

## 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 2016 budget.

### FY 2016 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. Since the FY 2015 budget suspended biennial budgeting and permitted all agencies to only submit a FY 2016 budget request, the Baseline includes only FY 2016 funding for all budget units. The Baseline also includes supplemental FY 2015 funding for selected budget units. All FY 2016 changes are referenced to the original FY 2015 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 2014 Actual* - This dollar amount represents the FY 2014 expenditures as reported by the agency. The amount may include administrative adjustments, or payments for obligations incurred in FY 2013 but for which the state was not billed until FY 2014.
- *FY 2015 Estimate* - This dollar amount represents the FY 2015 appropriations as of the end of the 52<sup>nd</sup> Legislature, 2<sup>nd</sup> Special Session.

- *FY 2016 Baseline* - This dollar amount represents the FY 2016 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 2016.

**ERE Rates** - This category typically represents changes in the state’s cost of employee benefits. The rates have been held constant from FY 2015 to FY 2016 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 2016 Baseline is the same as in FY 2015. Total FY 2016 medical and dental insurance costs are estimated to be approximately \$823.6 million in total funds, a combination of estimated ongoing FY 2015 costs of \$781.5 million plus \$42.1 million of new FY 2016 costs, reflecting 5.4% medical expenditure growth. The Baseline assumes that this 5.4% increase will be funded by drawdowns of the Health Insurance Trust Fund balance. After the 5.4% adjustment, the FY 2016 ending balance is estimated at \$338.6 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* - \$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 rate negotiated by ADOA will go into effect on January 1, 2015. The Baseline 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 Baseline does not adjust funding 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
- 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)

*Information Technology Planning* - 0.20% of Personal Services for each agency, unchanged from the FY 2015 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 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 Legal Services* - \$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 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 \$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 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 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.

*Retirement* - FY 2016 rates as determined by the state's retirement systems have changed from the FY 2015 rates. The total contribution from ASRS employees and employers combined will decrease from 22.96% in FY 2015 to 22.70% in FY 2016, excluding disability insurance. Employee contribution rates for the Elected Officials Retirement Plan and the Public Safety Personnel Retirement Plan also changed pursuant to changes set in statute.

*Please see the Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.*

*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 rate is 0.25% of Personal Services, unchanged from the FY 2015 rate.

**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 2015 rates. The rate changes would reduce total revenue into the Risk Management Fund statewide from all fund sources by \$(179,400). 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 \$13.08 per square foot for all state agencies occupying state-owned space and \$4.74 per square foot for state-owned storage space in FY 2015. These rates are based upon usable square feet. The Baseline assumes no changes to these rates for FY 2016.

*Please see the Capital Outlay - ADOA Building System narrative for more details.*

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

<b>Full-Time Equivalent (FTE) Positions</b>
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Each agency section in this book includes the proposed FY 2016 ceiling of Full-Time Equivalent (FTE) Positions for the agency, along with the FTE Position ceiling for FY 2014 and FY 2015. Any changes from the prior year total are noted in the agency narrative. The number of FTE

Positions reflects personnel funded from both Personal Services and Special Line Items.

<b>Format</b>
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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

<b>Footnotes</b>
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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 2016.*

**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 2015 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 2016 for submission to the JLBC Director by October 1, 2016. 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, 2015 on the number of filled, appropriated and non-appropriated FTE Positions by fund source as of September 1, 2015.

*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 2015 General Fund ending balance by September 15, 2015. The 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.

*Long-Term Budget Estimates* - A.R.S. § 35-125 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. A.R.S. § 35-125 requires the Legislature to discuss the estimates in a public hearing before the adoption of the General Appropriation Act. *(Please see the Long-Term General Fund Estimates section for details on the FY 2016 - FY 2018 revenue and expenditure estimates.)*

*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 2016 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. The Baseline would also, as session law, continue to require that all agencies only submit annual budgets for FY 2017.

## Other Issues for Legislative Consideration

This section may also include other information of general interest, including FY 2015 supplementals.

## Statewide Expenditure Adjustments

In addition to changes in individual agency budgets, the Baseline includes 2 “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 \$80,000,000 in FY 2015 for FY 2014 expenditures. Agencies are permitted to make administrative adjustments for expenditures obligated in FY 2014 but for which the state was unbilled until FY 2015. An agency's administrative adjustments cannot exceed its prior year revertment, or unused appropriation authority. The \$80,000,000 is an increase of \$28,519,300 from the originally-budgeted FY 2015 total. The FY 2015 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 59% of FY 2014 revertments, within 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 2015 figure, the Baseline assumes a FY 2016 administrative adjustment total of \$60,000,000, a decrease of \$(20,000,000) from the revised FY 2015 total. The FY 2016 amount reflects 75% of prior-year revertments *(see Revertments discussion below)*.

*Revertments* - The Baseline assumes that state agencies will revert \$(80,000,000) of FY 2015 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 2016. This amount is a decrease of revertments of \$36,000,000 from the originally-budgeted FY 2015 total of \$(116,000,000). The revised FY 2015 amount reflects 0.9% of total spending, reflecting a moderate level of revertments in caseload-driven agencies after taking into account a recommended ex-appropriation of \$(33,232,900) from the AHCCCS budget in FY 2015.

In addition to the FY 2015 estimate, the Baseline also assumes a FY 2016 revertment total of \$(85,000,000), an increase of \$(5,000,000) from the FY 2015 total. This amount is about 0.9% of total spending, a percentage reflecting revertment percentages in years with anticipated budgeted shortfalls.