

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 2005, Chapter 286) provides direction with regard to several general provisions.

General Provisions

Salary Adjustments — Section 107 appropriates \$26,992,200 General Fund (GF) and \$10,723,400 of additional Other Appropriated Fund (OF) monies for FY 2006 salary adjustments. These adjustments are intended to increase full-time state employee salaries by 1.7% effective July 2, 2005. Although this increase was intended to offset the employee's share of an equivalent 1.7% increase in the contribution rate for Arizona State Retirement System (ASRS) employees, employees (except for those noted below) in all retirement systems will receive this increase. The increases shall apply to less-than-full-time employees on a prorated basis.

Section 107 also appropriates \$14,102,100 GF for FY 2006 salary adjustments of \$1,410 per officer effective July 1, 2005 to correctional officers in the Arizona Departments of Corrections (ADC) and Juvenile Corrections (DJC). This increase is in lieu of the 1.7% statewide adjustment.

Section 107 also appropriates \$184,600 GF and \$1,076,600 OF for FY 2006 salary adjustments for Department of Public Safety (DPS) sworn officers. Section 107 directs DPS to combine monies in Section 107 with salary monies added within DPS' base budget for salary adjustments for sworn officers in lieu of the 1.7% statewide adjustment. DPS shall determine the amount per officer.

Section 107 also appropriates \$1,346,400 GF and \$1,189,500 OF for FY 2006 salary adjustments for assistant attorney generals. Section 107 directs the Attorney General to determine the adjustment for each attorney general; the adjustment is in addition to the 1.7% statewide adjustment.

Section 107 also states that board and commission members who are paid on a per diem basis and agency

heads who are appointed for a fixed term of office are not eligible for these salary adjustments. *(Please see the ADC, DJC, and DPS narratives for further details on these adjustments.)*

Section 107 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.)*

Finally, Section 106 appropriates \$941,600 to the Judiciary from the General Fund in FY 2007 for judicial salary increases effective January 1, 2007. *(Please see the Judiciary narrative for details on these increases.)*

Health Insurance Adjustments — Section 107 appropriates \$18,000,000 GF and \$9,500,000 OF monies to address the increased costs of state employee health insurance in FY 2006. The additional monies will be used to offset expected increases in health insurance costs.

The total cost of health and dental employer premiums to state agencies in FY 2006 is \$392 million as shown in *Table 1*. Overall employer premiums from appropriated and non-appropriated funds will increase by \$27 million above FY 2005. This amount includes an \$(8) million reduction associated with the elimination of some vacant FTE Positions. *(Please see Vacant FTE Position Reduction discussion below.)*

Health — In FY 2006, the state will continue to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays 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 have a 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

	<u>General Fund</u>	<u>Other Fund</u>	<u>Non-Approp.</u>	<u>Total Employer</u>	<u>Employee Premiums</u>	<u>Retiree Premiums</u>	<u>Total</u>
Health	206,448,800	76,126,600	95,000,000	377,575,400	69,000,000	59,000,000	505,575,400
Dental	<u>7,729,200</u>	<u>2,832,900</u>	<u>3,675,500</u>	<u>14,237,600</u>	N/A	N/A	<u>14,237,600</u>
Total	\$214,178,000	\$78,959,500	\$98,675,500	\$391,813,000	\$69,000,000	\$59,000,000	\$519,813,000

Table 2

**Health Insurance
State Employee vs. Employer Contributions**

	State Employee Contribution 10/1/04 Contract ^{1/}	Employer Contribution 10/1/04 Contract
<u>Average Monthly Premium</u>		
Maricopa/Gila/Pinal Counties ^{1/}		
HMO/EPO Single	\$25.00	312.00
HMO/EPO Family	125.00	718.00
PPO Single	140.00	419.00
PPO Family	390.00	980.00
Pima/Santa Cruz Counties		
HMO/EPO Single	25.00	302.00
HMO/EPO Family	125.00	692.00
PPO Single	140.00	376.00
PPO Family	390.00	859.00
Other Rural Counties		
HMO/EPO Single	25.00	420.00
HMO/EPO Family	125.00	988.00
PPO Single	140.00	443.00
PPO Family	390.00	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.

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 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. As of July 8, 2005, we do not know if employee premiums will change in the new contract. State employee and employer premiums under the old contract are shown in *Table 2*. Assuming no change in employee premiums or a change in a number of employees choosing health insurance, these premiums are expected to be \$506 million, depending on how many employees select an integrated provider. This amount consists of \$378 million in employer premiums (*see Table 1*) plus \$69 million in

employee premiums and \$59 million in retired employee premiums. The \$506 million total includes \$15 million for the cost of health insurance at Northern Arizona University.

Dental — As of July 8, 2005, we do not know if employee premiums for dental coverage will change in the new contract. Employee and employer premiums under the old 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 10/01/04 Contract	Employer Contribution 10/01/04 Contract
<u>Single</u>		
EDS	\$ 3.54	\$ 6.18
Fortis	4.68	6.18
Delta	12.10	15.40
Metlife	12.10	15.40
<u>Family</u>		
EDS	\$ 16.72	\$11.50
Fortis	18.02	11.50
Delta	45.90	43.50
Metlife	42.46	43.50

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

Retirement Increase — Section 107 appropriates \$22,800,000 GF and \$14,400,000 OF for the employer share of FY 2006 retirement increases. The new rates are reflected in *Table 4*.

Expenditure Reporting — Section 108 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 109 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 2006 by February 1, 2006 for the first half of the fiscal year and by August 1, 2006 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 110 states that by October 1, 2005 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, 2005.

Transfer Authority — Section 111 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 112 requires the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2005 General Fund ending balance by September 15, 2005 and a preliminary estimate of the FY 2006 General Fund ending balance by September 15, 2006. Based on this information, JLBC

Staff shall report to JLBC by October 15 of 2005 and 2006 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.

Federal Revenue Maximization Reporting — Section 113 requires the Governor's Office of Strategic Planning and Budgeting (OSPB) to report to the JLBC by July 1, 2005 and the beginning of each subsequent calendar quarter in FY 2006 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.

Revenue Reporting; Conditional Appropriations — Section 114 requires the JLBC Director and the OSPB to jointly notify the Governor, the President of the Senate, and the Speaker of the House of Representatives by July 31, 2005 on whether FY 2005 General Fund revenue, excluding the beginning balance, exceeded the FY 2005 forecast and if so, by how much. Section 114 as passed by the Legislature appropriated any excess amount to the Budget Stabilization Fund. The Governor vetoed this appropriation provision; the reporting requirement remains.

Section 114 also requires the JLBC Director and the OSPB to jointly notify the Governor, the President of the Senate, and the Speaker of the House of Representatives by February 10, 2006 on whether actual FY 2006 General Fund revenue through December 31, 2005, excluding the beginning balance, exceeded the aggregate monthly forecast for FY 2006 through December 31, 2005 and if so, by how much. Any excess amount is appropriated to the Budget Stabilization Fund.

Section 114 requires the JLBC Director and the OSPB to jointly notify the Governor, the President of the Senate, and the Speaker of the House of Representatives by July 31, 2006 on whether FY 2006 General Fund revenue, for the entire fiscal year, excluding the beginning balance, exceeded the FY 2006 forecast and if so, by how much. Any excess amount, less amounts appropriated to the Budget Stabilization Fund pursuant to the February 10, 2006 report, is appropriated to the Budget Stabilization Fund.

Expenditure Authority — Section 117 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.

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.

Statewide Standard Changes

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2006 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the General Appropriation Act. These statewide adjustment amounts are mentioned first in any relevant agency narrative, but in most circumstances do not have additional discussion. The statewide adjustment figures include salary adjustments in Personal Services and adjustments for changes in Employer Related Expenditures (including but not limited to retirement and health insurance increases), building charges, and Risk Management. *(Please see the Crosswalks later in this section for health insurance, retirement, and salary changes by fund in individual agencies.)*

Employee Related Expenditures

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — Table 4 provides a list of budgeted state employer contribution rates for state employee benefits during FY 2006. 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.

Life Insurance — \$36.72 per employee per year, a decrease from \$40.08 per employee per year in FY 2005.

Unemployment Insurance — 0.19% of Personal Services for each agency, a decrease from 0.20% budgeted in FY 2005. Agencies were actually charged 0.22% in FY 2005.

Personnel Division Pro Rata — Pro rata charges will remain at 1.04% in FY 2006 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.

Disability Insurance — For ASRS employees the employer pays 0.50% of Personal Services for disability insurance. For non-ASRS employees the rate is 0.36% of Personal Services. Both rates are unchanged from FY 2005.

Information Technology Planning — 0.15% of Personal Services for each agency, unchanged from the FY 2005 rate. The Government Information Technology Agency budget is funded from an assessment on the payroll of all state agencies.

Table 4
FY 2006 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>	
Life Insurance (per FTE Position)	\$36.72	
Unemployment Insurance	0.19%	
Personnel Division Pro Rata	1.04%	
Disability (Arizona State Retirement System)	0.50%	
Disability (Non-State Retirement System)	0.36%	
Information Technology Planning	0.15%	
Retiree Accumulated Sick Leave	0.40%	
Workers' Compensation	Varies	
<u>Federal Insurance Contributions Act (FICA)</u>		
Social Security (salary max \$87,900)	6.20%	
Medicare (no salary cap)	1.45%	
<u>State Retirement Systems</u>		
	<i>Employee</i>	<i>Employer</i>
<i>Arizona State Retirement System</i>	6.90%	6.90%
<u>Correctional Officers Retirement Plan</u>		
Correctional Officers – DOC	8.50	5.51
Correctional Offices – DJC	8.50	5.56
Elected Officials Retirement Plan	7.00	13.00
University Optional	7.00	7.00
<u>Public Safety Personnel Retirement</u>		
Liquor License Investigators	7.65	7.52
Department of Public Safety *	2.65	19.61
Northern Arizona University Police	7.65	13.00
University of Arizona Police	7.65	13.42
Arizona State University Police	7.65	9.02
Game and Fish Department	7.65	28.99
Attorney General Investigators	7.65	16.59
DEMA Firefighters	7.65	10.93
ADOA Capitol Police	7.65	8.71
Parks Police	7.65	11.12

* 5% of member contribution is paid by the state.

Retiree Accumulated Sick Leave — 0.40% of Personal Services for each agency, unchanged from the FY 2005 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

Workers' Compensation — The rates vary by individual agency and have changed from FY 2005. Agency budgets include the Workers' Compensation rates recommended by the ADOA Risk Management section; the rates are identical for FY 2006 and FY 2007. In fall 2004, ADOA estimated overall workers' compensation contributions to total \$26.3 million in FY 2006 and FY 2007, an increase of \$1.4 million from the \$24.9 million estimated to be paid in FY 2005. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses.

Federal Insurance Contributions Act (FICA) — Social Security taxes are applied at a rate of 6.20% up to \$87,900 of an employee's salary, which is a small increase from the \$84,900 maximum assumed in FY 2005. In addition, Medicare taxes are applied at a rate of 1.45% on the full level of an employee's salary. Both the FICA and Medicare rates are unchanged from FY 2005.

State Retirement Systems — There are 4 state employee 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. In addition, the Universities operate their own defined contribution plan. For PSPRS, CORP, and EORP only the employer contribution rate changed, as the employee contribution rates which are set in statute remain unchanged for FY 2006. For ASRS, both the employer and employee rates increased for FY 2006.

In fall 2004, ASRS calculated that the retirement rate for the ASRS plan would need to increase to 7.75% for both FY 2006 and FY 2007. The State Budget Procedures Budget Reconciliation Bill (Laws 2005, Chapter 331) phased in the increase over two years, requiring the FY 2006 rate to be set at 6.90%. The FY 2007 rate is estimated to be set at 8.6%. Chapter 331 also requires future retirement rates to be set annually instead of biennially.

Other Operating Expenditures

The following items are included in agency's Other Operating Expenditures.

Building 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.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or privatized lease-to-own (PLTO), including changes to those payments. Agencies were required to absorb General Fund increases in these payments. *(Please see the Rent and other Lease-related schedules in the Capital section for more details.)*

Risk Management — Individual agencies are billed for Risk Management charges. Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state. The Risk Management billings vary by individual agency and are based on identical FY 2006 and FY 2007 charges calculated by ADOA. The Departments of Revenue and Transportation are charged their FY 2005 rates. *(Please see the Summary of Risk Management Charges later in this section for these charges.)* The rates will generate total revenues of \$65.4 million yearly. This estimate represents a \$0.2 million total funds decrease from the FY 2005 level.

Other Budget Issues

Federal Fund Maximization Revertments — The budget includes \$(25,000,000) in General Fund savings associated with increased revertments from maximizing federal funds. The budget has included this assumption since FY 2004. The "RevMax" initiative seeks ways to increase federal participation in state programs, thereby increasing General Fund revertments above current levels. The General Appropriation Act requires quarterly reports on this initiative. *(Please see the Federal Revenue Maximization Reporting discussion in the General Provisions section above for more details.)*

Administrative Adjustments — The budget includes \$23,000,000 in General Fund expenditures for administrative adjustments. Administrative adjustments are payments made in the current fiscal year for services rendered in the previous fiscal year. The \$23,000,000 estimate has been used in the budget during the recent past.

Revertments — The budget includes \$(51,169,300) in General Fund savings for revertments. Revertments are unspent appropriations that are returned to its source (in this case, the General Fund). The \$51,169,300 estimate has been used in the budget during the recent past. The adjusted FY 2005 budget had a higher revertment total. The \$(98,169,300) total was \$47.0 million higher than the longstanding estimate and primarily reflected higher-than-expected revertments in the Arizona Department of Education and the Arizona Health Care Cost Containment System.

Vacant FTE Position Reduction — In general, the General Appropriation Act eliminated unfunded vacant FTE Positions if an agency's vacancy rate exceeded 9%. By reducing the number of vacant FTE Positions above 9%, the budget reduced the amount of money appropriated for health, dental and life insurance by approximately \$(8) million. Each position, whether filled or vacant, receives health insurance funding. These monies are passed through directly to ADOA for statewide insurance costs and their elimination will not affect the amount of monies individual agencies have for other purposes. All other funding for these vacant positions had been previously eliminated. *(Please see footnote #1 on the State Personnel Summary table in the Budget Detail section at the front of the book for more detail.)*

Out of State Travel Reduction — The General Appropriation Act reduced out-of-state travel funding in selected agencies. In general, these reductions reflected 25% of FY 2004 out-of-state travel spending if that spending exceeded \$10,000. The reductions by agency are shown in Table 5.

Table 5

<u>Agency</u>	<u>Amount</u>
Attorney General - Dept. of Law	\$15,200
Corrections, Dept. of	17,200
Education, Dept. of	1,800
Public Safety, Dept. of	18,300
Revenue, Dept. of	50,000
ASU-East	25,000
ASU-Main	377,200
ASU-West	64,700
Northern Arizona University	106,100
UA - Health Sciences Center	24,300
UA - Main	<u>212,600</u>
Total	\$912,400

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 2006) appropriations do not lapse until the end of the second year (FY 2007). Section 116 of the General Appropriation Act states that these agencies that have a “**” next to their FY 2006 appropriation. 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. In general, however, the FY 2006 General Appropriation Act included a biennial budget only for Other Appropriated Fund agencies and small General Fund agencies. As a result, all other agencies, including some agencies defined as “biennial” according to statute, will need to have a budget approved in the 2006 legislative session. (*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 2006 and FY 2007, if applicable.