Arizona State Retirement System **A.R.S. § 38-711**

Director: Paul Matson JLBC Analyst: Marge Zylla

	FY 2007 Actual	FY 2008 Estimate	FY 2009 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	231.0	235.0	236.0[1/]
Personal Services	9,487,800	10,484,700	10,682,800
Employee Related Expenditures	3,318,800	3,719,200	3,756,500
Professional and Outside Services	3,179,900	3,566,500	3,566,500
Travel - In State	60,400	53,600	53,600
Travel - Out of State	50,200	25,000	25,000
Other Operating Expenditures	1,485,100	1,942,700	1,942,700
Equipment	91,000	525,300	973,300
OPERATING SUBTOTAL	**17,673,200**	**20,317,000**	**21,000,400**
SPECIAL LINE ITEMS			
ASRS Optional Forms of Retirement	50,000	0	0
Information Technology Plan	3,010,100	2,818,500	2,819,000[2/]
Ch. 201 Divestments; Terrorism Countries; Contract Prohibition	0	0	60,000
Ch. 235 Iran; Public Fund Divestment	0	0	30,000
Ch. 264 ASRS; Administration Procedures	0	0	137,600
AGENCY TOTAL	**20,733,300**	**23,135,500**	**24,047,000**[3/4/]
FUND SOURCES			
Other Appropriated Funds			
Long-Term Disability Administration Account	2,574,600	2,800,000	2,800,000
State Retirement System Administration Account	18,158,700	20,335,500	21,247,000
SUBTOTAL - Other Appropriated Funds	20,733,300	23,135,500	24,047,000
SUBTOTAL - Appropriated Funds	**20,733,300**	**23,135,500**	**24,047,000**
Other Non-Appropriated Funds	38,673,600	60,067,900	64,120,500
TOTAL - ALL SOURCES	59,406,900	83,203,400	88,167,500

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, 2007 valuation, ASRS membership included approximately 224,001 active (working and contributing) members, 193,696 inactive members, 83,594 retired members, 5,071 disabled members, and approximately $27.1 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 heath insurance program administration.

1/ Includes 21 FTE Positions funded from Special Line Items in FY 2009.

2/ Before the expenditure of the appropriation of $2,819,000 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 $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 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2009 Approved
• % of members satisfied with ASRS telephone services	73	96	93.7	96
• % of investment returns Comments: ASRS assumes an 8% rate of return for rate calculations.	8.5	9.8	17.8	8.0
• % of benefit payment calculations that are accurate as measured by quality control sample	NA	99.5	99.5	99.5

This agency's FY 2008 and FY 2009 budget was originally appropriated in Laws 2007, Chapter 255. For details on this agency's original FY 2008 and FY 2009 budgets, please see the *FY 2008 Appropriations Report.* The following narrative provides a comprehensive listing of all FY 2009 changes, whether as part of Chapter 255 or this year's budget.

Operating Budget

The budget provides $21,000,400 and 215 FTE Positions for the operating budget in FY 2009. These amounts consist of:

State Retirement System Administration Account	$18,200,400
Long-Term Disability Administration Account	2,800,000

These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments
The budget continues an increase of $562,800 from the State Retirement System Administration Account in FY 2009 for FY 2008 statewide adjustments. *(Please see the FY 2008 Statewide Adjustments narrative at the end of this Appropriations Report for details.)*

New Statewide Adjustments
The budget provides an increase of $4,300 from the State Retirement System Administration Account in FY 2009 for new statewide adjustments. *(Please see the New Statewide Adjustments narrative at the end of this Appropriations Report for details.)*

ERE Adjustment Continuation
The budget continues an increase of $267,700 from the State Retirement System Administration Account in FY 2009 for employee related expenditure (ERE) adjustments.

Fill Vacant FTE Positions
The budget provides an increase of $231,100 from the State Retirement System Administration Account in FY 2009 to fill vacant positions and reduce the agency's vacancy rate.

Technology Upgrades
The budget provides an increase of $476,000 from the State Retirement System Administration Account in FY 2009 for technology upgrades.

Eliminate One-Time Funding
The budget provides a decrease of $(28,000) from the State Retirement System Administration Account in FY 2009 to eliminate one-time equipment funding in FY 2008. This amount includes a decrease of $(21,000) for one-time equipment costs for records management and $(7,000) for one-time equipment costs for investment management.

ASRS Optional Forms of Retirement

The budget provides no funding for costs associated with the requirements of Laws 2006, Chapter 309 in FY 2009. This amount is unchanged from FY 2008.

Information Technology Plan

The budget provides $2,819,000 and 20 FTE Positions from the State Retirement System Administration Account for the Information Technology (IT) Plan in FY 2009. These amounts fund the following adjustments:

Continue FY 2008 Statewide Adjustments
The budget continues an increase of $71,400 from the State Retirement System Administration Account in FY 2009 for FY 2008 statewide adjustments.

New Statewide Adjustments
The budget provides an increase of $500 from the State Retirement System Administration Account in FY 2009 for new statewide adjustments.

Monies in this line item are appropriated for the development and operation of a business reengineering IT plan. At the end of FY 2008, ASRS estimates it would have $1,627,100 in unspent prior appropriations, which were scheduled to revert to the State Retirement System Administration Account. As a result, the Budget Procedures Budget Reconciliation Bill (Laws 2008, Chapter 291) extends the non-lapsing date from June 30, 2008 to June 30, 2009, so these funds can be used to finish

development. Development of the IT plan is expected to finish in September of 2008.

Ch. 201 Divestments; Terrorism Countries; Contact Prohibition

Laws 2008, Chapter 201 appropriates $60,000 and 0.5 FTE Positions from the State Retirement System Administration Account in 2009. Chapter 201 requires ASRS, PSPRS, EORP, CORP, and the Arizona State Treasurer to divest from any company known to support international terrorism. The appropriated funding is for administrative costs and an investment analyst. This appropriation is non-lapsing. The actuarial impact of this legislation is yet to be determined.

Ch. 235 Iran; Public Fund Divestment

Laws 2008, Chapter 235 appropriates $30,000 and 0.5 FTE Positions from the State Retirement System Administration Account in 2009. Chapter 235 requires ASRS, the Public Safety Personnel Retirement System (PSPRS), the Correctional Officers Retirement Plan (CORP), the Elected Officials Retirement Plan (EORP), and the Arizona State Treasurer to divest publicly traded securities from scrutinized companies connected to the government of Iran. The appropriated funding is for administrative costs and an investment analyst. This appropriation is non-lapsing. The actuarial impact of this legislation is yet to be determined.

Ch. 264 ASRS; Administration Procedures

Laws 2008, Chapter 264 appropriates $137,600 from the State Retirement System Administration Account in 2009. Chapter 264 exempts ASRS from the Revised Arizona Unclaimed Property Act, establishes procedures for unclaimed property within ASRS and guidelines for transfers out of ASRS, and makes numerous administrative changes to ASRS statute. The appropriated funding is for administrative costs. This appropriation is non-lapsing.

ASRS estimates that exempting ASRS from the State Unclaimed Property Act will reduce total annual contributions by $205,000 and the contribution rate by 0.0022% in the first year. In subsequent years, it is estimated that the total annual contributions will be reduced by $24,000 and the contribution rate by 0.0006%.

Additional Legislation

Ch. 242 CORP; Joinders; Credited Service

Laws 2008, Chapter 242 permits Department of Public Safety (DPS) and other dispatchers to transfer from ASRS to CORP upon commencement of a voluntary joinder agreement with DPS and CORP. Laws 2008, Chapter 242 also requires all prior credited service with ASRS to transfer to CORP. The actuarial impact of this legislation is yet to be determined.

Ch. 144 CORP; DPS Detention Officers

Laws 2008, Chapter 144 allows DPS correctional officers to be eligible for membership in CORP and permits DPS detention officers to transfer credited service to CORP upon commencement of a joinder agreement with DPS and the Fund Manager. The actuarial impact of this legislation is yet to be determined.

Ch. 1 Sudan; Investments; Business Operations; Prohibition

Laws 2008, Chapter 1 requires ASRS, PSPRS, EORP, CORP, and the Arizona State Treasurer to divest publicly traded securities from scrutinized companies connected to the government of Sudan. The agency estimates that there will be an administrative cost of $40,000 for software and 0.5 FTE Positions for an investment analyst. No funding was provided in Chapter 1. The actuarial impact of this legislation is yet to be determined.