

State of Arizona Advisory Recommendation





JANET NAPOLITANO
Governor

WILLIAM BELL
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
100 North Fifteenth Avenue, Suite 401
Phoenix, Arizona 85007
(602) 542-1500

September 1, 2006

The Honorable Janet Napolitano
Governor, State of Arizona
The Honorable Ken Bennett
President, Arizona State Senate
The Honorable James Weiers
Speaker, Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Governor Napolitano, President Bennett and Speaker Weiers:

On behalf of all state employees, we recognize and appreciate the efforts of the Governor and the Legislature to provide funding for salary adjustments during recent years. The salary increase that went into effect on March 11, 2006, began to close the significant gap between our state employee salaries and the market.

Our need to attract and retain professional, highly trained employees remains a paramount concern. In spite of recent salary adjustments, state salaries are still considerably behind the market, fueling the highest turnover rate in a decade. The Arizona market exceeds the average state employee salary by nearly 15%. As a result, many of our best state employees continue to be drawn to other employers.

We must continue to keep State employee pay as a priority. We strongly urge you to continue your support to build upon the gains we have made this past year. We hope you will commit to the second year of a 5-year plan to bring salaries within 95% of the prevailing wages offered in the job market. By taking immediate action now and making a dedicated commitment to address salaries as a top priority early in the budgeting process, we can reduce the chances of experiencing severe negative impacts on our ability to deliver even the most basic of State government services.

We hope that the Annual Advisory Recommendation will provide the information you need when making decisions regarding Arizona State government and its employees' compensation.

Sincerely,

A handwritten signature in blue ink, appearing to read "William Bell".

William Bell
Director

2006 Advisory Recommendation on State Employee Salaries

Every September, the Arizona Department of Administration (ADOA) provides an Annual Advisory Recommendation to the Governor and the Legislature. This document provides an analysis of the state's current compensation levels compared to other public and private sector employers in Arizona and other state governments in the central and western regions of the country. These comparisons are based on the Arizona Compensation Survey, the Central States Compensation Association Salary Survey, and other compensation surveys. Turnover statistics are becoming increasingly valuable as an important indicator of employee satisfaction. By analyzing both the state's salary competitiveness with the labor market and the trends in turnover and understanding their underlying causes, ADOA develops compensation recommendations that set a strategic direction to ensure that the state can be competitive with other Arizona employers and attract and retain a competent, productive, and satisfied work force.

Arizona State Employees and Compensation

As of July 2006, there were 29,973 covered state employees in the ADOA Human Resources System. The average salary was \$35,352, which includes the \$1,650 annual increase that became effective on March 11, 2006. It also includes special adjustments addressed in legislation for particular classes of employees (e.g. Corrections Officers, Juvenile Corrections Officers, Parole Officers, etc) that became effective on July 1, 2006.

Salary Surveys and Performance Pay

The primary source of data used to define the Arizona job market is the Arizona Compensation Survey. In past years, this survey was administered and the data compiled by ADOA. To broaden the participant base, automate the administration of the survey, and eliminate any perception of bias, the survey was contracted to a third-party in 2006. Milliman Consultants and Actuaries administered the Arizona Compensation Survey, expanding the survey to include not only more participants, but also more benchmark jobs. As a result of these changes, some variation in the estimation of the job market is expected when comparing to prior years.

In FY 2006, the state introduced a pay practice for Arizona state government employees called "performance pay". Performance pay is available to state employees if the governmental unit meets or exceeds prescribed performance measures. Each governmental unit establishes performance measures and every month or every quarter, the governmental unit reviews their performance and determines if the performance measures were met. If they were met, the employees in the governmental unit are entitled to receive performance pay, if the measures were not met, the employees in that unit are not entitled to receive performance pay.

While the performance pay is meaningful to employees, it is not reflected in the calculations contained herein. Base salaries give the clearest and easiest way to compare compensation levels.

The state has a relatively brief period of time during which performance pay has actually been implemented. Any analysis of performance pay should therefore be carefully considered before extrapolating to a full fiscal year. However, based upon preliminary analysis, it appears as though the average to market would be 13.1% if performance pay were included in the analysis. A more detailed and thorough analysis will be completed next year when the performance pay program has a longer history of implementation.

The state regularly compares its salary market position to other large employer groups. Over the past ten years, the state has implemented a number of different strategies to adjust salaries and keep pace with the labor market. These strategies included general salary adjustments, merit adjustments, special market adjustments, and other miscellaneous adjustments specifically addressed by the legislature; however, there have also been years where no salary adjustments were funded.

**Figure 1
A Ten Year History of the State's Compensation Compared to Market**

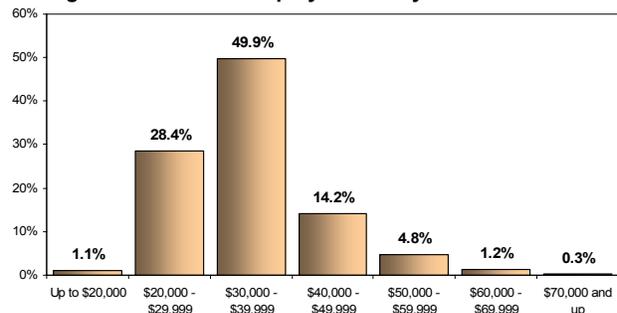
Fiscal Year	Average Salary to Market	Average Covered Salary	General Salary Adjustments	Merit Adjustments	Special Market Adjustments	Other Misc. Adjustments	Performance Pay
1998	-22.5%	\$26,874	2.5% (up to \$1,000)	2.5%	Yes		
1999	-17.5%	\$28,249	-0-	2.5%	Yes		
2000	-11.5%	\$29,208	-0-	2%	Yes		
2001	-13.2%	\$29,725	-0-	2%	Yes		
2002	-14.0%	\$30,331	\$1,450	-0-		Yes	
2003	-16.4%	\$31,824	-0-	-0-			
2004	-16.3%	\$31,859	-0-	-0-			
2005	-20.4%	\$32,059	\$1,000	-0-		Yes	
2006	-21.7%	\$32,897	1.7% (June 2, 2005) \$1,650 (March 11, 2006)	-0-		Yes	2.5%
2007	-14.9%	\$35,352	TBD	TBD	TBD	Yes	TBD

Source: Average Salary to Market is based on the FY2006 Arizona Compensation Survey which compared 186 benchmark jobs representing over 274,500 employees. Average Salary data are based on covered employees in System A agencies calculated as of the beginning of the fiscal year (July 1). Merit Adjustment figures represent the percentage allocated to an agency's personnel services base. Special Market Adjustments are given to specific job classes based upon excessive deviation from market, high turnover, and specific agency needs. Other Misc Adjustments include other adjustments specifically addressed by legislation. FY2006 figures are estimated from participants in the 2006 Arizona Compensation Survey, projecting their estimated salary increases.

Figure 1 above illustrates the specific salary adjustments over the past ten years. Ten years ago the market exceeded state employee salaries by over 22.5%. The state responded by appropriating a general salary adjustment and providing funding for merit adjustments. These actions significantly narrowed the gap between state employee salaries and the market. In Fiscal Year 2000, the gap had been cut in half and the average salary to market had been reduced to 11.5%. Subsequently, however, the market has continued to outpace appropriated adjustments. The difference between the market and state salaries gradually increased until the difference in 2006 was almost back to the worst position in the last 10 years. Significant actions taken in Fiscal Year 2006 have begun to close the gap again. The market now exceeds State employee salaries by an estimated 14.9%.

The distribution of covered employees, shown in Figure 2 illustrates that nearly 80% of covered employees are earning an annual salary less than \$40,000.

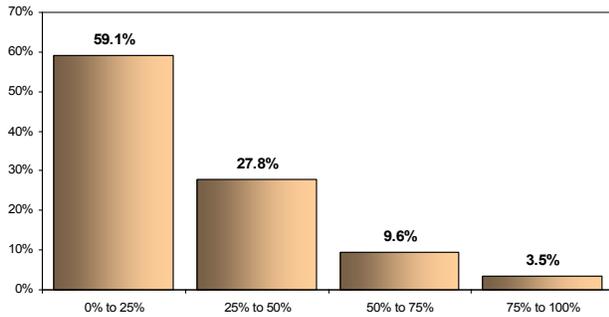
Figure 2 – Covered Employees Salary Distribution



Source: Human Resources Information Solution, July 2006

One goal of a pay philosophy is to establish salary ranges that are competitive within the employment market. Another goal is to pay employees appropriately within their salary range based on their individual value to the organization, performance, training, experience, etc. One issue facing the state is that funds have not been consistently available to move employees through their salary ranges. As a result, nearly 60% of covered employees are earning salaries in the lowest 25% of their salary range, and nearly 87% are below the midpoint (Figure 3).

Figure 3 – Covered Employee Distribution within Salary Range



Source: Human Resources Information Solution, July 2006

Midpoint is the middle dollar amount between the minimum and maximum of a salary range. The midpoint typically represents what the market is paying to fully-trained employees who are satisfactorily performing all facets of their job. In the past, the midpoint (or market average salary) was used to develop salary ranges that accurately reflected the market to ensure that the State remained competitive.

In recent years, however, the state’s salary ranges have been adjusted by the amount of funding appropriated (refer back to Figure 1), not by market movement. Because the salary ranges have been adjusted by the same amount as the employee’s general salary increase, employees do not advance toward the midpoint and remain close to the range minimum. The result is not only salary ranges that are no longer competitive in the market, but the vast majority of experienced, fully-trained employees are in the lowest portion of their salary range.

Comparing Arizona State Employee Pay to Other Employers

The gap between Arizona State Employee salaries and those of other employers continues to widen. This trend is evident whether comparisons are made at the national level, at the regional level, within the State of Arizona, or comparing to other public employers within the immediate local area.

In reviewing salary market position at the national level, one comparison that can be made is to evaluate the state’s total payroll to the state’s population. Arizona continues to grow in population and economic strength. However, as Figure 4 shows, Arizona ranks 49th in the nation in comparison of total state payroll to the population, and was 28% lower than the nationwide average in 2005 (the most recent figures that are available from the U.S. Census Bureau).

Figure 4
Rank Order of All States by Ratio of Total State Payroll to State Population

1	.....Hawaii	27	.....Oklahoma
2	.....Alaska	28	.....Maine
3	.....Delaware	29	.....Virginia
4	.....Vermont	30	.....Kansas
5	.....North Dakota	31	.....Nebraska
6	.....New Jersey	32	.....South Carolina
7	.....Connecticut		United States Average
8	.....New Mexico	33	.....South Dakota
9	.....Rhode Island	34	.....California
10	.....Wyoming	35	.....Michigan
11	.....Washington	36	.....North Carolina
12	.....Iowa	37	.....Idaho
13	.....Louisiana	38	.....New Hampshire
14	.....Montana	39	.....Wisconsin
15	.....Utah	40	.....Pennsylvania
16	.....Maryland	41	.....Indiana
17	.....Alabama	42	.....Missouri
18	.....Kentucky	43	.....Georgia
19	.....Arkansas	44	.....Ohio
20	.....West Virginia	45	.....Tennessee
21	.....Minnesota	46	.....Texas
22	.....Massachusetts	47	.....Nevada
23	.....Colorado	48	.....Illinois
24	.....Oregon	49	.....Arizona
25	.....New York	50	.....Florida
26	.....Mississippi		

Source: U.S. Census Bureau, Governments Division. March 2005. Population data estimate for July 2005.

Not only is Arizona ranked at the bottom of all other states when comparing payroll to the population served, Arizona is also near the bottom when comparing average salaries of other nearby states. Regional comparisons can be made by using the Central States Salary Survey. This survey includes positions unique to public service. As in past years, the average Arizona state employee salary continues to lag significantly behind the majority of the states in the central and western regions of the country (Figure 5).

Comparisons can also be drawn at the state level. When reviewing average salaries paid in Arizona, the state includes both public and private sector employers in its analysis. Three large segments of the labor force are considered, including Civilian Wages, Average Arizona Worker, and Arizona salaries reported in the Arizona Compensation Survey (Figure 6). These sources provide a broad mix of both employer and employee groups and give a full perspective of the competition in the Arizona labor market. All three comparative sources reveal a similar trend – state employees salaries are significantly below the prevailing market.

Figure 6 - Arizona Labor Market

Comparative Data	FY 2005	FY 2006	FY 2007
Arizona Compensation Survey	\$38,599	\$38,756	\$40,655
Civilian Wage in Arizona	\$37,716	\$38,811	\$41,270
Average Worker in Arizona	\$34,635	\$38,123	\$41,460
State Employees	\$32,059	\$32,897	\$35,352

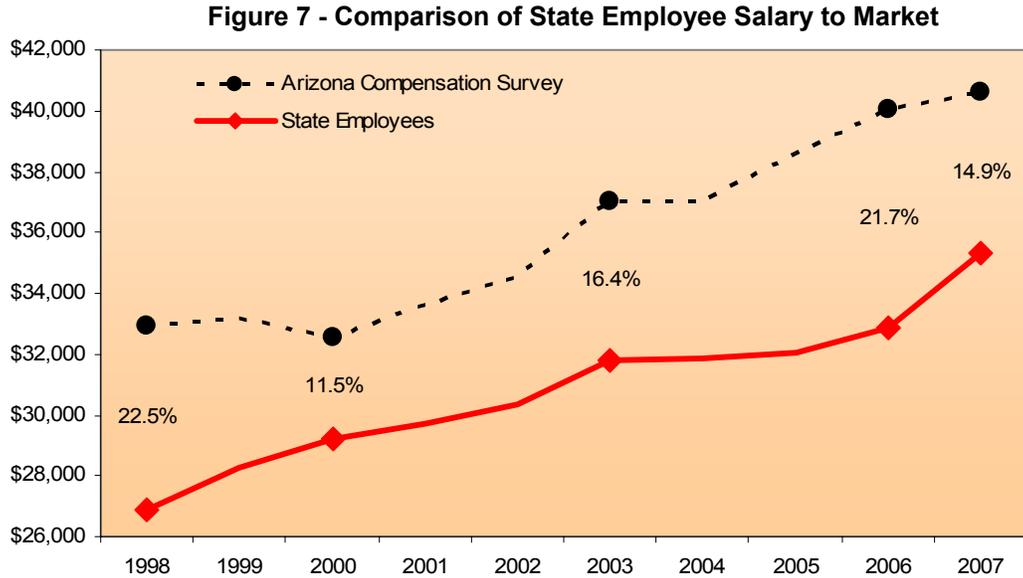
Source: Arizona Compensation Survey, Arizona Dept of Administration, 2006; Civilian Wage in Arizona, Eller College of Business, March 2006; Average Worker in Arizona, Bureau of Labor Statistics, 2005; State Employees, Human Resources Information Solution, July 2006.

Figure 5
Average Salary of Central States

State	Average Salary
Illinois	\$48,500
Colorado	\$48,360
Michigan	\$47,920
Iowa	\$47,377
Minnesota	\$44,996
Nevada	\$44,556
Washington	\$43,284
Oregon	\$39,048
Wisconsin	\$38,721
New Mexico	\$38,661
Average	\$38,296
Wyoming	\$37,474
Utah	\$37,440
Idaho	\$36,101
Montana	\$35,739
Louisiana	\$35,502
North Dakota	\$34,177
Kansas	\$33,931
Texas	\$32,809
Arizona	\$32,806
Arkansas	\$32,081
South Dakota	\$31,210
Oklahoma	\$30,722
Missouri	\$29,392

Source: 2005 Central States Compensation Association Survey. Arizona salary is shown prior to the July 1, 2006 Legislative adjustments. Please note: the salary for state employees reflected above is different than that reported in Figure 1. The salary comparisons in Figure 5 include only those benchmark jobs included in the Central States Survey.

The difference between state employee salaries and the Arizona Compensation Survey over the past ten years is illustrated in Figure 7.



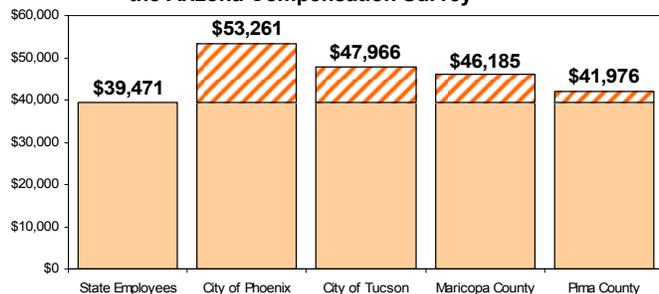
Source: Arizona Compensation Survey, Arizona Department of Administration, 2006; State Employees, Human Resources Information Solution, June 2006.

Figure 7 clearly illustrates that during the late 1990's the gap between state employee salaries and the market was significant (exceeding 22% in 1998). The state responded with increases to employee salaries and by fiscal year 2000 the gap had been closed to just over 11%. Unfortunately since that time, the market movement has outpaced the increases afforded to state employees, and the gap has continued to widen – up until this most recent year. In fiscal year 2007, the gap is estimated to be 14.9%.

The state also reviews the salary practices of other public entities in Arizona. As providers of many of the same specialized services the state provides, these local entities are often in search of the same types of key skills and competencies required by state agencies to succeed in their missions.

The growing disparity between Arizona state employees' salaries and those of other Arizona public employers is clearly displayed in Figure 8. The difference between state employee salaries and other public sector organizations ranges from 6% to 35%, illustrating that the state lags behind other major public service entities in southern and central Arizona. Clearly the State is at a tremendous disadvantage in trying to attract and retain key talent in the local market.

Figure 8 – Average Salary of Local Public Sector Employers in the Arizona Compensation Survey



Source: 2006 Arizona Compensation Survey, as of March 31, 2006. Please note: the salary for state employees reflected above is different than that reported in Figure 1. The salary comparisons in Figure 8 include only those benchmark jobs reported by the above noted participating employers.

Outlook for the Market

As the Arizona and national economies continue to improve, employers are again reporting salary increases generally targeted at 3% or more (Figure 9). On March 11, 2006, Arizona employees received a \$1,650 annual increase to their base salary. This amounted to an average of 3.8%, however employees earning lower salaries received a proportionately higher increase (for example, an employee earning \$30,000 per year received a 5.5% increase). This increase was effective in closing some of the gap between state salaries and the market (refer back to Figure 7); however, salaries are still significantly below the market, and the market continues to move.

The data and statistics provided in this section paint a picture that concerns agencies trying to provide the services they are charged with delivering to the citizens of Arizona. The significant salary issues highlighted here have disturbing implications in terms of staffing and retention. As shown in the next section, these salary trends appear to be reflected in the state's turnover statistics.

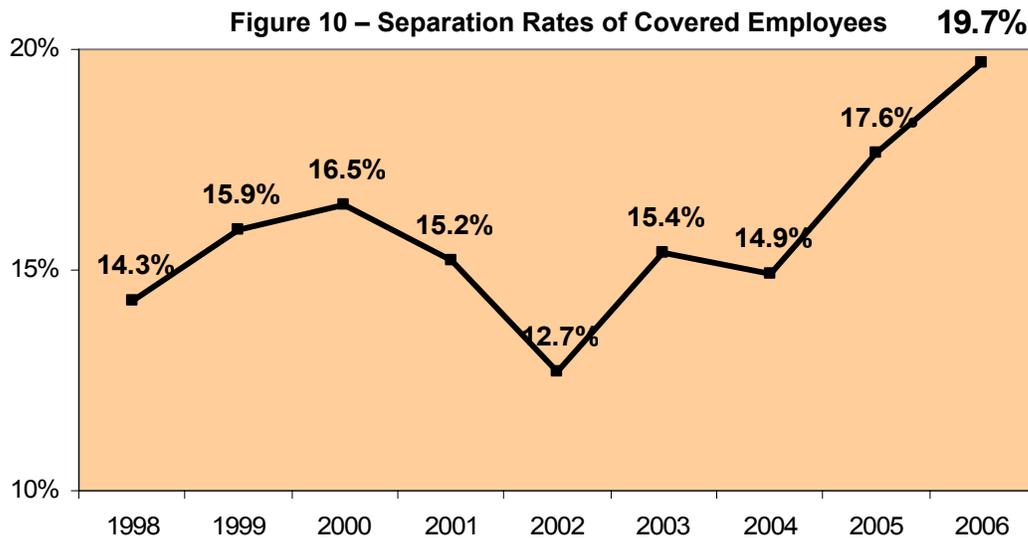
Figure 9 – Actual and Projected Salary Increases

Reference	2006 Actual/Projected Increase	2007 Projected Increase
National – Mercer	3.6%	3.6%
National – WorldatWork	3.7%	3.8%
National – Eller Research	3.4%	3.1%
Arizona – Public	3.4%	4.6%
Arizona – Private	3.2%	3.5%
State of Arizona	3.8% + performance pay	TBD

Source: National data from Mercer, WorldatWork, and Eller Research websites; Arizona data from 2006 Arizona Compensation Survey

Turnover

Turnover rates are often used to evaluate the workplace and can be an important indicator of employee satisfaction. Compensation is one of the considerations when reviewing how an organization's human resources policies and practices can affect turnover. The following figures provide information on the turnover rates for state employees.



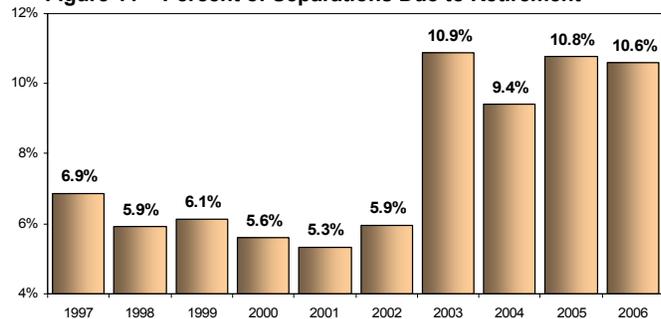
Source: 2006 ADOA Human Resources System Annual Report. Separations are defined as covered employees leaving state service during the fiscal year (July 1 to June 30).

The separation rate for Arizona state service employees at the end of FY2006 is nearly 20% (Figure 10). This rate represents the second consecutive year of significant increases from what had been a reasonably steady average hovering around 15%-16%. These figures make an interesting supplement to Figure 7 on page 4, which shows the trend line of state salaries

compared to the market. When state salaries were closest to the market (fiscal years 2000 and 2001), the turnover rates dropped sharply in the following years. Since that time, as average state employee salaries began to fall significantly behind the market, the state has experienced ever increasing turnover rates.

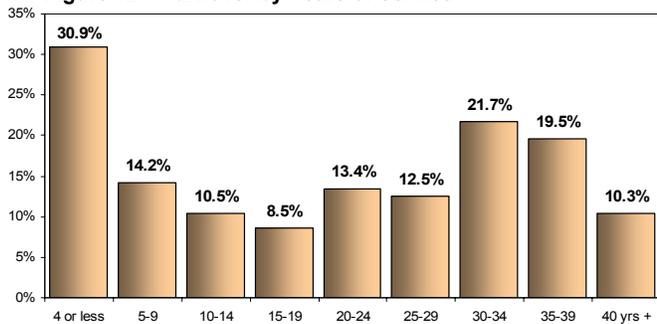
Moving forward, the ability to attract and develop a skilled and effective workforce will become an even bigger challenge, especially considering the state's competitive position to market. Figure 11 shows that the percentage of separations as a result of retirement has significantly increased the last four years. The rate in 2006 is nearly 55% higher than it was in 1997 and nearly 100% higher than it was in 2001.

Figure 11 – Percent of Separations Due to Retirement



Source: 2006 ADOA Human Resources System Annual Report

Figure 12 – Turnover by Years of Service



Source: 2006 ADOA Human Resources System Annual Report

The percentage of separations among employees with four years of service or less is the highest of any other group. Separation rates are lowest for employees with ten to twenty years of service (Figure 12).

Even when salary ranges are not competitive with the market, employers may be able to retain employees by providing a means to progress through the range, through combinations of merit, tenure, or cost-of-living increases. The state does not provide regular increases, and as noted earlier, in many cases has become a training ground for other employers.

Comparing State Employee Turnover to Others

To better understand the relationship between the state's compensation practices and its impact on turnover, this section provides comparisons of turnover rates of other states in the central and western regions and of other Arizona public employers. These comparisons show that in most cases, the state's turnover levels are higher than other employers.

When compared to the states participating in the Central States Compensation Survey, Arizona has one of the highest turnover rates reported; only Arkansas reported a higher turnover rate (Figure 13).

**Figure 13
Separation Rates by State**

State	Statewide Total
Iowa	6.8%
Minnesota	7.0%
New Mexico	8.8%
North Dakota	8.8%
Michigan	9.0%
South Dakota	9.7%
Illinois	9.9%
Oregon	10.1%
Utah	10.6%
Kansas	11.8%
Average	11.9%
Montana	12.0%
Colorado	12.4%
Wyoming	12.7%
Nevada	12.9%
Nebraska	13.4%
Louisiana	13.6%
Idaho	14.3%
Texas	14.8%
Missouri	16.1%
Arizona	17.6%
Arkansas	18.1%

Source: 2005 Central States Compensation Association Survey. Arizona separation rate from 2005 is shown in order to provide accurate comparisons with Central States data. Some states did not report turnover rates.

The state's turnover rate is also significantly higher than other major public employers in the local market (Figure 14).

When an employee leaves an organization, the organization usually experiences substantial costs. Costs to the employer may include decreased productivity, costs of hiring a new employee, increased training time, and other indirect costs. Other turnover consequences relate to the smoothness and continuity of organizational operations, employee morale, and the difficulty of replacing the departed employee.

Figure 14
Annual Separation Rates of Local Public Employers

Employer	Annual Separation Rate
Phoenix	6.0%
Pima County	6.7%
Chandler	8.9%
Scottsdale	9.9%
Maricopa County	17.2%
State of Arizona	19.7%

Source: Individual Contacts, Information presented is the most current available.

Estimates of the total cost of losing a single person to turnover range from 30% of their yearly salary (Cornell University) to 150% as estimated by the Saratoga Institute, and independently by Hewitt Associates. Using the most conservative estimate of 30%, the financial impacts to the state are significant. For example, the current turnover rate of 19.7% resulted in an estimated total cost over \$62.8 million. In the most recent data available from the 2005 Central States survey, the average turnover rate for state governments was 11.9%. If the State were to reduce turnover to 12% the cost avoidance generated would exceed \$38.2 million.

Figure 15
Estimated Cost of Turnover for Covered Employees - 2006

Agency	Average Salary	Separation Rate	Cost of Turnover
Other Agencies	\$34,825	23.6%	\$2,225,333
Administration	\$34,924	25.0%	\$1,267,759
AHCCCS	\$31,925	22.7%	\$2,231,586
Attorney General	\$38,865	22.1%	\$349,785
Corporation Commission	\$40,953	20.1%	\$405,430
Corrections	\$36,675	17.8%	\$16,756,863
Economic Security	\$33,398	19.7%	\$19,016,832
Education	\$41,612	17.3%	\$411,958
Environmental Quality	\$40,276	16.4%	\$833,707
Game & Fish	\$40,488	25.5%	\$1,785,510
Health Services	\$38,574	26.3%	\$4,466,812
Industrial Commission	\$33,115	24.1%	\$556,328
Juvenile Corrections	\$36,253	28.1%	\$2,621,062
Land Dept	\$42,938	15.0%	\$360,681
Revenue	\$33,998	16.0%	\$1,264,719
State Parks	\$32,357	16.9%	\$485,359
Transportation	\$34,048	17.4%	\$7,017,193
Veterans Service Comm	\$30,566	34.7%	\$559,354
Water Resources	\$42,518	13.6%	\$255,110
Overall Average	\$35,201	19.7%	\$62,865,164

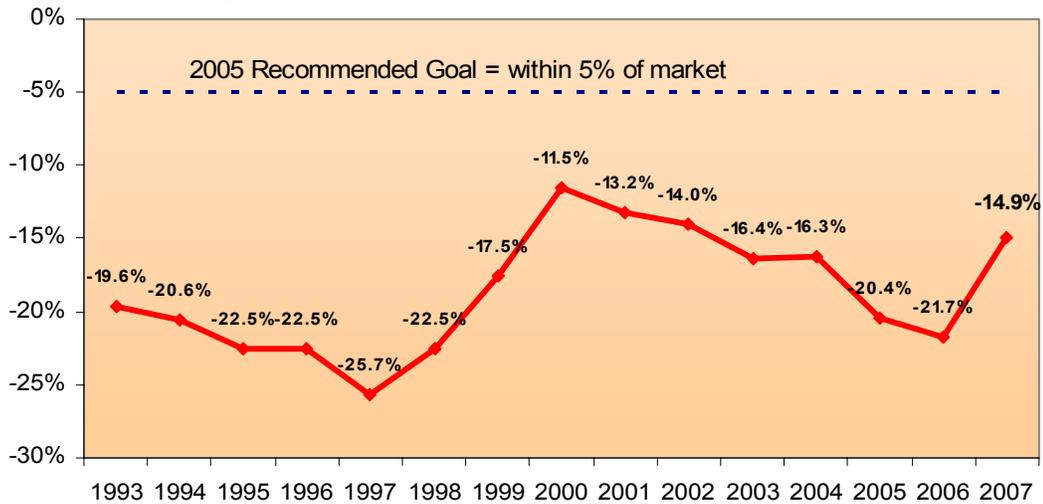
Source: The state's Human Resources Information Solution. Average salary was calculated from prorated annual salary at fiscal year-end, separations are defined as leaving state service, and estimates for the cost of turnover are based on 30% of annual salary. Some agencies (e.g. Dept of Corrections) may have a much higher cost of turnover due to extensive training or certification programs or more intensive hiring and selection processes.

Conclusion

The state made significant progress towards improving the position of state employee salaries to the market during FY 2006. Some of the factors that can be attributed to this progress include:

1. The effect of the \$1,650 base salary adjustment. Given that the majority of state employees earn less than the average state salary, the impact was a minimum of 5%. Some employees experienced as much as a 10% increase.
2. Additional salary adjustments provided to certain classes. For example, nurses, attorneys, and engineers received additional compensation increases during FY 2006.

Figure 16 – Percent Needed to Get to Market



Source: Percent Needed to Get to Market is based on the Arizona Compensation Survey (previously referred to as the Joint Governmental Salary Survey). Average State Employee Salaries are based on covered employees in System A agencies calculated as of the beginning of the fiscal year (July 1).

While the state has made significant progress toward closing the gap, the market still exceeds the state by 14.9%. In order for the state to effectively recruit & retain the key talent that is necessary in what is expected to be an ever increasingly competitive job market, the state needs to continue making progress at bringing salaries closer to market levels.

Recommendation

The Advisory Recommendation on State Employee Salaries, published in September 2005, outlined a multi-year strategy with a goal to bring employee salaries within 95% of market in five years. Last year, the Executive and Legislative branches sent a clear message to state employees that salary issues were important. As a result, state employee salaries were addressed early in the budget process. HB 2661, signed by the Governor on January 30, 2006, provided salary adjustments that included performance pay of 2.5% of salary and an increase in salary of \$1,650. This salary adjustment became effective March 11, 2006. Funding for the performance pay has been appropriated through FY 2007.

This recommendation includes the following components:

- Continuation of the multi-year strategy and the goal to be within 95% of market in five years
 - The first year of the plan (FY 2006) resulted in bringing salaries closer to market. By remaining committed to this plan, we continue to send a strong message that state employees are Arizona's greatest asset.
- Base salary increases equally spread across four years
 - The gap between state employee salaries and the market is too large to address in one year. The market is expected to increase by 3.5% each year (see Figure 9, page 6). By increasing base salaries by 5.79% for each of the next four years, it is estimated that the goal to be within 95% of the market will be realized:
 - By the end of FY 2007 – 12.5% to get to market
 - By the end of FY 2008 – 10% to get to market
 - By the end of FY 2009 – 7.5% to get to market
 - By the end of FY 2010 – 5% to get to market
- Implementation of the base salary increase on or around March 10 of each year
 - Implementation early in the legislative budgeting process demonstrates to employees a commitment to the plan
- Continuation of Performance Pay
 - Although funding for performance pay was appropriated for FY 2007, an additional appropriation is recommended for the last 8 pay periods (assuming a March 10 implementation) because base salaries will increase by 5.79%, thus increasing the total cost of performance pay.
 - Continuation of 2.5% performance pay with restructuring of the plan to clarify and simplify the administration of the program

Figure 17
Estimated Costs to Fund Recommended Increases

Plan Year	Fiscal Year	Annual Increase	Annual Cost of Salary Increase	% ERE ¹	Annual Cost of ERE	Total Annual Cost
2	FY2007	5.79% base salary adj	\$25,465,868	20%	\$5,093,174	\$30,559,041
		2.5% performance pay	\$636,647		\$127,329	\$763,976
		5.79%	\$26,102,514		\$5,220,503	\$31,323,017
3	FY2008	5.79% base salary adj	\$84,237,947	21%	\$17,689,969	\$101,927,915
		2.5% performance pay	\$38,492,847		\$8,083,498	\$46,576,345
		8.29% total	\$122,730,794		\$25,773,467	\$148,504,261
4	FY2009	5.79% base salary adj	\$89,113,350	22%	\$19,604,937	\$108,718,286
		2.5% performance pay	\$40,720,681		\$8,958,550	\$49,679,231
		8.29% total	\$129,834,031		\$28,563,487	\$158,397,517
5	FY2010	5.79% base salary adj	\$94,270,924	23%	\$21,682,313	\$115,953,237
		2.5% performance pay	\$43,077,454		\$9,907,814	\$52,985,269
		8.29% total	\$137,348,378		\$31,590,127	\$168,938,505
Total 4 year cost			\$416,015,717		\$91,147,583	\$507,163,300

Year 1 (FY 2006): Recommendation included a 7.5% increase. Actual implementation was \$1,650 base salary adjustment and 2.5% performance pay.

Year 2 (FY 2007): Recommendation includes a 5.79% base salary adjustment effective March 10, 2007, and an additional appropriation for 2.5% performance pay because agencies' personal services base will increase (due to the base salary adjustment on March 10, 2007).

Years 3-5: FY 2008-2010) Recommendation includes a 5.79% base salary adjustment effective on or around March 10th of each year and a continued appropriation for 2.5% performance pay.

Figure 18
Estimated Allocation by Fund Source to Support Recommended Increases

Year	Total Annual Cost of Salary Increase	General Fund	Appropriated	Non-Appropriated	Federal Fund
FY2007	\$31,323,017	\$13,547,840	\$9,651,367	\$2,210,951	\$5,912,859
FY2008	\$148,504,261	\$64,231,104	\$45,757,699	\$10,482,247	\$28,033,211
FY2009	\$158,397,517	\$68,510,138	\$48,806,047	\$11,180,568	\$29,900,765
FY2010	\$168,938,505	\$73,069,329	\$52,053,976	\$11,924,609	\$31,890,592
Total	\$507,163,300	\$219,358,410	\$156,269,089	\$35,798,375	\$95,737,426

In accordance with ARS § 41-763.01, this recommendation only addresses active employees in state service and in positions exempted from covered service pursuant to ARS § 41-771. Therefore, this recommendation does not include appropriate budgeting for vacant positions. The following agencies are excluded from this recommendation: Governor's Office of Equal Opportunity, Arizona State University, Auditor General, Board of Regents, Court of Appeals, Department of Gaming, Department of Public Safety, Government Information Technology Agency, Governor's Office, House of Representatives, Joint Legislative Budget Committee, Law Enforcement Merit System, Legislative Council, Library and Archives, Northern Arizona University, Office of Tourism, School for the Deaf and Blind, Senate, Supreme Court, and University of Arizona.

¹ Projected increases in employer related expenses (e.g. retirement contributions)