

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 2014 budget.

FY 2014 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. The biennial period starts with the even-numbered year. Given the uncertainty regarding potential budget shortfalls in FY 2015 and future years, the Baseline only includes FY 2014 funding for all budget units. The Baseline also includes supplemental FY 2013 funding for the Treasurer. All FY 2014 changes are referenced to the original FY 2013 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 2012 Actual* - This dollar amount represents the FY 2012 expenditures as reported by the agency. This amount includes monies appropriated for costs associated with an additional pay period and which expenditures were not reflected in the individual agency tables in the *FY 2012 Appropriations Report*. A footnote in each agency table notes the amount of the pay period adjustment.
- *FY 2013 Estimate* - This dollar amount represents the FY 2013 appropriations as of the end of the 50th

Legislature, 2nd Regular Session. In the individual agency budget tables, this amount excludes one-time FY 2013 adjustments for a state employee health insurance premium holiday and employee retention payments. A footnote in each agency table notes the amount of these adjustments, if applicable.

- *FY 2014 Baseline* - This dollar amount represents the FY 2014 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 for FY 2014, nor does it continue the one-time critical retention payments authorized for FY 2013. The Baseline includes a decrease of \$(16,633,400) General Fund and \$(11,695,200) Other Appropriated Funds in FY 2014 to eliminate these one-time payments. For ease of comparison between the 2 years, the funds appropriated to each agency for this amount in FY 2013 is footnoted in agency narratives rather than incorporated in each agency’s FY 2013 column in their narrative.

ERE Rates - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2013 to FY 2014 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 2014 Baseline is the same as in FY 2013. Total FY 2014 medical and dental insurance costs are estimated to be approximately \$744.0 million in total funds, a combination of estimated ongoing FY 2013 costs of \$708.9 million plus \$35.1 million of new FY 2014 costs, reflecting 5.0% growth. The Baseline assumes that this 5% increase will be funded by drawdowns of the Health Insurance Trust Fund balance. After the 5% adjustment, the FY 2014 ending balance is estimated at \$363.4 million. (*Please see the Health Insurance Trust Fund (HITF) discussion in the Arizona Department of Administration (ADOA) narrative for further details on HITF balances.*)

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 - 1.10% of Personal Services for each agency in ADOA personnel system, unchanged from the FY 2013 rate. The charge is applied to the payroll of agencies in the State Personnel System. Of this amount, 1.07% is used to fund the ADOA Human Resources Division budget while the other 0.03% is used to fund the State Personnel Board.

Laws 2012, Chapter 321 made a series of changes to the state's personnel laws, including adding 7 agencies which administered their own personnel systems to the State Personnel System and requiring them to pay the pro rata charge. No funding was added to the FY 2013 budget for these agencies; the Baseline includes a supplemental statutory change exempting these 7 agencies from paying the charge in FY 2013.

The Baseline does not address adding funding to these 7 agencies for FY 2014 pending legislative discussion of an ADOA proposal to lower the overall Personnel Division Pro Rata charge from 1.10% to 0.98%. (*Please see the Arizona Department of Administration narrative for more details.*)

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 government 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. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

Attorney General Legal Services - The Attorney General Pro Rata charge of 0.675% of the Personal Services base for certain agencies was eliminated by the FY 2013 Criminal Justice BRB. This charge funded ongoing Attorney General operations. The FY 2013 budget replaced the lost revenue with a direct General Fund appropriation to the Attorney General's office and established new flat dollar charges for agencies to pay for Attorney General services. These charges, however, are not applied to an agency's Federal Funds.

The FY 2014 Baseline continues the same non-General Fund charges as in the FY 2013 budget but eliminates or reduces 5 charges as outlined in the Attorney General agency narrative.

Workers' Compensation - The rates calculated by ADOA vary by individual agency and have changed from the FY 2013 workers' compensation rates. ADOA estimates the average statewide rate would decrease from 1.03% in FY 2013 to 1.00% in FY 2014. The Baseline does not adjust agency budgets for this change.

Federal Insurance Contributions Act (FICA) - Social Security employer taxes are paid at a rate of 6.20% up to \$113,700 of an employee's salary beginning January 1, 2013, an increase from the current maximum of \$110,100; the rate is unchanged from FY 2013. The Baseline does not adjust agency budgets for this change.

In addition, Medicare employer 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 Baseline does not adjust agency budgets for this change.

Retirement - FY 2014 rates as determined by the state's retirement systems have changed from the FY 2013 rates. The total contribution from ASRS employees and employers combined will increase from 21.8% in FY 2013 to 22.6% in FY 2014. Employee contribution rates for the Elected Officials Retirement Plan and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute.

The Baseline does not include funding for the employer share of the retirement rate adjustment. If funded, the General Fund cost would be \$13.8 million, including \$3.1 million for ASRS and \$10.7 million for non-ASRS employees as noted in *Table 1*. The rates for the different retirement systems, as a percent of Personal Services, are shown in *Table 2*. In FY 2014, the total General Fund cost of the employer share, including this latest adjustment, is \$139.9 million. Of this amount, the ASRS cost is \$59.3 million while the non-ASRS cost is \$80.6 million.

	GF	OF	Total
Increase			
ASRS	\$ 3,072,700	\$ 1,684,700	\$ 4,757,400
Non-ASRS	<u>10,687,200</u>	<u>2,761,800</u>	<u>13,449,000</u>
Total	\$ 13,759,900	\$ 4,446,500	\$ 18,206,400
System			
ASRS	\$ 59,300,000	\$75,100,000	\$134,400,000
Non-ASRS	<u>80,600,000</u>	<u>57,800,000</u>	<u>138,400,000</u>
Total	\$139,900,000	\$132,900,000	\$272,800,000

^{1/} Excludes non-appropriated funds

Table 2

Retirement Rates

<u>Retirement System</u>	<u>Employer</u>		<u>Employee</u>
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2014</u> ^{1/}
<i>Arizona State Retirement System</i>	10.90	11.30	11.30
<u><i>Correctional Officers Ret. Plan</i></u>			
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
<i>Elected Officials Retirement Plan</i> ^{3/}	20.87	25.94	13.00
<i>University Optional</i>	7.00	7.00	7.00
<u><i>Public Safety Personnel Retirement</i></u>			
Liquor License Investigators	46.99	44.34	10.35
Department of Public Safety ^{4/}	48.71	51.99	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 University Optional Plan and DPS Dispatcher employee contributions are unchanged from FY 2013. Arizona State Retirement System employee rates increased from 10.90%, Correctional Officers Retirement Plan rates increased from 8.38%, 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.

Risk Management - Individual agency budgets' Other Operating Expenditures include funding for Risk Management charges billed by ADOA. The billings vary by individual agency and have changed from the budgeted FY 2013 rates. The rate changes would reduce total revenue into the Risk Management Fund statewide from all fund sources by \$(647,500) The Baseline does not adjust agency budgets for this rate change. The JLBC Staff will further explore whether individual agency appropriations should be adjusted for the changes in Risk Management charges.

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 \$13.82 per square foot for all state agencies occupying state-owned space and \$5.01 per square foot for state-owned storage space in FY 2013. These rates are based upon usable square feet.

The FY 2013 Budget Procedures BRB (Laws 2012, Chapter 296) included a legislative intent statement that rental rates be converted from usable square feet to rentable square feet in FY 2014 if there is no General Fund impact. The Baseline adjusts rental rates to reflect this change, reducing

the office space rate to \$13.08/square foot and the storage space rate to \$4.74/square foot. These revised levels would generate FY 2014 COSF collections of \$28,672,800. This amount is an increase of \$697,800 over the FY 2013 amount, but reflects no net General Fund impact. The Baseline includes \$503,700 in Other Appropriated Funds for this increase; the other \$194,100 would come from non-appropriated funds. (*Please see the State Rent discussion in the Capital Outlay - ADOA Building System narrative for more details.*)

In addition to these changes, the Baseline also includes \$1,100 from the General Fund and \$5,700 in Other Appropriated Funds for lease-purchase payment increases, and \$66,700 in General Fund monies and \$203,500 in Other Appropriated Funds for changes in privatized-lease-to-own payments.

The Baseline does not address increases in rent for privately-owned space.

Full-Time Equivalent (FTE) Positions

Each agency section in this book includes the proposed FY 2014 ceiling of Full-Time Equivalent (FTE) Positions for the agency, along with the FTE Position ceiling for FY 2012 and FY 2013. 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

Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$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

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 2013.

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 2013 unless noted.

Expenditure Reporting - 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.

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 2014 for submission to the JLBC Director by October 1, 2014. This report shall include both appropriated and non-appropriated positions. The Department of Economic Security, Universities, and Department of Environmental Quality are exempt from the ADOA report but are to report in a comparable manner. In addition, each agency shall submit a report to the JLBC Director by October 1, 2013 on the number of filled, appropriated and non-appropriated FTE Positions by fund source as of September 1, 2013.

Both the ADOA and agency reports are being expanded to include non-appropriated positions to provide a more comprehensive review of state employment.

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.

Long-Term Budget Estimates - Laws 2012, Chapter 244 added A.R.S. § 35-125, which requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are to be 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. For details on the FY 2014 - FY 2016 revenue and expenditure estimates, please see the *Long-Term General Fund Estimates* section.

Interim Reporting Requirements - ADOA shall provide to the JLBC a preliminary estimate of the FY 2013 General Fund ending balance by September 15, 2013. 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.

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 2014 Budget Reconciliation Bill Provisions section for a complete listing of proposed statutory changes.*)

In addition to agency-specific statutory changes, the Baseline would, as session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.

Other Issues for Legislative Consideration

This section may also include other information of general interest, including FY 2013 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 \$37,600,000 in FY 2013 for FY 2012 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2012 but for which the state was unbilled until FY 2013. An agency's administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The \$37,600,000 is a decrease of \$(26,784,900) from the originally-budgeted FY 2013 total. The FY 2013 amount is based on an analysis of individual agency spending reports and extrapolating final administrative adjustments based on those agencies' historical trends. The estimate is 20% of FY 2012 revertments, at the bottom end of the range from previous years of below 30% to above 70%. Most of the unspent revertments are in caseload-driven agencies such as the Arizona Department of Education (ADE) and AHCCCS.

In addition to the FY 2013 figure, the Baseline assumes a FY 2014 administrative adjustment total of \$60,000,000, an increase of \$22,400,000 from the FY 2013 total. The FY 2014 amount reflects 45% of prior-year revertments (*see Revertments discussion below*).

Revertments - The Baseline assumes that state agencies will revert \$(133,800,000) of FY 2013 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 2014. This amount is an increase of revertments of \$(33,801,700) from the originally-budgeted FY 2013 total of \$(99,998,300). The revised FY 2013 amount reflects 1.6% of total spending. This figure primarily reflects anticipated surpluses in caseload-driven agencies as noted below:

- AHCCCS: \$46,936,900
- ADE: \$46,543,700
- DHS: \$20,332,100

All other FY 2013 revertments are forecast to be \$19,987,300.

In addition to the FY 2013 estimate, the Baseline also assumes a FY 2014 revertment total of \$(80,000,000), a decrease of \$(53,800,000) from the FY 2013 total. This amount is about 0.9% of total spending.