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# **Department of Administration**

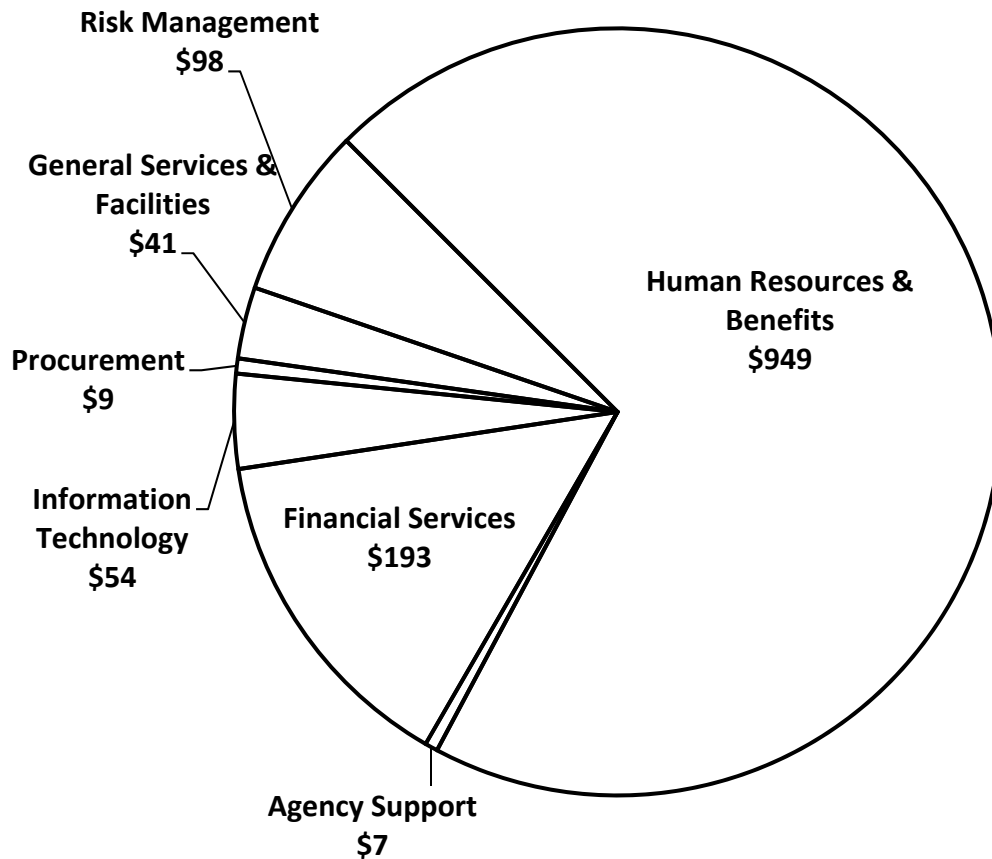
**February 15, 2017**  
**Education Subcommittee**

**JLBC**

# Department of Administration

## - Operating Budget Total Funds by Function

\$ in Millions



### Agency Support

- Director's Office
- Government Transformation Office

### Procurement

- State Procurement Office

### Financial Services

- Government Accounting Office

### General Services & Facilities

- Facilities Management
- Construction Services
- Motor Pool
- Mail Courier
- State Surplus Property

### Information Technology

- IT Services
- IT Oversight

### Risk Management

- Self-Insured Plan
- Workers Compensation

### Human Resources and Benefits

- Human Resources Office
- Health Insurance and Benefits

FY 2017 Total = \$1,217.3 M



# Department of Administration

## - Total FY 2018 Baseline Funding

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\$ in Millions

Operating Budget

General Fund \$ 10.3

Appropriated Funds

Risk Management Revolving Fund 93.0

Automation Operations Fund 23.9

Other Appropriated Funds 70.7

Non-Appropriated Funds

Health Insurance Trust Fund 922.4

Other Non-Appropriated Funds 181.8

Subtotal \$ 1,302.1

# Executive Initiative: Deposit \$30 M to the Health Insurance Fund

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## Fund Balance (\$ in millions)

	Fiscal Year		
	<u>2016</u>	<u>2017</u>	<u>2018</u>
Beginning Balance	339.8	314.8	142.7
Receipts	837.9	806.9	819.6
Expenses	858.8	900.1	932.5
Transfers Out	<u>4.1</u>	<u>78.9</u>	<u>0.0</u>
<i>Net Expenses</i>	<i>867.0</i>	<i>979.0</i>	<i>932.5</i>
<b>Ending Balance</b>	<b>314.8</b>	<b>142.7</b>	<b>29.8</b>

- Current revenue from premium contributions:
  - 12% employee
  - 41% GF
  - 47% non-GF
- Expenses based on Executive's estimates

# Health Insurance Trust Fund

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- ❑ Projected '18 balance: \$29.8 M
- ❑ ADOA preferred reserve strategy: \$163.9 M
  - Twice the Incurred But Not Received (IBNR) claims
  - IBNR is based on the monthly pattern of incurred and paid claims
  - IBNR is approximately 10% of medical expenses
  - As a practical matter, a “twice IBNR” policy may be more relevant for private sector health plans.
- ❑ Executive proposes \$60 M one-time deposit in HITF consisting of \$30 M from the General Fund and \$30 M from Other Funds.
- ❑ The Executive’s projected structural shortfall of \$(113) M suggests the \$30 M may not be one-time.

# Department of Administration

## - JLBC Baseline – Executive Comparison of Other Fund Issues

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	\$In M	
	<u>Other Fund</u>	
	<u>JLBC</u>	<u>Exec</u>
Government Transformation Office		
- Eliminate 1-time funding	(0.5)	(0.5)
- Increase operating funding to \$2.0 M; 5 FTE	0.0	1.0
Risk Management Adjustments		
- Increase deductible on claims	0.0	(3.5)
- Adjust Risk Management line items	0.0	2.6
Other		
- Remove 1-time Telecommunication Funding	(0.2)	(0.2)
- Central Services Bureau Staffing Transfer	0.0	0.2
- '17 Supplemental Federal Financial Participation	0.0	15.3

# Executive's Risk Management Proposals

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- ❑ Increase Agency Deductible
  - Increase deductible from \$100 to \$2,500 for agencies with expenditures above \$1.0 M. Requires JLBC review.
  - Decrease Risk Management payouts by \$(3.5) M as cost shifted to agencies
  - Reduce state agency premiums to pay deductible
- ❑ Increase Risk Management line items by \$2.6 M to align appropriations with actuarial projections:
  - Legal Defense Costs \$0.3 M
  - Losses and Premiums \$1.0 M
  - Workers Compensation \$1.3 M

# '17 Supplemental Federal Financial Participation

- Must pay the Federal Government back for prior fund sweeps

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- ❑ Restricted uses of Federal Funds can trigger a Federal Financial Participation Payment:
  - Fund Transfers
  - Disallowed Costs
  - Excess Balances
- ❑ Executive's \$15.3 M FY 17 supplemental would fund payments for both '16 and '17 charges.
- ❑ Legislature historically appropriates payment on a 1-year basis consistent with Federal Government billing practices.
  - '16 charges due in '17 total \$3.0 M



# ADOA- Automation Projects Fund

## - JLBC Baseline – Executive Comparison of Major Funding Changes

	\$ in M	
	<u>JLBC</u>	<u>Exec</u>
<input type="checkbox"/> ADOA IT Projects	1.5	21.9
<input type="checkbox"/> DCS IT (Exec: now \$10.4 M, all GF)	5.0	15.4
<input type="checkbox"/> DOR IT Infrastructure (\$7.0 M GF)	0.0	10.0
<input type="checkbox"/> DPS Microwave Backbone	0.0	2.5
<input type="checkbox"/> DPS Justice Information System	0.0	2.3
<input type="checkbox"/> DEQ e-Licensing	0.0	3.2
<input type="checkbox"/> Industrial Commission Claims Processing	0.0	1.0
<input type="checkbox"/> Statewide e-Licensing	0.0	TBD

Projects are funded via transfers from the General Fund and Other Agency Funds

# Executive ADOA IT Initiatives

## - Ongoing Projects

	\$ in M
	<u>Other Fund</u>
Project Management	1.5
- Total of 15 FTEs who oversee the Project Investment Justification (PIJ) process. (Included in JLBC Baseline)	
State Data Center (SDC) Relocation	3.4
- Phase 2 of ADOA's project to move the SDC to a private third-party site.	
Enterprise Architecture	1.2
- Funds internal ADOA costs for IT policy development and training.	
Digital/E-Government	1.4
- To expand platform services and update agency websites.	

# Executive ADOA IT Initiatives

- \$8.5 M for Security, Privacy, and Risk projects

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	\$ in M
	<u>Other Fund</u>
Statewide Security Enhancements	2.1
<ul style="list-style-type: none"><li>- Funds ongoing operations of security projects previously implemented</li><li>- Supplements \$875,000 in the Statewide Information Security and Privacy Office line item</li></ul>	
New Statewide Security Projects	6.4
<ul style="list-style-type: none"><li>- Funds new security initiatives (\$1.1 M) and implementation of 16 cyber security controls at the 38 cabinet agencies (\$4.8 M).</li><li>- Ongoing operating costs of \$4.4 M in '19. The cost allocation to the agencies has not yet been determined.</li><li>- Funds a study of cyber security insurance (\$440,000). Study will determine premiums, self-insured fund balance, and excess insurance in case of a breach of state data.</li></ul>	

# Executive ADOA IT Initiatives

## - Other Statewide IT System Projects

	\$ in M <u>Other Fund</u>
Personnel Data System (HRIS) Replacement	6.0
<ul style="list-style-type: none"><li>- Funds Phase 1 of the project.<ul style="list-style-type: none"><li>• \$5 M from lapsed IT project funds</li><li>• \$1 M transferred Cooperative Purchasing Fund (non-appropriated)</li></ul></li><li>- Total costs of the project and ongoing operating costs are unknown.</li></ul>	
Statewide e-Licensing	TBD
<ul style="list-style-type: none"><li>- RFP currently being reviewed to develop statewide e-licensing system for regulatory agencies.</li><li>- Executive recommends transferring recommended appropriations in '18 for thirteen 90/10 boards.</li></ul>	
e-Procurement Replacement Update	TBD
<ul style="list-style-type: none"><li>- Cancelled RFP due to lack of sufficient responses. Actual development cost and operating cost not yet determined.</li></ul>	

# ADOA

## - Website Links

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### JLBC Baseline –

[Arizona Department of Administration](#)  
[ADOA - Automation Projects Fund](#)

### Executive Budget –

[Arizona Department of Administration](#)