

## GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the General Appropriation Act (Laws 2003, Chapter 262) provides direction with regard to several general provisions.

### General Provisions

**Health Insurance Adjustments** — Section 111 appropriates \$9,700,000 of additional Other Appropriated Fund (OF) monies to address the increased costs of the renewed state employee health insurance contract in FY 2004. Section 111 does not appropriate additional General Fund (GF) monies for these increased costs. Agencies will be required to pay for these increased GF costs from their FY 2004 base appropriation. The total cost of employer premiums to state agencies is shown in *Table 1*. Due to the availability of \$10,000,000 in prior year balances in the Health Insurance Trust Fund, state agency GF charges will actually be \$165,414,800 for health insurance.

On October 1, 2003, the state will renew the contract with the current health insurance carrier statewide. The single vendor will continue to provide 3 plan options in Maricopa and Pima Counties, including a Health Maintenance Organization (HMO) plan, a Point of Service (POS) plan, and a Preferred Provider Organization (PPO) plan. All plans will continue at the same cost to the employee. In the other rural counties, the vendor will provide a PPO plan only. However, the rural PPO option is provided at the same employee price as the HMO plan in the urban counties. State employee and employer premiums under the old and new contract are shown in *Table 2*.

For most General Fund agencies, the health insurance contribution is the amount designated in the Appropriations Report. These monies are “swept” from agency General Fund budgets at the beginning of the year and are not charged to agencies on a payroll by payroll basis. The exceptions are the Department of Economic Security and the Universities, who are not “swept”, but instead pay the actual costs incurred for health insurance.

For FY 2003, ADOA renegotiated the state employee dental insurance contract. Both EDS and Metlife will have increases in premiums. Those adjustments are reflected in *Table 3*. No additional funds were appropriated for dental insurance premiums, so the additional premium amounts will be reflected in increased employee contributions.

*Table 1*  
**FY 2004 State Costs for Employer Premiums**

	<u>General Fund</u>	<u>Other Fund</u>	<u>Non-Approp.</u>
Health	175,414,800	59,881,800	59,881,800
Dental	<u>8,065,400</u>	<u>2,827,300</u>	<u>2,827,300</u>
<b>Total</b>	<b>\$183,480,200</b>	<b>\$62,709,100</b>	<b>\$62,709,100</b>

*Table 2*  
**State Employee versus Employer Contributions**

<u>Average Monthly Premium</u>	<u>State Employee Contribution</u>		<u>Employer Contribution</u>	
	<u>10/1/02 Contract</u>	<u>10/1/03 Contract</u>	<u>10/1/02 Contract</u>	<u>10/1/03 Contract</u>
Maricopa County:				
HMO Single	\$25.00	\$25.00	\$244.98	273.33
HMO Family	125.00	125.00	549.92	620.78
POS Single	118.16	118.16	244.98	332.14
POS Family	357.01	357.91	549.92	767.84
PPO Single	197.29	197.29	279.98	356.35
PPO Family	558.26	558.26	634.92	825.84
Pima County:				
HMO Single	25.00	25.00	233.22	264.21
HMO Family	125.00	125.00	520.52	597.98
POS Single	83.44	83.44	233.22	309.23
POS Family	271.10	271.10	520.52	710.54
PPO Single	700.10	200.10	268.22	343.16
PPO Family	565.26	565.26	605.52	792.84
Other Rural Counties: <sup>1/</sup>				
PPO Single	25.00	25.00	408.32	477.66
PPO Family	125.00	125.00	958.32	1,131.66

<sup>1/</sup> Employer share in the 10/1/03 contract for Rural, Out of State, Out of Network equals \$609.00 for single coverage and \$1,459.98 for family coverage.

The Public Finances Omnibus Reconciliation Bill (ORB) (Laws 2003, Chapter 263) includes a “trigger” provision that would allocate additional monies to agencies for health and retirement rate increases based on increases in judicial collection plan receipts. *(For additional details, please see the Judiciary narrative.)*

**Retirement Increase** — Section 111 appropriates \$15,200,000 of additional Other Appropriated Fund (OF) monies to address the increased costs of the new retirement rates for state employees in FY 2004. Section 111 does not appropriate additional General Fund (GF) monies for these increased costs. Agencies will be required to pay for these increased GF costs from their FY 2004 appropriation. The new rates are reflected in *Table 3*.

As noted above, the Public Finances ORB (Laws 2003, Chapter 263) includes a “trigger” provision that would allocate additional monies to agencies for health and retirement rate increases based on increases in judicial collection plan receipts. *(For additional details, please see the Judiciary narrative.)*

**AFIS II Pro Rata** — Section 111 appropriates \$1,000,000 of additional Other Appropriated Fund (OF) monies to address the costs of operation of the Arizona Financial Information System (also known as “AFIS II”) in FY 2004.

**Attorney General Pro Rata** — Section 111 appropriates \$1,600,000 of additional Other Appropriated Fund (OF) monies to fund a portion of Attorney General services in FY 2004. The Governor vetoed the provision that established the pro rata charge and the language that directed the JLBC Staff to allocate the \$1,600,000 appropriation to state agencies’ to cover the increased costs from the new assessment. The Governor, however, did not veto the appropriation.

**Expenditure Reporting** — Section 112 states that it is the intent of the Legislature that all budget units receiving Lump Sum appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used to implement budget reform legislation if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor’s Office of Strategic Planning and Budgeting (OSPB).

**FTE Position Reporting** — Section 113 states that the FTE Positions contained in the General Appropriation Act are subject to appropriation. The section directs the Director of ADOA to account for the utilization of all appropriated FTE Positions, excluding FTE Positions in the Department of Economic Security, Universities, and Department of Environmental Quality. The Director shall submit reports for FY 2004 by February 1, 2004 for the first half of the fiscal year and by August 1, 2004 for the entire fiscal year to the Director of the JLBC. The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Department of Economic Security, Universities, and Department of Environmental Quality shall report to the Director of the JLBC in a manner comparable to the ADOA report.

**Filled FTE Position Reporting** — Section 114 states that by September 1, 2003 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated FTE Positions by Fund Source. The report shall reflect the number of filled, appropriated FTE Positions as of August 1, 2003.

<b>Dental Insurance State Employee vs. Employer Contributions</b>								
		<b>10/01-9/02</b>			<b>10/02-9/03</b>		<b>Employee</b>	<b>State</b>
	<b>Total</b>	<b>Employee</b>	<b>State</b>	<b>Total</b>	<b>Employee</b>	<b>State</b>	<b>Dollar</b>	<b>Dollar</b>
<b>Single</b>							<b>Increase</b>	<b>Increase</b>
EDS	\$ 8.92	\$ 2.74	\$ 6.18	\$ 9.28	\$ 3.10	\$ 6.18	\$ 0.36	\$ 0.00
Fortis	10.86	4.68	6.18	10.86	4.68	6.18	.00	.00
Delta	23.46	8.06	15.40	23.46	8.06	15.40	.00	.00
Metlife	26.08	10.68	15.40	27.50	12.10	15.40	1.42	.00
<b>Family</b>								
EDS	\$ 25.90	\$ 14.40	\$ 11.50	\$ 26.94	\$ 15.44	\$11.50	1.04	.00
Fortis	29.52	18.02	11.50	29.52	18.02	11.50	.00	.00
Delta	75.92	32.42	43.50	75.92	32.42	43.50	.00	.00
Metlife	81.48	37.98	43.50	85.96	42.46	43.50	5.52	.00

**Transfer Authority** — Section 115 requires ADOA to provide a monthly report to the JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

**JLBC Review** — Section 118 states that for purposes of the General Appropriation Act, “review by the Joint Legislative Budget Committee” means a review by a vote of a majority of a quorum of the members.

**Other Overall Issues**

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2004 budget reflects the adoption of technical assumptions. In most circumstances, the individual agency descriptions do not include a discussion of these technical issues, although all agency narratives will discuss which technical issues affect an agency’s appropriation. Any dollar changes to agency budgets resulting from statewide technical adjustments are delineated in the tables following this section.

**Employer Contribution Rates** — *Table 4* provides an estimate of employer contribution rates during FY 2004 and FY 2005. Except for life insurance, rates are calculated as a percent of Personal Services. Agency budgets were adjusted to fund the higher employer contribution rates, except for General Fund increases in the state retirement systems and the Personnel Division pro rata assessment.

**State Retirement Systems** — On July 1, 2003, retirement contributions increased for the 4 state retirement systems: the Arizona State Retirement System (ASRS), the Public Safety Retirement System (PSPRS), the Corrections Officers Retirement Plan (CORP), and the Elected Officials Retirement Plan (EORP). For PSPRS, CORP and EORP only the employer contribution rate increased, as the employee contribution rates which are set in statute remain unchanged for FY 2004. For ASRS, both the employer and employee rates increased for FY 2004.

Increases in the employer contribution rates for each of the 4 systems is expected to have a total General Fund cost to state agencies of approximately \$33 million in FY 2004 above FY 2003. The largest portion of this increase is in ASRS where the employer contribution rate increased from 2.49% to 5.70%. Slightly more than half of the ASRS increase is due to benefit increases enacted in prior legislative sessions, while slightly less than half is due to lower than projected investment returns.

**Personnel Division Pro Rata** — Pro rata charges will remain at 1.04% in FY 2004 as provided by the Public Finances Omnibus Reconciliation Bill (ORB) (Laws 2003, Chapter 263). The Personnel Division pro rata assessment is a rate that is charged against agencies’ Personal Services to defray the cost of the ADOA Personnel Division. Agencies are budgeted at .90% of their Personal Services amount.

**Workers’ Compensation** — The rates vary by individual agency, but are identical for FY 2004 and FY 2005. Agency budgets include the Workers’ Compensation rates recommended by the ADOA Risk Management section. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers’ Compensation losses.

**Rental, Lease-Purchase, and Privatized Lease-to-Own (PLTO) Payments** — The Other Operating Expenditures line of individual agency budgets includes rental charges, lease-purchase, and PLTO payments for certain buildings. Rent charges in state-owned space are continued at \$15.50 per square foot in FY 2004 and FY 2005. Chapter 262 maintains the FY 2003 rent amount for all state agencies occupying state-owned space with one exception: agencies who were located in lease-purchased space which was converted to state-owned space in FY 2003 received funding to increase their rent base from \$13.50 per square foot to \$15.00 per square foot. Although ADOA will charge agencies \$15.50 per square foot for state-owned space, agencies’ General Fund budgets continue to be funded at \$15.00 per square foot. Changes in private lease rental charges are addressed as policy issues in individual agency budgets.

**Risk Management** — The Other Operating Expenditures line of individual agency budgets includes the Risk Management rates billed by the ADOA Risk Management section. Monies are deposited into the Risk Management

<b>Category</b>	<b>FY 04 &amp; FY 05 Rate</b>
Life Insurance (per FTE Position)	\$40.08
Unemployment Insurance	0.20%
Personnel Division Services	1.04%
Disability (Non-State Retirement)	0.36%
Information Technology Planning	0.15%
Retiree Accumulated Sick Leave	0.40%
<b>Federal Insurance Contributions Act (FICA)</b>	
Social Security (salary ≤ \$84,900)	6.20%
Medicare (no salary cap)	1.45%
<b>State Retirement Systems</b>	
State Retirement (includes Disability)	5.70%
Correctional Officers – DOC	4.01
Correctional Offices – DJC	5.08
Elected Officials	0.00
Liquor License Investigators	7.39
Department of Public Safety *	3.31*
Northern Arizona University Police	4.56
University of Arizona Police	8.80
Arizona State University Police	3.36
Game and Fish Department	16.27
Attorney General Investigators	7.46
ADOA Capitol Police	9/00
Parks Police	13.31

\* In addition, the 5% member contribution is paid by the state.

Fund for payment of costs associated with Risk Management losses. Agency budgets were adjusted to reflect changes in Risk Management charges from FY 2003.

**Biennial Budgeting** — In biennial budgets, an agency receives a separate appropriation for each of 2 fiscal years. For “90/10” regulatory agencies, the first year (FY 2004) appropriations do not lapse until the end of the second year (FY 2005). Except where specifically noted, the appropriations for all other agencies lapse at the end of each fiscal year.

Although A.R.S. § 35-113 requires most agencies to submit a biennial budget request, Chapter 262 limits biennial budget appropriations to agencies funded entirely with Other Appropriated Funds or General Fund agencies with less than \$1,000,000 appropriation. *(Please see the Budget Cycle Section for further details on issues related to the state’s budgeting process.)*

**Budget Format** — The format governs how an agency's appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

**Lump Sum** — The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review. Within this format, any programs or Special Line Items may be listed separately.

**Modified Lump Sum** — The appropriation for each fiscal year consists of at least 3 lines: Personal Services, Employee Related Expenditures (ERE), and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, pursuant to A.R.S. § 35-173, an agency must seek approval of the JLBC before moving any funds into or out of the Personal Services and ERE line items. Any other transfers would require approval by ADOA, but not the Committee.

**Detailed Line Item** — The appropriation for each fiscal year consists of each line item listed in the Appropriations Report, including Professional and Outside Services, Travel, Other Operating Expenditures, Equipment, Food, and any Special Line Items. The same rules govern Personal Services and ERE transfers as noted in the Modified Lump Sum description. The appropriation requires the agency to seek ADOA approval before transferring monies between all other line items.

**Performance Measures** — As part of program budgeting, agencies are required to track their performance on several

program indicators. The Appropriations Report includes key performance measures in each agency or cost center narrative. For each measure, the General Appropriation Act provides a target result for FY 2004 (and FY 2005, if applicable).

Two performances measures appear in almost all agencies — administrative costs as a percentage of the overall budget and customer satisfaction. The type of customer satisfaction measure, however, may vary by agency. In addition, most “90/10” regulatory agencies have a common set of measures.