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 2013, 1st Special Session, Chapter 1) provides direction with regard to several general provisions.

General Provisions

Statewide Adjustments — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency. The adjustments are as follows:

Section 131 of the General Appropriation Act makes statewide adjustments totaling $22,289,500 from the General Fund and $14,013,600 from Other Appropriated Funds in FY 2014 for changes in 4 areas:

- State Lease-Purchase and Rental Rates: $67,800 General Fund and $713,600 Other Appropriated Funds for adjustments in agency lease-purchase and privatized-lease-to-own charges and converting state agency rental rates from usable square feet to rentable square feet pursuant to the FY 2013 Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 296). *(Please see the Capital Outlay section for more details on lease-purchase and rent charges.)*
- Human Resources Pro Rata: $(1,605,400) General Fund and $(1,200,000) Other Appropriated Fund savings from reducing the pro rata share of overall payroll most state agencies are required to pay to fund the State Personnel Board and Human Resources Division from 1.10% to 0.86%. The amount also includes adjustments to cover 7 state agencies incorporated into the Arizona Department of Administration's (ADOA) personnel system by Laws 2012, Chapter 312. *(Please see the ADOA section for more details on the human resources pro rata charge.)*
- Risk Management: $327,100 General Fund increase and $(2,000,000) Other Appropriated Funds savings for FY 2014 adjustments in agency risk management rates. *(Please see Risk Management discussion below for more details.)*
- Retention Payments: $23,500,000 General Fund and $16,500,000 Other Appropriated Funds to annualize the critical retention payments appropriated in the FY 2013 General Appropriation Act. These payments were for employees who had uncovered status as of September 29, 2012, including those who voluntarily converted to uncovered status or were required to convert by Laws 2012, Chapter 321. In the FY 2013 budget, the payments were designated as one-time, equal to 5% of the employee's annual salary level, equivalent to 3.75% for a full year. The FY 2014 adjustment makes the adjustment permanent and includes sufficient funding to make it 5% for a full year.

Based on ADOA reports, an estimate 20,266 state employees were initially eligible for the retention payments, divided as follows:

- Uncovered prior to Chapter 321: 8,316
- Mandatorily made uncovered by Chapter 321: 6,616
- Voluntarily converted to uncovered status prior to September 29, 2012: 5,334

Those employees still in those same jobs as of September 29, 2012 would continue to receive the adjustment.

In addition to these changes, Section 113 changed the amount reduced from state agency health insurance premiums in FY 2013 from $(25,000,000) as specified in the FY 2013 General Appropriation Act to no more than $(19,381,500). This change had the net impact of making the General Fund reduction allocated to the Universities smaller than originally calculated.

Expenditure Reporting — Section 133 continues to state 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 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 134 continues to state 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 and non-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 2014 report by October 1, 2014 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. This report is being expanded to include non-appropriated positions to provide a more comprehensive view of state employment.

Filled FTE Position Reporting — Section 135 continues to state that by October 1, 2013 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2013. As with the ADOA report, this report is also being expanded to include non-appropriated funds.

Transfer Authority — Section 136 continues to require 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 137 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2013 General Fund ending balance by September 15, 2013. Based on this information, JLBC Staff shall report to JLBC by October 15, 2013 as to whether FY 2014'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 141 states the revenues are forecasted to be $9,375,000 for FY 2013 and $9,112,000,000 for FY 2014.

Section 137 also provides revenue and expenditure estimates for FY 2015 and FY 2016, pursuant to Laws 2012, Chapter 244. Chapter 244 added A.R.S. § 35-125, requiring the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. Chapter 244 requires the Legislature to discuss the estimates in a public hearing before the adoption of the General Appropriation Act. *Please see the Budget Highlights section for more details on FY 2015 and FY 2016 estimates.)*

Expenditure Authority — Section 139 continues to state 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 140 continues to state 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 2014 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the FY 2014 General Appropriation Act. Statewide adjustment amounts are mentioned 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 CY 2014, which begins on January 1, 2014, have not yet been signed. Additional information on the current plan design can be found on page 481 of the *FY 2010 Appropriations Report.*

Estimated FY 2013 health and dental costs are shown in *Table 1*. State employee and employer premiums for the CY 2013 plan year are shown in *Table 2*. The FY 2014 budget assumed employer premiums for the plan year starting January 1, 2014 would remain the same; however, rates for the upcoming plan year have not yet been released.

Table 1

FY 2014 Estimated State Employee Health/Dental Insurance ($ in millions)

	General Fund	Other Fund	Non-Approp.	Total Employer	Employee Premiums	Retiree Premiums	Total
Health 1/	243.9	382.3	0	626.2	80.9	58.3	765.4
Dental	2.1	3.3	0	5.4	20.3	14.6	40.2
Total	**246.0**	**385.6**	**0**	**631.6**	**101.1**	**72.9**	**805.6**

Table 2

Health Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2013

	State Employee Contribution	Employer Contribution
Exclusive Provider Organization (EPO)		
Employee	$ 40.00	$ 550.00
Employee Plus One Adult	119.00	1,113.00
Employee Plus One Child	101.00	1,078.00
Family	221.00	1,405.00
Preferred Provider Organization (PPO)		
Employee	155.00	741.00
Employee Plus One Adult	330.00	1,506.00
Employee Plus One Child	331.00	1,447.00
Family	486.00	1,929.00
Health Spending Account (HSA) Option		
Employee	26.00	503.00
Employee Plus One Adult	102.00	1,010.00
Employee Plus One Child	81.00	977.00
Family	193.00	1,265.00

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Beginning in CY 2013, ADOA switched to a self-funded PPO plan and changed dental insurance premiums from a 3-tiered structure to a 4-tiered structure. Employee and employer premiums based on the CY 2013 plan year are shown in *Table 3*. Rates for the upcoming plan year have not yet been released.

Table 3

Dental Insurance
State Employee and Employer Monthly Contributions

	State Employee Contribution	Employer Contribution
DHMO		
Employee	$4.03	$4.96
Employee + 1 Adult	7.59	4.96
Employee + 1 Child	8.06	9.92
Family	13.27	13.70
PPO		
Employee	30.98	4.96
Employee + 1 Adult	50.56	9.92
Employee + 1 Child	65.71	9.92
Family	104.56	13.70

The FY 2014 budget requires ADOA to transfer a total of $73.5 million from the Health Insurance Trust Fund (HITF) in FY 2014, of which $68.0 million will be transferred to the General Fund and $5.5 million will be transferred to the Automation Projects Fund. After subtracting out the HITF transfers, the JLBC Staff estimates the net total increase in health and dental insurance costs in FY 2014 to be approximately $40 million in total funds, reflecting 5.6% growth. The budget assumes that this increase will be funded by existing premiums. The estimated ending balance in HITF at the end of FY 2013 is $325 million. *(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)*

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 2014. 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. Except as noted, the budget does not include funding for the changes in rates.

Life Insurance - $23.40 per employee per year, unchanged from the FY 2013 rate.

Unemployment Insurance - 0.15% of Personal Services for each agency, unchanged from the FY 2013 rate.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, a decrease of (0.24)% from the FY 2013 rate of 1.10%. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board. *(Please see ADOA narrative for more details.)*

The following *Appropriations Report* agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)
- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

Table 4

FY 2014 Employer Contribution Rates

Category	Rate
Life Insurance (per FTE Position)	$23.40
Unemployment Insurance	0.15%
Personnel Division Pro Rata	0.86%
Disability (Arizona State Retirement System)	0.24%
Disability (Non-State Retirement System)	0.25%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
Federal Insurance Contributions Act (FICA)	
Social Security (salary max $113,700)	6.20%
Medicare (no salary cap)	1.45%

Retirement System

	Employer		Employee
	FY 2013	FY 2014	FY 2014 1/
Arizona State Retirement System	10.90	11.30	11.30
Correctional Officers Ret. Plan			
Correctional Officers - ADC	11.14	13.45	8.40
Correctional Officers - DJC	12.30	15.39	8.40
DPS Dispatchers 2/	7.90	12.99	7.96
Probation Officers	13.12	15.58	8.40
Elected Official Retirement Plan 3/	20.87	25.94	13.00
University Optional	7.00	7.00	7.00
Public Safety Personnel Retirement			
Liquor License Investigators	46.99	44.34	10.35
Department of Public Safety 4/	48.71	56.99	5.35
Northern Arizona University Police	36.81	40.83	10.35
University of Arizona Police	25.54	26.64	10.35
Arizona State University Police	24.42	27.43	10.35
Game and Fish Department	50.54	60.53	10.35
Attorney General Investigators	136.04	111.67	10.35
DEMA Firefighters	20.54	23.07	10.35
Parks Police	25.16	30.75	10.35

1/ Only Correctional Officers Retirement Plan, University Optional Plan and DPS Dispatcher employee contributions are unchanged from FY 2013. Arizona State Retirement System employee rates increased from 10.90%, Elected Officials Retirement Plan rates increased from 11.5%, and Public Safety Personnel Retirement Plan rates from 9.55% (4.55% for DPS).

2/ Dispatchers hired after November 24, 2009 are ASRS members.

3/ The state's employer rate shown reflects rate after being lowered as a result of the deposit of certain court fines.

4/ The displayed rates reflect that 5% of the DPS member contribution is paid by the state.

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees the employer pays 0.24% of Personal Services for disability insurance, unchanged from the FY 2013 rate. The employee will also continue to pay 0.24%.

For non-ASRS employees the rate is 0.25% of Personal Services, unchanged from the FY 2013 rate.

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2013 rate. The information technology review function in the ADOA 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 2013 rate. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The Fund is used to make payments to state employees who retire with 500 or more hours of sick leave.

Attorney General Pro Rata - Section 132 outlines $1,809,500 in charges to selected state agencies for Attorney General services. The charges continue to replace the Attorney General Pro Rata charge of 0.675% of certain agencies' overall payroll eliminated by the FY 2013 Criminal Justice BRB (Laws 2012, Chapter 302). *(Please see the Attorney General narrative for details.)*

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2012 workers' compensation rates. ADOA estimates the average statewide rate would decrease from 1.03% in FY 2013 to 1.00% in FY 2014. The FY 2014 does not adjust agency budgets for this change. 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 paid at a rate of 6.20% up to $113,700 of an employee's salary beginning January 1, 2013, and increase from the current maximum of $110,100; the rate is unchanged from FY 2013. The FY 2014 budget does not adjust agency budgets for this change.

In addition, Medicare taxes are applied at a rate of 1.45% on the full level of an employee's salary. This rate is unchanged from FY 2013. Effective January 1, 2013, the federal Affordable Care Act imposes an additional 0.9% Medicare withholding on employees for the amount of salaries above $200,000. Employees will continue to be withheld at 1.45% for salaries below $200,000. The FY 2014 budget does not adjust agency budgets for this change.

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 (EORP). In addition, the Universities operate their own defined contribution plan. For ASRS, the total contribution for employees and employers combined will increase from 21.8% in FY 2013 to 22.6% in FY 2014. Employee contribution rates for EORP and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute.

The FY 2014 budget does not adjust agency budgets for these changes except that the Arizona Department of Corrections (ADC) and Department of Public Safety (DPS) received separate appropriations to fund the increased cost in employer retirement contributions for those agencies. *(Please see the ADC and DPS narratives for more detail.)*

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 (EORP). In addition, the Universities operate their own defined contribution plan. For ASRS, the total contribution for employees and employers combined will increase from 21.8% in FY 2013 to 22.6% in FY 2014. Employee contribution rates for EORP and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute.

The FY 2014 budget does not adjust agency budgets for these changes except that the Arizona Department of Corrections (ADC) and Department of Public Safety (DPS) received separate appropriations to fund the increased cost in employer retirement contributions for those agencies. *(Please see the ADC and DPS narratives for more detail.)*

In addition to rate changes in the Elected Officials Retirement Plan, Laws 2013, Chapter 217 appropriates $5,000,000 annually from the General Fund to the EORP Fund from FY 2014 through FY 2043 to supplement the normal cost and to amortize the unfunded accrued liability of the now closed EORP. *(Please see the Public Safety Personnel Retirement System narrative for more details.)*

Table 5 lists ASRS contribution rates since FY 1983.

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 privatized lease-to-own (PLTO) payments for certain buildings.

Rent charges in state-owned office space will decrease from $13.82/square foot to $13.08/square foot, with the charge for state-owned storage space decrease from $5.01/square foot to $4.74/square foot.

Table 5

ASRS Contribution Rates

Fiscal Year	Rate 1/	Fiscal	Rate 1/
FY 1983	7.00	FY 1999	2.85
FY 1984	7.00	FY 2000	2.17
FY 1985	6.27	FY 2001	2.17
FY 1986	5.67	FY 2002	2.00
FY 1987	5.53	FY 2003	2.00
FY 1988	4.00	FY 2004	5.20
FY 1989 2/	4.78	FY 2005	5.20
FY 1990 2/	1.29	FY 2006	6.90
FY 1991 2/	3.37	FY 2007	8.60
FY 1992 2/	3.17	FY 2008	9.10
FY 1993 2/	3.10	FY 2009	8.95
FY 1994 2/	2.65	FY 2010	9.00
FY 1995 2/	3.26	FY 2011	9.60
FY 1996	3.36	FY 2012	10.50
FY 1997	3.20	FY 2013	10.90
FY 1998	3.05	FY 2014	11.30

1/ Employee and employer each pay this rate except for FY 2012, when employers paid 9.87% and employees 11.13%. This non-50/50 split was repealed by Laws 2012, Chapter 304, which refunded excess contributions to employees.

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.

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 Statewide Adjustments 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 and have changed from the budgeted FY 2013 rates. *(Please see the Statewide Adjustments discussion above and the Risk Management Charges table following this section for more details.)*

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.

Section 105 of the General Appropriation Act includes a FY 2013 supplemental appropriation of $3,727,300 from the Risk Management Fund to refund a portion of certain fund balances to the federal government. In prior fiscal years, the state had transferred the balances of certain funds to the General Fund. If federal monies had been deposited into these funds, the federal government requires that they receive their own proportional share of fund transfers. The $3,727,300 is intended to cover the state's obligation for transfers associated with Attorney General Legal Services, Government Information Technology

Agency and other transfers made prior to FY 2013. *(Please see the ADOA narrative for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will have expenditures totaling $60,000,000 in FY 2014 for FY 2013 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2013 but for which the state was unbilled until FY 2014. An agency's administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The $60,000,000 is an increase of $22,400,000 from the FY 2013 total of $37,600,000. The FY 2013 amount is 39% of prior-year revertments, lower than the historical average of around 65%. Administrative adjustments as a percentage of prior year's revertments vary widely from year to year, however, from below 30% to above 70%. The low percentage reflects the expectation of large FY 2013 revertments from AHCCCS and the Department of Health Services (DHS) due to lower than expected caseloads and from the Arizona Department of Education (ADE) due to an early disbursement of FY 2013 obligations in FY 2012.

The FY 2013 estimate of $37,600,000 was a $(26,784,900) decrease from the originally-budgeted administrative adjustment total of $64,384,900 for FY 2013. This amount 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 $(100,900,000) of FY 2014 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is a decrease of $52,900,000 from the FY 2013 total of $(153,800,000). The FY 2014 amount reflects 1.2% of total spending, a percentage based on historical averages. Of the $(100,900,000), $(100,000,000) reflects standard revertments and $(900,000) reflects anticipated revertments from refinancing School Facilities Board new school facilities bonds. *(Please see the School Facilities Board narrative for more details.)*

The FY 2013 estimate of $(153,800,000) was an increase of $53,801,700 above the originally-budgeted FY 2013 revertment total of $(99,998,300). This amount is approximately 1.8% of FY 2013 estimated spending. As noted above, revertments in AHCCCS, DHS, and ADE account for much of the FY 2013 estimate.

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.

90/10 Agencies — The following 30 regulatory agencies are called "90/10" agencies for the fact that these agencies retain 90% of their revenues deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
State Board of Appraisal
Board of Athletic Training
Board of Barbers
Board of Behavioral Health Examiners
State Board of Chiropractic Examiners
Registrar of Contractors
Board of Cosmetology
State Board of Dental Examiners
State Board of Funeral Directors and Embalmers
Board of Homeopathic and Integrated Medicine Examiners
Board of Massage Therapy
Arizona Medical Board
Naturopathic Physicians Medical Board
State Board of Nursing
Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers
Board of Occupational Therapy Examiners
State Board of Dispensing Opticians
State Board of Optometry
Arizona Board of Osteopathic Examiners
Office of Pest Management
Arizona State Board of Pharmacy
Board of Physical Therapy
State Board of Podiatry Examiners
State Board for Private Postsecondary Education
State Board of Psychologist Examiners
Board of Respiratory Care Examiners
State Board of Technical Registration
Arizona State Veterinary Medical Examining Board