964,100 in FY 2016, 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)
- 9/ 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)

FY 2016. The shift decreases federal disallowed costs. *(Please see the Federal Financial Participation section in Other Issues for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(124,000) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(36,500)
Air Quality Fund	200
Automation Operations Fund	(63,700)
Capital Outlay Stabilization Fund (COSF)	2,400
Corrections Fund	(2,900)
Federal Surplus Materials Revolving Fund	500
Information Technology Fund	(1,900)
Motor Vehicle Pool Revolving Fund	(7,300)
Personnel Division Fund	(28,900)
Risk Management Revolving Fund	27,500
Special Employee Health Insurance Trust Fund	(5,100)
State Surplus Materials Revolving Fund	(1,900)
State Web Portal Fund	200
Telecommunications Fund	(6,600)

(Please see the Agency Detail and Allocations section.)

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2016 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2015.

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

Financial Services

Arizona Financial Information System

The budget includes \$7,567,800 and 28 FTE Positions in FY 2016 from the Arizona Financial Information Systems Collections Fund for the Arizona Financial Information System (AFIS). These amounts fund the following adjustments:

New Accounting System Fund

The budget includes an increase of \$7,567,800 and 28 FTE Positions from the AFIS Collections Fund in FY 2016 for costs associated with operating AFIS. The new AFIS system “goes live” at the beginning of FY 2016. *(Please see the Department of Administration-Automation Projects Fund section for more details regarding this information technology project.)*

In addition to funding AFIS staff, the AFIS line item includes \$990,000 for professional and outside services, \$1,200,000 for software licensing, and \$544,000 for third-party hosted mainframe charges.

The FY 2016 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 11), establishes the AFIS Collections Fund administered by ADOA. The bill allows ADOA to collect a per transaction usage fee from agencies to recover the costs associated with AFIS and requires Joint Legislative Budget Committee (JLBC) review prior to ADOA implementing or changing the transaction fee. The FY 2016 General Appropriation Act appropriates funding to agencies to pay their portion of the charge. *(Please see the AFIS discussion in the Other Issues section, the General Provisions section, and the Agency Detail and Allocations section for more information.)*

This line item funds the operation of AFIS including staffing and support, software licensing and maintenance, hosted production and disaster recovery.

County Attorney Immigration Enforcement

The budget includes no funding from the General Fund in FY 2016 for County Attorney Immigration Enforcement. This amount funds the following adjustments:

Eliminate Employer Sanctions Funding

The budget includes a decrease of \$(1,213,200) from the General Fund in FY 2016 to eliminate County Attorney Immigration Enforcement. This line item was 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 FY 2015 General Appropriation Act footnote specified that, of the \$1,213,200 appropriated to this line item:

- \$200,000 was distributed to the county attorney of a county with a population of 2,000,000 or more persons.
- \$500,000 was distributed to the county sheriff of a county with a population of 2,000,000 or more persons.

- Subject to prior approval by the JLBC, the remaining monies were distributed to county attorneys and county sheriffs of counties with populations of less than 2,000,000 persons.
- In addition, the footnote required that each county submit an annual report to ADOA by October 1, 2015 on the actual use of the monies in the previous year and the projected use of the monies in the current year. ADOA was required to report to JLBC and OSPB on the use of these monies by November 1, 2015.

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 planned distribution of \$300,500 of the \$513,200 designated for all non-Maricopa counties for a total distribution of \$1.0 million. Some county officers ultimately returned their distribution resulting in the FY 2014 actual expenditure of \$973,700.

At its December 2014 meeting, the JLBC approved a proposal by ADOA to distribute \$231,400 of the \$513,200 designated for all non-Maricopa counties for FY 2015. ADOA proposed to distribute funds to 9 county officers who requested funds regardless of whether FY 2014 funding was returned or unused. The JLBC additionally requested more information on the Pima County Sheriff's request for \$97,700 for further review. In January 2015, the Maricopa Sheriff informed ADOA that, pursuant to a federal court judge order to cease enforcement, the sheriff would return its \$500,000 FY 2015 statutory allocation.

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 2016 for Named Claimants. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(184,600) from the General Fund in FY 2016 for the elimination of funding of prior year unpaid claims. The FY 2016 amount has yet to be determined.

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 2015, Chapter 34 appropriates \$184,594.94 from the General Fund in FY 2015 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 \$184,594.94, a total of \$73,867.06 will be deposited into the General Fund as revenue from the following funds:

- \$26,608.26 from the Automation Operations Fund
- \$6,095.00 from the Emergency Medical Services Operating Fund
- \$487.00 from the Motor Vehicle Pool Revolving Fund
- \$30,814.89 from the Risk Management Fund
- \$257.00 from the State Surplus Materials Revolving Fund
- \$330.70 from the Telecommunication Fund for the Deaf
- \$9,274.21 from the State Highway Fund

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 2016 for Public Safety Communications. This amount is unchanged from FY 2015.

The Public Safety Communications Program works to design and implement a standard-based system that provides interoperable communications between statewide public safety agencies. Its work was overseen by the Public Safety Communication Advisory Commission (PSCC). PSCC was established in 2004, with a sunset date of July 2014. The

Executive did not request an extension of the commission's oversight authority.

In August 2013, ADOA received a \$2,900,000 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 the Arizona Strategic Enterprise Technology (ASET) Office.

A FY 2016 General Appropriation Act footnote requires ADOA to submit a report by October 1, 2015 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. Through September 2014, ADOA reported spending \$379,600 of the \$2.9 million grant. *(Please see footnote 2 for more information.)*

Statewide Information Security and Privacy Office

The budget includes \$872,200 and 3 FTE Positions from the Information Technology Fund in FY 2016 for the Statewide Information Security and Privacy Office. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) in FY 2016 from the Information Technology Fund for statewide adjustments.

As part of ASET, the office performs strategic planning, policy development, and risk assessment to protect the state's information resources. *(Please see the ADOA Automation Projects Fund section for additional discussion on ASET administrative resources.)*

Risk Management

Federal Transfer Payment

The budget includes no funding in FY 2016 for one-time payments to the federal government. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(18,764,900) in FY 2016 to eliminate FY 2015 payments to the federal government for disallowed costs and other federal

charges; any FY 2016 payment is not yet finalized. The FY 2016 amount consists of:

Risk Management Revolving Fund	(10,462,100)
Special Employee Health Insurance Trust Fund	(8,302,800)

The FY 2015 payments were authorized by the FY 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 112), which included an FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Revolving Fund. This amount consists of:

- \$4,336,000 related to FY 2014 fund transfers from 9 different funds.
- \$207,400 for disallowed costs related to statewide IT charges in FY 2014.
- \$5,918,700 for excess retained earnings in 4 different funds in FY 2014.

In addition, Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from the Special Employee Health Insurance Trust Fund (HITF) to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2014.

Laws 2015, Chapter 8 also 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 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 3 for more information.)*

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. *(Please see 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 2016 for Risk Management Administrative Expenses. This amount is unchanged from FY 2015.

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 2016 for Risk Management Losses and Premiums. This amount is unchanged from FY 2015.

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 2016 for Workers' Compensation Losses and Premiums. This amount is unchanged from FY 2015.

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

Government Transformation Office

The budget includes \$1,000,000 from the General Fund in FY 2016 for the Government Transformation Office (GTO). This amount funds the following adjustments:

Additional GTO Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2016 for the Government Transformation Office.

Prior to the FY 2016 budget, ADOA had a 17-person staff in the GTO funded by an Interagency Service Agreement with the Governor's Office. The office assists state agencies in designing and implementing process improvements. The office publishes an annual report on its accomplishments. The use of these monies to supplement or supplant the existing funding has yet to be determined.

State Surplus Property Sales Proceeds

The budget includes \$1,260,000 from the State Surplus Materials Revolving Fund in FY 2016 for State Surplus Property Sales Proceeds. This amount funds the following adjustments:

Property Sales Proceeds Decrease

The budget includes a decrease of \$(560,000) from the State Surplus Materials Revolving Fund in FY 2016 for a one-time FY 2015 adjustment.

An FY 2015 General Appropriation Act footnote appropriated State Surplus Materials Revolving Fund revenues received by the Department of Administration in excess of the \$2,399,800 in FY 2015 to the department. This amount consists for \$1,139,800 from the operating budget and \$1,260,000 from this line item.

Before the expenditure of State Surplus Materials Revolving Fund receipts in excess of \$2,399,800 in FY 2015, the Department of Administration was required to report the intended use of monies to the JLBC. In March 2015, ADOA reported that an additional \$560,000 from the State Surplus Materials Revolving Fund was required to reimburse agencies for the sale of surplus materials in FY 2015. *(Please see footnote 4 for more information.)*

The FY 2016 budget removed the \$(560,000) adjustment since ADOA has not yet notified JLBC of needing additional resources for the budget year.

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

Southwest Defense Contracts

The budget includes \$25,000 from the General Fund in FY 2016 for Southwest Defense Contracts. This amount is unchanged from FY 2015.

This line item is for the 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 5 for more information.)*

Additional Legislation

Electronic Transaction Report

The FY 2016 Government BRB (Laws 2015, Chapter 12) as permanent law, eliminates the annual electronic transaction reporting requirement pursuant to A.R.S. § 35-142.

Statute required agencies that accept credit cards as payment for services to report to the Governor, ADOA, and the JLBC annually by October 1 on the number of transactions, the number of electronic transactions, the total dollar amount of transactions processed, the total dollar amount on any discount fee, the total dollar amount of any processing fee, and the total dollar amount of any convenience fee charged, deducted or paid for the transaction. Further, if the percentage of electronic transactions comprised more than 30% of the total amount of transactions processed, then the agency also submitted a cost-benefit report, including costs of convenience fees, the amount of revenue generated and any realized cost savings. Given that electronic transactions are now more generally cost-effective than non-electronic transactions, this reporting requirement became outdated and was deleted.

Other Issues

This section includes information on the following topics:

- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayments
- General Accounting Office

Automation Projects

The budget includes \$11,352,000 transferred from the General Fund and Other Funds to the Automation Projects Fund in FY 2016 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The budget includes \$2,383,000 from the Automation Projects Fund in FY 2016 for the final year of a 4-year project to replace the state’s financial and accounting system.

ASET Initiatives

The budget includes \$9,475,000 from the Automation Projects Fund in FY 2016 to fund personnel and information technology projects 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 2014, HITF had a balance of \$325,600,000. Recent budgets have included a number of measures to reduce the HITF balance. Information on HITF receipts, expenses and fund balances are displayed in *Table 1*.

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.

The FY 2016 General Appropriation Act requires a \$100,000,000 transfer from the HITF balance to the General Fund in FY 2017.

In addition to one-time fund transfers, an ongoing method to reduce the HITF balance is to adjust the employer/employee contribution strategy. Because of the recent trend of HITF receipts exceeding annual costs, the FY 2016 budget included \$(16,200,000) of General Fund savings related to reducing state agency health insurance contribution rates.

The revised contribution rates would become effective January 1, 2016. As such, the FY 2016 budget only included partial-year savings related to HITF changes. When effective for an entire year, the HITF rate reduction is expect to generate \$(32,400,000) of General Fund savings in FY 2017.

Health Insurance Trust Fund Balance Sheet		
(\$ in millions)		
	Estimated FY 2015	Estimated FY 2016
Beginning Balance	\$325.6	\$321.6
Receipts	\$839.7	\$814.9
Expenses	\$781.5	\$823.6
FFP Repayment ^{1/}	8.3	6.1
Transfer	<u>53.9</u>	<u>0.0</u>
Net Expenses	<u>\$843.7</u>	<u>\$829.7</u>
HITF Ending Balance	\$321.6	\$306.8
^{1/} FY 2016 amount represents an estimated payment not yet authorized by the Legislature for the transfer of monies made in FY 2015.		

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. Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from the Special Employee Health Insurance Trust Fund to repay the federal government for debts incurred due to HITF transfers to the General Fund in FY 2014. While not yet authorized by the Legislature, the FY 2016 FFP repayment for FY 2015 HITF transfers is estimated to be \$6,089,100. This repayment may alternatively be financed from the Risk Management Revolving Fund.

Despite the FY 2016 and previous balance reduction measures, HITF is expected to have a fund balance of \$306.8 million at the end of FY 2016. *(Please see the Health Insurance section in the General Provisions section for information on current state employee health insurance rates.)*

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.

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 over \$50 million.

Table 2 depicts actual balance, revenue, and expenditure information for FY 2014 as well as the estimated amounts for FY 2015 and FY 2016. 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 2015 and FY 2016, which are closer to historical spending levels. Under these adjusted estimates, the balance would be \$81.3 million in FY 2015 and \$82.4 million in FY 2016.

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 Department of Public Safety (DPS) disaster recovery planning, DPS-Capitol Police salaries, and Arizona Navigable Streams Adjudication Commission litigation costs. The latter no longer receives a Risk Management appropriation.

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 and FY 2015. *(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 the past. The federal government contributed to several of those funds. For example, the state's Risk

Table 2

Risk Management Revolving Fund
(\$ in thousands)

	Actual FY 2014	Estimated FY 2015	Estimated FY 2016
Beginning Balance	65,378.5	75,691.8	66,263.8
Revenues	<u>106,910.2</u>	<u>103,706.2</u>	<u>103,706.2</u>
Total Funds Available	172,288.7	179,398.0	169,970.0
Expenditures			
ADOA	74,500.1	91,995.4	92,022.9
Federal Repayment	<u>10,742.0</u>	<u>10,462.1</u>	-
ADOA Subtotal	<u>85,242.1</u>	<u>102,457.5</u>	<u>92,022.9</u>
Other Agencies	9,770.0	10,676.7	10,655.0
Legislative Transfers	661.8	-	-
Admin Adjustment	<u>923.0</u>	-	-
Total Expenditures	<u>96,596.9</u>	<u>113,134.2</u>	<u>102,677.9</u>
Ending Balance	75,691.8	66,263.8	67,292.1
Spending Adjustment ^{1/}	-	(15,000.0)	(15,000.0)
Adjusted Expenditures		98,134.2	87,677.9
Revised Balance	75,691.8	81,263.8	97,292.1

^{1/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance.

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 HITF.

FY 2014

In FY 2014, the federal government charged the state \$10,742,000 for fund transfers and disallowed spending of federal monies in FY 2013. 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 Information Technology Fund.
- \$50,000 for FY 2013 disallowed costs relating to Attorney General legal services.
- \$97,000 for interest on FY 2013 fund transfers.

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.

FY 2015

The FY 2016 General Appropriation Act included an FY 2015 supplemental appropriation of \$10,462,100 from

the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$4,336,000 related to FY 2014 fund transfers from 9 different funds.
- \$207,400 for disallowed costs related to statewide IT charges in FY 2014.
- \$5,918,700 for excess retained earnings in 4 different funds in FY 2014.

In addition, Laws 2015, Chapter 8 included an FY 2015 supplemental appropriation of \$8,302,800 from HITF to repay the federal government for their proportional share of HITF transfers to the General Fund in FY 2014. This amount does not include excess retained earnings or fund transfers from HITF in FY 2015 and beyond. *(Please see the Federal Transfer Payment line item above for more information.)*

Arizona Financial Information System

The General Accounting Office (GAO) is responsible for managing the statewide accounting system, AFIS, which includes functional and technical support, software licensing and maintenance, hosted production, and disaster recovery.

ADOA's FY 2015 AFIS operating budget totaled \$3.8 million including \$2.0 million from the General Fund and \$1.7 million from the non-appropriated AFIS II Fund (see *Table 3*). In FY 2015, the budget funded 25 FTE Positions responsible for managing AFIS including 22 FTE Positions responsible for functional support including help desk support, training, and software application management, and statewide reporting. The remaining 3 FTE Positions were ASET staff responsible for application management.

The FY 2016 budget includes \$1.5 million from the General Fund and \$7.6 million for a new AFIS line item funded from the new AFIS Collections Fund. The AFIS II Fund is no longer active. Along with the 25 existing FTE Positions in the operating budget, this line item funds operating costs of AFIS, including an additional 28 new FTE Positions. Of the new FTE Positions, 15 FTE Positions are for GAO functional support and 13 FTE Positions are for ASET technical support. Additional duties include support for increased usage of the system, overseeing the contracted IT services, and further in-house development of AFIS. In addition to funding staff, the AFIS line item includes \$990,000 for professional and outside services, \$1,200,000 for software licensing, and \$544,000 for third-party hosted mainframe charges.

Table 3

AFIS Resources

	<u>FY 2015</u>	<u>FY 2016</u>
<i>Fund Source</i>		
General Fund	\$2,039,700	\$1,463,700
AFIS II	1,725,100	NA
AFIS Collections Fund	NA	7,567,800
Total Revenues	\$3,764,800	\$9,031,500
<i>FTE Positions</i>		
<i>Operating Budget</i>		
AFIS Functional Support (GAO)	22.0	22.0
AFIS Technical Support (ASET)	3.0	3.0
Total Operating Budget FTE Positions	25.0	25.0
<i>AFIS Line Item</i>		
AFIS II	0.0	NA
AFIS Functional Support (GAO)	NA	15.0
AFIS Technical Support (ASET)	NA	13.0
Total AFIS Line Item FTE Positions	0.0	28.0
Total FTE Positions	25.0	53.0

NA = Not Applicable