

DESCRIPTION OF METHODOLOGY AND MAJOR TECHNICAL ISSUES

JLBC Baseline

The JLBC is providing General Fund baseline revenue and spending estimates. The revenue projections reflect a consensus economic forecast while the spending estimates represent funding formula requirements and other obligations. The JLBC Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the JLBC Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the JLBC Baseline is only a starting point for discussion on the FY 2010 budget.

FY 2010 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. Given the magnitude of the projected budget shortfall for FY 2010 and future years, the JLBC only includes FY 2010 funding for all budget units. The JLBC Baseline also includes supplemental FY 2009 funding for selected budget units. All FY 2010 changes are referenced to the original FY 2009 appropriated amount.

Changes from Prior Year

The JLBC Baseline includes adjustments for one-time appropriations, annualization of any items funded for a partial year, and funding formula requirements.

The individual agency descriptions in this volume provide further narrative detail on these changes. 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.

The individual agency descriptions also include the following years of budget data:

- *FY 2008 Actual* - This dollar amount represents the FY 2007 expenditures as reported by the agency.
- *FY 2009 Estimate* - This dollar amount represents the FY 2009 appropriations as of the end of the 48th Legislature’s First Regular Session. Lump sum reductions in the FY 2009 budget have been allocated among individual line items as reported by the agency.
- *FY 2010 JLBC* - This dollar amount represents JLBC’s FY 2010 Baseline spending estimate.

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 narrative pages. (For multiple cost center agencies, the “Summary of Funds” is at the end of the Agency Summary.)

Statewide and Standard Changes

Personal Services - This category includes salaries paid to state employees. The JLBC Baseline does not include a state employee pay raise adjustment.

ERE Rates - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2009 to FY 2010 in the JLBC Baseline, although funding has been included as a placeholder amount for statewide medical and dental insurance.

Medical and Dental Insurance - The JLBC Baseline includes \$10 million as a placeholder amount for a state employee medical and dental insurance adjustment. Funding for the employer share of health insurance in an individual agency’s FY 2010 Baseline is the same as in FY 2009.

Life Insurance - \$36.72 per employee per year. This amount is unchanged from FY 2009.

Retirement - The JLBC Baseline does not include a state employee retirement rate adjustment. Funding for the employer share of retirement rate contributions in an individual agency’s FY 2010 Baseline is the same as in FY 2009.

FY 2010 rates as determined by the state’s retirement systems have changed from the FY 2009 rates. The rates for the different retirement systems, as a percent of Personal Services, are shown in *Table 1*. The statewide General Fund cost from the changes in rates is \$5,075,400. This amount consists of a \$544,600 increase for Arizona State Retirement System (ASRS) agencies and a \$(134,300) decrease for non-ASRS agencies. The \$(134,300) decrease for non-ASRS agencies, however, does include a \$1,009,800 increase for the Department of Corrections. The JLBC Baseline does not adjust agency funding for these changes.

Disability Insurance - For ASRS employees the employer pays 0.40% of Personal Services for disability insurance, a decrease of (0.10)% from the FY 2009 rate of 0.50%. The JLBC Baseline does not adjust agencies’ budgets for this decrease, which is estimated to generate General Fund savings of \$1,009,200.

Table 1

Retirement System	Retirement Rates		
	Employer		Employee
	FY 2009	FY 2010	FY 2010^{1/}
<i>Arizona State Retirement System</i>	8.95	9.00	9.00
<i>Correctional Officers Ret. Plan</i>			
Correctional Officers - DOC	8.90	9.19	8.41
Correctional Officers - DJC	8.42	8.41	8.41
<i>Elected Officials Retirement Plan</i>	14.05	14.26	7.00
<i>University Optional</i>	7.00	7.00	7.00
<i>Public Safety Personnel Retirement</i>			
Liquor License Investigators	20.30	19.02	7.65
Department of Public Safety ^{2/}	33.62	31.96	2.65
Northern Arizona University Police	25.97	25.36	7.65
University of Arizona Police	21.70	20.01	7.65
Arizona State University Police	19.46	19.96	7.65
Game and Fish Department	37.98	37.09	7.65
Attorney General Investigators	52.81	46.40	7.65
DEMA Firefighters	20.46	16.46	7.65
ADOA Capitol Police	14.23	11.00	7.65
Parks Police	17.83	17.51	7.65

^{1/} FY 2010 employee rates are unchanged from FY 2009 except for Arizona State Retirement System, which decreased from 8.95%.

^{2/} The displayed rates reflect that 5% of the DPS member contribution of 7.65% is paid by the state.

For non-ASRS employees the rate is 0.36% of Personal Services, unchanged from the FY 2009 rate.

Federal Insurance Contributions Act (FICA) - Social Security taxes are budgeted at a rate of 6.20% up to \$102,000 of an employee's salary, up from the FY 2009 budgeted maximum of \$97,500. (The actual cap beginning January 1, 2009 set by the federal government is \$106,800.) No additional funds are appropriated to agencies for this increase, though the impact will be minimal. 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 2009.

Human Resources Services - 1.07% of Personal Services for each agency in the Arizona Department of Administration (ADOA) personnel system, unchanged from the FY 2009 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 - 0.20% of Personal Services for each agency, unchanged from the FY 2009 rate established by Laws 2008, Chapter 291. 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 2009 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

Unemployment Insurance - 0.15% of Personal Services for each agency, unchanged from the FY 2009 rate.

Attorney General Pro Rata - 0.675% of the Personal Services base for each agency not specifically excluded from the charge, unchanged from the FY 2009 rate. A portion of the Attorney General's budget is funded from this charge.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2009 workers' compensation rates. Individual agency budgets have not been adjusted for changes in rates. The overall statewide rate has declined from 0.91% in FY 09 to 0.90% in FY 2010.

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 have changed from the budgeted FY 2009 rates. Individual agency budgets have not been adjusted for changes in rates. The rates are estimated to generate total revenues of \$70.8 million yearly, an increase from the \$70.1 million generated in FY 2009.

Rent - Individual agency budgets' Other Operating Expenditures include monies to pay rent for state-owned, lease-purchase or privatized lease-to-own (PLTO) space, as well as for privately-owned space.

Session laws permitted ADOA to charge \$21.02 for all state agencies occupying state-owned space and \$7.62 per square foot for state-owned storage space in FY 2008 and FY 2009. Agencies have been budgeted at the \$21.02 and \$7.62 in the JLBC Baseline for FY 2010.

The JLBC Baseline also maintains the FY 2009 allocations for all agencies housed in buildings acquired by lease-purchase or PLTO. The Baseline does not adjust any agency's allocation for FY 2010 changes. In addition to adjustments to current lease-purchase and PLTO issuances, the JLBC Baseline also includes funding for previously-authorized lease-purchase agreements to construct prison beds and wastewater projects at the Department of Corrections and a new Forensic Unit at the Arizona State Hospital in the Department of Health Services. Funding for these payments is included in those agencies' baselines.

Increases in rent for privately-owned space are addressed as separate policy issues.

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 FY 2010) also appears in the policy issue narrative.

Full-Time Equivalent (FTE) Positions

Each agency section in this book includes the proposed number of Full-Time Equivalent (FTE) Positions for the

agency, along with the number of authorized FTE Positions for FY 2009 and FY 2010. Any changes from the prior year total are noted in agency narrative. The number of FTE Positions reflects personnel funded from both Personal Services and Special Line Items.

Format

Each agency section in this book includes the proposed agency budget format. 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

Footnotes

The individual agency sections of this book include proposed footnotes, which are narrative statements in the General Appropriation Act that establish conditions for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program's authorizing law. Footnotes are classified 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.

Statewide Footnotes

In addition to individual agency footnotes, the JLBC would include several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are unchanged from FY 2009 unless noted.

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 for FY 2010 for submission to the JLBC Director by August 1, 2010; 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, 2009 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 as of September 1, 2009.

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 Arizona Department of Administration shall provide to the JLBC a preliminary estimate of the FY 2009 and FY 2010 General Fund ending balances by September 15, 2009 and 2010, respectively. JLBC Staff shall report to JLBC by October 15 of 2009 and 2010 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.

Non-Lapsing Appropriations - The General Appropriation Act will designate certain appropriations with “*,” meaning that the appropriation is exempt from lapsing.

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.

Statutory Changes

The individual agency sections of this book include proposed statutory changes related to the budget. These changes will be introduced in Budget Reconciliation Bills (BRBs). *Please see the Summary book for a complete listing of proposed statutory changes.*

Performance Measures

The individual agency sections of this book include performance measures. The measures, actuals for FY 2006 through FY 2008, and their FY 2010 targets follow the “Change in Funding Summary” in the agency narrative. The FY 2010 targets would appear in the General Appropriation Act.

If agencies do not report the results of these measures in their FY 2011 budget request, the General Appropriation Act would continue to include a provision requiring a report on the reasons for their failure to submit this information. *Please see the Summary Book for details on which agencies failed to submit results for a measure as part of their FY 2010 budget submittal.*

Other Issues for Legislative Consideration

This section may also include other information of general interest.

Statewide Expenditure Adjustments

In addition to changes in individual agency budgets, the JLBC Baseline includes 2 “balance sheet” expenditure items not discussed elsewhere: Administrative Adjustments and Revertments.

Administrative Adjustments - The JLBC Baseline assumes that state agencies will have expenditures totaling \$136,000,000 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 \$136,000,000 is an increase of \$80,800,000 from the originally-budgeted FY 2009 total of \$55,200,000. The revised FY 2009 amount is 70% of reported FY 2008 revertments and is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends. In particular, the increase includes \$48 million of monies reverted by the Arizona Department of Education (ADE) in FY 2008 associated with a larger-than-authorized “rollover.” Administrative adjustments as

a percentage of prior year reverts vary widely from year to year, however, from below 30% to above 70%.

In addition to the FY 2009 revision, the JLBC Baseline assumes a FY 2010 administrative adjustment total of \$72,731,600, an increase of \$17,531,600 from the originally-budgeted FY 2009 total. The FY 2010 amount reflects 70% of prior-year reverts, a percentage based on historical averages.

Reverts - The JLBC Baseline assumes that state agencies will revert \$(103,920,300) 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 2009. This amount is an increase of \$(6,902,300) from the originally-budgeted FY 2008 total of \$(97,000,000). The revised FY 2009 amount reflects 1.0% of total spending. The original FY 2009 figure was based on 0.9% of total spending, a percentage based on statewide historical averages in years in which the economy slows down.

In addition to the FY 2009 revision, the JLBC Baseline also assumes a FY 2010 revertment total of \$(96,284,100), a decrease of \$(715,900) from the originally-budgeted FY 2009 total. This revised amount is also based on the .9% historical average of statewide total spending in years with a slowed economy.