

## 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 2002, Chapter 327) provides direction with regard to several general provisions.

### General Provisions

**Salary Adjustments** — Laws 2002, Chapter 1, 3<sup>rd</sup> Special Session amends Laws 2001, Chapter 5, 2<sup>nd</sup> Special Session to appropriate salary adjustments for state employees in FY 2002. The Joint Legislative Budget Committee (JLBC) Staff shall determine and the Arizona Department of Administration (ADOA) shall allocate, to each agency or department, an amount sufficient to increase the annual salary level of each employee by the amount of \$1,450 effective June 8, 2002. These amounts are annualized in individual agency budgets appropriated in Laws 2002, Chapter 327. A summary of the FY 2002 appropriation and the FY 2003 amounts to annualize the increase is provided in *Table 1*.

<b>Table 1</b>		
<b>Salary Adjustments</b>		
	<b>General Fund</b>	<b>Other Fund</b>
FY 2002	\$3,971,700	\$1,034,600
FY 2003	\$63,022,700	\$16,402,500

Laws 2001, Chapter 236 originally provided an amount sufficient to increase the annual salary level of each employee by the greater of \$1,500 or 5% effective April 1, 2002 and a further increase of the greater of \$1,500 or 5% effective April 1, 2003. Laws 2001, Chapter 5, 2<sup>nd</sup> Special Session eliminated the April 1, 2003 adjustment. The amount of the adjustment was reduced to \$1,450, effective June 8, 2002, in Laws 2002, Chapter 2, 3<sup>rd</sup> Special Session.

A range of vacancy factors, based on the number of General Fund Full Time Equivalent (FTE) Positions, was used to adjust downward the cost of General Fund salary adjustments. Agencies with over 250 FTE Positions were adjusted by 5%, while those with 50 to 250 FTE Positions were adjusted by 2.5%. Agencies with fewer than 50 FTE Positions were not assigned a vacancy factor. No vacancy factor was utilized for the Other Fund appropriation.

The employees of the Arizona State Schools for the Deaf and the Blind, board and commission members who are paid on a per diem basis, and agency heads who are appointed for a fixed term of office are not eligible for the salary adjustments.

**Health Insurance Adjustments** — Section 109 appropriates additional monies to address the increased costs of the new state employee health insurance contract in FY 2003. The amounts are shown in *Table 2*.

<b>Table 2</b>			
<b>FY 2003 State Costs for Employer Premiums</b>			
	<b>General Fund</b>	<b>Other Fund</b>	<b>Non- Approp.</b>
Health Insurance			
Base Amount	\$132,913,400	\$36,695,500	\$36,695,500
Additional Allocation	<u>12,000,000</u>	<u>9,134,500</u>	<u>9,134,500</u>
<b>Total</b> <sup>1/</sup>	<b>\$144,913,400</b>	<b>\$45,830,000</b>	<b>\$45,830,000</b>

<sup>1/</sup> The all funds total is \$236,573,400.

Under the new contract, which takes effect on October 1, 2003, the state will renew the contract with the current health insurance carrier statewide. The single vendor will continue to provide 3 plan options in Maricopa and Pima Counties, including a Health Maintenance Organization (HMO) plan, a Point of Service (POS) plan, and a Preferred Provider Organization (PPO) plan. The HMO plans will continue at the same cost to the employee, while the POS and PPO plans will have a higher cost to the employee. In the other rural counties, the vendor will provide a PPO plan only. However, the rural PPO option is provided at the same employee price as the HMO plan in the urban counties. State employee and employer premiums under the old and new contract are shown in *Table 3*.

For most General Fund agencies, the health insurance contribution is the amount designated in the Appropriations Report. These monies are “swept” from agency General Fund budgets at the beginning of the year and are not charged to agencies on a payroll by payroll basis. Since the monies are “swept”, the budgeted General Fund increase of 9%, along with General Fund balances in the Special Employee Health Insurance Trust Fund, is sufficient to cover the increased costs of the new contract. The exceptions are the Department of Economic Security and the Universities, who are not “swept”, but instead pay the actual costs incurred for health insurance.

In FY 2002, the higher rural subsidy posed a greater cost for Other Fund (OF) agencies that have a high number of rural employees. Like the Department of Economic Security and the Universities, ADOA bills all Other Fund agencies based on their actual health insurance usage. For FY 2003, OF adjustments were made incorporating actual cost data from FY 2002 to reflect the cost of rural health insurance.

**Table 3**

**State Employee versus Employer Contributions**

	State Employee Contribution		Employer Contribution	
	10/1/01 Contract	10/1/02 Contract	10/1/01 Contract	10/1/02 Contract
<u>Average Monthly Premium</u>				
Maricopa County:				
HMO Single	\$25.00	\$25.00	\$209.76	\$244.98
HMO Family	125.00	125.00	461.88	549.92
POS Single	100.62	118.16	209.67	244.98
POS Family	314.04	357.91	416.88	549.92
PPO Single	135.36	197.29	244.76	279.98
PPO Family	403.44	558.26	546.88	634.92
Pima County:				
HMO Single	25.00	25.00	193.82	233.22
HMO Family	125.00	125.00	422.04	520.52
POS Single	76.82	83.44	193.82	233.22
POS Family	254.56	271.10	422.04	520.52
PPO Single	144.18	200.10	228.82	268.22
PPO Family	425.44	565.26	507.04	605.52
Other Rural Counties: <sup>1/</sup>				
PPO Single	25.00	25.00	320.12	408.32
PPO Family	125.00	125.00	737.82	958.32

<sup>1/</sup> Employer share in the 10/1/02 contract for Rural, Out of State, Out of Network equals \$521.54 for single coverage and \$1,241.36 for family coverage.

For FY 2003, ADOA renegotiated the state employee dental insurance contract. Those adjustments are reflected in *Table 4*. No additional funds were appropriated for dental insurance premiums.

**Provider Rate Increase** — Section 109 of Laws 2001, Chapter 236 included \$20,578,400 General Fund and \$2,000,000 from the Temporary Assistance for Needy Families Block Grant in FY 2003 for community treatment provider rate adjustments in several agencies. These amounts were repealed by Laws 2001, Chapter 5, 2<sup>nd</sup> Special Session.

**Pro Rata** — Pro rata charges will increase to 1.04% in FY 2003 as provided by Laws 2001, Chapter 236. The pro rata assessment is a rate that is charged against agencies' Personal Services to defray the cost of the ADOA Personnel Division. Funding for the increases for Other Funds was included in agency budgets as part of Laws 2002, Chapter 327; those amounts are summarized in the 2001 Appropriations Report Appendix. Originally, the provisions of Laws 2001, Chapter 236 also provided \$1,201,700 from the General Fund for pro rata increases in FY 2003, but those increases were not funded in Laws 2002, Chapter 327. Agencies funded by the General Fund,

**Table 4**

**Dental Insurance  
State Employee vs. Employer Contributions**

	<u>Total</u>	10/01-9/02		<u>Total</u>	10/02-9/03		<u>Employee Dollar Increase</u>	<u>State Dollar Increase</u>
		<u>Employee</u>	<u>State</u>		<u>Employee</u>	<u>State</u>		
<u>Single</u>								
EDS	\$ 8.58	\$2.76	\$ 5.82	\$ 8.92	\$ 2.74	\$ 6.18	(.02)	.36
Fortis	8.50	2.50	6.00	10.86	4.68	6.18	2.18	.18
Delta	23.46	8.22	15.24	23.46	8.06	15.40	(.16)	.16
Metlife	21.94	6.02	15.92	26.08	10.68	15.40	4.66	(.52)
<u>Family</u>								
EDS	\$24.90	\$15.12	\$9.78	\$25.90	\$14.40	\$11.50	(.72)	1.72
Fortis	24.28	14.00	10.28	29.52	18.02	11.50	4.02	1.22
Delta	75.92	34.44	41.48	75.92	32.42	43.50	(2.02)	2.02
Metlife	70.56	25.94	44.62	81.48	37.98	43.50	12.04	(1.12)

however, will be charged the new pro rata rates on their General Fund portion as well.

**Rental and Lease-Purchase Adjustments** — Rent charges in state-owned space will increase from \$15.00 to \$15.50 per square foot in FY 2003 as provided by Laws 2001, Chapter 236. Funding for the increases for Other Funds was incorporated in agency budgets as part of Laws 2002, Chapter 327; those amounts are summarized in the 2001 Appropriations Report Appendix. Originally, the provisions of Laws 2001, Chapter 236 also provided \$1,574,200 from the General Fund for state-owned space rental adjustments in FY 2003, but those increases were not funded in Laws 2002, Chapter 327. Agencies funded by the General Fund, however, will be charged the new rental rates on their General Fund portion as well.

Section 109 of Laws 2002, Chapter 327 includes an appropriation of \$675,000 OF to fund increases in state agencies' rent and lease-purchase charges. This amount covers OF increases in the following cases:

- Agencies moving from privately-leased space into state-owned space or the new Privatized Lease-to-Own (PLTO) buildings on the Capitol Mall.
- Agencies moving from state-owned space into the new PLTO buildings.
- Agencies in the 7 buildings whose lease-purchase will be completed and converted to state-owned space in FY 2003. Occupying agencies will now be assessed the ADOA rental rate for state-owned space, requiring an increase from \$13.50 to \$15.50 per square foot.

The JLBC Staff shall determine and ADOA shall allocate these amounts among agencies.

**Expenditure Reporting** — Section 113 of Laws 2002, Chapter 327 states that it is the intent of the Legislature that all budget units receiving Lump Sum appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. 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 to implement budget reform legislation 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 (OSPB).

**FTE Position Reporting** — Section 114 of Laws 2002, Chapter 327 states that the 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 FTE Positions, excluding FTE Positions in the Department of Economic Security, Universities, and Department of Environmental Quality. The Director shall submit reports for FY 2003 by February 1, 2003 for the first half of the fiscal year and by August 1,

2003 for the entire fiscal year to the Director of the JLBC. The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Department of Economic Security, Universities, and Department of Environmental Quality shall report to the Director of the JLBC in a manner comparable to the ADOA report.

**Interim Reporting** — Section 114 of Laws 2001, Chapter 236 requires that the Executive Branch provide to the JLBC a preliminary estimate of the General Fund ending balance for FY 2002 and FY 2003. These reports are required by September 15 of 2002 and 2003, respectively. The estimates shall include projections of total revenues, total expenditures, and the ending balance. ADOA shall continue to provide the final report for the fiscal year in its Annual Financial Report, pursuant to A.R.S. § 35-131.

Based on the information provided by the Executive Branch, the JLBC Staff shall report to the JLBC by October 15 of 2002 and 2003 on whether that fiscal year's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. The Executive Branch may also provide its own estimates to the JLBC by October 15 of each year.

Laws 2001, Chapter 235 (the "trigger" bill) requires the staff directors of the JLBC and Governor's Office of Strategic Planning and Budgeting to jointly notify the Governor, President of the Senate and Speaker of the House of Representatives by September 1, 2002 whether General Fund revenue for the prior fiscal year exceeded the forecast amount. If revenue has exceeded the forecast by specified amounts by September 15, 2002, the Governor is required to issue a public notice stating the amounts that are now appropriated for FY 2003. Given the decline in state revenue since the passage of Laws 2001, Chapter 235, revenue will not exceed the original forecasted amounts.

**Transfer Authority** — Section 115 of Laws 2002, Chapter 327 requires 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.

**JLBC Review** — Section 116 of Laws 2002, Chapter 327 defines 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.

### **Other Overall Issues**

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2003 budget reflects the adoption of technical assumptions. In most circumstances, the individual agency descriptions do not include a discussion of these technical issues. Any

dollar changes to agency budgets resulting from statewide technical adjustments are delineated in the tables following this section.

**Repealed and Non-Repealed Agencies** — Laws 2001, Chapter 236 appropriated FY 2003 budgets for almost every state agency. The FY 2003 General Fund budgets were repealed, however, by Laws 2001, Chapter 5, 2<sup>nd</sup> Special Session. These agencies received new FY 2003 appropriations in the General Appropriation Act (Laws 2002, Chapter 327). These “repealed” agencies have full narrative in their individual agency descriptions.

All other agencies had their FY 2003 budgets from Laws 2001, Chapter 236 amended by the General Appropriation Act to incorporate technical adjustments. These “non-repealed” agencies do not have full narrative in their individual agency descriptions. The only discussion in the descriptions include a paragraph highlighting their “non-repealed” status and paragraphs discussing any non-technical adjustments to their FY 2003 appropriation.

**Unfunded FTE Position Reductions** — The General Appropriation Act reduces the number of authorized General Fund FTE Positions for many agencies. The reduction reflects an assumption that larger agencies do not have all their authorized FTE Positions filled 100% of the time. Because agencies’ budgets have been adjusted downward for these “vacancy savings” for many years, this reduction reduces an agency’s “unfunded” FTE Positions and is not associated with an additional budgetary reduction beyond the “vacancy savings” already incorporated into the budget.

The size of the unfunded FTE Position reduction was based on the number of appropriated GF FTE Positions in an agency as shown in *Table 5* below.

<b># of GF FTE Positions</b>	<b>GF FTE Position Reduction</b>
Less than 25	0%
25-49.9	1.75%
50-99.9	2.5%
100-250	3.5%
More than 250	5%

There were a few exceptions to this rule; for example, FTE Positions related to Attorney General Legal Services were omitted from an agency’s FTE Position total, as were elected officials.

Each agency with an unfunded FTE Position reduction includes a narrative paragraph in their individual agency description describing how many FTE Positions were eliminated.

**Lump Sum Reductions** — The General Appropriation Act incorporates General Fund lump sum reductions into some agencies’ FY 2003 budgets. Many agencies received

a 3.125% lump sum reduction while others received a 2.25% lump sum reduction. Agencies have the flexibility to allocate the lump sum reduction across the agency according to their budget format (*see below*). The amount of an agency’s lump sum reduction will be shown in the agency’s appropriation table. There are no additional descriptions of the lump sum reduction in the individual agency description.

**Biennial Budgeting** — Laws 2001, Chapter 236 appropriated biennial budgets for all state agencies. In biennial budgets, an agency receives a separate appropriation for each of 2 fiscal years. For “90/10” regulatory agencies whose budgets were merely amended for technical adjustments in Laws 2002, Chapter 327, the first year (FY 2002) appropriations do not lapse until the end of the second year (FY 2003). Except where specifically noted, the appropriations for all other agencies lapse at the end of each fiscal year. *Please see the Budget Cycle Section for further details on changes to the state’s biennial budgeting process starting with the FY 2004 budget.*

**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. Within this format, any programs or Special Line Items may be listed separately.

**Modified Lump Sum** — The appropriation for each fiscal year consists of at least 3 lines: Personal Services, Employee Related Expenditures (ERE), and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, pursuant to A.R.S. § 35-173, an agency must seek approval of the JLBC before moving any funds into or out of the Personal Services and ERE line items. Any other transfers would require approval by ADOA, but not the Committee.

**Detailed Line Item** — The appropriation for each fiscal year consists of each line item listed in the Appropriations Report, including Professional and Outside Services, Travel, Other Operating Expenditures, Equipment, Food, and any Special Line Items. The same rules govern Personal Services and ERE transfers as noted in the Modified Lump Sum description. The appropriation requires the agency to seek ADOA approval before transferring monies between all other line items.

**Performance Measures** — As part of program budgeting, agencies are required to track their performance on several program indicators. The Appropriations Report includes key performance measures in each agency or cost center narrative. These measures were adopted by the Appropriations subcommittees during the budget process in the 2001 Legislative Session and were subsequently included in Laws 2001, Chapter 236 as part of each agency’s adopted budget. For “repealed” agencies (*see above*), their FY 2003 measures in Chapter 236 were generally duplicated in Laws 2002, Chapter 327. For each measure, the General Appropriation Act provides a target result for FY 2003.

Two performances measures appear in almost all agencies — administrative costs as a percentage of the overall budget and customer satisfaction. The type of customer satisfaction measure, however, may vary by agency. In addition, most “90/10” regulatory agencies have a common set of measures.

**Inflation** — In general, no inflation increases were added.

**Rent and Lease-Purchase** — The appropriations include rental charges and lease-purchase payments for certain buildings. These amounts are in addition to the adjustments discussed in the “Lease-Purchase and Rental Adjustments” section above.

**Risk Management** — The Other Operating Expenditures line of individual agency budgets includes the Risk Management rates billed by the ADOA Risk Management section. Monies are deposited into the Risk Management Fund for payment of costs associated with Risk Management losses. Agencies whose OF Risk Management charges increased from FY 2002 had additional monies incorporated into their FY 2003 budgets. Agencies whose GF Risk Management charges increased from FY 2002, however, did not receive additional General Fund monies to pay for those increased charges.

**Employer Contribution Rates** — *Table 6* provides an estimate of employer contribution rates during FY 2003. Except for life insurance, rates are calculated as a percent of Personal Services.

<u>Category</u>	<u>FY 2003 Rate</u>
Life Insurance (per FTE Position)	\$36.96
Unemployment Insurance	0.10%
Personnel Division Services	1.04%
Disability (Non-State Retirement)	0.33%
Information Technology Planning	0.15%
Retiree Accumulated Sick Leave	0.40%
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary # \$76,200)	6.20%
Medicare (no salary cap)	1.45%
<u>State Retirement Systems</u>	
State Retirement	2.49%
Correctional Officers – DOC	2.00
Correctional Offices – DJC	2.86
Elected Officials	0.00
Liquor License Investigators	9.57
Department of Public Safety *	0.00*
Northern Arizona University Police	3.63
University of Arizona Police	7.79
Arizona State University Police	2.00
Game and Fish Department	6.32
Attorney General Investigators	7.55
ADOA Capitol Police	9.44
* Suspension of FY 2003 contribution authorized by Section 21 of Laws 2002, Chapter 328. In addition, the 5% member contribution is paid by the state.	

**Workers’ Compensation** — The rates vary by individual agency. Agency budgets include the Workers’ Compensation rates recommended by the ADOA Risk Management section. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers’ Compensation losses.