

Arizona State Retirement System

JLBC: Eric Jorgensen

OSPB: Barry Harris

DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	197.0	221.0	231.0
Personal Services	7,600,700	8,580,200	8,876,200
Employee Related Expenditures	2,045,400	2,692,000	2,803,800
Professional and Outside Services	3,208,300	3,550,100	3,550,100
Travel - In State	45,400	53,600	53,600
Travel - Out of State	30,100	25,000	25,000
Other Operating Expenditures	1,431,900	1,384,100	1,402,100
Equipment	55,500	235,200	197,500
OPERATING SUBTOTAL	14,417,300	16,520,200	16,908,300
SPECIAL LINE ITEMS			
Information Technology Plan	7,105,900	6,378,700	2,881,500
Retiree Health Insurance; Rural Subsidy	0	28,000	0
AGENCY TOTAL	21,523,200	22,926,900	19,789,800
FUND SOURCES			
<u>Other Appropriated Funds</u>			
Long-Term Disability Administration Account	2,456,100	2,897,700	2,897,700
State Retirement System Administration Account	19,067,100	20,029,200	16,892,100
SUBTOTAL - Other Appropriated Funds	21,523,200	22,926,900	19,789,800
SUBTOTAL - Appropriated Funds	21,523,200	22,926,900	19,789,800
Other Non-Appropriated Funds	187,880,800	187,880,800	187,880,800
TOTAL - ALL SOURCES	209,404,000	210,807,700	207,670,600

CHANGE IN FUNDING SUMMARY

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
Other Appropriated Funds	(3,137,100)	(13.7%)
Total Appropriated Funds	(3,137,100)	(13.7%)
Non Appropriated Funds	0	0.0%
Total - All Sources	(3,137,100)	(1.5%)

AGENCY DESCRIPTION — The Arizona State Retirement System (ASRS) provides retirement, survivors, health and disability benefits to employees of most public employers in Arizona, including public schools, most local and county governments, and the State of Arizona. As of June 30, 2005, ASRS membership included approximately 212,275 active (working and contributing) members, 149,933 inactive members, 75,650 retired members, 4,932 disabled members, and approximately \$22.4 billion in assets (market value). Funding for the agency is appropriated except for investment management and consulting fees, rent, actuarial consulting fees, legal counsel costs, retiree payroll and health insurance program administration.

PERFORMANCE MEASURES	FY 2003	FY 2004	FY 2005	FY 2007
	Actual	Actual	Actual	JLBC
<ul style="list-style-type: none"> • % of members satisfied with ASRS telephone services Comments: Customer satisfaction has fallen as average wait times increased to 4 minutes and average call abandonment rates rose to over 30% in FY 2005. Additional call center staff was added for FY 2006. 	82	82	73	87
<ul style="list-style-type: none"> • % of investment returns Comments: ASRS assumes an 8% rate of return for rate calculations. 	2.4	17.5	8.5	8.0
<ul style="list-style-type: none"> • % of benefit payment calculations that are accurate as measured by quality control sample Comments: The agency did not submit information for this measure in FY 2004 or FY 2005. 	98.45	NA	NA	96

RECOMMENDED CHANGES FROM FY 2006

Operating Budget

The JLBC recommends \$16,908,300 for the operating budget in FY 2007. This amount consists of:

	FY 2007
State Retirement System Administration Account	\$14,010,600
Long-Term Disability Administration Account	2,897,700

These amounts include the following adjustments:

One-Time Equipment OF (107,700)

The JLBC recommends a decrease of \$(107,700) from the State Retirement System Administration Account in FY 2007 to eliminate one-time equipment costs. These costs were associated with the creation of 16 new FTE Positions in Member Services, Internal Audit and Investment Management.

Financial Services Staffing OF 495,800

The JLBC recommends an increase of \$495,800 and 10 FTE Positions from the State Retirement System Administration Account in FY 2007 for financial services staffing. The positions include 3 accountants and 7 fiscal services specialists for the Membership, Benefit and General Accounting functions in the Financial Services Division. These positions will replace temporary staff and free accountants for more demanding work. Temporary staff would then be diverted to more appropriate areas. These positions would represent a 25% increase to the permanent staff of the Financial Services Division to offset increase workloads in each of the functions. Of the amount, \$70,000 is for one-time equipment.

Special Line Items

Information Technology Plan

The JLBC recommends \$2,881,500 and 20 FTE Positions from the State Retirement System Administration Account

for the Information Technology Plan in FY 2007. These amounts would fund the following adjustments:

Project Completion OF (3,452,900)

The JLBC recommends a decrease of \$(3,452,900) from the State Retirement System Administration Account in FY 2007 for completion of project development and implementation.

One-Time Equipment OF (44,300)

The JLBC recommends a decrease of \$(44,300) from the State Retirement System Administration Account in FY 2007 for the elimination of one-time costs associated with 2 FTE Positions and new software and hardware used for Information Technology development projects. FY 2007 is the second year of a 2-year project and includes one-time expenses of \$263,700.

Monies in this line item are appropriated for the development and operation of a \$46.5 million business reengineering information technology (IT) plan. Funding for the development of the IT plan was completed in FY 2006. In FY 2005, some issues arose creating a concern that ASRS would be unable to finish the project on-time. These concerns caused the Information Technology Advisory Committee (ITAC) to put the project in a "red" status. ASRS has made progress in returning the project to a "green" on-time, on-budget status, with an expected development completion date in FY 2008. ITAC has currently placed the project in a "yellow" status. Remaining monies in this line mainly fund the operation of the IT plan.

Retiree Health Insurance; Rural Subsidy

The JLBC recommends no funding in FY 2007 for administrative costs associated with the requirements of Laws 2005, Chapter 297. This amount would fund the following adjustments:

Eliminate One-Time Appropriation OF (28,000)

The JLBC recommends a decrease of \$(28,000) from the State Retirement System Administration Account in FY 2007. Laws 2005, Chapter 297 included a one-time appropriation of \$28,000 from the State Retirement

System Administration Account to ASRS in FY 2006. This amount is to implement changes to the retiree health insurance program necessary to continue the rural subsidy for Medicare-eligible rural retirees only. This program was set to expire June 30, 2005 and originally included all rural retirees.

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JLBC RECOMMENDED FORMAT — Operating Lump Sum with Special Line Items by Agency

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

Before the expenditure of the appropriation of \$2,881,500 in FY 2007 and the hiring of FTE Positions appropriated for the agency's information technology plan, the Retirement System shall present an expenditure plan to the Joint Legislative Budget Committee Staff for review. The expenditure plan shall include current year and prior years' appropriations to be spent in the current year, AND PRIOR YEAR APPROPRIATION BALANCES. The Retirement System shall include the approval of the project investment justification document by the Information Technology Authorization Committee as part of its submission to the Joint Legislative Budget Committee Staff. The agency shall provide semiannual reports to the Joint Legislative Budget Committee Staff regarding the expenditures and project tasks completed to

date. Actual divestiture of monies from the Retirement Fund for expenditure shall occur following the Joint Legislative Budget Committee Staff review of the agency's information technology plan.

The State Retirement System shall provide a report by the end of each calendar quarter during FY 2007 to the Joint Legislative Budget Committee on the discussions and actions of the State Retirement System Board regarding their efforts to minimize the retirement contribution rate.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends an amendment to the FY 2004, FY 2005, and FY 2006 General Appropriation Acts changing the lapsing date of the Information Technology Plan SLI appropriations from June 30, 2006 to June 30, 2007 to continue the Information Technology Plan.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Auditor General Recommendation

In the agency's September 2005 sunset review, the Auditor General found that the call center needed improvements. Since June 2004, the call center has seen a decline in the number of phone calls answered and customer satisfaction, and an increase in wait times. For FY 2006, new call center staff was appropriated. The Auditor General reports that these new positions should be more than sufficient to handle the increased call volume and bring the agency back within its performance goals.

SUMMARY OF FUNDS	FY 2005 Actual	FY 2006 Estimate
Administrative Account - Investment Expenses (RSA1407/A.R.S. § 38-721)		Non-Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: The Retirement Fund's Administration Account designated for investment expenses provides funding for the agency's investment management fees and related consulting fees, actuarial consulting fees, rent, and retiree payroll. Funding is subject to Retirement Board approval.		
Funds Expended	187,880,800	187,880,800
Year-End Fund Balance	0	0
Long-Term Disability Administration Account (RSA1408/A.R.S. § 38-797.02)		Appropriated
Source of Revenue: Long-Term Disability (LTD) Trust Fund.		
Purpose of Fund: To pay for the cost of administering the LTD program.		
Funds Expended	2,456,100	2,897,700
Year-End Fund Balance	0	0
State Retirement System Administration Account (RSA1401/A.R.S. § 38-721)		Appropriated
Source of Revenue: Transfer from the State Retirement Fund.		
Purpose of Fund: To pay the Arizona State Retirement System's administrative expenses.		
Funds Expended	19,067,100	20,029,200
Year-End Fund Balance	0	0