

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 2015, Chapter 8) 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 144 of the General Appropriation Act makes statewide adjustments totaling \$(14,300,000) from the General Fund and \$(2,893,700) from Other Appropriated Funds in FY 2015 for changes in 2 areas:

- Arizona Financial Information System Collections: \$1,900,000 General Fund and \$5,667,800 Other Appropriated Funds for adjustments in agency Arizona Financial Information System (AFIS) charges. *(Please see the ADOA narrative for more details on AFIS charges.)*
- Employer Health Insurance Contribution Reduction: \$(16,200,000) General Fund and \$(8,561,500) Other Appropriated Funds for a reduction in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*

Expenditure Reporting — Section 146 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 the 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 147 continues to state that the Full Time Equivalent (FTE) Positions contained in the General Appropriation Act sections 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 2016 report by October 1, 2016 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 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, Universities, and DEQ shall report to the JLBC Director in a manner comparable to the ADOA report.

Filled FTE Position Reporting — Section 148 continues to state that by October 1, 2015 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, 2015.

Transfer Authority — Section 149 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements — Section 150 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2015 General Fund ending balance by September 15, 2015. Based on this information, JLBC Staff shall report to JLBC by October 15, 2015 as to whether FY 2016'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 150 states the revenues are forecasted to be \$9,347,000,000 for FY 2015 and \$9,126,000,000 for FY 2016.

Section 150 also provides revenue and expenditure estimates for FY 2017 and FY 2018 pursuant to A.R.S. § 35-125, which requires 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. *(Please see the Budget Highlights section for more details on FY 2017 and FY 2018 estimates.)*

Expenditure Authority — Section 152 continues to state that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are

Table 1

**Health Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2015**

	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Exclusive Provider Organization (EPO)</u>		
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
<u>Preferred Provider Organization (PPO)</u>		
Employee	155.00	741.00
Employee Plus One Adult	350.00	1,506.00
Employee Plus One Child	331.00	1,447.00
Family	486.00	1,929.00
<u>Health Spending Account (HSA) Option</u>		
Employee	26.00	563.00 ^{1/}
Employee Plus One Adult	102.00	1,130.00 ^{1/}
Employee Plus One Child	81.00	1,097.00 ^{1/}
Family	193.00	1,385.00 ^{1/}

^{1/} Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.

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

JLBC Review — Section 153 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 2016 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency’s individual appropriation in the FY 2016 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 the 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). Additional information on the current plan design can be found on page 481 of the *FY 2010 Appropriations Report*.

Employee and employer premiums for the CY 2015 plan year are shown in *Table 1* above. The FY 2016 budget included a total appropriated funds reduction of \$(24,761,500) for reduced employer premiums for the plan year starting January 1, 2016. Rates for the upcoming plan year have not yet been released.

Beyond the FY 2016 budget changes, the JLBC Staff estimates that annualization of the January 1, 2016 rates will require a further General Fund reduction of \$(16,200,000) in FY 2017 below FY 2016.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for the CY 2015 plan year are shown in *Table 2*. The FY 2016 budget assumed employer premiums for the plan year starting January 1, 2016 would remain the same; however, rates for the upcoming plan year have not yet been released.

(Please see the Health Insurance Trust Fund section in the ADOA narrative for more details on overall HITF balances.)

Table 2

**Dental Insurance
State Employee and Employer Monthly Contributions
Calendar Year 2015**

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

In addition to health and dental insurance, the following items are components of an agency's Employee Related Expenditures.

Employer Contribution Rates — *Table 3* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2016. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these 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 - \$18.00 per employee per year, a decrease of \$(5.40) from the \$23.40 rate assumed in the FY 2015 budget and effective through December 31, 2014. The new \$18.00 rate went into effect on January 1, 2015. The budget does not adjust funding for this change.

Unemployment Insurance - 0.10% of Personal Services for each agency, a decrease of (0.05)% from the 0.15% rate assumed in the FY 2015 budget. The rate was lowered by ADOA to 0.10% on July 1, 2014. The budget does not adjust agency budgets for this change.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2015 rate. 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.

The following 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

Table 3

FY 2016 Employer Contribution Rates

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$18.00
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (Arizona State Retirement System)	0.12%
Disability (Non-State Retirement System)	0.25%
Information Technology Planning	0.20%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$118,500)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
<u>1/</u> See Consolidated Retirement Report section for contribution rates.	

- 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)

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees the employer pays 0.12% of Personal Services for disability insurance, unchanged from the FY 2015 rate of 0.12%. The employee rate will also remain at 0.12%.

For non-ASRS employees the employer-only rate is 0.25% of Personal Services, unchanged from the FY 2015 rate.

Information Technology Planning - 0.20% of Personal Services for each agency, unchanged from the FY 2015 rate. The government information technology review function in ADOA's 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 2015 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 Pro Rata - Section 145 outlines \$1,809,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2015

amount. *(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 2015 workers' compensation rates. ADOA estimates the average statewide rate would decrease from 1.00% in FY 2015 to 0.79% in FY 2016. The budget 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 \$118,500 of an employee's salary beginning January 1, 2014, an increase from the current maximum of \$117,000; the rate is unchanged from FY 2015. The FY 2016 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 2015. Effective January 1, 2013, the federal Affordable Care Act imposed 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. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

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. FY 2016 rates as determined by the state's retirement systems have changed from the FY 2015 rates. *(Please see the Consolidated Retirement Report for more information.)*

The FY 2015 budget adds a total of \$27,364,300 in appropriated funding for increased costs in non-ASRS employer retirement contributions in 2 agencies:

- \$13,535,700 GF and \$6,800 OF for the Arizona Department of Corrections (ADC), appropriated within the ADC budget
- \$4,246,300 GF and \$9,575,500 OF for the Department of Public Safety (DPS), appropriated within the DPS budget

(Please see the ADC and DPS narratives for more detail on these increases. Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.)

Other Operating Expenditures

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

Risk Management — Individual agency budgets' Other Operating Expenditures include the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and have changed from the budgeted FY 2015 rates. The rate changes would reduce total revenue into the Risk Management Fund statewide from all fund sources by \$(179,400). The budget does not adjust agency budgets for this rate change. *(Please see 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 112 of the General Appropriation Act includes a FY 2015 supplemental appropriation of \$10,462,100 from the Risk Management Fund and \$8,302,800 from the Health Insurance Trust 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 \$10,642,100 is intended to cover the state's obligation for transfers associated with excess retained earnings, disallowed costs, and other issues prior to FY 2015. The \$8,302,800 is intended to cover the state's obligation for a FY 2014 Health Insurance Trust Fund transfer. *(Please see the ADOA narrative for more details.)*

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

Rent charges in state-owned office space will remain at \$13.08/square foot, with the charge for state-owned storage space remaining at \$4.74/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 refer to Statewide Adjustments above and the Rent, Lease-Purchase, and PLTO schedules in the Capital Outlay section for more details.)*

Other Budget Issues

Administrative Adjustments — The budget assumes that state agencies will expend \$70,000,000 in FY 2016 for FY 2015 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2015 but for which the state was unbilled until FY 2016. An agency’s administrative adjustments cannot exceed its prior year reversionment, or unused appropriation authority. The \$70,000,000 is a decrease of \$(10,000,000) from the estimated FY 2015 total of \$80,000,000. The FY 2016 amount is 88% of prior-year reversionments, higher than the historical average of around 65%. Administrative adjustments as a percentage of prior year’s reversionments vary widely from year to year, however, from below 30% to above 70%. The percentage is higher for FY 2016 because the FY 2015 reversionment figure has been reduced to account for the ex-appropriation of \$(48.5) million from the AHCCCS budget for caseload surpluses.

The revised FY 2015 estimate of \$80,000,000 is a \$28,519,300 increase from the originally-budgeted administrative adjustment total of \$51,480,700 for FY 2015. This amount 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 \$(111,380,700) of FY 2016 appropriations back to the General Fund because the agencies will not spend their entire appropriation. This amount is an increase of \$31,380,700 from the FY 2015 total of \$(80,000,000). The FY 2015 amount reflects 1.2% of total spending, a percentage based on historical averages.

The revised FY 2015 estimate of \$(80,000,000) compares to the originally-budgeted FY 2015 reversionment total of \$(116,000,000). At \$(80,000,000), this revised reversionment estimate is approximately 0.9% of FY 2014 estimated spending. As noted above, the change is primarily due to \$48.5 million of anticipated AHCCCS surpluses being ex-appropriated from AHCCCS’ FY 2015 budget, thereby reducing reversionment estimates by an equivalent amount.

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 29 regulatory agencies are called “90/10” agencies for the fact that these agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy
Acupuncture Board of Examiners
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

In the FY 2016 budget, the Board of Appraisal was eliminated and its functions were transferred to the Department of Financial Institutions.