

## DESCRIPTION OF METHODOLOGY AND MAJOR TECHNICAL ISSUES

### FY 2007 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 2007 funding for all annual budget units. The JLBC is also recommending FY 2007 funding for certain other agencies defined as biennial budget units in statute but which received only FY 2006 funding last year. The JLBC also recommends supplemental FY 2006 and FY 2007 funding and budget reductions for selected budget units. All FY 2006 and FY 2007 changes are referenced to the original FY 2006 and FY 2007 appropriated amount.

### Performance Measures

The JLBC has included performance measures for the General Appropriation Act. The measures, actuals for FY 2003 through FY 2005, and their FY 2007 targets follow the “Change in Funding Summary” in the agency narrative in the main budget book.

#### *JLBC Recommended Footnote*

The JLBC recommends adding a provision to the General Appropriation Act requiring agencies who fail to provide performance measure results in their FY 2008 budget request for any measure in previous General Appropriation Acts to include a report in the request explaining their failure to submit the results.

### Recommended Changes from Prior Year

The JLBC recommendation includes adjustments for the following:

- One-time appropriations (decrease)
- Standard technical changes, including rent
- 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 2006.” 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 2005 Actual* - This dollar amount represents the FY 2005 expenditures as reported by the agency.

*FY 2006 Estimate* - This dollar amount represents the FY 2006 appropriations as of the end of the 47<sup>th</sup> Legislature’s First Regular Session. These amounts include back of the bill adjustments for FY 2006 salary, retirement, and health insurance increases.

*FY 2007 JLBC* - This dollar amount represents JLBC’s FY 2007 baseline spending.

*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’s 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 rent. Their treatment in the JLBC baseline depends on whether the change affects the General Fund or Other Funds.

The JLBC baseline adjusts agencies’ FY 2007 General Fund budgets downward if their lease payments decrease in that year, but typically requires agencies to absorb increased General Fund lease payments.

The JLBC baseline adjusts agencies’ FY 2007 Other Fund budgets for any changes in lease payments. The FY 2007 JLBC baseline assumes that state agencies will make all payments as required by law or contractual agreement.

These changes in rent are found in a “Standard Changes” bullet. Changes in Employee Related Expenditures (ERE) and Risk Management, which would typically also be included in Standard Changes, are omitted because with the exception of statewide adjustments, FY 2007 rates are unchanged from FY 2006. The dollar changes for FY 2007 are relative to the FY 2006 estimate. The details are as follows:

**ERE Rates** - This category typically represents changes in the state’s cost of employee benefits. Rates within individual agency narratives are held constant from FY 2006 to FY 2007; changes to medical insurance and retirement rates will be incorporated on a statewide level.

The ERE calculations are based upon the following assumptions:

**JLBC Recommended Adjustment**

**Medical and Dental Insurance** - The JLBC recommends an increase of \$25,000,000 from the General Fund and \$9,211,300 from Other Appropriated Funds in FY 2007 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 2007 budget recommendations is the same as in FY 2006.

**Life Insurance** - \$36.72 per employee per year. This amount is unchanged from FY 2006.

**JLBC Recommended Adjustment**

**Retirement** - The JLBC recommends an increase of \$23,558,400 from the General Fund and \$12,717,800 from Other Appropriated Funds in FY 2007 to pay for the employer share of retirement rate adjustments. The rates for the different retirement systems, as a percent of Personal Services, are shown in *Table 1*. 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 retirement costs in individual agency FY 2007 budget recommendations is the same as in FY 2006.

| <b>Retirement System</b>                  | <b>Retirement Rates</b> |                |                              |
|---|-------------------------|----------------|------------------------------|
|   | <b>Employer</b>         |                | <b>Employee</b>              |
|   | <b>FY 2006</b>          | <b>FY 2007</b> | <b>FY 2007</b> <sup>1/</sup> |
| <i>Arizona State Retirement System</i>    | 6.90                    | 8.60           | 8.60                         |
| <i>Correctional Officers Ret. Plan</i>    |                         |                |                              |
| Correctional Officers - DOC               | 5.51                    | 7.17           | 8.50                         |
| Correctional Officers - DJC               | 5.56                    | 6.88           | 8.50                         |
| <i>Elected Officials Retirement Plan</i>  | 13.00                   | 17.00          | 7.00                         |
| <i>University Optional</i>                | 7.00                    | 7.00           | 7.00                         |
| <i>Public Safety Personnel Retirement</i> |                         |                |                              |
| Liquor License Investigators              | 7.52                    | 12.38          | 7.65                         |
| Department of Public Safety <sup>2/</sup> | 19.61                   | 28.21          | 2.65                         |
| Northern Arizona University Police        | 13.00                   | 22.50          | 7.65                         |
| University of Arizona Police              | 13.42                   | 17.66          | 7.65                         |
| Arizona State University Police           | 9.02                    | 14.23          | 7.65                         |
| Game and Fish Department                  | 28.99                   | 37.39          | 7.65                         |
| Attorney General Investigators            | 16.59                   | 25.00          | 7.65                         |
| DEMA Firefighters                         | 10.93                   | 10.93          | 7.65                         |
| ADOA Capitol Police                       | 8.71                    | 10.74          | 7.65                         |
| Parks Police                              | 11.12                   | 13.50          | 7.65                         |

<sup>1/</sup> FY 2007 employee rates are unchanged from FY 2006 except for Arizona State Retirement System, which increased from 6.90%.

<sup>2/</sup> 5% of member contribution is 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 2006.

**Federal Insurance Contributions Act (FICA)** - Social Security taxes are budgeted at a rate of 6.20% up to \$90,000 of an employee's salary, up slightly from the FY 2006 budgeted maximum of \$87,900. (The actual cap beginning January 2006 is \$94,200.) 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 percentage rates are unchanged from FY 2006.

**Human Resources Services** - 1.04% of Personal Services for each agency in the Arizona Department of Administration (ADOA) personnel system, unchanged from the FY 2006 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 2006 rate. The Government Information Technology Agency budget is funded from an assessment on the payroll of all state agencies except the Universities.

**Sick Leave** - 0.40% of Personal Services for each agency, unchanged from the FY 2006 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

**Unemployment Insurance** - 0.20% of Personal Services for each agency, unchanged from the 0.20% charged in FY 2006. Agencies were actually budgeted 0.19% in FY 2006.

**Workers' Compensation** - The rates vary by individual agency but are unchanged from the FY 2006 workers' compensation rates calculated by ADOA.

**Attorney General Pro Rata** - Laws 2005, Chapter 300 established a pro rata charge to all non-appropriated and Other Appropriated Funds for non-contracted Attorney General legal services effective in FY 2007.

**JLBC Recommended Adjustment**

The JLBC recommends an increase of \$3,895,800 from the General Fund and \$1,142,000 from Other Appropriated Funds in FY 2007 to pay for these charges. The costs of establishing these charges are incorporated at a statewide level and not in individual agency recommendations. As a result, funding for non-contracted Attorney General legal services in individual agency FY 2007 budget recommendations is the same as in FY 2006.

**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 unchanged from the budgeted FY 2006 charges. The rates will generate total revenues of \$65.4 million yearly.

**Rent** - The JLBC baseline maintains the FY 2006 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 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.

|                                 |              |
|---------------------------------|--------------|
| 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 Footnotes***

In addition to individual agency footnotes, the JLBC recommends several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are all unchanged from FY 2006.

*Expenditure Reporting* - 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.

*FTE Position Reporting* - The FTE Positions in the General Appropriation Act are subject to appropriation. The ADOA Director shall compile a FTE Position utilization report twice in FY 2007 for submission to the JLBC Director; the Department of Economic Security, Universities, and Department of Environmental Quality, exempt from the ADOA report, are to report in a comparable manner.

*Filled FTE Position Reporting* - By October 1, 2006 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.

*Transfer Authority* - ADOA shall provide a monthly report to JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

*Interim Reporting Requirements* - The Executive Branch shall provide to the JLBC a preliminary estimate of the FY 2006 and FY 2007 General Fund ending balances by September 15, 2006 and 2007, respectively. JLBC Staff shall report to JLBC by October 15 of 2006 and 2007 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* - The Governor’s Office of Strategic Planning and Budgeting (OSP) shall report to the JLBC quarterly on the status of the federal revenue maximization initiative.

*Non-Lapsing Appropriations* - The General Appropriation Act will designate certain appropriations with “\*,” meaning that the appropriation is exempt from lapsing. Other appropriations (typically “90/10” regulatory agency

budgets) are designated with a “\*\*,” meaning that the appropriation is exempt from lapsing until June 30, 2007.

*Expenditure Authority* - For the 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* - For the 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.

**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). *Please see the Summary book for a complete listing of recommended statutory changes.*

**Other Issues for Legislative Consideration**

*FY 2006 Supplemental Funding* - Recommendations to fund current year (FY 2006) unanticipated costs for agencies with only a FY 2006 appropriation are included as part of “Other Issues for Legislative Consideration.” The amounts associated with these 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 and discussions of Auditor General Calendar Year 2005 findings with a potential fiscal impact.

**Biennial Agencies**

The JLBC recommends supplementals for a few agencies with FY 2006 and FY 2007 budgets. These agencies do not have separate pages in the book; discussion of these recommended supplementals can be found at the end of the book in the *Biennials Supplementals* section.

***JLBC Recommended Adjustment***

The JLBC recommends an increase of \$1,500,000 from the General Fund and \$4,900,000 from Other Appropriated Funds in FY 2007 to annualize FY 2006 back-of-the-bill adjustments for agencies already with FY 2007 budgets. These adjustments include the 1.7% salary adjustment effective July 2, 2005, the FY 2006 Attorney General’s office salary adjustment, an adjustment to cover the increased costs of FY 2006 state employee health insurance, and the adjustment for the employee share of FY 2006 retirement increases. Because the FY 2006 General Appropriation Act only included back-of-the-bill

adjustments for that year, those on-going costs need to be reflected in the FY 2007 budgets for biennial agencies. These costs will be appropriated as a single statewide amount and disbursed to state agencies during the fiscal year. The adjustments for annual agencies are already included in those agencies' recommended FY 2007 budgets.

### **Statewide Expenditure Adjustments**

In addition to changes in individual agency budgets, the JLBC baseline includes 3 "balance sheet" expenditure items not discussed elsewhere: Maximizing Federal Fund Savings, Administrative Adjustments, and Revertments.

*Maximizing Federal Fund Savings* - The JLBC baseline assumes that state agencies will revert \$(25,000,000) of FY 2007 appropriations back to the General Fund as a result of the federal revenue maximization initiative, also known as "RevMax." This amount is unchanged from FY 2006.

*Administrative Adjustments* - The JLBC baseline assumes that state agencies will have expenditures totaling \$23,000,000 in FY 2007 for FY 2006 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2006 but for which the state was unbilled until FY 2007. This amount is unchanged from FY 2006.

*Revertments* - The JLBC baseline assumes that state agencies will revert \$(51,169,300) of FY 2007 appropriations back to the General Fund because the agencies will not spend their entire appropriation. Agencies will be permitted to make administrative adjustments totaling no more than this amount in FY 2008. This amount is addition to the \$(25,000,000) Federal Fund savings figure discussed above. This amount is unchanged from FY 2006.