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 2004, Chapter 275) provides direction with regard to several general provisions.

General Provisions

Salary Adjustments — Section 73 appropriates $26,500,000 General Fund (GF) and $13,000,000 of additional Other Appropriated Fund (OF) monies for FY 2005 salary adjustments. These adjustments are intended to increase full-time state employee salaries by $1,000 effective July 1, 2004. Employees working less than full-time shall receive a prorated increase. Section 73 also provides a $2,000 salary increase to registered nurses, registered nurse supervisors, and licensed practical nurses who provide direct patient care and services in a clinical environment and who are state employees of the following departments: Corrections, Juvenile Corrections, Economic Security, Health Services, Pioneers' Home, and Veterans' Services. This increase is in lieu of the $1,000 increase for other state employees.

Section 73 also states that university employees, Department of Public Safety sworn officers, board and commission members who are paid on a per diem basis, agency heads who are appointed for a fixed term of office are not eligible for these salary adjustments. University employees and Department of Public Safety (DPS) sworn officers received separate salary adjustments as part of their main budget. The Universities' total adjustment was based on $1,000 per full-time equivalent employee but will be allocated by the Arizona Board of Regents. Sworn DPS officers will receive salary increases of $3,800 each. *(Please see the Arizona Board of Regents and DPS narratives for further details on these adjustments.)*

Section 73 requires the JLBC Staff to determine and the Arizona Department of Administration (ADOA) to allocate to each agency or department an amount sufficient to increase the annual salary level. *(Please see Crosswalk table in this section for the allocation by agency.)*

Health Insurance Adjustments — Section 73 appropriates $10,000,000 of additional Other Appropriated Fund (OF) monies to address the increased costs of state employee health insurance in FY 2005. This increase has 2 components. The first component, totaling $1,500,000, will go to biennial agencies who first received a FY 2005 budget in Laws 2003, Chapter 262 to cover the ongoing costs of FY 2004 health insurance increases. General Fund agencies were required to absorb the increased FY 2004 General Fund costs into their budgets in FY 2005. These agencies did receive $5,389,300 through judicial collections to offset some of these costs in FY 2004, but will not receive these in FY 2005. *(Please see the FY 2004 General Fund Adjustments discussion for further details.)*

The second component, totaling $8,500,000, will go to Other Fund agencies for FY 2005 increases in health insurance employer premiums. General Fund agencies will be required to absorb the increased FY 2005 costs into their budget. There are, however, two separate "triggers" that, should General Fund revenues exceed a specified amount, would contribute up to $23,000,000 toward the estimated $31 million total General Fund cost to state agencies of increased FY 2005 health insurance employer premiums. *(Please see the Budget Detail section at the front of this report for further details on "triggered" funding.)*

The total cost of employer premiums to state agencies in FY 2005 is $365 million as shown in *Table 1.* Overall health insurance employer premiums will increase by $21 million above FY 2004, but the total cost to state agencies will increase by $31 million above FY 2004. This is because FY 2004 charges to state agencies were reduced due to the availability of $10 million in prior year balances in the Health Insurance Trust Fund that are not available in FY 2005.

Table 1

FY 2005 State Costs for Employer Premiums

	General Fund	Other Fund	Non-Approp.
Health	196,102,100	66,783,900	87,134,000
Dental	8,065,400	2,827,300	3,675,500
Total	**$204,167,500**	**$69,611,200**	**$90,809,500**

On October 1, 2004, the state will begin to self-insure state employee health benefits. Under self-insurance, the state will assume the risk of providing health coverage to state employees and will pay health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings. Previously, the state contracted with an outside vendor that bore the risks of employee health claims.

Employees will have choice between an Exclusive Provider Organization (EPO, which is the self-insured equivalent of an HMO) and a Preferred Provider Organization (PPO). Employees in Maricopa, Gila, Pima, Pinal, and Santa Cruz counties will have a choice between 3 EPO and 1 PPO options. They will also be able to choose between a "non-integrated" plan, in which different companies provide the medical network, third-party administrator, and utilization review components of health coverage, and an "integrated" plan, in which 1 company provides all three functions. Employees will pay $10 per

Table 2

Health Insurance
State Employee vs. Employer Contributions

	State Employee Contribution		Employer Contribution	
	10/1/03 Contract	10/1/04 Contract [1/]	10/1/03 Contract	10/1/04 Contract
Average Monthly Premium				
Maricopa/Gila/Pinal Counties: [2/]				
HMO/EPO Single	$25.00	$25.00	$273.33	312.00
HMO/EPO Family	125.00	125.00	620.78	718.00
POS Single	118.16	NA	332.14	NA
POS Family	357.91	NA	767.84	NA
PPO Single	197.29	140.00	356.35	419.00
PPO Family	558.26	390.00	825.84	980.00
Pima/Santa Cruz Counties: [2/]				
HMO/EPO Single	25.00	25.00	264.21	302.00
HMO/EPO Family	125.00	125.00	597.98	692.00
POS Single	83.44	NA	309.23	NA
POS Family	271.10	NA	710.54	NA
PPO Single	200.10	140.00	343.16	376.00
PPO Family	565.26	390.00	792.84	859.00
Other Rural Counties:				
HMO/EPO Single	NA	25.00	NA	420.00
HMO/EPO Family	NA	125.00	NA	988.00
PPO Single	25.00	140.00	477.66	443.00
PPO Family	125.00	390.00	1,131.66	1,068.00

1/ Represents rates for non-integrated option. Employees will pay $10.00 more per month if they select an integrated option. Integrated option is available in Maricopa, Gila, Pinal, Pima, and Santa Cruz Counties.
2/ Gila, Pinal, and Santa Cruz Counties paid "Other Rural Counties" rates in 10/1/03 contract.

month more for an integrated plan than for a non-integrated plan due to the higher administrative costs of the integrated contracts. Employees in all other counties will have a choice between 1 EPO and 1 PPO option, both of which are non-integrated. State employee and employer premiums under the old and new contract are shown in *Table 2*. These premiums are expected to total up to $478 million, depending on how many employees select an integrated provider. This amount consists of $350 million in employer premiums *(see Table 1)* plus $69 million in employee premiums and $59 million in retired employee premiums. This total includes $15 million for the cost of health insurance at Northern Arizona University.

There are small increases in dental insurance premiums that will be borne by state employees. Employee and employer premiums under the old and new contract are shown in *Table 3*.

For most General Fund agencies, the health and dental insurance contribution is the amount designated in the *Appropriations Report*. These monies are transferred or "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 and dental insurance premiums.

Table 3

Dental Insurance
State Employee vs. Employer Contributions

	State Employee Contribution		Employer Contribution	
	10/01/03 Contract	10/01/04 Contract	10/01/03 Contract	10/01/04 Contract
Single				
EDS	$ 3.10	$ 3.54	$ 6.18	$ 6.18
Fortis	4.68	4.68	6.18	6.18
Delta	8.06	12.10	15.40	15.40
Metlife	12.10	12.10	15.40	15.40
Family				
EDS	$ 15.44	$ 16.72	$11.50	$11.50
Fortis	18.02	18.02	11.50	11.50
Delta	32.42	45.90	43.50	43.50
Metlife	42.46	42.46	43.50	43.50

(Please see the Health Insurance Allocations table at the end of this report for these amounts.)

Retirement Increase — Section 73 appropriates $3,000,000 of additional Other Appropriated Fund (OF) monies to biennial agencies to annualize in FY 2005 the costs of new FY 2004 retirement rates for state employees. General Fund agencies were required to absorb the increased FY 2004 costs into their budget and were required to continue doing so in FY 2005.

AFIS II Pro Rata — Section 73 appropriates $100,000 of additional Other Appropriated Fund (OF) monies to biennial agencies to annualize in FY 2005 the costs of operation of the Arizona Financial Information System (also known as "AFIS II").

Expenditure Reporting — Section 74 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 75 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 2005 by February 1, 2005 for the first half of the fiscal year and by August 1, 2005 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 76 states that by October 1, 2004 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 September 1, 2004.

Transfer Authority — Section 77 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.

Interim Reporting Requirements — Section 78 requires the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2004 General Fund ending balance by September 15, 2004 and a preliminary estimate of the FY 2005 General Fund ending balance by September 15, 2005. Based on this information, JLBC Staff shall report to JLBC by October 15 of 2004 and 2005 as to whether that fiscal year's revenues and ending balance are expected to change by more than $50,000,000 from the budgeted projections.

Homeland Security Reporting — Section 79 requires the Governor's Office of Homeland Security to report to the JLBC by August 1, 2004 on the allocation and expenditure plans for homeland security grant monies in FY 2004 and FY 2005. The report shall provide allocation and expenditure information by year, by activity and by entity, including state and local entities.

Federal Revenue Maximization Reporting — Section 80 requires the Governor's Office of Strategic Planning and Budgeting (OSPB) to report to the JLBC by July 1, 2004 and the beginning of each subsequent calendar quarter in FY 2005 on the status of the federal revenue maximization initiative. The report shall include at least an update on contracts awarded, a summary of projects, and the potential savings from each project.

JLBC Review — Section 83 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.

Expenditure Authority — Section 84 states that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

Other Overall Issues

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2005 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the General Appropriation Act. In most circumstances, the individual agency descriptions do not include a discussion of these technical issues. Any dollar changes to agency budgets resulting from statewide technical adjustments are delineated in the tables at the end of this section.

Employer Contribution Rates — *Table 4* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2005. These rates may be different from actual funded charges (e.g., the Social

Security FICA maximum may increase.) Except for life insurance, rates are calculated as a percent of Personal Services.

Table 4

Employer Contribution Rates

Category	FY 05 Rate
Life Insurance (per FTE Position)	$40.08
Unemployment Insurance	0.20%
Personnel Division Services	0.90%
Disability (Non-State Retirement)	0.36%
Information Technology Planning	0.15%
Retiree Accumulated Sick Leave	0.40%
Federal Insurance Contributions Act (FICA)	
Social Security (salary # $84,900)	6.20%
Medicare (no salary cap)	1.45%
State Retirement Systems	
State Retirement (includes Disability)	5.70%
Correctional Officers – DOC	4.01
Correctional Offices – DJC	5.08
Elected Officials	6.00
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.

State Retirement Systems — Retirement contributions 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 -- are calculated once every 2 years. Rates for the 4 retirement systems are unchanged from FY 2004.

Personnel Division Pro Rata — Pro rata charges will remain at 1.04% in FY 2005 as set in statute. The Personnel Division pro rata assessment 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 unchanged from FY 2004. 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 2005. 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; Other Fund budgets are funded at $15.50 per square foot. Changes in private lease rental charges are addressed as policy issues in individual agency budgets.

Chapter 275 also addresses changes in lease payments for lease-purchase and PLTO properties. Chapter 275 adjusts agencies' FY 2005 Other Fund budgets for changes in lease payments. It also adjusts agencies' FY 2005 General Fund budgets downward if their lease payments decrease in FY 2005 but generally requires agencies to absorb increased General Fund lease payments. *(Please see the Capital Section of this report for more information.)*

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 Fund for payment of costs associated with Risk Management losses. Risk Management charges are unchanged from FY 2004. *(Please see pages 391-392 of the FY 2004 Appropriations Report for these charges.)*

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.

A.R.S. § 35-113 requires most agencies to submit a biennial budget request. The FY 2004 General Appropriation Act, however, appropriated a biennial budget only to agencies solely funded from Other Appropriated Funds and General Fund agencies with appropriations of less than $1,000,000. As a result, all other agencies, including some agencies defined as "biennial" according to statute, submitted a FY 2005 budget request. The FY 2005 General Appropriation Act appropriates annual budgets to these agencies. *(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 2005.

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.