

## TECHNICAL BUDGET ASSUMPTIONS

### Baseline

This book reflects General Fund baseline revenue and spending estimates. The revenue projections are based on a consensus economic forecast while the spending estimates represent funding formula requirements and other obligations. The Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the Baseline is only a starting point for discussion on the FY 2012 budget.

### FY 2012 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 budget shortfall projected for FY 2012 and future years, the Baseline only includes FY 2012 funding for all budget units. The Baseline also includes supplemental FY 2011 funding for selected budget units. All FY 2012 changes are referenced to the original FY 2011 appropriated amount.

### Changes from Prior Year

The 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 2010 Actual* - This dollar amount represents the FY 2010 expenditures as reported by the agency.
- *FY 2011 Estimate* - This dollar amount represents the FY 2011 appropriations as of the end of the 49<sup>th</sup> Legislature.
- *FY 2012 Baseline* - This dollar amount represents the FY 2012 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.

### Statewide and Standard Changes

**Personal Services** - This category includes salaries paid to state employees. The Baseline does not include a state employee pay adjustment. The Baseline continues into FY 2012 the FY 2011 reductions associated with the elimination of the 2.75% performance pay adjustment and the implementation of 6 furlough days or, for state-elected office agencies, the 5.05% equivalent reduction.

The Baseline includes a one-time General Fund increase of \$80,000,000 plus matching Other Appropriated Funds to fund a 27<sup>th</sup> pay period in FY 2012. Paychecks are typically disbursed to employees on Thursday or Friday after the last Friday of a pay period. There are 27 such Fridays in FY 2012 as opposed to the typical 26 in a fiscal year.

**ERE Rates** - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2011 to FY 2012 in the Baseline.

*Medical and Dental Insurance* - The Baseline includes no funding for a medical and dental insurance adjustment. Funding for the employer share of health insurance in an individual agency’s FY 2012 Baseline is the same as in FY 2011. JLBC Staff estimates the net total increase in medical and dental insurance costs in FY 2012 to be approximately \$20 million in total funds, reflecting a base adjustment of \$(20) million to reflect higher-than-required sweeps in FY 2011, plus \$40 million of new FY 2012 costs, reflecting 8% growth. The Baseline assumes that this increase will be funded by drawdowns of the Health Insurance Trust Fund balance. As of November 30, this balance was approximately \$177 million.

*Life Insurance* - \$23.40 per employee per year, decreased from the FY 2011 rate of \$40.30.

*Retirement* - The 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 2012 Baseline is the same as in FY 2011.

FY 2012 rates as determined by the state’s retirement systems have changed from the FY 2011 rates. The rates for the different retirement systems, as a percent of Personal Services, are shown in *Table 1*. For the Arizona State Retirement System (ASRS), the statewide General Fund cost is \$8,298,000. The General Fund cost of non-ASRS changes is an increase of \$3,989,600.

**Table 1****Retirement Rates**

<b>Retirement System</b>	<b>Employer</b>		<b>Employee</b>
	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2012<sup>1/</sup></b>
<i>Arizona State Retirement System</i> <i>Correctional Officers Ret. Plan</i>	9.60	10.50	10.50
Correctional Officers - ADC	8.37	9.15	8.41
Correctional Officers - DJC	7.46	9.92	8.41
DPS Dispatchers <sup>2/</sup>	6.51	7.50	8.41
Probation Officers (omitted in past)	11.64	13.13	8.41
<i>Elected Officials Retirement Plan</i>	17.42	17.96	7.00
<i>University Optional</i>	7.00	7.00	7.00
<b><i>Public Safety Personnel Retirement</i></b>			
Liquor License Investigators	19.14	38.77	7.65
Department of Public Safety <sup>2/</sup>	33.82	38.30	2.65
Northern Arizona University Police	30.51	29.40	7.65
University of Arizona Police	20.50	21.24	7.65
Arizona State University Police	18.70	20.48	7.65
Game and Fish Department	40.63	43.35	7.65
Attorney General Investigators	81.75	90.08	7.65
DEMA Firefighters	16.46	17.76	7.65
ADOA Capitol Police	12.86	12.93	7.65
Parks Police	14.66	18.50	7.65

<sup>1/</sup> FY 2012 employee rates are unchanged from FY 2011 except for Arizona State Retirement System, which increased from 9.60%.

<sup>2/</sup> The displayed rates reflect that 5% of the DPS member contribution of 7.65% is paid by the state.

**Disability Insurance** - For ASRS employees the employer pays 0.25% of Personal Services for disability insurance, unchanged from the FY 2011 rate of 0.25%.

For non-ASRS employees the rate is also 0.25% of Personal Services, unchanged from the FY 2011 rate. Agencies have been budgeted at 0.36% for this rate for several years.

**Federal Insurance Contributions Act (FICA)** - Social Security taxes are budgeted at a rate of 6.20% up to \$106,800 of an employee's salary, unchanged from the FY 2010 budgeted maximum. (The actual cap beginning January 1, 2011 set by the federal government is also \$106,800.) 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 2011.

**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 2011 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 2011 rate. 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 2011 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies.

**Unemployment Insurance** - 0.650% of Personal Services for each agency, unchanged from the rate effective since fall of 2010. Agencies were budgeted at a 0.412% rate for FY 2011.

**Attorney General Pro Rata** - 0.675% of the Personal Services base for each agency not specifically excluded from the charge, unchanged from the FY 2011 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 2011 workers' compensation rates. ADOA estimates that the new rates will generate \$2.8 million in additional premiums, including \$1.8 million in the Arizona Department of Corrections (ADC) and \$0.5 million each in the Departments of Public Safety and Transportation. The average statewide rate would increase from 0.90% in FY 2011 to 1.03% in FY 2012.

**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 are assumed to be unchanged from the budgeted FY 2011 rates.

**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.

ADOA charges \$21.02 for all state agencies occupying state-owned space and \$7.62 per square foot for state-owned storage space in FY 2011.

The Baseline adjusts the allocations for all agencies housed in buildings acquired by lease-purchase to reflect FY 2012 changes in payments. These changes include taking savings associated with 6 lease-purchase buildings whose final payments were made in FY 2011. In addition to the reductions associated with reduced lease-purchase payments, the Baseline also adds the new state-owned space to the ADOA rental system. Given the conversion of leased space to state-owned buildings, the Baseline reduces the average rental rate for state-owned space and state-owned storage space to \$15.08 and \$5.47 per square foot, respectively. (*Please see the "COSF Rental Rate Change and Payment Savings" discussion in the ADOA Capital section for more details.*)

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

### 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 2011 and FY 2012. 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*

Please see the Major Footnote Changes section for a listing of major footnote changes from FY 2011.

### **Statewide Footnotes**

In addition to individual agency footnotes, the Baseline would include several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are unchanged from FY 2011 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 an FTE Position utilization report for FY 2012 for submission to the JLBC Director by October 1, 2011; the Department of Economic Security, Universities, and Department of Environmental Quality, exempt from the ADOA report, are to report in a comparable manner. In addition, each agency shall submit a report to the JLBC Director by October 1, 2011 on the number of filled, appropriated FTE Positions by fund source as of September 1, 2011.

*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* - ADOA shall provide to the JLBC a preliminary estimate of the FY 2011 and FY 2012 General Fund ending balances by September 15, 2011 and 2012, respectively. JLBC Staff shall report to JLBC by October 15 of 2011 and 2012 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 FY 2012 Budget Reconciliation Bill Provisions section for a complete listing of proposed statutory changes.

## **Other Issues for Legislative Consideration**

This section may also include other information of general interest, including FY 2011 supplementals.

## **Statewide Expenditure Adjustments**

In addition to changes in individual agency budgets, the Baseline includes 3 “balance sheet” expenditure items not discussed elsewhere: Administrative Adjustments, Revertments, and Statutory Revertments.

*Administrative Adjustments* - The Baseline assumes that state agencies will have expenditures totaling \$78,000,000 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 revertment, or unused appropriation authority. The \$78,000,000 is an increase of \$4,393,000 from the originally-budgeted FY 2011 total. The FY 2011 amount is approximately 65% of reported FY 2010 revertments and is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends. Administrative adjustments as a percentage of prior year revertments vary widely from year to year, however, from below 30% to above 70%.

In addition to the FY 2011 figure, the Baseline assumes a FY 2012 administrative adjustment total of \$73,388,300, a decrease of \$(4,611,700) from the FY 2011 total. The FY 2012 amount reflects 65% of prior-year revertments.

*Revertments* - The Baseline 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 unchanged from the originally-budgeted FY 2011 total. The FY 2011 amount reflects approximately 1.2% of total spending, a percentage based on historical averages in years in which the economy slows down.

In addition to the FY 2011 figure, the Baseline also assumes a FY 2012 revertment total of \$(111,256,400), an

increase of \$1,648,700 from the FY 2011 total. This revised amount is about 1.2% of total spending.

*Statutory Revertments* - The enacted FY 2011 budget required that any non-lapsing monies appropriated from the General Fund that remained unexpended at the close of FY 2011 be counted as part of the FY 2011 ending balance. These amounts, however, remain available for expenditure in FY 2012. The Baseline assumes that non-lapsing FY 2012 monies will be counted as part of the FY 2012 ending balance.

The enacted FY 2009 budget included \$50 million of one-time savings for this accounting procedure. While the total amount of funds subject to this provision will vary from year to year, it is estimated that to “pay off” this accounting procedure would now require approximately an additional \$35.5 million above the Baseline amount.