

# FY 2006 JLBC BUDGET DESCRIPTION OF METHODOLOGY AND MAJOR TECHNICAL ISSUES

## FY 2006 Budget

A.R.S. § 35-101 specifies 17 state agencies as “annual budget units” receiving one annual appropriation; all other agencies are “biennial budget units” receiving biennial appropriations with the dollar amounts itemized for each fiscal year. In this volume, the JLBC is recommending FY 2006 for all annual budget units. The JLBC is also recommending only FY 2006 funding for certain other agencies defined as biennial budget units in statute. The JLBC is recommending FY 2006 and FY 2007 funding for all remaining budget units. The JLBC recommendation also addresses supplemental FY 2005 funding and budget reductions for selected budget units. All FY 2006 and FY 2007 changes are referenced to the FY 2005 appropriated amount.

## Performance Measures

The JLBC has included performance measures for the General Appropriation Act. The measures and their targets follow the “Change in Funding Summary” in the agency narrative in the main budget book. The JLBC recommendation has reduced the number of recommended performance measures focusing on input and output measures in order to emphasize outcome measures. The JLBC has expanded the Comments section following the measures to provide additional detail on the measures. For agencies receiving a recommended biennial appropriation, the target in the “FY 2006 JLBC” column

## Recommended Changes from Prior Year

The JLBC recommendation includes adjustments for the following:

- One-time appropriations (decrease)
- Standard technical changes, including, Employee Related Expenditures (ERE), rent, and Risk Management
- Annualization of any items funded for a partial year (increase)
- Statutory programmatic requirements for schools and the Federal Title XIX population, and
- Limited number of other adjustments

The individual agency descriptions in this volume provide further narrative detail on these changes, which are

explained in a section for each agency budget entitled “Recommended Changes from FY 2005.” In addition, the book provides the line item detail for individual agency budgets. The major technical issues with regard to each of these line items are described below.

*FY 2004 Actual* - This dollar amount represents the FY 2004 expenditures as reported by the agency.

*FY 2005 Estimate* - This dollar amount represents the FY 2005 appropriations as of the end of the 46<sup>th</sup> Legislature’s Second Regular Session. This amount includes any conditional appropriations (“triggers”) in Laws 2004, Chapter 275 made effective because revenue collections exceeded budgeted revenue estimates.

*FY 2006 JLBC* - This dollar amount represents JLBC’s recommended FY 2006 appropriation.

*Full-Time Equivalent (FTE) Positions* - The number of FTE Positions reflects personnel funded from both Personal Services and Special Line Items.

*Other Non-Appropriated and Federal Funds* - Each budget summary includes the level of non-appropriated and Federal Funds available to the agency. The detail for these funds can be found in the “Summary of Funds” section at the end of each individual agency recommendation pages. (For multiple cost center agencies, the “Summary of Funds” is at the end of the Agency Summary.)

## Standard Changes

Standard changes to the budget include changes in Employee Related Expenditures (ERE), rent, and Risk Management. Their treatment in the JLBC recommendation depends on whether the change affects the General Fund or Other Funds.

The JLBC recommendation adjusts agencies’ FY 2006 and FY 2007 General Fund budgets downward if their lease payments or Risk Management payments decrease in those years but requires agencies to absorb increased General Fund lease payments or Risk Management payments. General Fund ERE changes are “zeroed out” for no net change in those agencies’ overall General Fund budgets.

The JLBC recommendation adjusts agencies' FY 2006 and FY 2007 Other Fund budgets for any changes in lease payments, Risk Management payments, or ERE. The FY 2006 and FY 2007 JLBC budget assumes that state agencies will make all payments as required by law or contractual agreement.

These changes in ERE, rent, and Risk Management are found in a "Standard Changes" bullet. The dollar changes for both FY 2006 and FY 2007 are relative to the FY 2005 estimate. The details are as follows:

**ERE Rates** - This category represents changes in the state's cost of employee benefits. The FY 2006 and FY 2007 rates are the same. The ERE calculations are based upon the following assumptions:

*Medical and Dental Insurance* - The JLBC recommends an increase of \$27,000,000 from the General Fund and \$9,500,000 from Other Appropriated Funds in FY 2006 for higher state employer medical and dental insurance costs. This expense will be appropriated as a single statewide amount and disbursed to state agencies during the fiscal year. As a result, funding for the employer share of health insurance in individual agency FY 2006 budget recommendations is the same as in FY 2005. Agencies would continue to absorb \$9 million of General Fund health insurance cost increases unfunded in FY 2005.

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

*Retirement* - The rates for the different retirement systems, as a percent of Personal Services, are shown in the following table. The costs of changing these rates to their FY 2006 and FY 2007 rates are incorporated at a statewide level and not in individual agency recommendations.

The JLBC recommends an increase of \$30,500,000 from the General Fund and \$18,100,000 from Other Appropriated Funds in FY 2006 to pay for the employer share of these retirement rate adjustments.

<b>Retirement Rates</b>		
<u>Retirement System</u>	<u>FY 2005</u>	<u>FY 2006 &amp; FY 2007</u>
State Retirement	5.20	7.75
Correctional Officers - DOC	4.01	5.51
Correctional Officers - DJC	5.08	5.56
Elected Officials	6.00	13.00
Liquor License Investigators	7.39	7.52
Dept. of Public Safety*	8.31	19.61
NAU Police	4.56	13.00
U of A Police	8.80	13.42
ASU Police	3.36	9.02
University Optional	8.00	8.00
Game and Fish	16.27	28.99
Attorney General Investigators	7.46	16.59
DEMA Firefighters	0.00	10.93
Capitol Police	9.00	8.71
Parks Police	13.31	11.12

\* Includes 5% member contribution paid by the state.

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

*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.

*Human Resources Services* - 1.04% of Personal Services for each agency in the ADOA personnel system, unchanged from the FY 2005 rate. The ADOA Human Resources Division budget is funded from an assessment on the payroll of agencies in the ADOA personnel system.

*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.

*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.

*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.

*Workers' Compensation* - The rates vary by individual agency. The JLBC recommendation is based on identical FY 2006 and FY 2007 workers' compensation rates calculated by ADOA.

**Risk Management** - Individual agency budgets' Other Operating Expenditures include the Risk Management charges to be billed by the ADOA Risk Management Program. The 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. The rates are calculated based on actuarial projections, which are prepared biennially for the state. An individual agency's charge may increase or decrease, depending on the particular actuarial experience for that agency and on changes in JLBC Staff's estimate of how the charge should be fund-sourced. Overall, the combined FY 2006 and FY 2007 rates (with the Departments of Revenue and Transportation remaining at their FY 2005 rates) are just 0.3% lower than the FY 2005 rates.

The recommended rates will generate total revenues of \$65.4 million yearly. The estimate represents a \$0.2 million total funds decrease from the prior year level.

**Rent** - The JLBC recommendation maintains the FY 2005 rent amount for all state agencies occupying state-owned space. ADOA will continue to charge agencies \$15.50 per square foot for state-owned space.

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 these payments. As noted above, agencies will be required to absorb General Fund increases in these payments.

**Equipment** - The addition of any new equipment appears as a policy issue in the narrative. The elimination of any one-time equipment (funded in the prior year but not required in the recommendation year) also appears in the policy issue narrative.

**JLBC Recommended Format**

This book includes the JLBC's recommendation for individual agency budget formats. Any changes from the prior year format are noted. The format governs how an agency's appropriation will appear in the General Appropriation Act. The most common budget formats are as follows:

- *Lump Sum by Agency*
- *Lump Sum by Program*
- *Modified Lump Sum by Agency*
- *Detailed Line Item by Agency*

A less detailed format will provide an agency with more discretion in implementing the budget at the expense of legislative oversight for that agency. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds to a purpose different from that originally intended by the Legislature.

Details on each of these common formats are below:

*Lump Sum by Agency* - The appropriation consists of a single dollar amount, thereby allowing the agency to shift funds among line items and programs without further legislative review. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Lump sum appropriation	\$100,000

Within this format, the Legislature will need to determine whether Special Line Items (funds generally granted to entities or individuals outside of state government, or which merit special attention) will be included in the Lump Sum or listed separately.

*Lump Sum by Program* - The appropriation consists of a single dollar amount for each agency program. Agencies must receive Arizona Department of Administration (ADOA) approval prior to shifting monies from one program to another. Any Special Line Items would be listed under the program with which they are associated. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Program A	\$30,000
Program B	30,000
Program C	<u>40,000</u>
Total Appropriations - Agency X	\$100,000

*Modified Lump Sum* - The appropriation consists of at least 3 lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, an agency must seek approval of the Joint Legislative Budget Committee before moving any funds into or out of the Personal Services or ERE line items (A.R.S. § 35-173(e)). In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
All Other Operating Expenditures	<u>25,000</u>
Total Appropriations - Agency X	\$100,000

*Detailed Line Item* - The appropriation consists of each line item listed in this book, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures, and Equipment. Any Special Line Items would be listed separately. While the same rules govern Personal Services/ERE transfers as noted in the Modified Lump Sum description, the detailed line item appropriation requires the agency to seek ADOA approval before transferring monies between any other line items.

recommendations, however, are not included in the agency's current year estimate column in the number table.

In addition to discussions of recommended supplementals, this section may also include other information of general interest.

[Click here to return to the Table of Contents](#)

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
Professional & Outside Services	3,000
Travel - In State	7,500
Travel - Out of State	2,500
Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$100,000

## JLBC Recommended Footnotes

This book includes recommended footnotes. These narrative statements in the General Appropriation Act establish conditions for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program's authorizing law. We have classified footnotes into one of the following categories:

- *Standard Footnotes*
- *New Footnotes*
- *Deletion of Prior Year Footnotes*

Substantive revisions to standard footnotes are shown by displaying new language in "uppercase" style (all capital letters) and deleted language using "strikethrough" markings.

## JLBC Recommended Statutory Changes

This book includes recommended statutory changes required in order to enact the budget. These changes will be introduced in one or more Budget Reconciliation Bills (BRBs).

## Other Issues for Legislative Consideration

*FY 2005 Supplemental Funding* - Recommendations to fund current year (FY 2005) unanticipated costs are included as part of "Other Issues for Legislative Consideration." The amounts associated with these