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 2008, Chapter 285) and the FY 2008 budget provisions bill (Laws 2008, Chapter 53) provide` direction with regard to several general provisions.

General Provisions

Sections 44 and 45 of the General Appropriation Act provide additional monies for several adjustments. For each adjustment, Sections 44 and 45 state that the JLBC Staff shall determine and the Arizona Department of Administration shall allocate to each agency or department an amount for each adjustment. For details on the amount allocated to each agency for each adjustment, please see the Crosswalk section.

FY 2008 Statewide Adjustments — Section 44 appropriates $13,976,200 from the General Fund and $10,701,600 from Other Appropriated Funds for FY 2008 statewide adjustments for biennial agencies in FY 2009. These adjustments were appropriated as statewide adjustments for FY 2008 only in the FY 2008 General Appropriation Act. While the adjustments were incorporated into annual agencies' budgets for FY 2009, they were distributed as statewide adjustments in FY 2009 for biennial agencies.

These amounts addressed adjustments in the following areas:

- Health Insurance
- Retirement
- State Employee Pay Raise
- Assistant Attorney General Salary Adjustments
- State-Owned Space Rent
- State Telecommunications
- State Lease-Purchase and Privatized-Lease-To-Own
- Human Resources Pro Rata
- Risk Management

The amounts for these adjustments are identical to the amounts appropriated in FY 2008 with the exception of the Attorney General, whose allocation is reduced to reflect a decrease in the FY 2009 lease-purchase payment. *(Please see pages 470 – 472 of the FY 2008 Appropriations Report for details.)*

State-Owned Space Adjustment: In addition to these changes, the FY 2008 budget revisions in Laws 2008, Chapter 53 included $1,060,000 GF and $280,000 OF for an additional adjustment in the rate paid by state agencies occupying state-owned space. The increase funds an increase in ADOA's charge for state-owned space from $19.50 per square foot to $21.02 per square foot and in ADOA's charge for state-owned storage space from $7.00 per square foot to $7.62 per square foot. This adjustment was continued in Section 45 of Laws 2008, Chapter 285, so in agency narratives, this is included in totals for "Continue FY 2008 Statewide Adjustments." This adjustment paid for an increase in ADOA utilities. *(Please see the Arizona Department of Administration – Facilities Management narrative for further details.)*

New Statewide Adjustments — Section 45 appropriates $10,468,400 from the General Fund and $2,018,300 from Other Appropriated Funds monies for new FY 2009 statewide adjustments for retirement, information technology planning, and rent/lease-purchase.

These amounts addressed adjustments in the following areas:

- Retirement: $9,033,400 GF and $1,660,600 OF for the employer share of FY 2009 retirement increases. The new rates are reflected in *Table 4.*
- Information Technology Planning: $375,000 GF and $227,700 OF for an increase in the pro rata charge paid to the Government Information Technology Agency (GITA). The Budget Procedures BRB (Laws 2008, Chapter 291) increases this charge from 0.15% of selected agency payrolls to 0.20%. Revenues from the increased charge will be used to offset a General Fund reduction and expand the Statewide Information Security and Privacy Office. *(Please see the GITA narrative for details.)*
- State-Owned Space Rent: $1,060,000 GF and $280,000 OF for an increase in the rate paid by state agencies occupying state-owned space. The increase funds an increase in ADOA's charge for state-owned space from $19.50 per square foot to $21.02 per square foot and in ADOA's charge for state-owned storage space from $7.00 per square foot to $7.62 per square foot. As noted above, this adjustment was also included in Laws 2008, Chapter 53, so in agency narratives, this is included in totals for "Continue FY 2008 Statewide Adjustments." *(Please see the Capital Section for more details on rent charges.)*
- State Lease-Purchase and Privatized-Lease-To-Own: A decrease of $(150,000) OF for a net overall decrease in charges for lease-purchase and privatized-lease-to-own (PLTO) charges. *(Please see the Capital Section for more details on lease-purchase and PLTO charges.)*

Statewide Hiring Freeze Reduction — Section 46 requires the revertment of $5,309,300 from agencies' FY 2009 General Fund appropriations to the General Fund and the transfer of $4,690,700 from other appropriated state funds and non-federal non-appropriated funds to the General Fund. These amounts reflected estimated savings from a state hiring freeze. Section 46 requires OSPB and

JLBC to determine and ADOA to allocate the amount of the revertment or transfer from each agency and fund. OSPB and JLBC have determined the allocation. The General Fund amount is a reduction in spending. The Other Appropriated Fund amount is also a reduction in spending of $(2,923,900); these funds are transferred to the General Fund and displayed as revenues. The non-appropriated fund total of $(1,766,800) is transferred to the General Fund and displayed as revenue.

Laws 2008, Chapter 53 also required the revertment of $5,309,300 from agencies' FY 2008 General Fund appropriations and the transfer of $4,690,700 from other appropriated state funds and non-federal non-appropriated funds. The allocation of these reductions is nearly but not quite identical between the two years. *(Please see the Hiring Freeze Allocations tables at the end of this narrative for allocations by agency and fund.)*

Expenditure Reporting — Section 48 states that it is the intent of the Legislature that all budget units receiving 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 49 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 the FY 2009 report by August 1, 2009 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. For the first time, this section defines FTE Positions as the total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. 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 50 states that by October 1, 2008 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, 2008.

Performance Measure Results Reporting — Section 51 requires agencies to submit FY 2008 results for performance measures in the General Appropriation Act as part of their FY 2010 budget request. (If an agency received its FY 2009 budget in Laws 2007, Chapter 235, then they are to submit the FY 2008 results for the measures in that General Appropriation Act.) If an agency fails to submit this information, they are to submit a report in their FY 2010 request explaining why the agency failed to submit the results.

Transfer Authority — Section 52 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 53 requires the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2008 General Fund ending balance by September 15, 2008 and a preliminary estimate of the FY 2009 General Fund ending balance by September 15, 2009. Based on this information, JLBC Staff shall report to JLBC by October 15 of 2008 and 2009 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.

Expenditure Authority — Section 54 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 55 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 2009 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the General Appropriation Act, either in Laws 2008, Chapter 285 or Laws 2007, Chapter 255 for agencies receiving biennial budgets. 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 annualizing FY 2008 adjustments for biennial agencies, and statewide retirement, information technology planning, rent, and lease-purchase and PLTO adjustments discussed in the General Provisions narrative above.

Table 1

FY 2009 State Employee Health/Dental Insurance

	General Fund	Other Fund	Non-Approp.	Total Employer	Employee Premiums	Retiree Premiums	Total
Health	306,389,400	139,267,900	111,414,300	557,071,600	61,896,800	66,869,200	685,837,600
Dental	11,495,900	5,225,400	4,180,300	20,901,600	20,901,600	4,516,100	46,319,300
Total	**$317,885,300**	**$144,493,300**	**$115,594,600**	**$577,973,200**	**$82,798,400**	**$71,385,300**	**$732,156,900**

Employee Related Expenditures

Health Insurance — The state continues 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.

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 2 EPO and 2 PPO 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 3 functions. A provision in the Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2008, Chapter 288) continues a mandate begun in FY 2007 that employees will not be charged a different premium for an integrated plan than for a non-integrated plan. Employees in all other counties will have a choice between 1 EPO and 1 PPO option, neither of which are non-integrated.

State employee and employer premiums based on the upcoming plan year are shown in *Table 2*. For the contract year starting October 1, 2008, employee premiums will increase by $5 per month for single coverage, $10 per month for "employee plus one" coverage, and $25 per month for family coverage. Including these increases, total premiums are expected to be $686 million *(see Table 1)*. Employer premiums make up the majority of this amount, consisting of $557 million. Employer premiums will be the same for each type of coverage statewide, as opposed to prior years in which employer premiums varied by region. This change is designed to be cost-neutral for the state as a whole, but will result in some agencies paying more or less for the same coverage. No funding was added or removed from individual agencies' budgets for this change. In addition to the $557 million, the health amount includes $62 million in employee premiums and $67 million in retired employee premiums.

Dental Insurance — Employees have a choice between one indemnity plan and one pre-paid plan. Employee and employer premiums based on the upcoming plan year are shown in *Table 3*. Employee and employer premiums for dental coverage will change in the contract year starting October 1, 2008. Including these increases, total premiums are expected to be $46 million *(see Table 1).*

Table 2

Health Insurance
State Employee and Employer Monthly Contributions

	State Employee Contribution 10/1/08 Contract	Employer Contribution 10/1/08 Contract
Exclusive Provider Organization (EPO)		
Employee	$30.00	$446.00
Employee Plus One	60.00	893.00
Family	150.00	1,158.00
Preferred Provider Organization (PPO)		
Employee	145.00	598.00
Employee Plus One	290.00	1,186.00
Family	415.00	1,580.00

Table 3

Dental Insurance
State Employee and Employer Monthly Contributions

	State Employee Contribution 10/1/08 Contract	Employer Contribution 10/1/08 Contract
Prepaid		
Employee	$5.00	$4.96
Employee Plus One	9.00	9.92
Family	14.00	13.70
Indemnity		
Employee	16.00	16.98
Employee Plus One	37.00	31.01
Family	63.00	62.29

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, the Department of Corrections and the Universities, who are not "swept," but instead pay the actual costs incurred for health and dental insurance premiums. *(Please see the Health Insurance Allocations table at the end of this report for these amounts.)*

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 2009. 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. This amount is unchanged from FY 2008.

Unemployment Insurance — 0.15% of Personal Services for each agency, unchanged from the FY 2008 rate.

Personnel Division Pro Rata — 1.07% of Personal Services for each agency in the Arizona Department of Administration (ADOA) personnel system, unchanged from the FY 2008 rate. The ADOA Human Resources Division budget is funded from an assessment on the payroll of agencies in the ADOA personnel system.

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%. Both rates are unchanged from FY 2008.

Table 4

FY 2009 Employer Contribution Rates

Category	Rate
Life Insurance (per FTE Position)	$36.72
Unemployment Insurance	0.15%
Personnel Division Pro Rata	1.07%
Disability (Arizona State Retirement System)	0.50%
Disability (Non-State Retirement System)	0.36%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Attorney General Pro Rata	0.675%
Workers' Compensation	Varies
Federal Insurance Contributions Act (FICA)	
Social Security (salary max $97,500)	6.20% [1/]
Medicare (no salary cap)	1.45%

Retirement System	Employer FY 2008	Employer FY 2009	Employee FY 2009 [2/]
Arizona State Retirement System	9.10	8.95	8.95
Correctional Officers Ret. Plan [3/]			
Correctional Officers - DOC	7.04	8.90	8.41
Correctional Officers - DJC	6.69	8.42	8.41
Elected Official Retirement Plan [4/]	12.84	14.05	7.00
University Optional	7.00	7.00	7.00
Public Safety Personnel Retirement			
Liquor License Investigators	11.48	20.30	7.65
Department of Public Safety [5/]	27.51	33.62	2.65
Northern Arizona University Police	17.25	25.97	7.65
University of Arizona Police	15.75	21.70	7.65
Arizona State University Police	14.84	19.46	7.65
Game and Fish Department	31.06	37.98	7.65
Attorney General Investigators	25.92	52.81	7.65
DEMA Firefighters	13.16	20.46	7.65
ADOA Capitol Police	10.48	14.23	7.65
Parks Police	12.06	17.83	7.65

1/ Reflects budgeted salary maximum; actual cap beginning January 2008 is $102,000.
2/ FY 2009 retirement employee rates are unchanged from FY 2008 except for Arizona State Retirement System, which decreased from 9.10%, and Correctional Officer Retirement Plan, which increased from 8.50%.
3/ Employee rate will be 7.96% until October 2008.
4/ Employer rate will be 21.21% until October 2008.
5/ The displayed rates reflect that 5% of the DPS member contribution of 7.65% is paid by the state.

Information Technology Planning — 0.20% of Personal Services for each agency, an increase of 0.05% from the FY 2008 rate of 0.15%. The Government Information Technology Agency budget is funded from an assessment on the payroll of all state agencies except the Universities.

Retiree Accumulated Sick Leave — 0.40% of Personal Services for each agency, unchanged from the FY 2008 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

Attorney General Pro Rata — 0.675% of the Personal Services base for each agency not specifically excluded from the charge, unchanged from FY 2008.

Workers' Compensation — The rates vary by individual agency. The rates, calculated by ADOA, are unchanged from FY 2008. 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 $97,500 of an employee's salary, which is an increase from the $94,000 maximum assumed in FY 2008. The $97,500 budgeted maximum is less than the actual maximum, which was $102,000 as of January 2008. 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 2008.

State Retirement Systems — There are 4 state employee retirement systems -- the Arizona State Retirement System (ASRS), the Public Safety Personnel 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 ASRS, both the employer and employee rates decreased by 0.15% in FY 2009, from 9.10% to 8.95%. No change in agencies' budgets was made for this adjustment in rates. *Table 5* below lists ASRS contribution rates since FY 1983.

For PSPRS and EORP only the employer contribution rate changed, as the employee contribution rates which are set in statute remain unchanged for FY 2009. For CORP, the employer contribution rate changed and the Budget Procedures BRB (Laws 2008, Chapter 291) also increases the employee contribution rate from 7.96% to 8.41% on the general effective date of the bill. Laws 2008, Chapter 234 previously set the rate increase to become effective on July 1, 2009.

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 will remain at $21.02 per square foot, with the charge for state-owned storage space remaining at $7.62 per square foot. These charges are increases from the originally-appropriated FY 2008 rates of $19.50 and $7.00 per square foot.

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. *(Please see the State-Owned Space Rent and State Lease-Purchase and Privatized-Lease-To-Own discussions above and the Rent and other Lease-related schedules in the Capital section for more details.)*

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. The rates have not changed from FY 2008. The rates are estimated to generate total revenues of $70.1 million yearly. 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. *(Please see the Risk Management discussion above for more details and the Summary of Risk Management Charges later in this section for these charges.)*

Table 5

ASRS Contribution Rates

Fiscal Year	Rate 1/
FY 1983	7.00
FY 1984	7.00
FY 1985	6.27
FY 1986	5.67
FY 1987	5.53
FY 1988	4.00
FY 1989 2/	4.78
FY 1990 2/	1.29
FY 1991 2/	3.37
FY 1992 2/	3.17
FY 1993 2/	3.10
FY 1994 2/	2.65
FY 1995 2/	3.26
FY 1996	3.36
FY 1997	3.20
FY 1998	3.05
FY 1999	2.85
FY 2000	2.17
FY 2001	2.17
FY 2002	2.00
FY 2003	2.00
FY 2004	5.20
FY 2005	5.20
FY 2006	6.90
FY 2007	8.60
FY 2008	9.10
FY 2009	8.95

1/ Employer and employee each pay this rate.

2/ Long Term Disability not broken out of the contribution rate from FY 1989-FY 1995. Rates for these years reflect amounts estimated to be attributable solely to retirement component.

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will have expenditures totaling $55,200,000 in FY 2009 for FY 2008 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2008 but for which the state was unbilled until FY 2009. An agency's administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The $55,200,000 is a decrease of $(9,963,000) from the originally-budgeted FY 2008 total of $65,163,000. The FY 2009 amount is 65% of prior-year revertments. This amount reflects a percentage close to the historical average. Administrative adjustments as a percentage of prior year's revertments vary widely from year to year, however, from below 30% to above 70%.

In addition to the FY 2009 increase above FY 2008, the budget also assumes a revised FY 2008 administrative adjustment total of $96,000,000, an increase of $30,837,000 from the originally-budgeted FY 2008 total. This amount is 85% of reported FY 2007 revertments and is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends.

Revertments — The budget assumes that state agencies will revert $(97,000,000) of FY 2009 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 2010. This amount is a decrease of $28,283,100 from the originally-budgeted FY 2008 total of $(125,283,100). The FY 2009 amount reflects 1.0% of total spending, a percentage based on historical averages in years which the economy slows down.

In addition to the FY 2009 increase above FY 2008, the budget also assumes a revised FY 2008 revertment total of $(85,000,000), a decrease of $40,283,100 from the originally-budgeted FY 2008 total. This amount is approximately 0.85% of FY 2008 estimated spending and takes into account the historical average used to determine FY 2009 revertments.

In addition to these revertments, the FY 2009 budget also modifies the accounting of non-lapsing General Fund monies, which are not usually included in the General Fund ending balance. Laws 2008, Chapter 291 requires that any monies appropriated from the General Fund that are non-lapsing and unexpended at the end of FY 2009 shall be treated as if these funds are part of the FY 2009 ending balance. This accounting method will generate $(50,000,000) in statutory revertment savings. These monies remain non-lapsing and continue to be available to the agencies in FY 2010.

The FY 2008 budget also requires the reversion of General Fund appropriations totaling $13,420,100. The largest component of these is a FY 2007 $10,000,000 appropriation for a Southern Arizona Veterans' Home. (The FY 2009 budget appropriates $10,000,000 for this same purpose.) The amount also includes revertments of more than 20 other prior-year non-lapsing appropriations. *(Please see the FY 2008 Budget Revisions section at the end of this Appropriations Report for further details on these FY 2008 statutory reversions.)*

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 2009. *(Please see the Performance Measures Results Reporting discussion in the General Provisions section above for more details.)*