

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 2010, 7th Special Session, Chapter 1) provides direction with regard to several general provisions.

General Provisions

FY 2010 and FY 2011 Statewide Adjustments — Section 147 of the General Appropriation Act appropriates \$23,941,100 from the General Fund and \$11,554,900 from Other Appropriated Funds for lease-purchase and health insurance adjustments in FY 2011:

- **State Lease-Purchase:** \$9,002,300 General Fund and \$2,716,300 Other Appropriated Funds for FY 2010 and FY 2011 adjustments in agency or department lease-purchase charges. *(Please see the Capital Outlay section for more details on lease-purchase charges.)*
- **Non-University State Employee Health Insurance:** \$14,938,800 General Fund and \$8,838,600 Other Appropriated Funds for FY 2011 increases in the employer share of non-university state employee health insurance contributions.

Section 147 states that the JLBC Staff shall determine and the Arizona Department of Administration (ADOA) shall allocate to each agency or department an amount for each adjustment. For details on the amount allocated to each agency, please see the Crosswalk section.

No other statewide adjustments were funded in FY 2011, however, Section 148 of the General Appropriation Act transfers to the General Fund \$(1,730,000) in FY 2010 and \$(45,000,000) in FY 2011 from state agencies' General Funds, Other Appropriated Funds, and non-federal non-appropriated funds for personnel expenses and states that the procedures for these transfers are specified in the FY 2011 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2010, 7th Special Session, Chapter 3). *(Please see the Performance Pay Elimination & Furlough Requirement write-up in the Other Budget Issues section below.)*

Expenditure Reporting — Section 151 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.

FTE Position Reporting — Section 152 states that the Full Time Equivalent (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 (DES), Universities, and Department of Environmental Quality (DEQ). The Director shall submit the FY 2010 report by October 1, 2010 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. 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. DES, the Universities, and DEQ shall report to the Director of the JLBC in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 153 states that by October 1, 2010 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, 2010.

Transfer Authority — Section 154 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 155 requires the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2010 General Fund ending balance by September 15, 2010 and a preliminary estimate of the FY 2011 General Fund ending balance by September 15, 2011. Based on this information, JLBC Staff shall report to JLBC by October 15 of 2010 and 2011 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. Excluding the beginning balance and including one-time revenues, Section 155 states the revenues are forecasted to be \$8,345,541,600 for FY 2010 and \$8,525,545,000 for FY 2011.

Expenditure Authority — Section 158 states that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are continuously

Table 1

FY 2010 State Employee Health/Dental Insurance ^{1/}

	<u>General Fund</u>	<u>Other Fund</u>	<u>Non-Approp.</u>	<u>Total Employer</u>	<u>Employee Premiums</u>	<u>Retiree Premiums</u>	<u>Total</u>
Health	308,539,000	140,244,900	112,196,000	560,979,900	66,950,200	78,593,700	706,523,800
Dental	8,691,100	3,950,500	3,160,400	15,802,000	27,658,200	5,193,300	48,653,500
Total	\$317,230,100	\$144,195,400	\$115,356,400	\$576,781,900	\$94,608,400	\$83,787,000	\$755,177,300

^{1/} FY 2011 budget includes a 8.5% increase in employer premiums not reflected in this chart.

appropriated monies that are included in the individual line items of appropriations.

JLBC Review — Section 159 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 2011 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the General Appropriation Act (Laws 2009, 7th Special Session, Chapter 1). Statewide adjustment amounts are mentioned first in any relevant agency narrative, but do not have additional discussion.

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), a Preferred Provider Organization (PPO) and a Health Savings Account (HSA) Option. Contracts for Plan Year 2011, which begins on October 1, 2010, have not yet been signed. Additional information on the current plan design can be found on page 481 of the *FY 2010 Appropriations Report*.

Laws 2010, 2nd Regular Session, Chapter 232 extends state employee health care coverage to dependents up to their 26th birthday. This permanent law change conforms the state to requirements of the Patient Protection and Affordable Care Act (*see Federal Health Care Legislation at the front of this Appropriations Report for more details*). Chapter 232 also makes a permanent law change to allow a child who was disabled before reaching age 19 who continues to be disabled and for whom the employee had custody before reaching age 19 to be considered a

Table 2

**Health Insurance
State Employee and Employer Monthly Contributions**

	<u>State Employee Contribution 10/1/09 Contract</u>	<u>Employer Contribution 10/1/09 Contract</u>
<u>Exclusive Provider Organization (EPO)</u>		
Employee	\$ 39.00	\$ 484.00
Employee Plus One Adult	97.00	1,013.00
Employee Plus One Child	79.00	967.00
Family	178.00	1,264.00
<u>Preferred Provider Organization (PPO)</u>		
Employee	154.00	641.00
Employee Plus One Adult	328.00	1,318.00
Employee Plus One Child	309.00	1,268.00
Family	443.00	1,699.00
<u>Health Spending Account (HSA) Option</u>		
Employee	25.00	\$444.00
Employee Plus One Adult	80.00	906.00
Employee Plus One Child	59.00	879.00
Family	150.00	1,143.00

Table 3

**Dental Insurance
State Employee and Employer Monthly Contributions**

	State Employee Contribution 10/1/09 Contract	Employer Contribution 10/1/09 Contract
<u>Prepaid</u>		
Employee	\$5.00	\$4.96
Employee Plus One	9.00	9.92
Family	14.00	13.70
<u>Indemnity</u>		
Employee	29.86	4.96
Employee Plus One	67.93	9.92
Family	118.12	13.70

dependent for state employee health care coverage. Laws 2009, 3rd Special Session, Chapter 10 had the unintended consequence of removing this population.

In addition, Laws 2010, 7th Special Session, Chapter 10, the Health BRB, continues a session law provision prohibiting implementation of a differentiated health insurance premium based on the integrated or non-integrated status of the provider.

State employee and employer premiums for the October 1, 2009 plan year are shown in Table 2. The budget provided funding for a 8.5% increase in employer premiums for the plan year starting October 1, 2010; however, official rates have not yet been released.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums based on the current plan year are shown in Table 3. Rates for the upcoming play year have not yet been released.

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 DES 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 2011. 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 — \$40.30 per employee per year, an increase of \$3.58 from the FY 2010 rate of \$36.72.

Unemployment Insurance — 0.412% of Personal Services for each agency, unchanged from the FY 2010 rate.

Personnel Division Pro Rata — 1.10% of Personal Services for each agency in the Arizona Department of Administration (ADOA) personnel system, unchanged from the FY 2010 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 Arizona State Retirement System (ASRS) employees the employer pays 0.25% of Personal Services for disability insurance, a decrease of (0.15)% from the FY 2011 rate of 0.40%. Agencies’ budgets were not adjusted for this decrease. For non-ASRS employees the rate is 0.36%, unchanged from FY 2010.

Information Technology Planning — 0.20% of Personal Services for each agency, unchanged from the FY 2010 rate. 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 2010 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 2010. A portion of the Attorney General’s budget is funded from this charge.

Workers’ Compensation — The rates vary by individual agency. The budgeted rates are unchanged from FY 2010. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers’ Compensation losses. The overall statewide rate is 0.90% in FY 2011.

Federal Insurance Contributions Act (FICA) — Social Security taxes are applied at a rate of 6.20% up to \$106,800 of an employee’s salary, which is an increase from the \$102,000 maximum assumed in FY 2010. 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 2010.

State Retirement Systems — There are 4 state employee retirement systems -- 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

Table 4

FY 2011 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$40.30
Unemployment Insurance	0.412%
Personnel Division Pro Rata	1.10%
Disability (Arizona State Retirement System)	0.25%
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 \$106,800)	6.20%
Medicare (no salary cap)	1.45%

Retirement System

	<u>Employer</u>		<u>Employee</u>
	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2011</u> ^{1/}
<i>Arizona State Retirement System</i>	9.00	9.60	9.60
<u>Correctional Officers Ret. Plan</u>			
Correctional Officers - DOC	9.19	8.37	8.41
Correctional Officers - DJC	8.41	7.46	8.41
<i>Elected Official Retirement Plan</i>	14.25	17.42	7.00
<i>University Optional</i>	7.00	7.00	7.00
<u>Public Safety Personnel Retirement</u>			
Liquor License Investigators	19.02	19.14	7.65
Department of Public Safety ^{2/}	31.95	33.82	2.65
Northern Arizona University Police	25.36	30.51	7.65
University of Arizona Police	20.01	20.50	7.65
Arizona State University Police	19.96	18.70	7.65
Game and Fish Department	37.09	40.63	7.65
Attorney General Investigators	46.39	81.75	7.65
DEMA Firefighters	16.46	16.46	7.65
ADOA Capitol Police	11.00	12.86	7.65
Parks Police	17.51	14.66	7.65

^{1/} FY 2011 retirement employee rates are unchanged from FY 2010 except for Arizona State Retirement System, which increased from 9.00%.

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

own defined contribution plan. For ASRS, both the employer and employee rates increased by 0.60% in FY 2010, from 9.00% to 9.60%. No change in agencies' budgets was made for this adjustment in rates. *Table 5* lists ASRS contribution rates since FY 1983.

For PSPRS, CORP and EORP only the employer contribution rate changed, as the employee contribution rates which are set in statute remain unchanged for FY 2011.

Other Operating Expenditures

The following items are included in agency's Other Operating Expenditures.

Table 5

ASRS Contribution Rates

<u>Fiscal Year</u>	<u>Rate</u> ^{1/}	<u>Fiscal Year</u>	<u>Rate</u> ^{1/}
FY 1983	7.00	FY 1998	3.05
FY 1984	7.00	FY 1999	2.85
FY 1985	6.27	FY 2000	2.17
FY 1986	5.67	FY 2001	2.17
FY 1987	5.53	FY 2002	2.00
FY 1988	4.00	FY 2003	2.00
FY 1989 ^{2/}	4.78	FY 2004	5.20
FY 1990 ^{2/}	1.29	FY 2005	5.20
FY 1991 ^{2/}	3.37	FY 2006	6.90
FY 1992 ^{2/}	3.17	FY 2007	8.60
FY 1993 ^{2/}	3.10	FY 2008	9.10
FY 1994 ^{2/}	2.65	FY 2009	8.95
FY 1995 ^{2/}	3.26	FY 2010	9.00
FY 1996	3.36	FY 2011	9.60
FY 1997	3.20		

^{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.

Building Payments — The Other Operating Expenditures line of individual agency budgets includes rental charges, lease-purchase, and privatized lease-to-own (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.

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please see the State Lease-Purchase discussion above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay 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 budgeted rates have not changed from FY 2010 and are estimated to generate total revenues of \$70.1 million yearly. The rate that ADOA charges each agency may be different than the budgeted rates. 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 Summary of Risk Management Charges later in this section for these charges.)*

Other Budget Issues

The FY 2011 Budget Procedures BRB (Laws 2010, 7th Special Session, Chapter 3) includes the following 3 statewide provisions, which will become effective on June 15, 2010:

Voluntary Separation Program – The BRB permanently repeals the voluntary separation program. This program required ADOA to establish procedures which would allow a state agency to provide severance payments to those terminated from state service due to a reduction in force, subject to agencies' available funding. The program also gave ADOA the option to allow a terminated employee to continue state employee health insurance for up to 6 months, subject to available funding.

Furlough Implementation – The BRB continues to allow agencies to implement a furlough for FY 2011 and directs ADOA to prescribe implementation procedures and exempts them from rulemaking requirements for the purpose of prescribing the procedures. (This is in addition to the Performance Pay Elimination & Furlough Requirement discussion below.)

Performance Pay Elimination & Furlough Requirement – The BRB permanently eliminates the 2.75% performance pay available to state agencies, effective May 29, 2010. Performance pay provided participating employees a total of 2.75% of additional compensation if the agency or work unit achieved pre-determined performance targets.

The bill requires 1 furlough day in FY 2010 and 6 furlough days in each of FY 2011 and FY 2012 and allows for exemptions from furloughs if approved by ADOA. If approved by ADOA, a budget unit may reduce employee pay in lieu of requiring furloughs provided that the agency achieves the required amount of savings. The exemptions only apply to furloughs and not the 2.75% pay reduction. ADOA was required to report to JLBC on the job classifications and the total number of employees, by budget unit, who have been exempted from the furlough program and information on budget units which received approval to substitute a pay reduction in lieu of requiring furloughs by April 30, 2010.

ADOA will not be implementing a furlough day in FY 2010. The FY 2011 furlough days are as follows: July 23, August 20, September 17, November 26, December 23, and June 10. The FY 2012 furlough days are as follows: July 22, August 19, September 16, November 25, December 23, and June 15.

Section 148 of the General Appropriation Act transfers to the General Fund \$(1,730,000) in FY 2010 and \$(45,000,000) in FY 2011 from state agencies' funds for personnel expenses related to this performance pay elimination and furlough requirement. The performance pay reduction does not apply to board and commission members who are paid on a per diem basis, university employees, or employees of elected state officers.

Each state elected office agency was also allocated a reduction amount equivalent to 5.05% of non-elected

employees' salaries plus employee related expenditures. This percentage amount is equivalent to the performance pay and furlough reductions taken by most other state agencies. Each elected official, however, shall determine how the reduction will be applied, including using vacancy savings, salary reductions, and furloughs.

Administrative Adjustments — The budget assumes that state agencies will have expenditures totaling \$73,607,000 in FY 2011 for FY 2010 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2010 but for which the state was unbilled until FY 2011. An agency's administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$73,607,000 is an increase of \$875,400 from the FY 2010 total of \$72,731,600. The FY 2011 amount is 65% of prior-year reversionments. This amount reflects a percentage close to the historical average. Administrative adjustments as a percentage of prior year's reversionments vary widely from year to year, however, from below 30% to above 70%.

In addition to the FY 2011 increase above FY 2010, the budget assumes no revision to the originally-budgeted FY 2010 administrative adjustment total of \$72,731,600. This amount is 65% of reported FY 2009 reversionments and is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends.

Reversionments — The budget assumes that state agencies will revert \$(112,905,100) of FY 2011 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 2012. This amount is an increase of \$336,500 from the FY 2010 total of \$(113,241,600). The FY 2011 amount reflects 1.1% of total spending, a percentage based on historical averages in years which the economy slows down.

In addition to the FY 2011 increase above FY 2010, the budget assumes no revision to the originally-budgeted FY 2010 reversionment total of \$(113,241,600). This amount is approximately 1.2% of FY 2010 estimated spending.

In addition to these reversionments, the FY 2011 budget also continues to modify the accounting of non-lapsing General Fund monies, which are not usually included in the General Fund ending balance. Laws 2010, 7th Special Session, Chapter 3 requires that any monies appropriated from the General Fund that are non-lapsing and unexpended at the end of FY 2011 shall be treated as if these funds are part of the FY 2011 ending balance. This accounting method is not anticipated to generate additional any statutory reversionment savings in FY 2011. These amounts were originally estimated to be \$50,000,000. These monies remain non-lapsing and continue to be available to the agencies in FY 2012.

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.

Lump Sum with Special Line Items — The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are permitted to shift funds among line items, programs and subprograms without further legislative or Executive Branch review, though footnotes may place additional restrictions or notifications upon the agency prior to or associated with transfers between special line items or to or from the operating budget.