

Arizona Department of Administration

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	504.1	532.1	535.1 ^{1/}
Personal Services	28,487,200	29,667,600	29,972,800
Employee Related Expenditures	10,986,600	11,719,000	11,642,500
Professional and Outside Services	8,964,500	8,635,300	8,637,500
Travel - In State	205,500	225,600	228,000
Travel - Out of State	14,600	29,000	25,000
Other Operating Expenditures	30,606,500	36,755,500	36,927,400
Equipment	2,404,100	3,704,400	3,714,400
OPERATING SUBTOTAL	81,669,000	90,736,400	91,147,600 ^{2/3/}
SPECIAL LINE ITEMS			
Facilities Management			
Utilities	7,026,500	8,275,600	8,275,600
Financial Services			
Arizona Financial Information System	0	7,567,800	9,406,300
County Attorney Immigration Enforcement	231,400	0	0
Named Claimants	184,600	9,500	0
Information Technology Services			
Statewide Information Security and Privacy Office	735,600	872,200	870,900 ^{4/}
Telecommunications Infrastructure	0	0	175,000
Risk Management			
Federal Transfer Payment	10,462,100	9,781,700 ^{5/}	0
Risk Management Administrative Expenses	3,757,500	8,747,200	8,747,200
Risk Management Losses and Premiums	31,368,800	44,362,200	45,372,700
Workers' Compensation Losses and Premiums	25,604,300	31,159,200	31,159,200
Support Services			
Government Transformation Office	0	1,000,000	1,500,000
State Surplus Property Sales Proceeds	1,761,700	1,260,000	1,810,000 ^{6/}
Other			
Southwest Defense Contracts	25,000	25,000	25,000 ^{7/}
AGENCY TOTAL	162,826,500	203,796,800	198,489,500 ^{8/}
FUND SOURCES			
General Fund	11,307,200	10,377,300	10,264,500
<u>Other Appropriated Funds</u>			
Air Quality Fund	578,600	927,300	927,300 ^{9/}
Arizona Financial Information System Collections Fund	0	7,567,800	9,406,300
Automation Operations Fund	21,251,400	23,964,100	23,937,600 ^{10/}
Capital Outlay Stabilization Fund	15,902,900	18,083,200	18,069,600
Corrections Fund	352,600	571,200	570,400
Federal Surplus Materials Revolving Fund	51,200	464,600	464,500
Information Technology Fund	2,791,600	2,942,100	3,436,000
Motor Vehicle Pool Revolving Fund	7,123,100	10,148,800	10,151,300 ^{11/12/}
Personnel Division Fund	12,878,300	12,885,100	12,857,900
Risk Management Revolving Fund	78,016,900	95,646,100	93,046,300
Special Employee Health Insurance Trust Fund	4,094,800	11,429,900	5,256,100
Special Services Revolving Fund	0	0	592,200
State Surplus Materials Revolving Fund	2,770,500	2,397,900	2,947,000 ^{6/}
State Web Portal Fund	3,940,800	4,543,000	4,542,400

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
Telecommunications Fund	1,766,600	1,848,400	2,020,100
SUBTOTAL - Other Appropriated Funds	151,519,300	193,419,500	188,225,000
SUBTOTAL - Appropriated Funds	162,826,500	203,796,800	198,489,500
Other Non-Appropriated Funds	990,263,500	984,697,800	1,012,832,300
Federal Funds	3,710,900	8,766,100	5,978,500
TOTAL - ALL SOURCES	1,156,800,900	1,197,260,700	1,217,300,300

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 \$91,147,600 and 504.1 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

	FY 2017
General Fund	\$8,613,800
Air Quality Fund	927,300
Automation Operations Fund	23,937,600
Capital Outlay Stabilization Fund (COSF)	10,419,700
Corrections Fund	570,400
Federal Surplus Materials Revolving Fund	464,500

Information Technology Fund	2,065,100
Motor Vehicle Pool Revolving Fund	10,151,300
Personnel Division Fund	12,857,900
Risk Management Revolving Fund	7,767,200
Special Employee Health Insurance Trust Fund	5,256,100
Special Services Revolving Fund	592,200
State Surplus Materials Revolving Fund	1,137,000
State Web Portal Fund	4,542,400
Telecommunications Fund	1,845,100

These amounts fund the following adjustments:

- 1/ Includes 31 OF FTE Positions funded from Special Line Items in FY 2017.
- 2/ The appropriation includes \$500,000 from the state General Fund for additional resources at the State Procurement Office. (General Appropriation Act footnote)
- 3/ On or before October 1, 2016, 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)
- 4/ On or before October 1, 2016, the department shall submit a report on the structure, allocation and fund sources for all information technology and automation project oversight FTE Positions within the department. (General Appropriation Act footnote)
- 5/ 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 have been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 6/ All State Surplus Materials Revolving Fund monies received by the Department of Administration in excess of the \$2,947,000 in FY 2017 are appropriated to the department. Before the expenditure of State Surplus Materials Revolving Fund monies in excess of \$2,947,000 in FY 2017, 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)
- 7/ 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)
- 8/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 9/ The amounts appropriated for the State Employee Transportation Service Subsidy shall be used for up to a 50% subsidy of charges payable for public 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)
- 10/ The appropriation from the Automation Operations Fund established by A.R.S. § 41-711 is an estimate representing all monies, including balance forward, revenues and transfers during FY 2017. 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 monies in excess of \$23,937,600 in FY 2017, 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)
- 11/ It is the intent of the Legislature that the department not replace vehicles until they have an average of 80,000 miles or more. (General Appropriation Act footnote)
- 12/ On or before August 1, 2017, the department shall submit a report for review by the Joint Legislative Budget Committee on the maintenance savings achieved by replacing vehicles with an average of 80,000 miles. (General Appropriation Act footnote)

Procurement Funding

The budget includes an increase of \$500,000 from the General Fund in FY 2017 for additional resources at the State Procurement Office (SPO).

State Boards' Office/Central Services Bureau Consolidation

The budget includes an increase of \$540,700 and 3 FTE Positions from the Special Services Revolving Fund in FY 2017 for operating costs previously included in the State Board's Office. The FY 2017 budget eliminates the State Boards' Office as a separate budget unit.

State Boards' Office/Central Services Support to Additional Agencies

The budget includes an increase of \$50,000 from the Special Services Revolving Fund in FY 2017 to allow the Central Services Bureau to provide accounting services to additional agencies.

Office of Economic Opportunity

The budget includes a decrease of \$(568,700) from the General Fund in FY 2017. Laws 2016, Chapter 372, establishes the Office of Economic Opportunity and transfers the operating costs for the Office of Employment and Population Statistics and the Governor's Regulatory Review Council to the Office. *(Please see the Office of Economic Opportunity section for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(110,800) in FY 2017 for statewide adjustments. This amount consists of:

General Fund	(44,100)
Automation Operations Fund	(26,500)
Capital Outlay Stabilization Fund (COSF)	(13,200)
Corrections Fund	(800)
Federal Surplus Materials Revolving Fund	(100)
Information Technology Fund	(4,800)
Motor Vehicle Pool Revolving Fund	2,500
Personnel Division Fund	(27,200)
Risk Management Revolving Fund	12,900
Special Employee Health Insurance Trust Fund	(6,200)
Special Services Revolving Fund	1,500
State Surplus Materials Revolving Fund	(900)
State Web Portal Fund	(600)
Telecommunications Fund	(3,300)

(Please see the Agency Detail and Allocations section.)

In addition, a General Appropriation Act footnote requires ADOA to submit a report for review by the JLBC on the maintenance savings achieved by replacing vehicles with an average of 80,000 miles on or before August 1, 2017.

The FY 2017 budget allows the department to replace vehicles with an average of 80,000 miles. Previously, the department replaced vehicles with an average of 120,000 miles.

Facilities Management

Utilities

The budget includes \$8,275,600 in FY 2017 for Utilities. This amount consists of:

General Fund	625,700
COSF	7,649,900

These amounts are unchanged from FY 2016.

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 \$9,406,300 and 28 FTE Positions in FY 2017 from the Arizona Financial Information System Collections Fund for the Arizona Financial Information System (AFIS). These amounts fund the following adjustments:

AFIS Maintenance and Upgrade Charges

The budget includes an increase of \$1,838,500 from the AFIS Collections Fund in FY 2017 to fund increased operating costs associated with the state's accounting system.

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

Named Claimants

The budget includes no funding in FY 2017 for Named Claimants. This amount funds the following adjustments:

One-Time Named Claimants Funding

The budget includes a decrease of \$(9,427.68) in FY 2017 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

COSF	(375.13)
Risk Management Revolving Fund	(9,052.55)

The state must annually settle legitimate unpaid claims against received goods and services. Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2016, Chapter 45 appropriates \$375.13 from COSF and \$9,052.55 from the Risk Management Revolving Fund in FY 2016 to the department for prior year unpaid claims.

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.

(Please see Named Claimants discussion in Other Issues.)

Information Technology Services

Telecommunications Infrastructure

The budget includes \$175,000 from the Telecommunications Fund in FY 2017 for one-time telecommunication infrastructure costs. This amount funds the following adjustments:

Analog Communication Services Maintenance

The budget includes a one-time increase of \$100,000 from the Telecommunications Fund in FY 2017 to replace the uninterruptable power supply for analog communication devices at the Capitol Mall.

Capitol Mall Repair and Expansion

The budget includes a one-time increase of \$75,000 from the Telecommunications Fund in FY 2017 to repair and expand fiber on the Capitol Mall.

Statewide Information Security and Privacy Office

The budget includes \$870,900 and 3 FTE Positions from the Information Technology Fund in FY 2017 for the Statewide Information Security and Privacy Office (SISPO). These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(1,300) from the Information Technology Fund in FY 2017 for statewide adjustments.

In addition, a General Appropriation Act footnote requires ADOA to submit a report to the JLBC on the structure, allocation, and fund source for all information technology

and automation projects oversight FTE Positions within the department on or before October 1, 2016.

As part of the Arizona Strategic Enterprise Technology (ASET) Office, 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 2017 for one-time payments to the federal government. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(9,781,700) in FY 2017 to eliminate FY 2016 payments to the federal government for disallowed costs and other charges; any FY 2017 payment is not finalized. This amount consists of:

Risk Management Revolving Fund	(3,614,100)
Special Employee Health Insurance Trust Fund	(6,167,600)

Laws 2016, Chapter 117, Section 110 included an FY 2016 supplemental appropriation of \$3,614,100 from the Risk Management Revolving Fund. This amount consisted of:

- \$3,444,900 related to FY 2015 fund transfers from the Risk Management Revolving Fund and Automation Operations Fund.
- \$169,200 for disallowed costs related to statewide IT charges in FY 2015.

In addition, Laws 2016, Chapter 117 included an FY 2016 supplemental appropriation of \$6,167,600 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 2015.

Laws 2016, Chapter 117 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.

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 2017 for Risk Management Administrative Expenses. This amount is unchanged from FY 2016.

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 \$45,372,700 from the Risk Management Revolving Fund in FY 2017 for Risk Management Losses and Premiums. This amount funds the following adjustments:

Adjust Insurance Claims Related Expenditures

The budget includes an increase of \$1,010,500 from the Risk Management Revolving Fund in FY 2017 for an estimated increase in Risk Management Losses and Premiums. This increase is the result of an independent actuarial review of the department's claim 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 2017 for Workers' Compensation Losses and Premiums. This amount is unchanged from FY 2016.

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 \$1,500,000 in FY 2017 for the Government Transformation Office (GTO). This amount consists of:

General Fund	1,000,000
Information Technology Fund	500,000

This amount funds the following adjustments:

One-Time GTO Funding

The budget includes \$500,000 from the Information Technology Fund in FY 2017 for additional resources at the GTO.

This line item funds the GTO, which assists state agencies in designing and implementing process improvements. The office publishes an annual report on its accomplishments.

State Surplus Property Sales Proceeds

The budget includes \$1,810,000 from the State Surplus Materials Revolving Fund in FY 2017 for State Surplus Property Sales Proceeds. This amount funds the following adjustments:

Expenditure Alignment

The budget includes an increase of \$550,000 from the State Surplus Materials Revolving Fund in FY 2017 to align the appropriation with actual spending.

Before the expenditure of State Surplus Materials Revolving Fund monies in excess of the appropriation, General Appropriation Act footnotes have required the department to report the intended use of monies to the JLBC. In recent years, ADOA has reported that additional expenditures of approximately \$550,000 are required to reimburse agencies for the sale of surplus materials.

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 2017 for Southwest Defense Contracts. This amount is unchanged from FY 2016.

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.

Other Issues

This section includes information on the following topics:

- FY 2016 Supplemental
- Additional Legislation
- Automation Projects
- Health Insurance Trust Fund
- Risk Management Revolving Fund
- Federal Financial Participation Repayment
- Arizona Financial Information System
- Public Safety Communications
- Proposition 123

FY 2016 Supplemental

Laws 2016, Chapter 45 provides \$27,796.26 in FY 2016 supplemental funding to various agencies for Named Claimants. This amount consists of:

	<u>Claim Amount</u>
<u>General Fund</u>	
Department of Corrections	\$ 6,948.18
Department of Health Services	157.00
Department of Revenue	5,323.09
Department of Weights and Measures	1,318.12
<u>Other Appropriated Funds</u>	
Department of Administration	
COSF	375.13
Risk Management Revolving Fund	9,052.55
Department of Health Services	
Emergency Medical Services Operating Fund	908.04
Newborn Screening program Fund	227.15
Arizona Department of Transportation	
State Highway Fund	<u>3,487.00</u>
TOTAL	\$27,796.26

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.

Additional Legislation

Agency Consolidation

The Agency Consolidation Budget Reconciliation Bill (BRB) (Laws 2016, Chapter 128) merges the State Boards' Office with the Arizona Department of Administration (ADOA) Central Services Bureau. It also designates the ADOA Central Services Bureau allocation in the Special Services Revolving Fund as an appropriated fund source.

GAO Administrative Adjustments

The FY 2017 Budget Procedures BRB (Laws 2016, Chapter 127), requires ADOA to report to the JLBC Staff by November 1 of each year any exemptions granted under A.R.S § 35-191A for orders for goods and/or services made in one fiscal year and received beyond August 30 of the following fiscal year.

Sale of State Property

The FY 2017 Budget Procedures BRB requires ADOA to report to the JLBC within 30 days of the sale of the state property located at Doubletree Road regarding the terms and final sale price. Currently, the Arizona Medical Board, Arizona Board of Osteopathic Examiners, and the Arizona State Veterinary Medical Examining Board reside at the Doubletree Road location. If the building is sold, these agencies could be relocated to the 1740 West Adams building currently used by the Department of Health Services.

The FY 2017 Capital Outlay Bill (Laws 2016, Chapter 126) appropriates \$4,200,000 for the renovation of the 1740 West Adams building. The Capital Outlay Bill requires ADOA to report to the JCCR on tenant relocation including any planned agency consolidations, and commitments of new tenants, timeline, and costs. In addition, the FY 2017 General Appropriation Act appropriates \$576,800 from Other Appropriated Funds for one-time costs associated with the agency relocations. The JLBC Staff will determine the allocation of these funds once the report is finalized. *(Please see the ADOA Capital narrative for more details.)*

Automation Projects

The budget includes \$25,598,400 transferred from the General Fund and Other Funds to the Automation Projects

Fund in FY 2017 for automation and information technology projects at ADOA. This amount consists of:

AFIS Replacement

The budget includes no funding from the Automation Projects Fund in FY 2017 for the replacement of AFIS. FY 2016 was the final year of a 4-year project to replace the state’s financial and accounting system, which went live on July 3, 2015.

e-Procurement System Replacement

The budget includes \$12,000,000 from the Automation Projects Fund in FY 2017 for the replacement of the state’s e-procurement system.

ASET Initiatives

The budget includes \$13,598,400 from the Automation Projects Fund in FY 2017 to continue 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 2015, HITF had a balance of \$339,800,000. 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 2016 General Appropriation Act (Laws 2015, Chapter 8, Section 136) required a \$100,000,000 transfer from the HITF balance to the General Fund in FY 2017. The FY 2017 General Appropriation Act amends Laws 2015, Chapter 8, Section 136, by decreasing the transfer to \$78,900,000.

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 became 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 FY 2016 budget assumed

	Estimated FY 2016	Estimated FY 2017
Beginning Balance	\$339.8	\$323.9
Receipts	\$836.9	\$798.3
Expenses	\$842.6	\$859.3
FFP Repayment ^{2/}	6.1	0
Transfer	<u>4.1</u>	<u>78.9</u>
Net Expenses	\$852.8	\$938.2
HITF Ending Balance	\$323.9	\$184.0

^{1/} ADOA has updated the HITF estimates since the FY 2017 Baseline was published.
^{2/} An FY 2017 amount has not yet been authorized by the Legislature for the transfer of monies made in FY 2016.

the HITF rate reduction would generate \$(32,400,000) of General Fund savings in FY 2017.

However, some adjustments to the Universities’ reductions were necessary to align the reductions with actual enrollment and fund sourcing. The FY 2017 budget restores General Fund monies to the Universities by \$4,076,000 as an FY 2016 supplemental appropriation. To make the issue budget neutral from a General Fund perspective, the FY 2017 budget transfers \$4,076,000 from HITF to the General Fund. The changes to the University reduction also affects the budgeted savings in FY 2017 when the HITF rate changes become effective for a full year. The HITF rate reduction will generate only \$(24,247,400) of General Fund savings in FY 2017.

(Please see the HITF section in the Arizona Board of Regents narrative for more information.)

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 2016, Chapter 117 included a FY 2016 supplemental appropriation of \$6,167,600 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 2015. While not yet authorized by the Legislature, the FY 2017 FFP repayment for the FY 2016 HITF transfers of \$4,076,000 is estimated to be \$460,600. This repayment may alternatively be financed from the Risk Management Revolving Fund.

Due to the FY 2016 and previous balance reduction measures, HITF is expected to have a fund balance of \$184.0 million at the end of FY 2017. ADOA's reserve strategy consists of maintaining a balance of approximately 20% of annual expenses, or approximately \$171.9 million. *(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 2015 as well as the estimated amounts for FY 2016 and FY 2017. 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 2016 and FY 2017, which are closer to historical spending levels. Under these adjusted estimates, the balance would be \$94.6 million in FY 2016 and \$107.0 million in FY 2017.

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, the FY 2017 budget includes an FY 2016 supplemental appropriation of \$2,867,600 from the Risk Management Revolving fund to the Department of Child Safety.

Table 2

Risk Management Revolving Fund (\$ in thousands)

	Actual FY 2015	Estimated FY 2016	Estimated FY 2017
Beginning Balance	71,415.7	87,605.6	79,582.4
Revenues	<u>105,189.4</u>	<u>101,145.5</u>	<u>101,145.5</u>
Total Funds Available	176,605.1	188,751.1	180,727.9
Expenditures			
ADOA	67,554.8	92,032.0	93,046.3
Federal Repayment	<u>10,462.1</u>	<u>3,614.1</u>	-
ADOA Subtotal	78,016.9	95,646.1	93,046.3
Other Agencies ^{1/}	10,045.2	13,522.6	10,655.0
Admin Adjustment	<u>937.4</u>	-	-
Total Expenditures	88,999.5	109,168.7	103,701.3
Ending Balance	87,605.6	79,582.4	77,026.6
Spending Adjustment ^{2/}	-	(15,000.0)	(15,000.0)
Adjusted Expenditures		94,168.7	88,701.3
Revised Balance	87,605.6	94,582.4	107,026.6

^{1/} Includes \$2,867,600 appropriated as an FY 2016 supplemental appropriation to the Department of Child Safety.

^{2/} Would reduce projected expenditures closer to historical spending levels which would increase the revised ending balance.

In addition to funding other agencies, the balance was used to refund a portion of certain fund balances to the federal government in FY 2015 and FY 2016. *(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 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 2015

The FY 2016 General Appropriation Act included a 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.

FY 2016

The FY 2017 General Appropriation Act included an FY 2016 supplemental appropriation of \$3,614,100 from the Risk Management Revolving Fund to repay the federal government for restricted uses. This amount consists of:

- \$3,444,900 related to FY 2015 fund transfers from the Risk Management Fund and Automation Operations Fund.
- \$169,200 for disallowed costs related to statewide IT charges in FY 2015.

In addition, Laws 2016, Chapter 117 included an FY 2016 supplemental appropriation of \$6,167,600 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 2015. This amount does not include excess retained earnings or fund transfers from HITF in FY 2016 and beyond. *(Please see the Federal Transfer Payment line item above for 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.

The FY 2016 budget included \$1.5 million from the General Fund and \$7.6 million for a new AFIS line item funded from the new AFIS Collections Fund. 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, including 15 FTE Positions for GAO functional support and 13 FTE Positions for ASET technical support. Additional duties included support for increased usage of the system, overseeing the contracted IT services, and further in-house development of AFIS.

The FY 2017 budget includes an increase of \$1,838,500 in the AFIS line time for increased AIFS operating costs. The FY 2017 AFIS line item totals \$9,406,300. ADOA has entered into a 10-year agreement with the system's vendor to provide ongoing maintenance and support, previously provided by agency staff. The agreement annualizes operating and upgrade costs by including 2 scheduled upgrades.

Public Safety Communications

In August 2013, Public Safety Communication Advisory Commission, under ADOA, received a \$2,900,000 federal grant. 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. In FY 2015, the commission was sunset and ADOA ASET Office took responsibility to administer the grant.

A FY 2016 General Appropriation Act footnote required 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. Through September 2015, ADOA reported spending \$1,065,300 of the \$2,900,000 grant.

A FY 2017 General Appropriation Act footnote also requires ADOA to submit a report by October 1, 2016 to the JLBC for 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.

Proposition 123

As a beneficiary of the Arizona State Land Trust, the Arizona Department of Administration (ADOA) receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into a “permanent fund,” pursuant to Article X, Section 7 of the Arizona Constitution.

In addition to lease revenues, ADOA received \$185,200 in monies distributed by the Treasurer from its permanent fund in FY 2015.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ADOA will receive \$361,500 in additional revenue from the Treasurer’s distributions in FY 2016 and a total of \$619,800 from the Treasurer’s distributions in FY 2017. Since ADOA’s land funds are subject to appropriation, ADOA will require an additional appropriation before expending any of the new revenues generated by Proposition 123. *(Please see the Department of Education - Endowment Earnings section for more information.)*