

Director: Paul Matson

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	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved	FY 2009 Approved
OPERATING BUDGET				
<i>Full Time Equivalent Positions</i>	221.0	231.0	235.0 ^{1/}	235.0 ^{1/}
Personal Services	8,692,000	9,446,400	10,484,700	10,365,900
Employee Related Expenditures	2,614,700	3,119,200	3,510,100	3,325,600
Professional and Outside Services	3,088,200	3,555,300	3,576,500	3,899,600
Travel - In State	47,200	53,600	53,600	53,600
Travel - Out of State	33,300	25,000	25,000	25,000
Other Operating Expenditures	1,276,200	1,668,900	1,874,100	1,810,600
Equipment	329,800	197,500	525,300	685,300
OPERATING SUBTOTAL	16,081,400	18,065,900	20,049,300	20,165,600
SPECIAL LINE ITEMS				
ASRS Optional Forms of Retirement	0	50,000	0	0
Information Technology Plan	8,530,900	3,010,100	2,818,500 ^{2/}	2,747,100 ^{2/}
AGENCY TOTAL	24,612,300	21,126,000	22,867,800^{3/4/}	22,912,700^{3/4/}
FUND SOURCES				
<u>Other Appropriated Funds</u>				
Long-Term Disability Administration Account	2,368,500	2,897,700	2,800,000	2,800,000
State Retirement System Administration Account	22,243,800	18,228,300	20,067,800	20,112,700
SUBTOTAL - Other Appropriated Funds	24,612,300	21,126,000	22,867,800	22,912,700
SUBTOTAL - Appropriated Funds	24,612,300	21,126,000	22,867,800	22,912,700
Other Non-Appropriated Funds	35,021,900	51,647,000	55,246,500	59,134,000
TOTAL - ALL SOURCES	59,634,200	72,773,000	78,114,300	82,046,700

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 the June 30, 2006 valuation, ASRS membership included approximately 217,893 active (working and contributing) members, 184,320 inactive members, 78,392 retired members, 4,968 disabled members, and approximately \$24.4 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.

^{1/} Includes 20 FTE Positions funded from Special Line Items in FY 2008 and FY 2009.

^{2/} Before the expenditure of the appropriation of \$2,818,500 in FY 2008 and \$2,747,100 in FY 2009 and the hiring of FTE Positions appropriated for the agency's information technology plan, the Retirement System shall present an expenditure plan for review by the Joint Legislative Budget Committee Staff. The expenditure plan shall include current year and prior years' appropriations to be spent in the current year and prior year appropriation balances. The agency shall provide annual 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. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{3/} The appropriation includes \$678,800 in FY 2008 and \$1,154,800 in FY 2009 for technology upgrades. These monies shall not be spent and will revert to the Arizona State Retirement System Account if the Information Technology Authorization Committee does not approve the Project Investment Justification for technology upgrades. (General Appropriation Act footnote)

^{4/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	Approved
• % of members satisfied with ASRS telephone services	82	73	96	96
• % of investment returns Comments: ASRS assumes an 8% rate of return for rate calculations.	17.5	8.5	9.8	8.0
• % of benefit payment calculations that are accurate as measured by quality control sample	NA	NA	99.5	99.5

Operating Budget

The budget provides \$20,049,300 and 215 FTE Positions for the operating budget in FY 2008 and \$20,165,600 and 215 FTE Positions in FY 2009. These amounts consist of:

	FY 2008	FY 2009
State Retirement System		
Administration Account	\$17,249,300	\$17,365,600
Long-Term Disability		
Administration Account	2,800,000	2,800,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$544,600 from the State Retirement System Administration Account in FY 2008 and a decrease of \$(18,200) in FY 2009 for statewide adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details. The annualization of these adjustments for FY 2009 will be addressed in the 2008 budget process.)*

Investment Management

The budget provides an increase of \$129,100 and 1 FTE Position from the State Retirement System Administration Account in FY 2008 and \$122,100 and 1 FTE Position in FY 2009 for a portfolio analyst to work with private equity investments. The amount includes \$7,000 in one-time equipment costs in FY 2008.

Private equity investments are a new asset class recently added by the ASRS Board. Private equity investments are projected to constitute 5% of the ASRS portfolio. ASRS added the real estate asset class 2 years ago and received an investment management FTE Position for FY 2006. The real estate asset class constituted 6% of the ASRS portfolio.

Records Management FTE Positions

The budget provides an increase of \$130,300 and 3 FTE Positions from the State Retirement System Administration Account in FY 2008 and \$109,300 and 3 FTE Positions in FY 2009 for document imaging technicians. The amount includes \$21,000 in one-time equipment costs in FY 2008.

Currently 6 of the 17 employees in ASRS Records Management are temporary employees. The use of FTE Positions rather than temporary workers in records management would lead to cost savings in that department, although ASRS would retain the temporary workers, some being transferred to work in other areas in the agency such as member services or financial services. Workload in the department increases as membership in ASRS increases. Since 2000, ASRS membership has grown at a rate of between 5% and 7% each year. ASRS expects growth to continue at similar rates.

Increased Salaries, Reclassifications, and Overtime

The budget provides \$437,100 from the State Retirement System Administration Account in FY 2008 and FY 2009 to provide salary increases, reclassifications, and to fund employee overtime in the agency's Administrative Services, Information Services, Financial Services, and Investment Management Divisions.

Reduce Agency Vacancy Rate

The budget provides \$231,200 from the State Retirement System Administration Account in FY 2008 and \$462,300 in FY 2009 to fill vacant positions to reduce the agency's vacancy rate.

Technology Upgrades

The budget provides \$678,800 from the State Retirement System Administration Account in FY 2008 and \$1,154,800 in FY 2009 for technology upgrades. A General Appropriation Act footnote requires that this funding revert to the State Retirement System Administration Account if ASRS' Project Investment Justification did not receive the approval of the Information Technology Authorization Committee (ITAC). ITAC approved the project in January 2007.

Long-Term Disability Administration

The budget provides a decrease of \$(97,700) from the Long-Term Disability Administration Account in FY 2008 and FY 2009 for decreased administration costs as a result of pricing associated with newly awarded contracts.

Eliminate One-Time Funding

The budget provides a decrease of \$(70,000) from the State Retirement System Account in FY 2008 and FY 2009 to eliminate one-time equipment funding

associated with the addition of 10 financial services FTE Positions in FY 2007.

Special Line Items

ASRS Optional Forms of Retirement

The budget provides no funding for costs associated with the requirements of Laws 2006, Chapter 309 in FY 2008 and FY 2009. This amount funds the following adjustments:

Eliminate One-Time Funding

The budget provides a decrease of \$(50,000) from the State Retirement System Administration Account in FY 2008 and FY 2009 to eliminate a one-time appropriation to implement changes to the benefit payment options available to retirees.

Information Technology Plan

The budget provides \$2,818,500 and 20 FTE Positions from the State Retirement System Administration Account for the Information Technology Plan in FY 2008 and \$2,747,100 in FY 2009. These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$72,100 from the State Retirement System Administration Account in FY 2008 and \$700 in FY 2009 for statewide adjustments.

Eliminate One-Time Funding

The budget provides a decrease of \$(263,700) from the State Retirement System Administration Account in FY 2008 and FY 2009 to eliminate one-time funding for Equipment and Professional and Outside Services.

Monies in this line item are appropriated for the development and operation of a business reengineering information technology (IT) plan. At the end of FY 2006, ASRS had expended \$32,146,600 on development of the IT plan and plans to spend an additional \$5,863,700 on development in FY 2007. These expenditures are from FY 2007 and prior-year funding. At the end of FY 2007, \$4,807,500 of prior-year appropriations would remain unexpended. As a result, the Budget Procedures Budget Reconciliation Bill (Laws 2007, Chapter 259) extends the non-lapsing date from June 30, 2007 to June 30, 2008. Development of the IT plan is expected to finish at the end of FY 2008 with the use of these prior-year funds.

In addition to the use of prior-year funds for development costs, ASRS anticipates expending all of its new FY 2008 and FY 2009 funding for operating costs. The Information Technology Authorization Committee has currently placed the project in a "yellow" status as a result of past concerns over the agency's ability to complete the project on time.

A General Appropriation Act footnote requires ASRS to submit an expenditure plan to the JLBC Staff prior to expending monies appropriated in the Special Line Item.

Additional Legislation

Ch. 114 ASRS; Long-Term Disability Amendments

Laws 2007, Chapter 114 modifies the Social Security offsets from 64% of SS Disability and 84% of SS Retirement to 85% and also modifies the pre-existing condition look back provisions from 3 months to 6 months. ASRS indicates that these changes would have an effect equivalent to reducing the Long-Term Disability (LTD) contribution rate by 0.09%; however, due to the funded status of the LTD program, it is not expected that the actual contribution rate will be reduced.

Ch. 173 ASRS; Postdoctoral Scholars; Eligibility

Laws 2007, Chapter 173 exempts postdoctoral scholars from ASRS membership. ASRS estimates that if all uncollected contributions were realized immediately, the contribution rate would increase by 0.09%, although the realization will actually happen over time.

Ch. 253 Retiree Health Insurance; Rural Subsidy

Laws 2007, Chapter 253 extends the rural health insurance subsidy for ASRS retirees for an additional 2 years through FY 2009. This program provides a health insurance subsidy to ASRS retirees who live in areas where managed care programs are not available from ASRS' contracted health insurance providers.

Because the subsidy is a temporary program, ASRS does not include the cost in the annual actuarial valuation. If the subsidy were to be valued as a permanent benefit, it would increase the total contribution rate by 0.717%, which would result in a General Fund cost of \$7,825,000 and an Other Appropriated Fund cost of \$3,480,000.