ASRS Ad Hoc Compensation Committee

Reference Materials

1. A.R.S. § 38-611.01 – Arizona state retirement system; incentive compensation plan; special pay plan
2. A.R.S. § 41-742 – State personnel system; covered and uncovered employees; application; exemptions
3. State Personnel System FY 2015 Compensation Guidelines
4. FY 2015 ASRS Administrative and Investment Spending Plan Schedules and ASRS Total Appropriated Budget Overview
5. ASRS Board Governance Policy Handbook
6. State of Arizona Advisory Recommendation 2014 on State Employees' Salaries
7. Salary Compensation Comparison Spreadsheet
8. State of Arizona Workforce Report 2014
9. ASRS Incentive Compensation Plan for Internal Investment Professionals FY 2014
10. ASRS Compensation Strategies FY 2014
11. ASRS Compensation Strategies FY 2015 - Submitted
12. The Four Cornerstones of Reform – Third Cornerstone of Reform: State Government – Personnel Reform Provisions of Personnel Reform Legislation
13. P & I Article – Paying for performance
14. The NAPPA Report – New Governance Models Pay Off For Pensioners. The Americans vs. Canadian Pension Fund Experience

Exhibit 1

38-611.01. Arizona state retirement system; incentive compensation plan; special pay plan

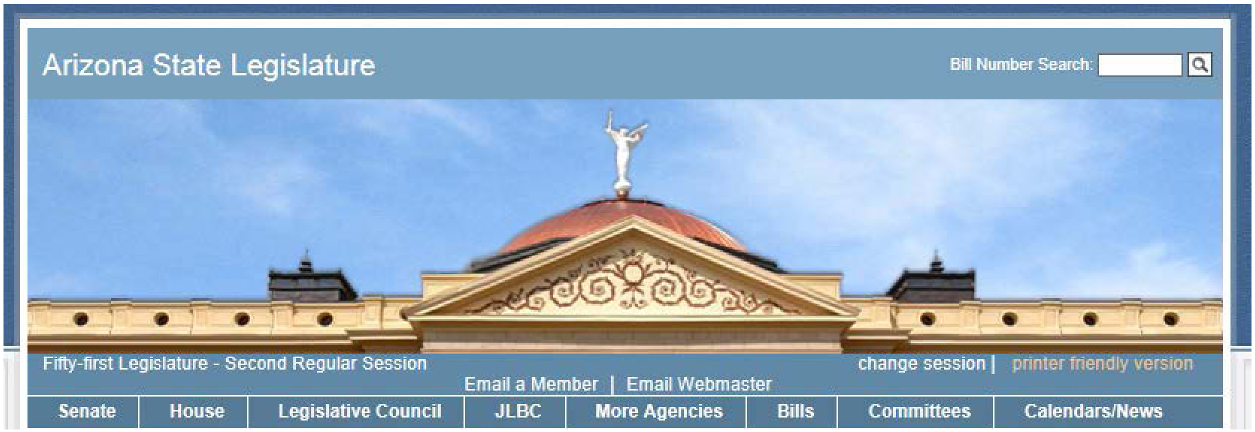
The Arizona state retirement system established by chapter 5, article 2 of this title:

1. May administer an incentive compensation plan for investment related personnel established in consultation with the director of the department of administration. The Arizona state retirement system shall file a copy of any incentive compensation plan for investment related personnel with the governor, the president of the senate, the speaker of the house of representatives, the office of strategic planning and budgeting, the joint legislative budget committee and the department of administration within ten business days of its adoption or readoption.

2. Except for the incentive compensation plan for investment related personnel, shall not establish any other compensation plans without the approval of the director of the department of administration.

3. May request that the director of the department of administration establish a special pay plan for the Arizona state retirement system director, deputy director, chief investment officer, investment related personnel and fiduciary or investment counsel. The director of the department of administration, pursuant to section 41-742, subsection C, paragraph 4, shall establish the special pay plan after considering the recommendations of the Arizona state retirement system board and using relevant market data. The director of the department of administration may adopt other special pay plans determined necessary for certain classes or groups of Arizona state retirement system employees, taking into consideration such factors as occupational patterns, economic conditions and pay ranges common to government, business and industry, and shall work with the Arizona state retirement system in establishing the plans.

Exhibit 2



41-742. State personnel system; covered and uncovered employees; application; exemptions

A. Beginning September 29, 2012, unless otherwise prescribed in this article:

1. All new hires are at will uncovered employees.

2. Any employee who meets any of the following criteria is an at will uncovered employee:

(a) Is employed as an attorney in a position assigned to the attorney salary schedule.

(b) A supervisor.

(c) Is at a pay grade of nineteen or above or, if a successor compensation system is established, in an equivalent pay range as determined by the director.

(d) Is in a position assigned to the information technology salary schedule, in a position assigned to an information technology classification or, if a successor compensation system is established, in an equivalent pay range as determined by the director.

3. Any covered employee who voluntarily accepts a change in assignment to a position in the uncovered service, regardless of whether the voluntary change in assignment is a promotion, demotion or lateral transfer, is an at will uncovered employee on the start date of the voluntary change in assignment.

4. A covered employee may voluntarily elect to become an at will uncovered employee without a change in assignment on approval by the state agency head and the director. If approved, the change from covered to uncovered status is immediate.

5. Once a covered employee becomes an at will uncovered employee, the change is irrevocable.

B. Except as provided in subsection F of this section, the purpose of this article is for all state agencies in the state personnel system to treat employees pursuant to the following principles:

1. Recruiting, selecting and advancing employees on the basis of the employee's relative ability, knowledge and skills after open competition.

2. Providing compensation based on merit, performance, job value and competitiveness within applicable labor markets.

3. Training employees if the training will result in better organizational and individual performance.

4. Retaining employees on the basis of the adequacy of their performance, correct inadequate performance where possible and appropriate and separate employees whose performance is inadequate.

5. Managing applicants and employees in all aspects of personnel administration without regard to political affiliation, race, color, national origin, sex, age, disability or religious creed and with proper regard for their privacy and constitutional rights as citizens.

6. Ensuring that employees are protected against coercion for partisan political purposes and are prohibited from using their official authority for the purpose of interfering with or affecting the result of an election or nomination for office.

C. The director shall establish and administer the state personnel system, including:

1. A classification system and job classes and associated knowledge, skills and abilities for those classes.

2. A centralized job announcement system to streamline statewide recruiting for applicants.

3. A centralized employment system to be used by all successful applicants, including a common application form to be used by all state agencies.

4. A compensation system, including assigning pay ranges for all job classes and special pay plans for certain classes or groups of employees considering such factors as occupational patterns, economic conditions and pay plans common to government, business and industry.

5. A statewide training program.

6. A statewide performance management system.

7. An audit function to review state agencies' processes and compliance with applicable statutes, personnel rules and policies.

8. An integrated system to process personnel, payroll and benefits transactions and serve as the system of record for state employees.

D. This article and articles 5 and 6 do not apply to:

1. An elected state officer. An elected state officer means only elected officials and does not include the employees of elected state officers unless expressly provided.
2. Members of boards and commissions who are appointed by the legislature or the governor, board members appointed pursuant to section 41-619.52 unless otherwise prescribed by law, employees of the Arizona legislative council, employees appointed or employed by the legislature, any legislative agency or either house of the legislature and employees of the supreme court and the court of appeals.
3. The Arizona board of regents, officers or employees of state universities and personnel of the Arizona state schools for the deaf and the blind.
4. Patients or inmates employed in state institutions.
5. Officers and enlisted personnel of the national guard of Arizona and employees of the department of emergency and military affairs who occupy Arizona national guard positions identified as mobilization assets.
6. The cotton research and protection council.
7. The department of public safety.
8. The Arizona peace officer standards and training board.

E. Unless otherwise prescribed in this article, subsection A, paragraphs 1, 2 and 3 of this section do not apply to either an initial appointment to or changes in assignment to:
1. An employee of any state agency who is a full authority peace officer as certified by the Arizona peace officer standards and training board.
2. An employee of the state department of corrections who is employed as a correctional officer I, correctional officer II, correctional officer III, community corrections officer or, if a successor classification system is established, in an equivalent job class as determined by the director.

F. Subsection B, paragraph 1 of this section, relating to open competition and subsection B, paragraph 4 of this section and subsection B, paragraph 5 of this section, relating to political affiliation, do not apply to:
1. Employees of the governor's office.
2. Employees of offices of elected officials who either:
(a) Report directly to the elected official.
(b) Head a primary component or report directly to the head of a primary component of the office of the elected official.
(c) As a primary duty, determine or publicly advocate substantive program policy for the office of the elected official.
3. The state agency head and each deputy director, or equivalent, of each state agency and employees of the state agency who report directly to either the state agency head or deputy director.
4. Each assistant director, or equivalent, of each state agency and employees in the state agency who report directly to an assistant director.
5. Attorneys in the office of the attorney general.
6. Employees in investment related positions in the state retirement system or plans established by title 38, chapter 5, article 2, 3, 4 or 6.

G. This article and articles 5 and 6 of this chapter do not confer any rights in excess of, or in addition to, those previously authorized to any state employee.

H. This article does not create or confer any contractual employment right for any employee and, unless otherwise provided by law, state agencies are prohibited from executing employment contracts with any state employee.

I. Any communications, including policy manuals, employee handbooks, job offers and performance appraisals and other communications as determined by the director, whether in writing or oral, that conflict with article 1, 5 or 6 of this chapter or this article are void and do not alter or supersede article 1, 5 or 6 of this chapter or this article.

Exhibit 3

State Personnel System
FY 2015 Compensation Guidelines

Introduction

This is a summary of the various compensation strategies that may be used by agencies to address salary and compensation issues within their workforce. Strategies have been grouped into five "toolboxes," attached for your reference. Each toolbox outlines the details associated with the various options. The toolboxes are listed below.

- Executive Toolbox - Legislatively appropriated merit increases
- HRD Toolbox - Compensation solutions for a job classification or other group of employees such as Market Adjustments, Conditional Pay Supplements, or Referral Incentives
- Agency Toolbox – Individual Actions - Discretionary base pay increases such as In-Grade Adjustments
- Agency Toolbox – Variable Incentives - Additional incentives that do not impact base pay such as Spot Incentives, Goal-Based Incentives, and Conditional Retention Pay Incentives
- Changes in Assignment/Special Assignment - Employee actions that trigger a pay change such as Promotions, Demotions, etc.

General

These guidelines do not create a contract for employment between any employee and the State. Nothing in these guidelines changes the fact that all uncovered employees of the State are at will employees and serve at the pleasure of the appointing authority.

In accordance with Arizona Revised Statutes (A.R.S.) § 38-611 and State Personnel System (SPS) Rule R2-5A-402(C), the base salary of an employee must be within the assigned salary range established by the Arizona Department of Administration (ADOA). SPS Rule R2-5A-402 provides the authority for these guidelines. Please be advised that there may be additional restrictions and conditions provided by statute and rule that are not included in these guidelines. For example, Rule R2-5A-402(G)(2) states, "A demoted employee shall not be eligible for an increase to base salary for six months after the effective date of the demotion to the new position…". Therefore, the salary strategies that affect base salary (counter offer and in-grade adjustment) are further constrained by this rule requirement.

Scope

These guidelines apply to all agencies, boards, offices, authorities, commissions, and other governmental budget units of the State that are part of the State Personnel System.

Funding

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. Agencies shall remain mindful of the State's ongoing fiscal challenges and their own budget needs, while contemplating compensation strategies. In particular, agencies requesting additional appropriations from the legislature shall carefully analyze their needs and priorities before implementing any of the strategies outlined in these guidelines.

Spending associated with certain strategies shall be collectively limited to no more than 2% of the agency's personal services base, exclusive of ERE.

Eligibility

Unless otherwise indicated, employees must be at will uncovered and meet specified performance evaluation requirements to be eligible for the compensation strategies outlined in these guidelines. However, eligibility requirements vary for each of the strategies – please refer to the individual eligibility requirements for more information.

The following employees are not eligible for some or all of the strategies:

- Elected officials, agency heads appointed for a fixed term of office, interns, pool, or per diem employees are not eligible for any of the strategies.
- Covered employees (except Correctional Officers I, II, III, and Adult Community Corrections Officers) are not eligible for increases or incentives unless the increase is due to a change in assignment.
- Employees who receive an overall rating of "Needs Improvement" (MAP rating less than 2.0) on their most recent performance evaluation are not eligible for increases or incentives unless the increase is due to a change in assignment.
- New hires and employees who have been promoted or demoted within the previous six months are not eligible for the agency variable incentives.
- Employees subject to and participating in an incentive plan authorized through separate and distinct programs are not eligible for the agency variable incentives.

<u>Non-Cabinet-level agencies</u>

- Directors and Deputy Directors: Compensation guidelines do not apply to directors and deputy directors of Non-Cabinet-level agencies. However, agencies may use the strategies at the discretion of the appointing authority but are not subject to the criteria, eligibility, amount of increase, or 2% budget limit. As previously noted compensation is subject to the availability of funding and must be managed within the agency's appropriation. The requirements of A.R.S. § 38-611 and R2-5A-402 Salary Administration still apply.
- Assistant Directors: Assistant Directors are eligible to receive compensation outlined in the guidelines, whether they have an annual performance evaluation or not. The criteria, eligibility, and amount of increase apply; only the requirement related to performance shall be waived. In addition, for Assistant Directors the funds associated with these strategies shall not be considered within the 2% budget limit.

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Agencies Headed by an Elected Official

- Elected Officials: As noted above, elected officials are not eligible for any of the compensation strategies.
- Employees who report directly to the elected official, head a primary component of the office of the elected official, or as a primary duty, determine or publicly advocate substantive policy for the office of the elected official: Compensation guidelines do not apply to these employees. However, agencies may use the strategies at the discretion of the appointing authority but are not subject to the criteria, eligibility, amount of increase, or 2% budget limit. As previously noted compensation is subject to the availability of funding and must be managed within the agency's appropriation. The requirements of A.R.S. § 38-611 and R2-5A-402 Salary Administration still apply.

Cabinet-level agencies:

- Directors, Deputy Directors and Assistant Directors: Salary adjustments and/or incentives for these positions shall be discussed and coordinated through the ADOA Human Resources Director.

Individual Salary Increase Limits

All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary. This 5% limit does not include salary increases given as a result of actions outlined in the "Changes in Assignment/Special Assignment" toolbox, the "ADOA HRD" toolbox, and/or Counter Offers.

Authority/Approval

Agencies shall ensure that all salary actions are properly authorized. For example, an agency head has the authority to implement most of the strategies identified under "Changes in Assignment/Special Assignment", such as establishing the base salary of a newly hired employee. Compensation strategies identified under the "HRD Toolbox" and "Agency Toolbox – Individual Actions" require ADOA consultation and/or approval prior to the agency administering these types of actions.

Agencies intending to implement any of the strategies identified under "Agency Toolbox – Variable Incentives" are required to submit a compensation plan to ADOA prior to implementation. The proposed plan must be submitted with sufficient time for ADOA to review and approve the plan and for the agency to communicate its provisions to employees. An agency compensation plan must address the following components:

- Proposed implementation date
- Compensation strategies to be implemented by the agency
- Eligibility for participation in the agency's compensation plan
- For each compensation strategy selected, the purpose of the particular strategy; eligibility, requirements and conditions; performance measures, targets/goals (if performance or goal-based); and compensation and incentive limits
- Internal agency procedures pertaining to communication to employees, nomination process, verification of eligibility, and calculation and distribution of incentive

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An agency's compensation plan is only valid for the time period of July 1, 2014 through June 30, 2015.

Reporting
Some strategies require annual reporting of the utilization of the strategies and subsequent organizational impacts. In addition, ADOA may independently review the agency's use of the compensation strategies and the individual and collective fiscal impacts of those strategies, and may audit agency records to ensure implementation is consistent with the approved plan. ADOA may modify guidelines in the future based on prevailing practices in the labor market or other external factors.

By September 1, 2015, each agency that used any of the strategies identified in either of the "Agency Toolboxes" (Individual Actions and/or Variable Incentives) shall submit a report to humanresources@azdoa.gov that includes the following:

- A brief paragraph describing how the agency used their compensation strategies to support the organization's goals or strategic direction during the fiscal year.
- A list of the employees who received one or more of the compensation strategies outlined in the plan, or who received a counter offer or an in-grade adjustment. The information shall identify the type and specific amount of each award received, and the date awarded to the employee. The list shall also include:
    - EIN
    - Employee name
    - Job classification title
    - Applicable overall MAP rating
    - Base salary before the counter offer, in-grade adjustment, or incentive
    - Type of strategy
    - Amount of payment or base increase
- The organizational impact experienced as a result of the implementation of these strategies including impact on retention of high performing employees, employee satisfaction, employee engagement, turnover, etc.

Executive Toolbox

The strategies in this "toolbox" will be available to agencies if approved.

Option	Description	Criteria	Eligibility	Amount
Merit Increase (Legislatively Appropriated)	Percentage added to base pay based on employee's most recent performance evaluation	• Shall be in accordance with guidelines developed by the Governor's Office or Legislature	• Eligibility to be defined by the Governor's Office or Legislature	• Merit increases to be defined by the Governor's Office or Legislature

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

ADOA Human Resources Division Toolbox

The strategies in this "toolbox" will be available to agencies after consultation with the ADOA Human Resources Division and discussions about the business needs of the agency. Working collaboratively together, the appropriate strategy will be chosen to best meet the State's and the agency's needs.

Option	Description	Criteria	Eligibility	Amount
Criteria-Based Adjustment (Salary Plans)	Base salary adjustment awarded to employees who meet established criteria	• ADOA Class/Comp works with agency to evaluate the classification or class series to assess appropriate salary levels compared to labor market and other external factors • The criteria that differentiate salary levels must be based on more factors than length of service or years of experience • Salary cannot exceed the maximum of the salary range for the classification	• Uncovered and covered	• Amount of increase at each level of the plan varies by plan • Plans currently in use will be allowed to continue, but may be reviewed on a periodic basis to assess consistency with the labor market and other external factors
Conditional Pay Supplement (Stipends)	Additional pay provided to compensate employees for specific conditions Does not adjust base pay	• ADOA Class/Comp works with agency to evaluate the specific conditions and to assess appropriate compensation compared to labor market and other external factors • Shall be discontinued when the conditions no longer apply • Payroll Considerations: Incentive will be included in calculation of overtime rate; may require agency payroll to recalculate overtime earned during evaluation period	• Uncovered • Covered (depending on type of conditional pay supplement)	• Amount of supplement will vary on a case-by-case basis, considering the labor market pay for the type of job and level of work
Referral Incentive	Lump sum incentive awarded to an employee who refers a job applicant to a critical, hard to fill position who is successfully employed Does not adjust base pay	• ADOA Class/Comp works with agency to evaluate the position, classification or class series to assess marketing and recruiting strategies previously used • Payroll Considerations: Incentive will not be included in calculation of overtime rate.	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers • Executive level positions, positions that are responsible for recruiting or hiring functions, employees in a direct line reporting relationship to the referred employee, and family members are not eligible	• Referral Incentive is limited to no more than $1,000 per referral and may not be distributed until the referred employee has completed at least 6 months of employment. No employee shall receive more than $3,000 in referral incentives per year. • The amount may be paid in installments or in one lump sum consistent with the approved plan.

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

ADOA Human Resources Division Toolbox

The strategies in this "toolbox" will be available to agencies after consultation with the ADOA Human Resources Division and discussions about the business needs of the agency. Working collaboratively together, the appropriate strategy will be chosen to best meet the State's and the agency's needs.

Option	Description	Criteria	Eligibility	Amount
Hiring Incentive	Sign-on bonus awarded to employees hired into critical positions, positions that are hard to fill, or positions that require a rare skill set Does not adjust base pay	• ADOA Class/Comp works with agency to evaluate the position, classification or class series to assess marketing and recruiting strategies previously used • Agencies may also request approval to offer a hiring incentive on a case-by-case basis • Payroll Considerations: Incentive will be included in calculation of overtime rate; may require agency payroll to recalculate overtime earned during evaluation period	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers	• Hiring Incentives are limited to no more than $5,000, and may be paid in increments over a period of time (e.g. 25% at 3 months, 25% at 6 months, 50% after 1 year)
Special Market Adjustment (Legislatively Appropriated)	Adjustment to base pay to address employee salaries in specific classifications that are significantly behind the labor market	• ADOA Class/Comp conducts market studies and prioritizes classifications for consideration of Special Market Adjustments (SMAs). • Shall be in accordance with guidelines developed by the Governor's Office or Legislature	• Eligibility to be defined by the Governor's Office or Legislature	• Amount of adjustment to be defined by ADOA after conducting market studies
Classification Market Adjustment	Adjustment to base pay to address employee salaries in specific classifications that are significantly behind the labor market	• ADOA Class/Comp conducts market studies and collaborates with agencies to evaluate classifications or class series to assess appropriate salary levels compared to labor market and other external factors	• Uncovered • Covered	• Amount of adjustment to be defined by ADOA after conducting market studies

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Agency Toolbox – Individual Actions

The strategies in this "toolbox" are available to agencies in order to address compensation issues of employees on a case-by-case basis. The agency shall document salary adjustments and justifications and shall submit a report to ADOA by September 1st of each year for the prior fiscal year.

Option	Description	Criteria	Eligibility	Amount
Counter Offer	Base pay increase in response to a verified job offer in order to retain a high performing employee in the same position	• Agency shall verify the job offer and the performance level of the employee • Agencies must request approval from ADOA to extend a counter offer on a case-by-case basis	• Uncovered • Employee must receive an overall rating of "Exceeds Expectations" (MAP rating 2.5 or greater) on their most recent performance evaluation unless the Agency Director documents, in writing, justification for waiving the performance requirement	• Amount of increase will vary on a case-by-case basis, considering the bona fide job offer from another employer and considering factors such as the employee's performance, internal equity ramifications, and labor market pay for the type of job and level of work • Salary cannot exceed the maximum of the salary range for the classification

In Grade Adjustment	Base pay increase to provide career progression or resolve specific salary issues	• Agencies must request approval from ADOA to provide an in-grade adjustment on a case-by-case basis for:
		  • Change in Duties: Employees who assume higher level duties and responsibilities in a position that is critical to the operations of an agency (requires an updated Position Description and a review by ADOA to ensure a reallocation of the position is not warranted)
		  • Professional Development: Employees who apply new knowledge and skills that benefit the agency and that have been acquired through job-related training, education, certification, and/or licensure, that is recognized in the industry as having market value
		  • Retention: High performing employees in critical positions, not easily replaced and are at risk of leaving the organization
			• Uncovered
			• Employee must receive an overall rating of "Exceeds Expectations" (MAP rating 2.5 or greater) on their most recent performance evaluation unless the Agency Director documents, in writing, justification for waiving the performance requirement
				• Shall not exceed 5% per fiscal year per employee, unless an exception is granted by the ADOA HR Director
				• Considerations for an exception may include such factors as education, experience, skills, prior performance, current salary, as well as the current salaries of employees in the same classification or work unit within the agency and the relative experience and performance of those employees
				• Salary cannot exceed the maximum of the salary range for the classification

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Agency Toolbox – Variable Incentives

The strategies in this "toolbox" are available to agencies as part of a comprehensive plan of variable pay options subject to ADOA approval. These strategies are not intended to provide across-the-board incentives, but rather to reward top performers.

Option	Description	Criteria	Eligibility	Amount
Spot Incentive	One time, lump sum bonus given "on the spot" for an extraordinary achievement, or moment of extraordinary individual or group performance that result in efficiency, cost savings or improved productivity Does not adjust base pay	• Requires agency to submit a plan for ADOA approval prior to implementation • Employee incentive shall be consistent with approved plan criteria • Payroll Considerations: Incentive will not be included in calculation of overtime rate. The agency shall not commit or identify ahead of time that an employee or group will receive an incentive.	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers • Employee must receive an overall rating of "Meets Expectations" or better (MAP rating 2.0 or greater) on their most recent performance evaluation • At least 6 months have passed since the employee's date of hire or last promotion or demotion • Employees not already participating in another incentive plan authorized by a separate program	• Spot Incentives are limited to no more than $2,000 per employee per year, although an agency may award any lesser amount according to their approved plan • Agencies are encouraged to define tiers for different levels of incentive amounts, commensurate with the level of efficiency gain, cost savings or productivity improvement • Spending associated with this strategy is included in the overall budget limited to 2% of the agency's personal services base, exclusive of ERE
Goal-Based Incentive	Lump sum bonus awarded to employees, teams, work units, and/or divisions who achieve established challenging performance targets or goals Does not adjust base pay	• Requires agency to submit a plan for ADOA approval prior to implementation • Plan must include measures of success • Measures and target goals shall be reviewed on an annual basis • When goals are achieved and incentive pay provided, new target goals shall be established • Employee incentive shall be consistent with approved plan criteria • Payroll Considerations: Incentive will be included in calculation of overtime rate, if applicable. Although incentives can be paid in a lump sum, agency payroll must allocate it evenly over the period earned. • Agencies considering the use of this strategy should contact the ADOA Classification and Compensation Manager for further details.	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers • Employee must receive an overall rating of "Meets Expectations" or greater (MAP rating 2.0 or better) on their most recent performance evaluation • At least 6 months have passed since the employee's date of hire or last promotion or demotion • Employees not already participating in another incentive plan authorized by a separate program	• Goal-Based Incentives are limited to no more than $3,000 per employee per year. • The incentive may be distributed in any increment (bi-weekly, quarterly, bi-annually, etc.) according to the agency's approved plan. • Spending associated with this strategy is included in the overall budget limited to 2% of the agency's personal services base, exclusive of ERE

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Agency Toolbox – Variable Incentives

The strategies in this "toolbox" are available to agencies as part of a comprehensive plan of variable pay options subject to ADOA approval. These strategies are not intended to provide across-the-board incentives, but rather to reward top performers.

Option	Description	Criteria	Eligibility	Amount
Merit-Based Incentive	One time, lump sum bonus directly tied to performance Does not adjust base pay	• Requires agency to submit a plan for ADOA approval prior to implementation • Agency must document target distribution percentages of merit incentives, ensuring a distribution of incentives (i.e. a bell shaped curve) and preventing across the board distribution for all employees (no more than 30% of the workforce may receive the highest merit incentive) • Agencies with 10 employees or less at the time of plan submission are not subject to the target distribution limits • The guidelines will describe a total budget limit for the agency; agencies may choose to provide merit incentives of lesser amounts, consistent with the criteria • Payroll Considerations: Incentive will not be included in calculation of overtime rate. The agency shall not commit or identify ahead of time that an employee or group will receive an incentive.	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers • Directors, Deputies, and Assistant Directors are not eligible for merit incentives • Employee must receive an overall rating of "Meets Expectations" or better (MAP rating 2.0 or greater) on their most recent performance evaluation • At least 6 months have passed since the employee's date of hire or last promotion or demotion • Employees not already participating in another incentive plan authorized by a separate program	• Merit incentives awarded to highest performing employees shall not exceed 4% • If more than one level of merit increase is awarded, the highest level must be at least two times greater than the lowest level. • Spending associated with this strategy is included in the overall budget limited to 2% of the agency's personal services base, exclusive of ERE
Meritorious Service Leave	Paid leave that agencies may use to reward and recognize employees or teams for meritorious or exemplary service Does not adjust base pay	• Requires agency to submit a plan for ADOA approval prior to implementation • Employee leave shall be consistent with approved plan criteria • Meritorious Service Leave shall be used within 12 months of receipt and shall not be paid upon separation (i.e. no cash value) • Meritorious Service Leave shall not be transferred to another agency if the employee changes agencies	• Uncovered • Correctional Officers I, II, or III or Community Corrections Officers • Employee must receive an overall rating of "Meets Expectations" or better (MAP rating 2.0 or greater) on their most recent performance evaluation • At least 6 months have passed since the employee's date of hire or last promotion or demotion • Employees not already participating in another incentive plan authorized by a separate program	• Meritorious Service Leave shall be limited to no more than 24 hours of leave per employee (prorated for less than full time employees) • No more than 5% of the agency's employees may receive Meritorious Service Leave per year unless an exception is granted by the ADOA Director (for example an agency may wish to award leave to members of a large team that implemented a major project and the number of team members exceeds the guidelines)

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Agency Toolbox – Variable Incentives

The strategies in this "toolbox" are available to agencies as part of a comprehensive plan of variable pay options subject to ADOA approval. These strategies are not intended to provide across-the-board incentives, but rather to reward top performers.

Option	Description	Criteria	Eligibility	Amount
Conditional Retention Pay Incentive	One time, lump sum bonus to retain critical employees Does not adjust base pay	• Requires agency to submit a plan for ADOA approval • High performing employees in critical positions, not easily replaced and are at risk of leaving the organization • Payroll Considerations: Incentive will not be included in calculation of overtime rate. The agency shall not commit or identify ahead of time that an employee or group will receive an incentive.	• Uncovered • Employee must receive an overall rating of "Meets Expectations" or better (MAP rating 2.0 or greater) on their most recent performance evaluation • At least 6 months have passed since the employee's date of hire or last promotion or demotion • Employees not already participating in another incentive plan authorized by a separate program	• Shall not exceed 5% per fiscal year per employee • Spending associated with this strategy is included in the overall budget limited to 2% of the agency's personal services base, exclusive of ERE

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Changes in Assignment/Special Assignment

The guidelines provided below address base pay when employees change assignments or change positions, subject to applicable rules. Any salary adjustments received as a result of a change in assignment shall not be considered as part of the limitations for other salary strategies.

Option	Description	Criteria	Eligibility	Amount
New Hire	Base salary of a newly hired employee	• Salary must be within the range for the classification • Agency shall consider such factors as education, experience, skills, prior performance, current or former salary, availability of qualified applicants, and prevailing market conditions when setting a new hire's salary	• Uncovered • Covered if Correctional Officer I, II, or III or Community Corrections Officer, or Full Authority Peace Officer	• Salary up to midpoint, or higher based on documentation • Agencies shall consider the current salaries of employees in the classification within the agency and their relative experience and performance when hiring a new employee
Promotion	Base salary adjustment awarded when an employee moves to a higher graded job	• Salary must be within the range for the classification • Agency shall consider such factors as education, experience, skills, prior performance, current or former salary, availability of qualified applicants, and prevailing market conditions when setting the salary of an internal promotion	• Uncovered[1]	• Salary up to midpoint, or higher based on documentation • Agencies shall consider the current salaries of employees in the classification within the agency and their relative experience and performance when promoting an internal candidate. • Promotions into or within the Executive Salary Schedule are not affected by this guideline
Lateral Transfer	When an employee moves to another position in another classification in the same grade	• Salary must be within the range for the classification	• Uncovered[1]	• No increase in salary unless an exception is granted by the ADOA HR Director • Considerations for an exception may include such factors as education, experience, skills, prior performance, current or former salary, as well as the current salaries of employees in the new classification within the agency and the relative experience and performance of those employees
Demotion	Base salary reduction when an employee moves to a lower graded job	• Salary must be within the range for the classification • Agency shall consider such factors as education, experience, skills, prior performance, current or former salary, as well as the current salaries of employees in the new classification within the agency and the relative experience and performance of those employees	• Uncovered[1]	• Employees voluntarily or involuntarily demoting to a lower grade position shall receive a salary decrease of at least 2.5%, unless an exception is granted by the ADOA HR Director • Considerations for an exception may include such factors as education, experience, skills, prior performance, current or former salary, as well as the current salaries of employees in the new classification within the agency and the relative experience and performance of those employees • Decreases greater than 2.5% at the discretion of the agency head

[1] Voluntary changes in assignment will result in a covered employee becoming uncovered, unless the position is a Correctional Officer I, II, or III, a Community Corrections Officer, or a covered position that requires Full-Authority Peace Officer certification.

All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Changes in Assignment/Special Assignment

The guidelines provided below address base pay when employees change assignments or change positions, subject to applicable rules. Any salary adjustments received as a result of a change in assignment shall not be considered as part of the limitations for other salary strategies.

Option	Description	Criteria	Eligibility	Amount
Reallocation (formerly referred to as a reclassification)	Base salary adjustment provided when an employee's position is reallocated to a different classification and grade or salary range	• Salary must be within the range for the classification	• Uncovered • Covered	• Employees in a position that is reallocated to a higher grade shall receive a salary increase of up to 2.5%, unless an exception is granted by the ADOA HR Director • Considerations for an exception may include such factors as education, experience, skills, prior performance, current or former salary, as well as the current salaries of employees in the new classification within the agency and the relative experience and performance of those employees • Reallocations to the same or lower grade shall result in no change to the employee's salary, provided the salary is within the range for the classification. If the employee's salary is less than the minimum or more than the maximum, the employee's salary shall be the minimum or maximum, respectively
Special Assignment (formerly referred to as a mobility assignment)	Supplemental pay (no adjustment to base salary), provided to employees approved for a temporary special assignment (not to exceed 6 months)	• Shall be in accordance with ADOA policy ASPS/HRD-PA3.05 • Salary must be within the range for the classification • Generally used to fill a critical position while recruiting, or while the incumbent is out on medical or military leave	• Uncovered • Covered	• Employees on a special assignment to a higher grade position shall receive a conditional pay supplement in an amount equivalent to the promotional guidelines • Employees on a special assignment to the same grade or a lower graded position shall receive no additional compensation

1 Voluntary changes in assignment will result in a covered employee becoming uncovered, unless the position is a Correctional Officer I, II, or III, a Community Corrections Officer, or a covered position that requires Full-Authority Peace Officer certification.

2 A Special Assignment is not a change in assignment as defined by R2-5B-205(B)

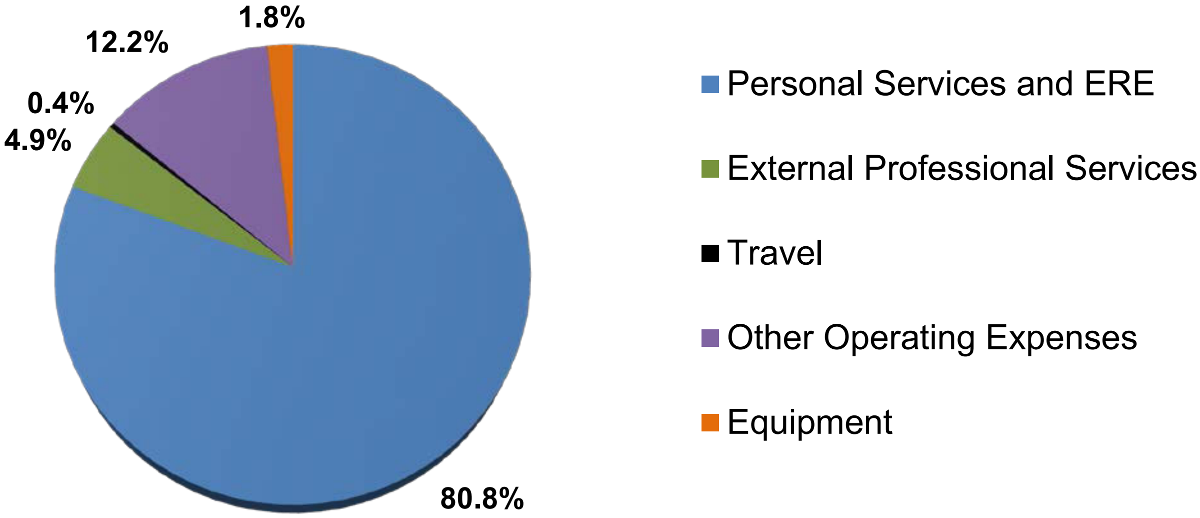
All compensation strategies are subject to the availability of funding, and must be managed within the agency's appropriation. Neither the availability of these strategies nor receiving the approval to use them shall obviate the need for agencies to manage within their budget. Agencies shall not implement compensation strategies that create new future fiscal obligations that will require additional appropriations, unless (1) the Legislature has approved such funding in advance of the implementation; or (2) agency spending reductions have freed up funds sufficient to eliminate the need for new monies to implement the strategy (near and long-term) without any degradation to customer service. All combinations of base salary increases and one-time incentive payments not affecting base salary shall not exceed 5% of an employee's annual base salary, this limit does not include increases resulting from the actions outlined in the "Changes in Assignment/Special Assignment" or the "ADOA HRD" toolbox, and/or Counter Offers.

Exhibit 4

ASRS Administrative and Investment Spending Plan
Fiscal Year 2015
(Dollars In Thousands)

	Base Operating Appropriations	+	Long Term Disability Appropriations	+	Oracle Modernization Special Legislative Appropriations	+	Administrative Continuous Appropriations	=	Administrative Subtotal	+	Investment Continuous Appropriations	=	Total
Personal Services (PS) and Employee Related Expenses (ERE)													
PS (Wages and Salaries)	12,225.3								12,225.3		1,183.0		13,408.3
ERE (Employer costs for Benefits, Taxes and ADOA Admin. Fees)	4,897.7								4,897.7		317.0		5,214.7
Variable Compensation Strategies (PS/ERE)	305.0								305.0				305.0
Investment Incentive Compensation Plan (PS/ERE budget reserved)	350.0								350.0				350.0
Total PS and ERE	**17,778.0**		**-**		**-**		**-**		**17,778.0**		**1,500.0**		**19,278.0**
External Professional Services													
External Investment Management Expenses											251,070.0		251,070.0
LTD Program Administration			2,800.0						2,800.0				2,800.0
Software Programming Costs	529.3				4,484.5		500.0		5,513.8				5,513.8
Actuary & Benefit Consulting							1,225.0		1,225.0				1,225.0
Consulting & Legal Fees	300.0								300.0		5,266.0		5,566.0
Pension Payroll Disbursement Services							1,543.5		1,543.5				1,543.5
Other Outside Services	250.0								250.0				250.0
Total External Professional Services	**1,079.3**		**2,800.0**		**4,484.5**		**3,268.5**		**11,632.3**		**256,336.0**		**267,968.3**
Travel, Other Operating & Equipment													
Software Licenses & Support	1,375.0								1,375.0				1,375.0
Equipment & Furniture	389.5								389.5				389.5
Telephone	340.0								340.0				340.0
Postage and Delivery	220.0						172.0		392.0				392.0
Insurance	155.0								155.0				155.0
Operating Supplies	160.4								160.4				160.4
Repair & Maintenance	150.0								150.0				150.0
Dues & Subscriptions	119.4								119.4		1,714.0		1,833.4
Education & Training	90.0								90.0				90.0
Travel	78.6								78.6				78.6
External Printing	75.0								75.0				75.0
Office Rent	-						1,505.0		1,505.0				1,505.0
Total Travel, Other Operating & Equipment	**3,152.9**		**-**		**-**		**1,677.0**		**4,829.9**		**1,714.0**		**6,543.9**
TOTAL	**22,010.2**		**2,800.0**		**4,484.5**		**4,945.5**		**34,240.2**		**259,550.0**		**293,790.2**

FY 2015
ASRS Base Operating Budget Overview



Personal Services and Employee Related Expenditures (ERE)	**$ 17,778,000**

***Personal services includes salaries and wages paid to agency employees. Also includes payments for employee leave taken, overtime, leave payouts and Board per diem.**

***Includes annual Variable Compensation Strategies Plan & Investment Incentive Compensation Plan (ICP).**

***Employee Related Expenditures (ERE) – Cost of an employee's benefit package. ERE includes the following: FICA, Retirement, Worker's Compensation, Health, Dental, and Life Insurance, Retiree Accumulated Sick Leave charges, Personnel Division charges.**

***Average ASRS ERE Rate is 40% (The percentage that employee related expenditures represents of the agency's personal services subtotal).**

External Professional Services	**$ 1,079,300**

***Legal services (External legal counsel, Arizona Office of Administrative Hearings fees and staff assigned from Arizona Attorney General's office)($300,000)**
***Technology resources ($529,300), temporary staffing ($100,000) and other professional services ($150,000)**

Travel	**$ 78,600**

***In-state travel for Member and Employer Outreach Teams, staff and Board Trustees ($53,600)**

***Out-of-state travel (investment related due diligence and educational conferences - $25,000)**

Other Operating Expenses	**$ 2,684,800**

***Equipment repair and maintenance ($150,000) and software support and maintenance ($1,375,000)**

***Printing and mailing annual newsletter ($150,000) and agency printing and postage ($145,000)**

***Telecommunications ($340,000) and other operating expenditures ($160,400)**

***ADOA Risk Management insurance premium ($155,000)**

***Professional dues, books and subscriptions ($119,400)**

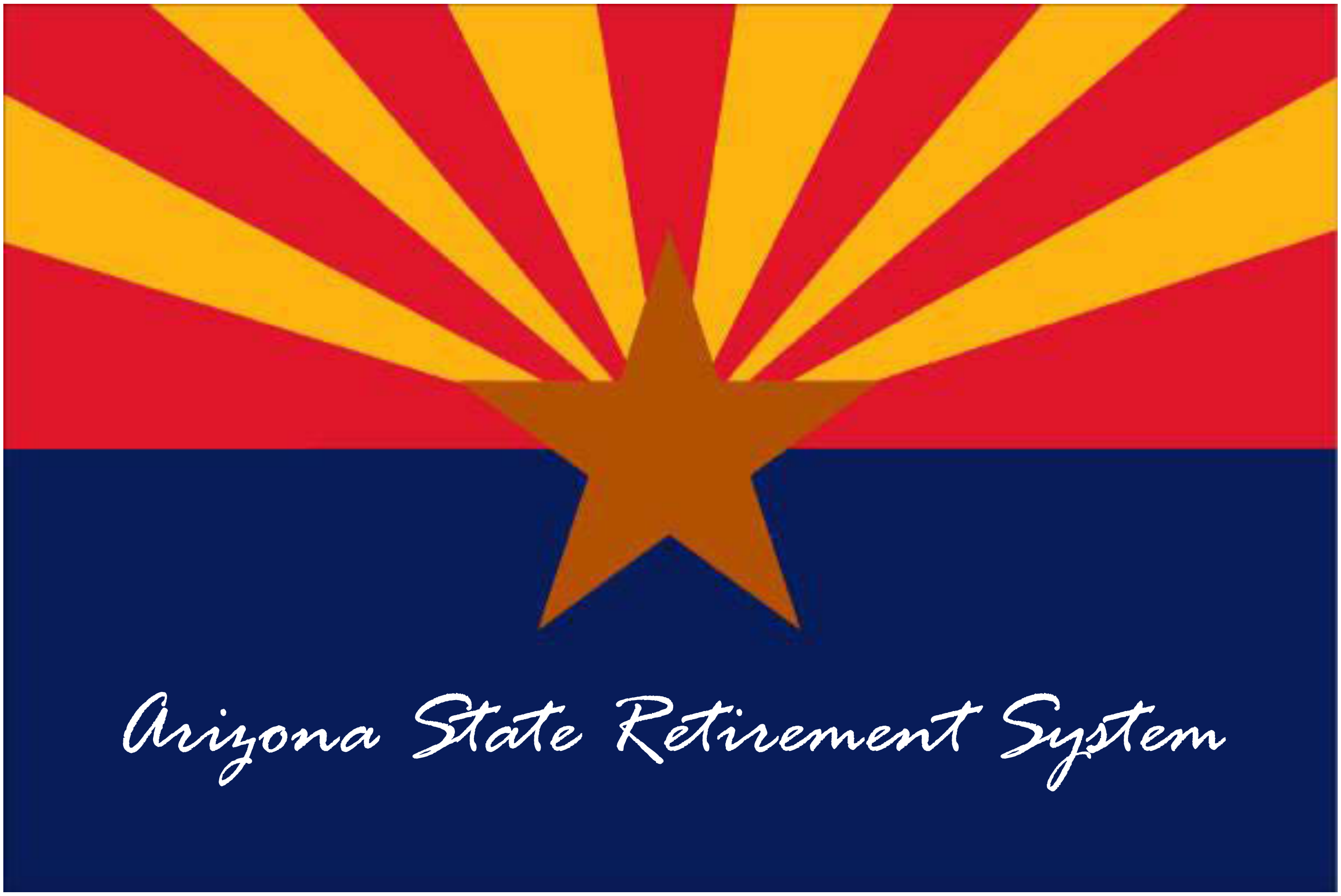
***Education, training and conferences ($75,000), employee tuition assistance ($15,000)**

Equipment	**$ 389,500**

***Replacement equipment, furniture, and technology equipment**

Base Operating Budget Total	**$ 22,010,200**

Exhibit 5



Board Governance Policy Handbook

Approved: January 16, 2004

Revised: December 17, 2004
February 18, 2005
December 6, 2005
December 15, 2006
April 18, 2008
May 14, 2009
July 31, 2009
April 16, 2010
April 15, 2011
July 15, 2011
October 19, 2012
October 25, 2013
January 24, 2014

Arizona State Retirement System (ASRS)
Board Governance Policy Handbook
Table of Contents

A. VISION STATEMENT AND CORE VALUES

How...

ASRS Employees Deliver Service With PRIDE!

PROFESSIONALISM

We promote, strive for and expect individuals, teams, and divisions to possess professional qualities and skills to lead the organization.

- Displays a friendly, respectful and courteous demeanor even when confronted by adversity
- Has proactive and responsive approach to internal and external customer needs
- Possesses good communication and active listening skills
- Is a trusted contributor (manager, leader, SME, analyst, teammate)
- Takes personal accountability • Has subject matter expertise
- Has critical thinking skills • Has an honest, fair, non-judgmental mind-set
- Is adaptable to beneficial change • Adheres to the ASRS Code of Conduct

RESULTS

We treasure the achievements of individuals, teams, divisions and the agency that energize the organization.

- Meets goals and objectives
- Completes projects
- Produces quality work products
- Satisfies customers
- Attains individual accomplishments
- Manages risks successfully

IMPROVEMENT

We appreciate individuals, teams or divisions who drive the agency forward with new,innovative ideas and solutions.

- Promotes new ideas
- Enhances outcomes and performance
- Solves problems
- Enhances morale
- Improves relationships
- Increases efficiency, effectiveness or reduces costs

DIVERSITY

We recognize that utilizing different talents, strengths and points of view, strengthens the agency and helps propel outcomes greater than the sum of individual contributors.

- Encourages an attitude of openness and a free flow of ideas and opinions
- Treats others with dignity and respect
- Works effectively to accomplish goals with teams comprised of dissimilar individuals
- Recognizes and promotes skills in others attained on and off the job

EXCELLENCE

We celebrate individuals, teams and divisions who exceed expectations and deliver service with a PRIDE that permeates the organization.

- Surpasses member, stakeholder and associate expectations
- Demonstrates a willingness to go the extra mile to engender a positive public image
- Embraces change in a manner that inspires others
- Accepts responsibility and challenges with enthusiasm
- Takes a personal interest in promoting teamwork through effective use of communication (verbal, non-verbal, written and technological techniques)
- Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments of others

ARIZONA STATE RETIREMENT SYSTEM

B. ASRS BOARD CHARTER

Consistent with recognition of the fiduciary duties imposed upon each individual member of the Board, they are referred to in this Governance Handbook as "Trustees."

The Board recognizes a sound governance structure is essential to fulfilling its duties and responsibilities. The Board prepared and adopted this Governance Handbook to establish the framework within which the Board intends to set governance and oversight policy.

The purpose of the Handbook is twofold. First, it is to provide orientation material for new Trustees (and executive staff) as to the roles, responsibilities, structure, procedures, policies, and activities in the governance and oversight of the ASRS. Second, it is to serve as an ongoing reference manual for current Trustees and ASRS staff.

This Handbook will be reviewed by the Board at least triennially, or more often if necessary. It will be updated at the Board's direction. The Executive Director will recommend modifications for the Board's consideration.

The Board's Role

The ASRS Board was established under state law to govern and administer the ASRS. The Board has only those powers and duties that have been delegated to it by the Legislature. Within this role, the Trustees have a duty as fiduciaries under the law to act solely for the benefit of members and beneficiaries. (A.R.S. § 38-714, Arizona Constitution, Article 29, Section 1)

The Board views itself as being primarily an oversight and strategic policy-making body. The Board has delegated the leadership, management and administrative functions to the ASRS Director and staff subject to ongoing monitoring and oversight. The Board has also delegated the hiring and termination of investment managers to the (Director's) Asset Class Committees. The Board does not engage in regular day-to-day management functions of the ASRS.

Board Composition (A.R.S. § 38-713)

The Board is composed of nine Trustees who are appointed by the Governor pursuant to the following statutory requirements:

1. Five Trustees must be members of the ASRS as follows:
   a. An educator
   b. An employee of a political subdivision
   c. A retired member
   d. An employee of the state
   e. An at-large member representing any ASRS member group
2. Four Trustees are not members of the ASRS and represent the public.

Trustee Terms, Resignations, and Vacancies

1. Each Trustee is appointed for a term of three years. The terms of office are staggered with three positions beginning and expiring on the third Monday in January of each year.
2. Trustees continue to serve in their positions after the expiration of their terms of appointment in accordance with law.
3. Individual Trustees may resign from their position on the Board by providing appropriate notice to the Governor. In such case, the resignation is not effective until accepted by the Governor. (A.R.S. §§ 38-291, 38-294)
4. Trustee position vacancies that otherwise occur before the expiration of a term will be filled by the Governor. (A.R.S. §§ 38-211, 38-713)
5. A position shall be deemed vacant if a trustee ceases to discharge their duties for a period of three consecutive months. (A.R.S. § 38-291)
6. Insufficient participation or engagement by a Trustee will be addressed by the Board Chair who will speak to the Trustee. If that does not resolve the problem, the Chair will contact the Governor's Office for assistance.

Duties and Responsibilities

The Board proactively oversees the delivery of ASRS benefits and investment of trust assets. Consistent with fiduciary standards the ASRS Board will:

1. Oversee and participate in the long-term strategic planning process for the ASRS.
2. Appoint, annually evaluate, and, if necessary, remove the Director in accordance with state law.
3. Delegate the leadership, management and administrative responsibilities of the ASRS to the Director through the Director Position Description, and delegate the hiring and termination of investment managers to the Director through the asset class committee structure.
4. Approve the creation or dissolution of standing and special committees of the Board.
5. Approve the selection, and termination, and oversee the performance of the following external service providers:
    a. Plan actuary and actuarial auditor
    b. External financial auditor
    c. General investment consultant(s)
    d. Third-party administration providers for health and long-term disability
6. Review and approve macro-level strategic investment policies which guide the strategic vision for ASRS investments.
    a. SIP001 Asset Allocation (PLAN)
    b. SIP002 Fund Position and Rebalancing (PLAN)
    c. SIP003 Asset Allocation (LTD)
    d. SIP004 Fund Rebalancing (LTD)
    e. SIP005 Securities Litigation
    f. SIP006 Investment Manager , Partner, and Co-Investment Selection and Oversight
7. Establish high level or significant actuarial funding methods and assumptions, benefit option factors, and an asset valuation method consistent with state law.
8. Conduct an annual actuarial valuation of the ASRS liabilities and submit the results to the Governor and the state legislature as required by state law.
9. Conduct an actuarial experience investigation study every five years.
10. Conduct an independent third-party audit of the actuarial funding of the ASRS benefits every five years.
11. Review, approve, and monitor the budget and budget change proposals.
12. Ensure the integrity of the financial control and reporting system.
13. Provide technical and administrative information and make recommendations on legislative proposals affecting the ASRS, without advocating for or against pension benefits modifications.
14. Hear appeals in accordance with policy established by the Board.
15. Develop and approve other governance policies, directives, and rules for the administration of the ASRS as may be adopted from time to time.
16. Obtain periodic updates from Board Committees regarding oversight activities.
17. Review agency risk management activities at least once annually.
18. Biennially approve the internal audit plan.
19. Review and approve recommendations of the Director to appoint or remove the agency’s internal auditor.
20. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) as presented by the Investment Committee.
21. Review annually the administration of the third-party administrator for the Supplemental Salary Deferral Plan (SSDP) as presented by the Investment Committee.
22. Review annually the administration of the third-party administrator for the 38-955 Plan as presented by the Investment Committee.

C. TRUSTEE POSITION DESCRIPTION

Primary Responsibility

Each Trustee is individually a fiduciary for the governance and oversight of the ASRS and is obligated to act solely for the exclusive benefit of the ASRS members and beneficiaries. (Arizona Constitution, Article 29, Section 1, and A.R.S. § 38-714)

Commitments

Trustees must be willing and able to devote the necessary time to fulfill their duties on the Board. This commitment includes the responsibility to:

1. Oversee the operations of the agency.
2. Act as a member of a nine-member board of trustees to provide leadership and set the strategic direction for the ASRS.
3. Prepare for and attend scheduled Board and Committee meetings.
4. Be an informed and active member of the Board, fully participating in the decisions and actions of the Board and its committees by making independent assessments and reasonable judgments.
5. Acquire and maintain the knowledge necessary to perform the duties of a Trustee.
6. Follow policies and procedures established by the Board.
7. Be accurate when communicating with other Trustees, members, beneficiaries, interested parties, the public, and ASRS staff, and always be clear on whether the statements being made are the position of the Board or solely the position of the individual Trustee.
8. Act collegially with the other Trustees and staff in the conduct of ASRS business.
9. Bring to the attention of the Board matters of concern that affect the conduct of the business of the Board or the ASRS.
10. Comply with the Board's Code of Ethics.
11. Adhere to state law regarding confidentiality and privacy of member records and benefits.
12. Adhere to Open Meeting Law. (A.R.S. §§ 38-431 et seq.)
13. Assume responsibility for evaluating the Trustee's own performance, the overall performance of the entire Board, and the performance of the Director.
14. Seek the advice of the Director and other Trustees when necessary to fulfill their fiduciary duties.
15. Delegate leadership, management and administrative responsibilities to the ASRS Director and where appropriate to outside service providers.

Trustee Fiduciary Responsibilities

Trustees have a duty to the beneficiaries to invest and manage the funds of the trust as a prudent investor would, in light of the purposes, terms, distribution requirements, and other circumstances of the trust.

1. This standard requires the exercise of reasonable care, skill, and caution, and is to be applied to investments not in isolation but in the context of the trust portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the trust.
2. In making and implementing investment decisions, the trustee has a duty to diversify the investments of the trust unless, under the circumstances, it is prudent not to do so.
3. In addition, the Trustee must:
    a. conform to fundamental fiduciary duties of loyalty and impartiality;
    b. act with prudence in deciding whether and how to delegate authority; and
    c. incur only costs that are reasonable in amount and appropriate to the investment responsibilities of the trusteeship.

Trustee Access to ASRS Resources

1. A Trustee shall not give instructions or assign tasks to individual ASRS staff.
2. A Trustee shall refrain from making negative comments on staff performance other than to the Director or acting Director.
3. A Trustee should make every effort to access ASRS resources through action of the full Board.
4. A Trustee may request from the Director, or the Director's designee, information or assistance necessary to meet the Trustee's responsibilities.
5. The Director may seek the advice of the Chair and Legal Counsel or refer the matter to the full Board before complying with individual Trustee requests that, in the Director's opinion, would require a significant amount of ASRS resources or cause disruption to the regular administration of the ASRS.
6. The Director shall share any vital or useful information resulting from a Trustee request with other Trustees.
7. The Director may refuse requests of individual Trustees that are in conflict with this policy.

D. DIRECTOR POSITION DESCRIPTION

General

1. The Board will appoint the Director who shall serve at the pleasure of the Board. (A.R.S. § 38-715)
2. The Director reports to the full Board.

Delegation of Responsibilities

1. Subject to the areas reserved to the Board by state law or the ASRS Board Charter, the Director is responsible for managing the regular operations of the ASRS in accordance with Board policies and directives.
2. The Director may make prudent delegation of the Director's responsibilities to other ASRS staff or outside service providers unless specifically prohibited by law or the Board.

Specific Duties and Responsibilities

The Director will:

1. Provide leadership to the ASRS in fulfilling its statutory purpose and achieving the vision, values, investment principles, and goals outlined in the strategic plan.
2. Maintain effective and credible relationships with the members and beneficiaries of the ASRS, participating employers, executive officers of state government, the legislature, employee and retiree organizations, the media, and the public at large.
3. Project a positive image as Director of the ASRS.
4. Act as official spokesperson for the Board and the ASRS.

   With respect to legislation; if draft legislation is proposed affecting the ASRS that the ASRS Board has not already taken a position on, the Director will discuss such draft legislation at his discretion with legal representation, and the Board Chair or acting Board Chair, to formulate an agency response.

   If the draft legislation does not pertain to a benefit modification, the Director may provide relevant information and also support or oppose the draft legislation.

   If the draft legislation pertains to a benefit modification, the Director may provide relevant information but will not support or oppose the draft legislation.

   If a single piece of draft legislation covers both a benefit modification item as well as a non-benefit modification item, the Director may support or oppose the legislation, but will communicate that the support or opposition relates to the non-benefit modification item and not the benefit modification item.
5. Act as liaison between the Board and other ASRS staff and service providers.
6. Safeguard the assets of the ASRS by appointing a custodian and developing and implementing proper internal controls.
7. Account for and be responsible for ASRS data, the collection of income from all sources, maintenance of accounts, and distribution of benefits.
8. Monitor the operational and funded status of the benefit plans under the ASRS.
9. Identify strategic issues involving the design or ongoing administration of the defined benefit plan, defined contribution system, health insurance program, long term disability program, the supplemental retirement savings plan, and the supplemental salary deferral plan. Initiate analysis or action as appropriate.
10. Provide necessary staffing, support and resources to the Board and its committees.
11. Proactively assist and advise the Board and its committees with regard to issues requiring Board policy or action.
12. Appoint or remove the Deputy Director, Chief Investment Officer, and Assistant Director(s) positions or other staff as required.
13. Appoint the State Social Security Representative.
14. Recommend to the Board the appointment or removal of the internal auditor.
15. Perform annual performance evaluations of those who have a direct reporting relationship to the Director.

16. Be responsible for the recruitment, hiring and day-to-day management of employees.
17. Ensure the accurate and timely distribution of pension benefits, survivor benefits, and refunds.
18. Review and approve transfers between the ASRS and other retirement plans. (A.R.S. §§ 38-730 and 38-921)
19. Review and approve domestic relations orders. (A.R.S. § 38-773)
20. Review and approve employer applications for ASRS membership. (A.R.S. § 38-729)
21. Adjust the maximum compensation limits (A.R.S. § 38-746), contribution limits (A.R.S. § 38-747) and maximum retirement benefit amounts (A.R.S. § 38-769) when the limits and amounts are adjusted by the United States Secretary of the Treasury pursuant to the Internal Revenue Code.
22. Maintain a process for handling member and participating employer appeals of staff decisions and statutory interpretations.
23. Assist the Board in reviewing and adopting actuarial assumptions, funding methods, benefit option factors and actuarial valuation methods for the ASRS.
24. Initiate the annual actuarial valuations, periodic actuarial experience studies and independent actuarial audits as required by state law or Board policy and work with the actuary in determining and/or recommending appropriate assumptions.
25. Oversee and assist the Chief Investment Officer in developing macro-level strategic investment policies.
26. Review and approve standard operating procedures for the Investment Management Division.
27. Execute and manage investments in accordance with Board directives.
28. Assist the Board in soliciting and selecting of the following service providers:
    a. Consulting actuaries and actuarial auditors
    b. External financial auditor
    c. General investment consultants
    d. Third-party administration providers for health and long-term disability benefits
29. Approve contract extensions.
30. Approve the selection and termination of the 38-955 Plan, the Supplemental Retirement Savings Plan (SRSP) and the Supplemental Savings Deferral Plan (SSDP) investment options, and third-party administrators.
31. Review and approve, with the consensus of the CIO, recommendations from ASRS Asset Class committees, to hire and terminate investment managers/partners.
32. Review and approve recommendations from ASRS Asset Class committees to hire and terminate asset class consultants. The Investment Committee must consent to the Director's recommendation before a primary consultant for an Asset Class committee is hired or terminated.
33. Except as otherwise noted, oversee the performance of all other service providers to the ASRS.
34. Develop and recommend to the Board, an appropriated operating budget. Manage and monitor expenditures within the budget and provide reports to the Operations and Audit Committee or Board as necessary or directed.
35. Manage and monitor continuously appropriated expenditures as prescribed in A.R.S. §38-721.
36. Oversee the preparation of the ASRS Comprehensive Annual Financial Report.
37. Develop and deliver all operational and actuarial reports to the Governor and state legislature as required by state law after approval by the Board.
38. Perform other duties delegated by the Board.
39. Administer the Supplemental Retirement Savings Plan (SRSP) and report to the Investment Committee annually.
40. Administer the Supplemental Salary Deferral Plan (SSDP) and report to the Investment Committee annually.
41. Administer the 38-955 Plan and report to the Investment Committee annually.

E. ELECTION OF BOARD OFFICERS

Board Officers

The Board will elect the following Board officers:

1. Board Chair
2. Vice-chair

Election Procedure

1. Any Trustee may serve as a Board officer.
2. Any Trustee may make nomination(s) for Board officer positions, including him/herself.
3. Nominations will be made at the regular meetings of the Board in approximately May of each year.
4. Board officers will be elected by majority vote at a regular meeting of the Board prior to the start of a fiscal year. The Board Chair position shall be elected first, followed by the Board Vice-chair position.

Term

Board officers will serve for the fiscal year following their election. A Board officer typically may not serve more than three consecutive terms in one of the Board officer positions but may serve an unlimited number of non-consecutive terms.

Resignations and Vacancies

1. A Board officer may resign from their position by providing written notice to the Board and also informing the Director by copying him on the notice.
2. Board officer vacancies that otherwise occur before the expiration of a term will be filled by the Board for the balance of the term in a manner agreed upon by the Board.

Removal

The Board may remove an officer before the end of the officer’s term at any time by majority vote. The vacant officer position must be filled at the next meeting of the Board.

F. BOARD CHAIR POSITION DESCRIPTION

Responsibilities and Commitments

The Chair holds a position of leadership for the Board and the ASRS and must be willing and able to devote the time necessary to fulfill these special responsibilities as the leader of the Board. This commitment includes the responsibility to:

1. Convene and conduct Board meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state law.
2. Review and approve the agenda for regular and special Board meetings and include any issues requested by the Trustees or the ASRS Director in accordance with Section G. *Board and Committee Meeting Protocol* of this Handbook.
3. Ensure proper and timely flow of adequate information to the Board.
4. Solicit input from Trustees regarding matters before the Board.
5. Ensure adequate time is provided for effective study and discussion of business being considered by the Board.
6. Schedule executive session meetings as necessary and in compliance with state law.
7. Make committee assignments, including chair and vice-chair positions, to committees, taking into account the desires of the Trustees.
8. Execute such documents and other legal instruments on behalf of the ASRS as required by state law or authorized by the Board.
9. Discuss performance and behavior issues with Trustees who are having a negative impact on the ASRS.
10. Perform all other duties specifically identified by the Board.

Duties of Vice-chair

The Vice-chair will act as temporary Chair in the absence of the Chair.

G. BOARD AND COMMITTEE MEETING PROTOCOL

Rules of Order and Quorum

1. The Board and its committees shall operate under the Arizona Open Meeting Law and the general guidance of Robert's Rules of Order.
2. A quorum must be present for the Board or its committees to conduct business. A majority of the Board or committee will constitute a quorum.
3. Board or committee members may not attend meetings through delegates or authorize voting by proxy.

Scheduling of Regular, Special, and Emergency Meetings

1. The Board will adopt an annual schedule identifying the time and location of regular meetings. The Board may schedule some meetings outside of the City of Phoenix metropolitan area. The Board or Board Chair may modify this schedule at its discretion.
2. The Board Chair, or any four Trustees, may call for special or emergency meetings of the Board.
3. The Director, at his discretion or as requested by the Board Chair, may post any Board Committee meeting as a dual Board and Committee meeting in order to permit interested Board members not on the particular committee to attend and participate in discussions. The committee meeting will be conducted under the committee's charter and the non-committee Trustees will not make or vote on committee motions.

Meeting Notices

1. At least twenty-four hour notice of all Board and committee meetings, including executive sessions, will be provided to the public in accordance with Arizona Open Meeting Law. (A.R.S. § 38-431.02)
2. If permitted per Arizona Open Meeting Law, in the case of an emergency meeting requiring immediate action to avoid some serious consequence, shorter notice may be provided.
3. The Board Chair or Committee Chair shall normally provide the Trustees with seven calendar days' notice of all Board and committee meetings.

Trustee Attendance by Electronic Media

A Trustee may participate in any meeting of the Board by telephone or video conference in a manner consistent with Arizona Open Meeting Law and applicable Arizona Attorney General Opinions. (A.R.S. § 38-431)

Meeting Agendas

1. The Board Chair in consultation with the Director will prepare an agenda for each Board meeting containing the specific matters to be discussed, considered or decided at the meeting.
2. The Board may discuss, consider, or make decisions only on matters on the agenda.
3. Items can be placed on a Board meeting agenda by:
   a. The Board Chair
   b. A Trustee
   c. A Board Committee
   d. The Director

   The Board Chair will add requested items to the Board meeting agenda within three months of the request. A longer period may be agreed upon by the Chair and the requestor.
4. The agenda for an executive session must contain a general description of the matter to be considered or decided at the meeting. (A.R.S. § 38-431.02)

Meeting Materials

1. The Director will make every reasonable effort to distribute related Board meeting materials to the Trustees at least five calendar days before each meeting.

2. The Director shall prepare a summary of the issues to be discussed, a staff or committee recommendation, if applicable, and a proposed motion or motions for the Board to consider.

Public Access and Testimony at Board Meetings

1. All meetings of the Board or committees are public and all persons who wish to attend may do so in accordance with Arizona Open Meeting Law. (A.R.S. §§ 38-431 et. Seq.)
2. Every agenda for regular Board or committee meetings will provide the public an opportunity to be heard. The Board Chair or Committee Chair may prescribe the time and manner of such public comment.
3. With regard to matters raised by a member of the public for which proper public notice has not been provided**,** no action may be taken at that meeting. The Board or committee may request the Director to investigate the issue further and report back to the Board or committee at a later meeting.
4. The Director, in consultation with the Chair, will convene meetings in facilities and locations that provide the public with reasonable access.
5. An individual who intends to speak at a meeting may be required by the Board to sign a register to permit compliance with minute taking required under state law.

Executive Sessions

1. The Board and its committees may conduct business in executive session as permitted by state law. (A.R.S. § 38-431) Executive sessions shall be presided over by the Chair of the Board or committee
2. Executive sessions shall be closed to the public and subject to the following conditions:
   a. The executive session must be held during a regular, special, or emergency meeting of the Board or committee.
   b. The executive session must address only those subject matters permitted under Arizona Open Meeting Law (A.R.S. § 38-431, § 38-797.03):
      - Discussion or consideration of employment, assignment, appointment, promotion, demotion, dismissal, salaries, disciplining or resignation of a public officer, appointee or employee of any public body.
      - Discussion or consideration of records exempt by law from public inspection, including the receipt and discussion of information or testimony that is specifically required to be maintained as confidential by state or federal law.
      - Discussion or consultation for legal advice with the attorney or attorneys of the public body.
      - Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation.
      - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations with employee organizations regarding the salaries, salary schedules or compensation paid in the form of fringe benefits of employees of the public body.
      - Discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town.
      - Discussions or consultations with designated representatives of the public body in order to consider its position and instruct its representatives regarding negotiations for the purchase, sale or lease of real property.
      - Per § 38-797.03, discussions resulting from an member appeal of an administrative law judge determination regarding their Long Term Disability rights, benefits or obligations if such person requests a review of the determination in an executive session.
   c. The executive session must satisfy all of the state’s notice requirements under Arizona Open Meeting Law.

3. The Board will take no action while in executive session. Any such action must be taken during that portion of a meeting that is open to the public.
4. Trustees are prohibited under state law from publicly disclosing the discussions held in executive session. The Chair shall remind the Board or committee of this prohibition at the beginning of each executive session.

Meeting Minutes and Board Records

1. The Director will ensure that minutes of all meetings of the Board and committees are taken and made available to the public as required by state law.
2. The Director will prepare a written copy of the Board minutes taken at prior meetings of the Board and present it to the Board for approval at a subsequent meeting.
3. The Director will maintain records of the Board activities and actions in accordance with state law and such other documents necessary to establish a due diligence record of the Board's activities.

H. BOARD COMMITTEES and CHARTERS

General

The Board may establish standing or special committees to conduct the business of the full Board subject to the following conditions and limitations:

1. Board committees are responsible for overseeing various aspects of the ASRS administration and only have the authority to make recommendations to the Board.
2. Board committees may not act or speak for the Board.

Standing Committees

1. Standing committees are permanent committees established by the Board.
2. The standing committees of the Board are as follows:
   a. Operations and Audit Committee (OAC)
   b. External Affairs Committee (EAC)
   c. Investment Committee (IC)

Special Committees

1. Special committees may be established from time to time by the Board Chair to address limited purposes and for limited times.
2. Special committees cease to exist automatically upon the completion of their stated purpose as determined by the committee chair.

Committee Members

1. The Board Chair shall appoint members of each committee for one-year terms.
2. The Board Chair shall appoint a chair and vice-chair for each committee. These committee officer position appointments will be for one-year terms.
3. The Board Chair may remove or replace members of a committee and committee officers before the end of the terms if the Chair determines such action is in the best interest of the ASRS.

Committee Operating Rules

1. The committee chair shall call committee meetings.
2. Committee meetings shall be subject to all of the public notification and meeting requirements established for the full Board in Section G of this Handbook.
3. Committee meetings are open to all Trustees, but only committee members may participate in the dialog or vote. However, if the meeting is posted as a dual meeting of the committee and Board, all participating Trustees may participate in the dialog but only committee members may vote.
4. The committees shall report to the Board, summarizing activities and recommendations on matters that have been referred to them.
5. The Director shall provide staffing, consulting, or other resources and support to Board committees as may be necessary and within budget to meet the responsibilities assigned by the Board.

Standing Committee Charters

Operations and Audit Committee Charter

General

The Operations and Audit Committee (OAC) is a standing committee of the Board responsible for overseeing the general operations and administration of the ASRS, and for recommending Board action when required.

Composition

The Operations and Audit Committee is composed of three or four members at the discretion of the Board Chair.

Responsibilities

1. **Oversight**

   The OAC will meet regularly to evaluate ASRS performance in meeting strategic goals and objectives and managing administrative risks. Areas of responsibility are as follows:

   a. Member services, including all outreach education, walk-in counseling, member correspondence, and call center services and programs.
   b. Technology services, including development, maintenance, security, performance, and compliance with state or industry standards.
   c. General accounting and financial reporting, including compliance with industry standards, investment accounting, payroll, accounts receivable and payable, pension payroll, and contribution reporting.
   d. Collection and maintenance of member/employer accounts, including contributions, salaries and service, demographic data, and security.
   e. Benefit administration, including calculations and disbursements for all benefit types.
   f. Strategic, agency-wide staffing issues.
   g. Administration and plan design of the ASRS health insurance program.
   h. Administration and plan design of the ASRS long term disability program.
   i. Plan design of the ASRS 401(a) defined benefit plan.
   j. Governance policies and practices.
   k. Review appropriated budget request proposals; ongoing administration of the ASRS appropriated budget and continuously appropriated budget.
   l. General contract management and procurement.
   m. Strategic initiatives approved by the Board affecting operations or administration.

2. **The OAC will operate as the Audit Committee for the agency and will perform the necessary duties of an audit committee including:**

   a. Oversight of the agency's enterprise-wide risk management program.
   b. Review and approval of the biennial Audit Plan.
   c. Review and follow up on operational, investment, employer, and vendor audits.
   d. The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy (see Internal Audit Charter).

3. **Actions requiring independent Board review**

   The OAC will use its discretion in reporting or making recommendations to the Board except in cases when Board action is required by governance policy. Specifically, the OAC will forward its recommendations to the Board on the following matters:

   a. Selection or removal of a vendor or vendors to administer the ASRS health insurance programs.
   b. Selection or removal of a vendor to administer the ASRS long term disability program.
   c. Selection or removal of the ASRS external or internal auditor.
   d. Biennial review of the agency's risk management program.
   e. Biennial approval of the internal audit plan.
   f. Appropriated budget request proposals..

Internal Audit Charter

Introduction

The Internal Audit Division (IAD) is a vital part of the ASRS, providing independent, objective assurance and consulting services designed to add value and improve the organization's operations. The IAD is responsible for helping the ASRS leadership accomplish its objectives by performing independent assessments of the systems of risk management, internal controls and operating efficiency, guided by professional standards and in bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Organizational Status

The organizational status and support accorded to the IAD by the ASRS Board of Trustees (Board), the Operations and Audit Committee (OAC), and senior management are major determinants of the scope and value of the internal audit function to the agency.

The Chief Internal Auditor reports functionally to the Board through the OAC and administratively to the Director of the ASRS. The Director in consultation with the OAC or OAC Chair evaluates the performance, and subject to required ADOA guidelines, determines the remuneration of the Chief of Internal Audit. The OAC in consultation with the Director will recommend to the Board the appointment and removal of the Chief of Internal Audit.

Internal Audit personnel are independent of the ASRS activities they audit and will have no authority or responsibility for any of the procedures or activities of the ASRS. The Chief Auditor and internal audit staff are not authorized to perform operational duties for the organization. Additionally they are not authorized to initiate or approve accounting transactions external to the IAD. Internal audit staff is not authorized to direct the activities of any organization employee not employed by the internal audit division. This independence promotes essential impartial and unbiased judgments, and assures appropriate consideration and effective action on audit findings and recommendations.

The Chief of Internal Audit shall have free unrestricted access to the Chair of the OAC and the Chair and members of the Board, subject to applicable state and federal laws.

To accomplish audit objectives, Internal Audit staff is authorized to have full, free, and unrestricted access to any of the ASRS records, property, personnel, employer members, contractors, vendors, members and retirees relevant to any subject under review. Where the need is indicated, special arrangements will be made for the examination of confidential information. Internal auditors will exercise due diligence in the safeguarding and use of these resources. The Chief Auditor shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information.

Internal Audit Standards

Internal Audit activities comply with the following:

- ASRS objectives and policies;
- International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors, Inc.;
- Generally accepted government auditing standards; and
- All other applicable professional standards.

Scope Of Activities

The scope of internal audit work includes (1) the examination and evaluation of the adequacy and effectiveness of the agency's internal control systems, and (2) the quality of performance in carrying out assigned responsibilities. The scope of the above work includes:

- Developing a biennial audit plan using risk analysis, and obtaining approval from the Board.
- Ensuring that risks within and outside the organization are appropriately identified and managed.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report information.
- Evaluating compliance with current policies, plans, procedures, laws, and regulations.

- Appraising the safeguarding, and economical and efficient use of the organizations resources.
- Reviewing operations or programs to ascertain whether results are consistent with established objectives, goals, and are in synchrony with industry best practices and whether the operations or programs are being carried out as planned.
- Evaluating in-system design related to internal controls.
- Performing special reviews and investigations as requested by the Director, the Board, and the OAC.
- Investigating reported fraud occurrences by following the agency's "Fraud, Criminal Acts, Internal Investigation and Whistleblower Policy."
- Investigating reported occurrences of fraud, embezzlement, theft, waste, etc., and recommending controls to prevent or detect such occurrences.
- Performing investigations to ensure that employers appropriately enroll employees, accurately report member earnings, follow appropriate statutes related to retirees returning to work and appropriately report other employee data.
- When audited, ensuring that contractors, including third-party administrators are meeting the objectives of the contracts, while in conformance with applicable laws, regulations, policies, procedures and best practices.

Reporting

The results of internal audits are reported to the OAC, the Director, appropriate managers, and oversight bodies. On a quarterly basis, or more frequently at the request of the OAC Chair, the Chief of Internal Audit will meet with the OAC to discuss the status of the audit plan and other significant issues involving the IAD.

The IAD will establish and maintain a system for tracking corrective action for significant audit findings reported by internal and external auditors.

Management will provide the corrective action accomplished to the IAD on a timely basis for tracking, consolidation and reporting purposes.

An external peer review of the IAD will be performed every five years and the results reported to the OAC.

Authority

The IAD was established by the Board of the ASRS. The Charter is incorporated into the ASRS Board Governance Policy Handbook and is approved by and all future amendments are approved by the Board through a majority vote. This Charter shall be reviewed at least annually and updated as required by the OC.

External Affairs Committee Charter

General

The External Affairs Committee is a standing committee of the Board responsible for assisting the Board with legislative matters, the development of administrative rules, and reviewing the Agency communications program.

Composition

The External Affairs Committee is composed of three or four members at the discretion of the Board Chair.

Responsibilities

The External Affairs Committee has the following responsibilities:

1. Legislation
   a. Work with the Director to identify legislative proposals to facilitate the efficient administration of ASRS operations and report Committee recommendations to the Board.
   b. Review new legislation and plan design changes and report Committee findings and recommendations to the Board for action.
   c. Review and monitor Board and ASRS activity regarding state legislative matters to help ensure compliance with the Legislative Review Policy and state law prohibitions on Board advocacy for or against legislation for benefit modifications. (A.R.S. § 38-714)
   d. Oversee communicating the actuarial contribution requirements and administrative costs to the legislature and other relevant parties.
2. Administrative Rulemaking
   a. Review practices and procedures for inclusion in administrative rules for the ASRS as required and consistent with state law.
   b. Recommend to the Board the addition, deletion, or modification of administrative rules and substantive Board policies.
3. Annual Communications Program

   Review the agency's annual communications program to ensure that members, employers, legislature, Governor's Office, and other constituents and interested parties are appropriately notified and/or informed about ASRS' activities, meetings, investments and other information.
4. The Committee is also responsible for other issues or topics that reasonably pertain to external affairs.

Investment Committee Charter

General

The Investment Committee (IC) is a standing committee of the Board responsible for assisting the Board in overseeing the ASRS investment program.

Composition

The Investment Committee is composed of three or four members at the discretion of the Board Chair.

Duties and Responsibilities

1. Recommend to the Board the ASRS investment goals and objectives.
2. Recommend to the Board the ASRS strategic asset allocation policy which is expected to achieve the investment goals and objectives.
3. Recommend to the Board ASRS Strategic Investment Policies and review annually the ASRS Investment Policy Statement (IPS).
4. Review and recommend to the Board changes in investment-related sections of the ASRS Board Governance Policy Handbook.
5. Review the Asset Class Committee's activities and asset class presentations.
6. Review recommendations regarding changes to asset class performance benchmarks. Subsequent approval by the Board is required.
7. Review the Tactical Fund Positioning/Portfolio Rebalancing actions.
8. Recommend to the Board the selection, and termination of the ASRS general investment consultant(s) and oversee their performance.
9. Engage the Director and CIO regarding the Investment Management Division's organizational strategic planning.
10. Receive and discuss annually ASRS investment risk reports.
11. Review annually the administration of the third-party administrator for the Supplemental Retirement Savings Plan (SRSP) and annually report any issues to the Board.
12. Review annually the administration of the third-party administrator for the Supplemental Salary Deferral Plan (SSDP) and annually report any issues to the Board.
13. Review annually the administration of the third-party administrator for the 38-955 Plan and annually report any issues to the Board.
14. Review and comment if necessary on audits related to investment management.
15. Receive and review asset class committee minutes.

I. ASSET CLASS COMMITTEES

Purpose

Asset class committees are designed to:

1. Provide authority and responsibility to the Director, CIO, and IMD staff regarding the implementation of the ASRS Strategic Asset Allocation Policy (SAAP) and associated selection of investment managers.
2. Improve the efficiency and effectiveness of the ASRS investment decision-making process.
3. Provide consistency and uniformity in investment decision-making frameworks.

Asset class committees are not deemed to constitute a sub-committee of the Investment Committee (IC) or full Board.

Duties and Responsibilities

The Director is delegated responsibility for the day-to-day management of the asset class committees.

Investment Management Division staff will be assigned to asset class committees as appropriate to provide subject matter expertise.

Asset Class Committee consultants will operate as staff extension consultants under the direction of the CIO.

Organizational Structure/Composition/Voting Protocol

The ASRS has two asset class committees:

1. Public Markets Committee (PUBMC) – This committee will manage ASRS investments in public markets and investments with public market-like characteristics. This includes traditional public U.S. and international equity and fixed income markets, bank loans, opportunistic public investments, global tactical asset allocation (GTAA), commodities, currencies, non-traditional assets and absolute rate of return strategies.
2. Private Markets Committee (PRIVMC) – This committee will manage ASRS investments in private markets and investments with private market-like characteristics. This includes private equity, real estate*, private fixed income and opportunistic private investments.

   *Includes public real estate/REIT investments.

Each asset class committee will contain the following members:

a. The Director and/or CIO (or their designee) who will chair the committee.
b. ASRS staff responsible for portfolio management.
c. Designated staff-extension consultants.

To ensure the timely flow of information, the CIO will communicate to the IC, information regarding activities of the Asset Class Committees.

Voting members of the Committee include the Director, CIO and one or more IMD Portfolio Managers. Investment manager selection decisions require the consensus of both the Director and CIO.

Staff-extension Investment Consultants

Staff-extension investment consultants are considered as an extension of the CIO and IMD staff and will be evaluated, interviewed, hired, assigned, terminated by the CIO with input from the Director and staff.

Staff-extension investment consultants will be utilized by the CIO and IMD staff to assist in the investment manager searches and other activities pertaining to the selection and monitoring of investment managers.

Selection of a particular staff-extension investment consultant will be based on those available from the approved pool of consultants and their particular strengths and ability to add value to the ASRS.

J. TRUSTEE ORIENTATION AND EDUCATION PROGRAM

General

The Board finds it is critical for the sound governance of the ASRS for Trustees to be fully informed with regard to the nature, purpose, structure, operational systems and processes of the ASRS. The Board further finds that it is important that Trustees are provided with education and training in areas that will facilitate the performance of their governance and oversight responsibilities as trustees and fiduciaries for the ASRS.

New Trustee Orientation Program

1. The Director will develop and present with the Board Chair to new Trustees an in-depth New Trustee Orientation session designed to inform new Trustees of the key functions of the ASRS and their responsibilities.
2. Newly appointed Trustees are expected as part of their fiduciary responsibilities for the ASRS to participate in the New Trustee Orientation Session within approximately two months of their appointment.
3. The Board believes the following orientation and education topics will increase Trustee understanding:
   a. History and background of the ASRS.
   b. Introduction to the executive management team and other staff as determined by the Director.
   c. The governance role of the Board and the management role of the executive staff of the ASRS.
   d. The state laws establishing the ASRS and the application of other state and federal laws.
   e. A briefing on the fiduciary duties and liabilities of Trustees and other fiduciaries of the ASRS.
   f. A briefing on conflicts of interest and ethics laws and policies and the state mandated courses on conflicts of interest laws.
   g. A review of the Board Governance Handbook and other information and documentation deemed relevant by the Director or Board Chair.
   h. A review of general retirement pension, health benefits design, LTD, and other specific benefits provided by the ASRS.
   i. A review of general actuarial funding terminology and principles and the most recent actuarial reports.
   j. A review of general institutional investment principles and the various investment policies in place.
   k. A review of the reporting and disclosure requirements of the ASRS to state entities.
   l. A review of the legal (state and federal) and political environment in which the ASRS operates.
   m. A review of the current ASRS strategic plan and new issues, trends and developments affecting the ASRS.
   n. The structure and model for the management and operation of the ASRS.
   o. The legal and legislative environment.
   p. A description and tour of ASRS offices as may be practicable.

Trustee Education Policy

1. Each Trustee is responsible for evaluating their educational needs and obtaining knowledge of specific subject matters. The Director will assist them in obtaining information on conferences or seminars to meet their education needs.
2. Trustees are to attend ongoing educational sessions to stay current on fiduciary responsibilities and are encouraged to attend conferences and seminars relating to:
   a. Investment issues and trends;
   b. Pension, healthcare, LTD, and benefits design;
   c. Fiduciary management of employee benefit trusts;
   d. Other subjects related to the oversight of the ASRS;
   e. Training required by the state of Arizona.
3. The Director will periodically provide to the Board information on available conferences and seminars.
4. The Director shall arrange for an annual fiduciary education session for the Board.

Reimbursement of Education Expenses

Payment and/or Reimbursement of travel-related expenses for Trustee orientation and education will be in accordance with the state Travel Policy.

K. STRATEGIC PLANNING POLICY *(updated 10/25/2013)*

General

Strategic planning is essential to ensuring the sound governance, oversight, and management of the ASRS. Since 1998, the ASRS has built its operation around a strategic model based on five organizing principles:

1. Look ahead with clarity of purpose by establishing an agency Vision, Values, Priorities, and Goals
2. Measure performance
3. Initiate strategic initiatives, as needed
4. Construct cost-efficient budgets and an effective workforce; and
5. Implement strong governance practices

The objectives of this policy are to:

1. Ensure that strategic priorities of the ASRS are primarily determined by the Board of Trustees, with active engagement, including recommendations, by the Director and senior staff.
2. Outline the process the ASRS will utilize when developing a Strategic Plan.
3. Describe how the Director will communicate with the Board regarding the agency's progress implementing the plan.

Strategic Planning Policy

The Board and Director will work collaboratively to ensure that:

1. Strategic priorities facing the ASRS over the short, medium, and long-term are identified, discussed, prioritized, and included in the Strategic Plan.
2. Strategic planning discussions remain focused on strategic issues that have been identified, and the strategic direction of the ASRS.
3. Strategies are developed and incorporated into the Strategic Plan to address the short, medium, and long-term priorities that have been identified by the Board.
4. The Board is updated at least annually regarding the agency's progress addressing strategic priorities.
5. Adequate resources are in place to support the successful execution of the Strategic Plan.
6. The agency's governance policy is periodically examined and updated to ensure that sound governance practices are in place.
7. Delineation of authority and autonomy is regularly discussed.

Strategic Planning Development Process

1. In preparation for Board meetings with strategic planning agenda items, the Director will ask the Board Chair for direction on how to proceed in discussing, modifying, or developing strategic priorities.
2. At least once annually, during Board meetings with strategic planning agenda items, the Trustees and Director will determine:
   a. Which strategic topics they would like discussed during the year.
   b. The number of Board meetings they would like to devote to strategic planning.
   c. Preferences for how strategic discussions should be facilitated.
   d. To facilitate the discussion, the Director will provide Trustees with a recap of:
      - Strategically-focused topics that have been discussed at prior Board and Committee meetings,
      - Strategically focused topics that have been requested by Trustees, but not yet scheduled for discussion,
      - Strategically focused topics that the Director recommends be considered for discussion.
3. Based on Trustee feedback, staff will develop a planning schedule for the upcoming year.

4. During strategic planning sessions, staff will provide background information, if needed, on topic areas that have been scheduled for discussion. This background information could include topical research, performance data, or staff's current analysis of the organization's strengths, weaknesses, opportunities, and threats, or other material requested by Trustees.
5. The Strategic Plan can be modified iteratively over its term or it can be modified only in preparation for a new Strategic Plan.
6. In the final year of the current Strategic Plan, trustees and the Director will focus Board Meetings with strategic planning agenda items on the identification of priorities for the next Strategic Plan.

Strategic Plan Reporting

1. Once the Board has identified its strategic priorities, the Director will work with staff to develop implementation strategies and performance measures for each of the priorities.
2. Staff will report at least annually to the Board on its progress addressing the strategic priorities that have been identified.
3. Trustees or the Director may request that priorities be added or deleted as needed.

L. BOARD CODE OF ETHICS

General

The Board has established the following Code of Ethics for the individual Trustees to comply with applicable state law and its duties of loyalty as fiduciaries for the ASRS.

The Board recognizes that compliance with these requirements is often complex and confusing. Trustees are strongly encouraged to seek the advice of the ASRS legal counsel whenever there is uncertainty regarding the required level of compliance from the Trustee.

State Law

Trustees will adhere, without limitation, to the following state laws as such apply to the conduct of their affairs and to carrying out their duties as trustees and fiduciaries for the ASRS:

1. Conflict of Interest Laws (A.R.S. § 38-503)

   Under the conflict of interest laws, Trustees who have a conflict of interest must disclose the interest and refrain from participating in the matter.

   A.R.S. § 38-503, provides in pertinent part:

   > A. Any public officer or employee of a public agency who has, or whose relative has, a substantial interest in any contract, sale, purchase or service to such public agency shall make known that interest in the official records of such public agency and shall refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale or purchase.
   >
   > B. Any public officer or employee who has, or who's relative has, a substantial interest in any decision of a public agency shall make known such interest in the official records of such public agency and shall refrain from participating in any manner as an officer or employee in such decision.

   The conflict of interest laws require a Trustee to examine proprietary and pecuniary interests of the Trustee and certain relatives of the Trustee. "Relative" is defined expansively and includes "the spouse, child, child's child, parent, grandparent, brother or sister of the whole or half blood and their spouses and the parent, brother, sister or child of a spouse." (A.R.S. § 38-502)

   A Trustee must recognize that even though the Trustee may not have a substantial interest in a decision or a contract, if one of the Trustee's relatives described in A.R.S. § 38-502 has a substantial interest in a decision or a contract, the Trustee must disclose the interest and refrain from participating in the matter. Trustees have an affirmative obligation to become aware of the interests of relatives in matters that may involve the Trustees.

   When a Trustee assesses whether the Trustee has a conflict of interest, the Trustee first must evaluate whether the Trustee or any of the Trustee's relatives has a "substantial interest" in the matter under consideration. An interest is "substantial" if it is not defined by statute as "remote" and if it is "any pecuniary or proprietary interest, either direct or indirect," of the Trustee or the Trustee's relatives. (A.R.S. § 38-502) The term "interest" is a pecuniary or proprietary interest, by which a person will gain or lose something, as contrasted with a general sympathy, feeling or bias.

   The Legislature has determined that certain interests do not influence a person's decisions or actions impermissibly. The Legislature has defined these interests as "remote interests" and has listed them in A.R.S. § 38-502. Unless the pecuniary or proprietary interest at issue falls within one of the situations statutorily specified by the Legislature to be remote, the interest is substantial and creates a conflict of interest.

   To determine whether a "substantial interest" exists, the Trustee should ask these questions:

   a. Will the decision affect, either positively or negatively, an interest of the Trustee or the Trustee's relatives?

   b. Is the interest a pecuniary or proprietary interest?

   c. Is the interest other than one statutorily designated as a remote interest?

   If the answer to each of these questions is "yes," then a substantial interest exists which requires disclosure and nonparticipation by the Trustee.

Any disclosure of a conflict resulting in a Trustee recusing him/herself from a Board or Committee decision, will be recorded in the minutes of that meeting.

2. Gifts and Gratuities

   A Trustee will not ask for or accept anything (emolument, gratuity or reward, or any promise thereof) that is not authorized by law for performing the Trustee's duties.

   A Trustee will not use or attempt to use the Trustee's position to secure valuable things or benefits for the Trustee, unless the benefits are part of the Trustee's normal compensation.

   A Trustee may not receive or agree to receive directly or indirectly compensation other than as provided by law for any service rendered or to be rendered by the Trustee personally in any matter pending before the ASRS.

   Trustees are responsible for maintaining the integrity of both the ASRS and the State of Arizona. As a result, no Trustee of the ASRS is permitted to:

   a. Use his or her official position or attendance at a conference, seminar or training for personal gain.
   b. Solicit gifts.
   c. Accept gratuities.
   d. Accept gifts or favors that may appear to be designed to influence the Trustee's official conduct.
   e. Permit him/herself to be placed under any kind of personal obligation that could lead a person to expect official favors.

   The prohibitions in this policy are in effect any time Trustees can be viewed as being on official business for the ASRS or State of Arizona.

3. Contracts for supplies and services (A.R.S. § 38-503)

   A Trustee may supply equipment, material, supplies or services to the ASRS **only** pursuant to an award or contract let after public competitive bidding. (A.R.S. § 38-503) The requirement of public competitive bidding is in addition to the disclosure and non-participation requirements of the Conflict of Interest Laws.

4. Disclosure of interests (A.R.S. § 38-509)

   When a Trustee determines that the Trustee has a substantial interest in a matter, the Trustee must disclose the interest and withdraw from all participation in the decision or contract.

   The Trustees must "maintain for public inspection in a special file all documents necessary to memorialize all disclosures of substantial interest made known pursuant to this article." (A.R.S. §§ 38-501 to -511)

   A Trustee who has a conflict of interest in any ASRS decision or in the award of a contract *must* provide written disclosure of that interest in the ASRS' special conflict of interest file. (A.R.S. § 38-503). A Trustee may either file a signed written disclosure statement fully disclosing the interest or file a copy of the official minutes of the ASRS which fully discloses the interest. (A.R.S. §§ 38-502, -509)

   Having disclosed the conflict of interest and withdrawn from participation in the matter, the Trustee must not communicate about the matter with anyone involved in the decision-making process. (A.R.S. § 38-503)

Code of Ethics

1. New Trustees are required to attend any state-provided Public Service Orientation Ethics Course.
2. Trustees shall maintain the highest ethical conduct at all times consistent with their fiduciary duty to act only for the exclusive benefit of the ASRS members and beneficiaries under state law.
3. The Trustees shall conduct themselves with integrity and exercise care, prudence and diligence in handling the affairs of the ASRS.
4. The Trustees must disclose conflicts of interest and appearance of conflicts of interest as defined under state law with respect to their fiduciary responsibility. Where a conflict of interest does exist, the Trustee must refrain from voting or otherwise participating in any manner with regard to the subject matter of the conflict.
5. The Trustees shall not:

   a. Deal with assets of the ASRS for their own interest.

b. Accept gifts or gratuities prohibited by state law.

c. Act in any transaction involving the ASRS on behalf of any party whose interests are adverse to the interests of the ASRS or the members and beneficiaries.

d. Receive any monetary or other valuable consideration for their personal account from any party conducting business with the ASRS.

Loyalty Oath

Trustees are required to sign a State of Arizona Loyalty Oath upon their appointment to the ASRS Board. (See Appendix E.)

Political Activities

Though Staff are free to make contributions to a political campaign of a trustee or to any charitable organization associated with or supported by a Trustee, Trustees shall refrain from soliciting campaign or charitable contributions from staff, including but not limited to the purchase of, selling, distributing, or receiving payment for tickets for any political fundraiser, political meeting, or other political event.

M. BOARD PERFORMANCE EVALUATION

General

The Board will conduct an annual performance evaluation of its effectiveness and that of its committees as the governing fiduciary body for the ASRS. This will serve as a means of helping ensure that the Board continues to effectively meet its responsibilities and duties.

Board Evaluation Policy

1. The Board Chair, working with the Director, will be responsible for coordinating and conducting the Board performance evaluation process.
2. The evaluation will focus on the operations and decision-making processes of the Board as well as the outcome of ASRS actions.
3. The Board Chair will provide to each Trustee the performance evaluation forms approved by the Board. The Trustees are to conduct their evaluation in the first quarter of each calendar year, preceding the Director's evaluation.
4. The Board will seek input from the Director with respect to the staff's perception regarding the Board's and Board Committees' performance.
5. The Board may seek input from the Assistant Attorney General regarding an annual evaluation of the Board's compliance with statutory and governance responsibilities.

Board Performance Evaluation Process and Forms

A way for the Board to maintain excellence in governance is to develop a policy of reviewing its own performance on an annual basis. A two-step evaluation process has been adopted:

Part A: Trustee Self-Evaluation

The purpose of having each individual Trustee evaluate him/herself is to encourage introspection and heighten awareness of the important areas of fiduciary responsibility. Trusteeship carries with it both a personal and collective duty to the members and beneficiaries. The "Trustee Self-evaluation" is an abbreviated outline and periodic reminder of what constitutes "good trusteeship."

It is recommended that this self-evaluation be performed annually, by each individual Trustee before the overall board evaluation is performed. Each year, the Board can choose how to handle the results of the evaluations.

The Trustee Self-evaluation is for the personal use of each Trustee to facilitate the full and frank examination of each Trustee's own performance. The form need not be completed or submitted, but rather each Trustee is asked to review the questions as they contemplate their self-evaluation. The objective is for this annual exercise to be helpful to the ASRS and not embarrassing to any individual.

Part B: Overall Board Evaluation

By discussing and developing an overall board evaluation, the Board demonstrates its intention to establish a process for Trustees to evaluate Board performance with candor, objectivity, and a broad perspective. Such an evaluation process presents special challenges, and it may be difficult for Trustees to speak frankly about the performance of the Board as a whole, especially in situations where there is room for improvement. Notwithstanding this difficulty, the benefits of an annual evaluation will enhance the Board's effectiveness in carrying out the mission of the ASRS.

The "Overall Board Evaluation" form contains elements of "best practices" of public retirement systems and is for the personal use of each Trustee to facilitate the full and frank discussion among the Trustees. The completed form does not need to be submitted to the full Board.

N. DIRECTOR EVALUATION PROCESS

General

The Board has delegated the responsibility of administering the ASRS to the Director and, therefore, understands that an evaluation of the performance of the Director's performance is important. The Board may conduct more frequent performance evaluations of the Director as it deems necessary.

Objectives

The evaluation of the performance of the Director is intended to:

1. Assist the Board in establishing and communicating clear, meaningful goals and performance targets for the Director.
2. Enable the Board to hold the Director accountable for performance.
3. Allow the Director to receive objective and timely feedback to help the Director perform at expected levels.

Evaluation Procedure and Criteria

1. In the first quarter of each calendar year, the Board, working with the Director, will adopt a set of performance goals and evaluation criteria to be used in evaluating the performance of the Director for the upcoming calendar year.
2. The evaluation of the performance of the Director will take place in the first quarter of each calendar year after the Board's self-evaluation is completed and will cover the preceding calendar year.
3. The subject matter addressed in the performance evaluation will include:
   a. Leadership
   b. Management/Administration/Budgeting
   c. Communication
   d. Policy matters
   e. Staff development
   f. Progress toward achieving performance business objectives previously established by the Board for the year
   g. Other matters identified by the Board
4. The Director will prepare a written summary report of accomplishments and performance for the Board to use in their discussions of his/her performance.
5. The ASRS Human Resource Department will conduct a reverse evaluation of the Director, the results of which will be presented to the Board. Participation in the reverse evaluation is voluntary and anonymous and will include the following staff:
   a. Deputy Director - Operations
   b. Assistant Director - External Affairs
   c. Chief Investment Officer
   d. Chief of Administrative Services
   e. Manager of Human Resources
   f. Manager of Management Support Services
   g. Assistant Attorney General Representative
6. The Board will reach consensus and provide a report of the Director's performance, and identify areas for improvement, if necessary.
7. The Board will meet with the Director to present and discuss the Board's evaluation of the Director's performance.

Appendix A – Trustee Self Evaluation

It is not necessary to turn this document in, it is to assist board members in contemplating their evaluation.

*Review the following statements in relation to your involvement as a Trustee of the ASRS. Rank answers using the following scale: **5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never***

	5	4	3	2	1
1. I attend the Board and Committee meetings I am expected to attend.					
2. I contribute to the discussion in a meaningful and helpful way.					
3. I fully understand my fiduciary duties and act for the benefit of all members, not merely for a particular constituency.					
4. I make an effort to be educated on the aspects of the ASRS that I do not understand.					
5. I comply with state laws and Board policies regarding conflicts of interest.					
6. I read the materials distributed before the Board meeting so I can constructively participate and make timely decisions.					
7. I work with the other Trustees and the staff in a collegial way.					
8. I understand that work requests to staff and outside consultants need to be agreed to by the Board or the Director and I act accordingly.					
9. I work with the Director in a way that creates an atmosphere of trust and cooperation.					
10. I understand the Director works for the entire Board and not for individual trustees and I act accordingly.					
11. I communicate Board governance problems to the Board Chair.					
12. As a Trustee of the Board, I have re-read Section L "Board Code of Ethics" and Appendix F "Loyalty Oath," of the Board Governance Policy Handbook and I reaffirm my understanding of these items.					

I am most concerned about the following issues:____

Appendix B – Overall Board Evaluation

NAME (OPTIONAL) ____________________ DATE: ____________________

This document should be completed and submitted to the Board chair.

Rate the following statements in relation to the overall operation of the Board. Rank answers using the following scale: ***5 - always, 4 - almost always, 3 - sometimes, 2 - almost never, 1 - never***

	5	4	3	2	1
1. The Board maintains an effective oversight role with regard to benefits and investments issues.					
2. The Board knows and understands the ASRS Strategic Plan, and reflects this understanding when addressing key issues throughout the					
3. The Board engages in long-range strategic thinking and planning.					
4. The Board has achieved the business objectives it set out to accomplish this past year.					
5. The Board stays abreast of issues and trends affecting the ASRS, using this information to assess and guide the ASRS over the long term.					
6. The Board conducts a comprehensive evaluation of the Director annually.					
7. The Board ensures that new Trustees receive a prompt, thorough orientation.					
8. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and sound resolution of issues.					
9. The Board meeting agendas are well-balanced, allowing time for the most critical issues.					
10. The Board and Committee meetings are handled efficiently.					
11. The Committees are effective, focusing on pertinent topics and allocating reasonable time.					
12. The Board is well-educated on both benefit and investment issues.					
13. The Board recognizes its policy-making role and reconsiders and revises policies as necessary.					
14. The Board is consistently prepared for meetings.					
15. The Board as a whole, and Trustees as individuals, evaluate their performance on an annual basis.					
16. The Board reviews and adopts a reasonable operating budget that is followed and monitored throughout the year.					
17. The Board periodically monitors investment performance and measures it against relevant benchmarks.					
18. The Board periodically monitors service to members.					
19. The Board comprehends and respects the difference between its policy-making role and the Director's management role.					
20. Board goals, expectations, and concerns are promptly, candidly and effectively communicated to the Director.					
21. The Board anticipates issues and does not often find itself reacting to "crisis" situations.					

Identify the three greatest achievements of the Agency with Board support during the past year.

1. ____

2. ____

3. ____

What critical issues need to be addressed by the Board in the future?

____

____

____

____

What suggestions do you have for improvement of the conduct of Board and Committee meetings and for Board operation and communication?

____

____

____

____

Appendix C – Director Evaluation

ASRS - Director Performance Evaluation

Name: Paul Matson ________

Title: Director ____________

This form is to help you evaluate the performance of the Director of the ASRS. In each of the following rating categories, bullet points have been provided to assist you with your evaluation. Please rate the Director using the following scale and place the number on the "Rating" line in each category.

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Leadership: Rating ______________________

- Establishes and maintains effective and credible relationships affecting the ASRS.
- Projects a positive image as the Director of the ASRS.
- Recognizes the needs and desires of others; treats others with regard, courtesy and respect.
- Maintains a "big picture" outlook and is aware of industry issues.
- Forecasts trends, responds to change and invites innovation.
- Solicits and acts upon ideas of others when needed.
- Stresses the importance of high quality customer service.
- Maintains a well-functioning management team.
- Participates in relevant and worthwhile professional organizations.

General Comments or Examples: (You need not address each point separately.)

____

____

____

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Management/Administration/Budgeting: Rating ___________

- Manages all ASRS business functions and activities in accordance with all relevant laws, Board policies and goals
- Develops reasonable budgets, communicates them to the Board, and operates within budgetary limits
- Ensures the efficient and effective functioning of the ASRS through delegation
- Follows up on Board directives to ensure proper implementation

General Comments or Examples: (You need not address each point separately.)

____

____

____

____

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Communication: Rating ________________________

- Keeps the Board and staff informed and communicates effectively with them
- Organizes ideas and information logically
- Speaks clearly and concisely, using understandable terminology
- Effectively and politely communicates with the members
- Professionally communicates with entities affecting the ASRS

General Comments or Examples: (You need not address each point separately.)

---

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Policy Matters: Rating ________________________

- Periodically reviews policies and makes recommendations for changes to the Board
- Accurately interprets Board policies and concerns, and develops a consistent direction for the staff to follow
- Initiates changes in day-to-day operations to conform to established Board policies
- Acts creatively to evaluate and recommend new initiatives or policies

General Comments or Examples: (You need not address each point separately.)

---

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Staff Development: Rating ________________________

- Creates an atmosphere that fosters teamwork, creativity and participation
- Communicates clear standards of performance for the executive staff
- Keeps informed and follows state personnel policies and procedures
- Encourages professional development of staff
- Addresses succession planning for key positions within the ASRS

General Comments or Examples: (You need not address each point separately.)

5 - Outstanding, 4 - Above Average, 3 - Satisfactory, 2 - Needs Improvement, 1 - Unacceptable

Progress Toward Achieving Business Objectives: Rating ______________________________

[Previously and mutually identified goals and objectives listed here.]

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

General Comments or Examples: (You need not address each point separately.)

____

____

____

____

Significant Overall Accomplishments:

____

____

____

____

____

Areas Needing Improvement:

____

____

____

____

____

OVERALL RATING: ______________________________

Appendix D – General Investment Consultants

The primarily role of the ASRS general consultant(s) is to provide independent ASRS fund(s) investment reporting and performance measurement, financial market commentary and macro strategic/tactical investment advice. The general consultant attends Board and IC meetings as available/applicable, and participates in asset class committee meetings. Though not a designated asset class committee consultant, the general consultant will ensure asset class compliance with the ASRS asset allocation policy, be informed of asset class committee investment decisions, and as applicable, provide broad perspectives on opportunistic and public markets-related topics.

The general consultant will be evaluated, and interviewed by the IC, Director and CIO; the IC will make the selection and recommendation to the Board for approval. The general consultant will be hired and terminated by the Board, report to the IC and Board and, through the direction of the IC Chair, Director or CIO, be engaged at the request of the Board, IC, Director or CIO. In the event a backup general consultant is needed, a selection will be made by the IC from the approved pool of project consultants and recommended to the Board for approval.

Appendix E – Trustee Fiduciary Liability and Coverage

The liability of the Board of Trustees and its individual members in the conduct of their duties and responsibilities is established under state law as follows:

1. The Board as a whole and its individual members are not liable for any act or failure to act that is made in good faith within the scope of their responsibilities under state law. (A.R.S. § 38-791)
2. An individual member of the Board is immune from civil liability and is not subject to suit directly or by way of contribution for any act or omission resulting in any damage or injury if the member was acting in good faith and within the scope of the member's official capacity, unless the damage or injury was caused by willful and wanton or grossly negligent conduct of the member. "Official capacity" means any decision or act taken by a member of the Board to further the purpose for which the Board is established. (A.R.S. §§ 38-717 and 41-621)
3. The state and the ASRS are immune from liability for losses arising out of a judgment against the Trustees for willful and wanton conduct resulting in punitive or exemplary damages. (A.R.S. § 41-621) Liability for such damages would be the responsibility of the Trustees personally.
4. The Arizona Department of Administration is required by statute to provide coverage to the Board and to individual Trustees under the state's risk management program (A.R.S. §§ 41-621 to -625) "against all liability for acts or omissions of any nature by members of the board while acting in an authorized governmental or proprietary capacity and within the course and scope of their employment or authority." (A.R.S. § 38-717)

   Under the state's risk management program, the Board and the Trustees receive the same coverage that the state itself receives. (A.R.S. § 41-621)

   Under the state's risk management program the Board and the Trustees have coverage for "liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization except as provided by this chapter." (A.R.S. § 41-621)

   Under the state's risk management program the Board and the Trustees also have coverage for "[o]ther exposure to loss where insurance may be required to protect this state and its departments, agencies, boards and commissions and all officers, agents and employees acting in the course and scope of employment or authorization except as prescribed by this chapter." (A.R.S. § 41-621)

   According to A.R.S. § 41-621 acts or omissions of a Trustee would be "within the course and scope of employment or authorization" if they:

   a. Occur while performing duties or functions that the Trustees are authorized to perform.
   b. Occur "substantially within" the authorized time and space limits of a Trustee's authorization.
   c. Are done (or not done) at least in part to serve the Arizona State Retirement System.

   Under the state's risk management program, the Attorney General's Office will defend the Board and the Trustees. The Attorney General may retain outside counsel to defend the Board and the Trustees. (A.R.S. § 41-621)

   Under the state's risk management program all attorneys' fees, court costs and litigation expenses will be paid from the permanent liability loss revolving fund of the Department of Administration. (A.R.S. § 41-622) A settlement or judgment, except for punitive damages, also will be paid from this fund. (Id. and A.R.S. § 41-621)

   If a Trustee is sued based on conduct outside the course and scope of a Trustee's authorization, the state is not obligated to provide coverage for that conduct. (A.R.S. § 41-621) If the conduct is clearly outside the course and scope, the state will deny coverage. (A.R.S. § 41-621) If there is a question whether the Trustees' acts were within their official capacity, the state may reserve the right to refuse to pay any judgment and will then hire outside counsel to represent the Trustees.

   Losses arising from contractual breaches are not covered under the state's risk management program. (A.R.S. § 41-621)

STATE OF ARIZONA

LOYALTY OATH

§38-231. Officers and employees required to take loyalty oath; form; classification; definition

A. In order to ensure the statewide application of this section on a uniform basis, each board, commission, agency and independent office of this state, and of any of its political subdivisions, and of any county, city, town, municipal corporation, school district and public educational institution, shall completely reproduce this section so that the form of written oath or affirmation required in this section contains all of the provisions of this section for use by all officers and employees of all boards, commissions, agencies and independent offices.

B. any officer or employee who fails to take and subscribe to the oath or affirmation provided by this section within the time limits prescribed by this section is not entitled to any compensation until the officer or employee does so take and subscribe to the form of oath or affirmation prescribed by this section.

C. any officer or employee having taken the form of oath or affirmation prescribed by this section, and knowingly at the time of subscribing to the oath or affirmation, or at any time thereafter during the officer's or employee's term of office or employment, does commit or aid in the commission of any act to overthrow by force, violence or terrorism as defined in section 13-2301 the government of this state or of any of its political subdivisions, or advocates the overthrow by force, violence or terrorism as defined in section 13-2301 of the government of this state or of any of its political subdivisions, is guilty of a class 4 felony and, on conviction under this section, the officer or employee is deemed discharged from the office or employment and is not entitled to any additional compensation or any other emoluments or benefits which may have been incident or appurtenant to the office or employment.

D. Any of the persons referred to in article XVIII, section 10, Constitution of Arizona, as amended, relating to the employment of aliens, are exempted from any compliance with this section.

E. In addition to any other form of oath or affirmation specifically provided by law for an officer or employee, before any officer or employee enters upon the duties of the office or employment, the officer or employee shall take and subscribe the following oath or affirmation:

State of Arizona, County of ______________ I, _________________________(type or print name) do solemnly swear (or affirm) that I will support the Constitution of the United States and the Constitution and laws of the State of Arizona, that I will bear true faith and allegiance to the same and defend them against all enemies, foreign and domestic, and that I will faithfully and impartially discharge the duties of the office of THE ARIZONA DEPARTMENT OF ADMINISTRATION according to the best of my ability, so help me God (or so I do affirm).

______________________________________(Signature of officer or employee)

______________________________________(Date)

F. For the purposes of this section, "officer or employee" means any person elected, appointed or employed, either on a part-time or full-time basis, by this state or any of its political subdivisions or any county, city, town, municipal corporation, school district, public educational institution or any board, commission or agency of any county, city, town, municipal corporation, school district or public educational institution.

Exhibit 6

ADOA-HRD

STATE OF ARIZONA
ADVISORY RECOMMENDATION

Janice K. Brewer
Governor

2014

Brian C. McNeil, Director
Department of Administration

Janice K. Brewer
Governor

Brian C. McNeil
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

September 2014

The Honorable Janice K. Brewer
Governor, State of Arizona
The Honorable Andy Biggs
President, Arizona State Senate
The Honorable Andy Tobin
Speaker, Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Governor Brewer, President Biggs, and Speaker Tobin:

Pursuant to Arizona Revised Statutes § 41-751, the 2014 Advisory Recommendation provides information concerning the compensation of State employees and an objective assessment of the job market. This Advisory Recommendation provides important information needed when making decisions affecting Arizona State government and its employees' compensation.

State salaries are 18% off market salaries. In addition, in FY 2015, the market is conservatively estimated to move by 2.5%. The cost to bring State salaries up to the prevailing job market would cost approximately $272.5M. Even funding a 2.5% increase to retain the State's current salary level in comparison to market would require $37.8M. Recognizing that funding these changes is not a realistic exercise, the State should nevertheless consider providing *some* funding for State salaries.

The recommendation that follows is a conservative strategy that provides very modest increases for the classifications that range from 19.6% off market to 49.1% off market. Rather than providing an "across the board" increase, we believe that limited funds will best be used by strategically targeting those classification series that are furthest off the market. This proposal may not significantly close the overall gap between State salaries and the job market, but it should prevent the State from falling further behind in a number of key job classifications.

In summary, we recommend funding and allocating agencies with $10.6M ($3.95M in General Fund and $6.65M in Federal and other funds) targeted toward specific classifications that are the furthest off the market, have experienced significant turnover, and are high profile or of critical importance. While still a significant increase, we believe this strategy will generate a substantial return in improvements to recruiting and retention.

Sincerely,

Brian C. McNeil
Director

2014 Advisory Recommendation on State Employees' Salaries

Introduction

Every year, the Arizona Department of Administration (ADOA) provides an Advisory Recommendation to the Governor and the Legislature pursuant to A.R.S. § 41-751. This document provides an analysis of the State's current compensation levels compared to other public and private sector employers, and a review of turnover rates, retirement projections, and projected market movement. The report concludes with a recommendation to fund agencies for market adjustments for critical classifications.

> *This report reflects the current status of Arizona State employee compensation as it relates to market conditions at the end of Fiscal Year 2014. The report is provided as a resource to guide statewide budget considerations during the preparation of the Fiscal Year 2016 budget.*

Current Environment – State Government

<u>History of Salary Adjustments</u>

Figure 1
History of the State's Compensation Adjustments[1]

Budget Year (Fiscal Year)	Average Salary[2]	General Salary Adjustments	Merit, Performance, or Retention	Allocations for Selected Classes
1998	N/A	2.5%[3]	2.5% Merit	Yes
1999	N/A	-0-	2.5% Merit	Yes
2000	N/A	-0-	2% Merit	Yes
2001	N/A	-0-	2% Merit	Yes
2002	N/A	$1,450	-0-	No
2003	N/A	-0-	-0-	No
2004	N/A	-0-	-0-	No
2005	N/A	$1,000	-0-	Yes[4]
2006	N/A	1.7%	-0-	Yes[5]
2007	N/A	$1,650	2.5% Perf Pay	Yes[6]
2008	N/A	3.0%	Additional 0.25% Perf Pay	Yes[7]
2009	$42,251	-0-	-0-	No
2010	$42,304	-0-	-0-	No
2011	$42,235	**-1.92%**[8]	**-2.75%**[9]	No
2012	$42,322	-0-	-0-	No
2013	$42,447	-0-	One-Time, 5% Uncovered Retention Pay[10]	No
2014	$43,832	-0-	2013 One-Time Retention Pay Added to Base Salary[11]	No
2015	N/A	-0-	-0-	No

[1] Source: Joint Legislative Budget Committee Appropriations Reports. Merit Adjustment figures represent the percentage allocated to an agency's personnel services base. Allocations for Selected Classes are provided to address specific job classes or specific agency needs addressed by legislation.

[2] Previous reports included average salary of "covered" employees. As a result of Personnel Reform, implemented September 29, 2012, the majority of the State's workforce became uncovered. As a result, the column for average salary has been recalculated to reflect salaries of all employees, both covered and nncovered. Data for years prior to 2008 are not available.

[3] Up to maximum of $1,000 per employee.

[4] Includes adjustments above $1,000 for State-employed nurses and for sworn officers in the Department of Public Safety.

[5] Includes adjustments above 1.7% for sworn officers in the Department of Pnblic Safety and Assistant Attorneys General. In lieu of the 1.7% general salary adjustment, correctional officers in the Department of Corrections and the Department of Juvenile Corrections received $1,410.

[6] Includes adjustments above the $1,650 per FTE and 2.5% performance adjustment for the Auditor General's Office, State-employed nurses and corrections officers in the Department of Corrections and the Department of Juvenile Corrections.

[7] Includes adjustments above the 3.0% pay adjustmeots and 0.25% performance adjustment for the General Accounting Office, Assistant Attorney Generals, supervisor correctional officers at the Department of Corrections, security officers at the Arizona State Hospital, officers at the Department of Juvenile Corrections, and sworn officers at the Department of Public Safety.

[8] Represents 5 furlough days (1.92)% except for certain exempted positions.

[9] Represents a (2.75)% performance pay reduction intended to eliminate the FY 2007 and FY 2008 Performance Adjustments.

[10] 5% Retention Payments were not added to base salary and were authorized for 19 pay periods in FY 2013.

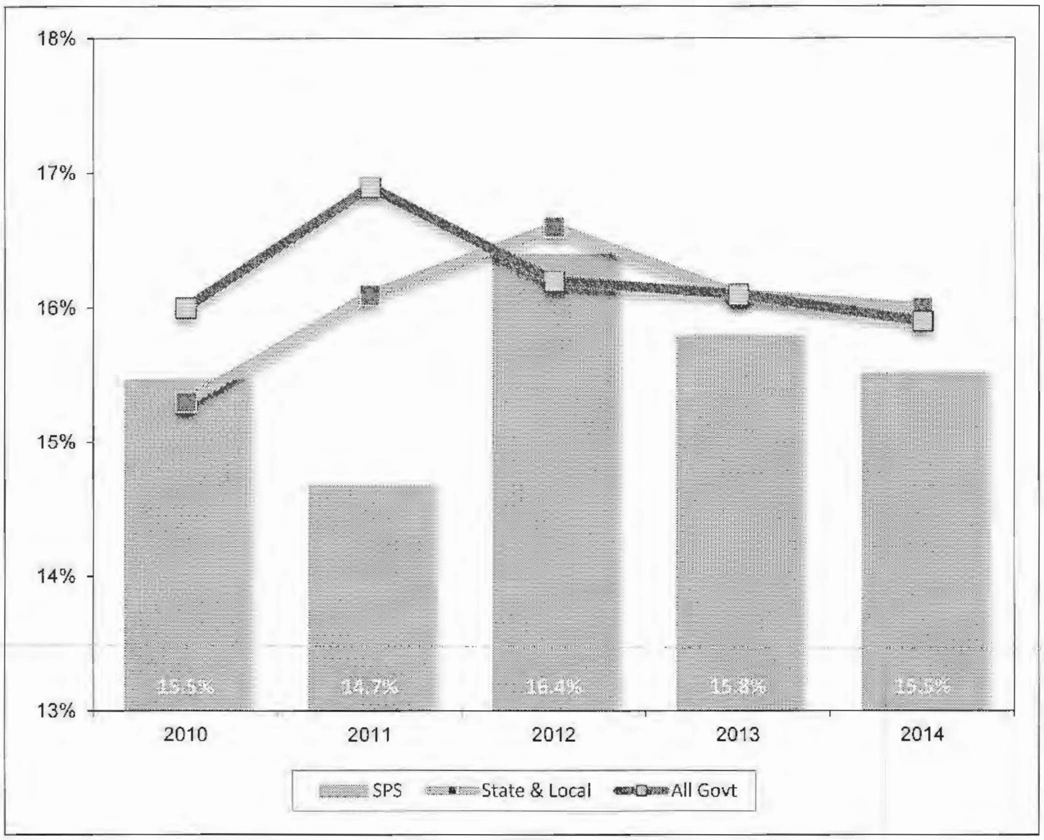
[11] 5% increase was added to base salary for uncovered employees previously receiving the 5% Retention Payments.

Turnover Rates

The turnover rate for both covered and at-will uncovered employees decreased in FY 2014 from 15.8% to 15.5%. The 5-year average rate of turnover was 15.6%. The rate in 2012 was elevated due in part to the outsourcing of the Department of Corrections Health Care unit. If this outsourcing was removed from the calculations, the total separation rate would have been 14.9%. The average separation rate for all State Personnel System agencies has been lower than benchmarks since 2010.

Figure 2[12]

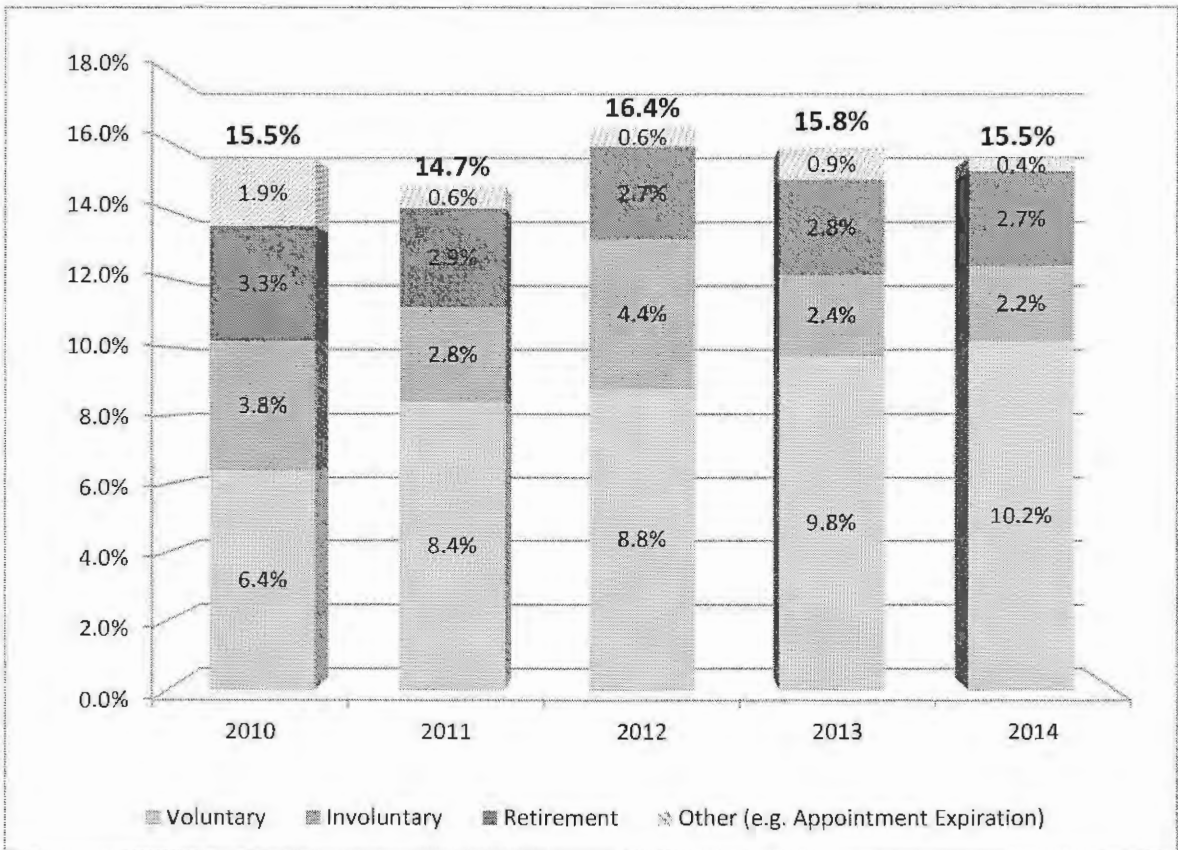
Turnover Rates – Arizona Compared to Benchmarks – FY 2010 to FY 2014



[12] Table 2.1 – Turnover Rates – Arizona Compared to Benchmarks. Fiscal Year 2010 – 2014. State of Arizona Workforce Report. 2014.

More indicative of the need for the State to improve its competitive position in the market place is the overall increase in the number of voluntary separations from the State. In FY 2014, over 10% of the workforce voluntarily separated. Figure 3 illustrates the consistent increase in the number of voluntary separations every year for the past four years, providing further evidence that as the economy improves, more employees are choosing employers other than the State. While overall turnover may have decreased between FY 2013 and FY 2014, the increase in voluntary separations in each year since FY 2010 is very concerning.

Figure 3[13]
Turnover Rates by Type of Separation – FY 2010 to FY 2014

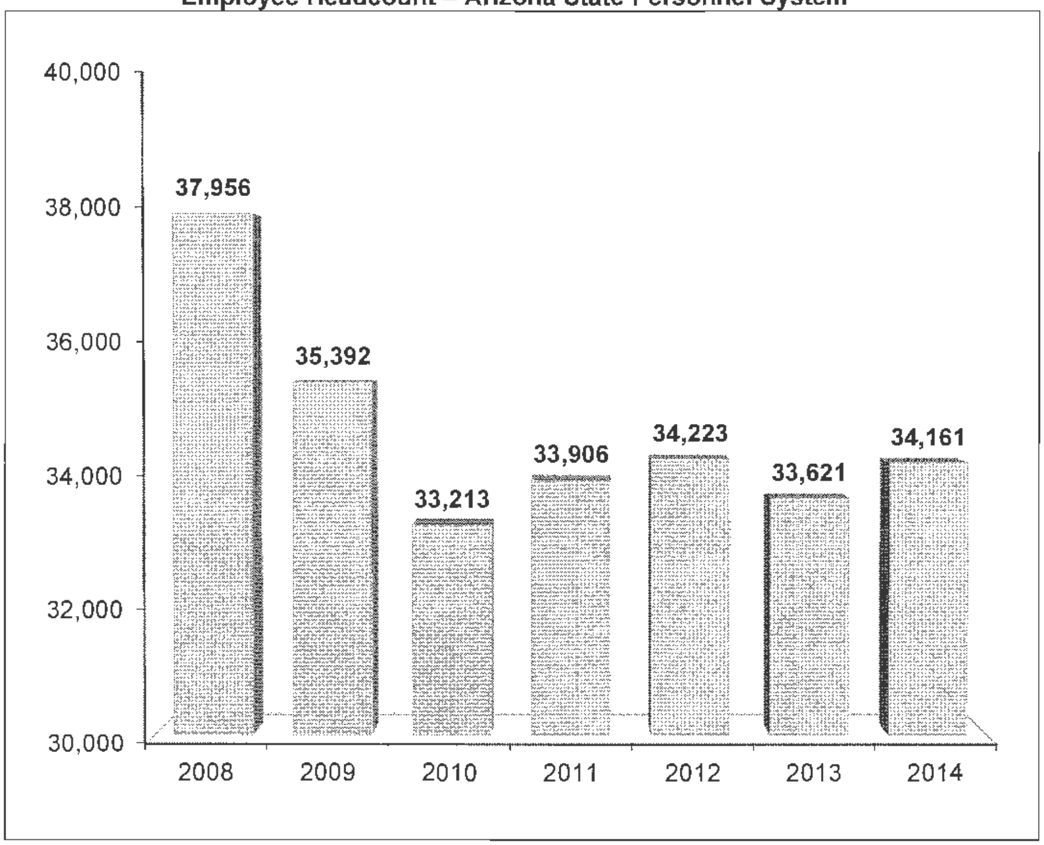


[13] Table 2.2 – Turnover Rates by Type of Separation. Fiscal Year 2010 – 2014. State of Arizona Workforce Report. 2014

Reduction in Total Size of Government

The total size of State government was dramatically reduced during the years from 2008 to 2010, as the State managed one of the worst fiscal crises in the nation. During those years, reductions in force and layoffs occurred in most agencies, and a hiring freeze was implemented that ensured further reductions through attrition. Although there were slight increases in the size of the workforce in 2011 and 2012, total staffing levels appear to be leveling off and the size of the workforce increased slightly (1.6%) in FY 2014, due in large part to increased staffing at the Department of Economic Security (including a portion of the agency that was separated to become an independent agency, the new Department of Child Safety.) In FY 2014 the total size of the workforce was 34,161, which represents a 10% reduction from the size of the workforce in FY 2008.

Figure 4
Employee Headcount – Arizona State Personnel System[14]

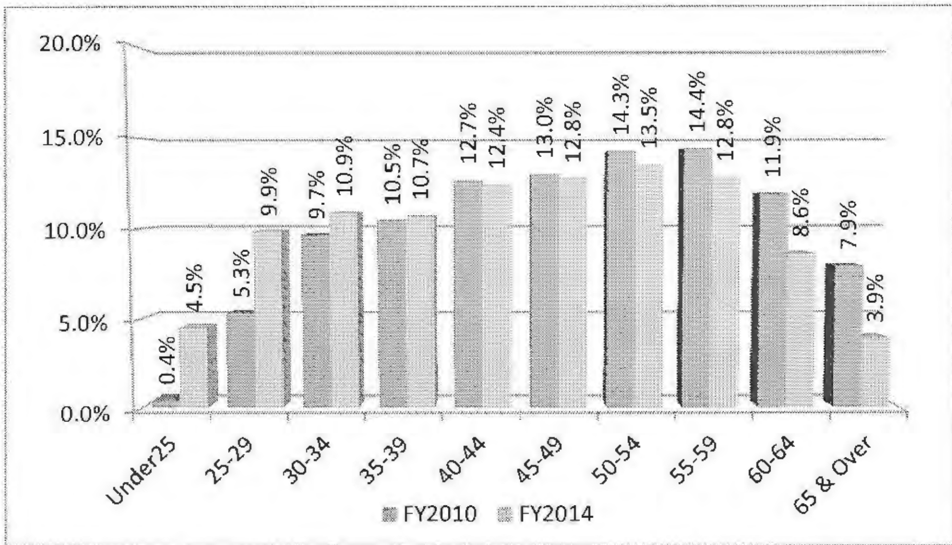


[14] Figure B – State Personnel System Employee Headcount. Fiscal Year 2008 – 2014. State of Arizona Workforce Report. 2014. Although the State Personnel System was not established until FY 2014, headcount numbers in the chart for prior fiscal years reflect the same agencies that are now include in the State Personnel System to provided consist analysis over time.

Average Age of the Workforce

In FY 2014 the average age of a State employee was 45.2 years of age, and the largest age group was in the 50-54 age group. Compared with the age distribution from five years ago, the employee population under age 35 has increased by 68.8%. As a proportion of the workforce, the age group over 65 was 4.0% lower in FY 2014. These changes have the overall effect of shifting the curve of age distribution to the younger age categories compared with FY 2010.

Figure 5
Age Distribution – FY 2010 and FY 2014[15]



Retirement Rates and Projections[16]

An analysis of employees that meet the criteria for normal retirement in the State agencies with at least 50 employees revealed the following:

- Three agencies are projected to have at least 25% of their workforce meet criteria for retirement in the current fiscal year
- Twenty-seven agencies are projected to have at least 25% of their workforce meet criteria for retirement within the next five years
- There are five agencies that are estimated to have over 40% of their current workforce meet criteria for retirement in five years

Overall, considering the entire workforce, 27% of the workforce is estimated to meet criteria for retirement within the next five years. There is a high percentage of the workforce that either currently meets, or will soon meet the criteria to retire. These facts highlight and reinforce the need to become competitive in the labor market.

[15] Table 4.2 – Age Distribution of SPS Employees. Fiscal Year 2010 and 2014. State of Arizona Workforce Report. 2014.

[16] Table 2.10 – Employees Meeting Retirement Criteria. Fiscal Year 2015 – 2019. State of Arizona Workforce Report. 2014. Projected rates of employees that meet criteria for retirement is based on years of service and age criteria for normal retirement from the Arizona State Retirement System and the Public Safety Personnel Retirement System; calculations do not factor in opportunities for early retirement, or those that may have already retired and returned to the workforce.

Changes to State Government Workforce

Personnel Reform

In May 2012, Governor Brewer signed significant personnel reform into law, modernizing the way in which State government manages, hires, and separates employees. This was one of the most extensive changes to Arizona's governmental infrastructure which began to take effect in FY 2013. With this change, the following key developments were implemented:

- Consolidation of Personnel Systems

  At the heart of personnel reform legislation was the development of a new personnel system. Through consolidating several different personnel systems, implementing consistent human resources practices, and eliminating unnecessary redundancies, significant efficiencies are being realized.

- Transition to At-Will

  At the time of implementation of personnel reform, a number of employees were transitioned from a covered status to an at-will uncovered status. This change included all new hires, all supervisors, all employees in a grade 19 or higher position, all employees in the attorney salary schedule, all employees in the information technology salary schedule, all employees voluntarily accepting a change in assignment, and all employees that otherwise volunteer to transition to at-will uncovered. Nearly 40% of the employees that were eligible, volunteered to become at-will uncovered. As a result, at the end of FY 2014, over 68% of the workforce is uncovered (over 83% when excluding Correctional Officers and Community Corrections Officers that are required to remain covered).

  Collectively, consolidating personnel systems, changes to the personnel rules and policies, and transitioning the workforce to an at-will uncovered status, will result in increased productivity, eliminating unnecessary bureaucratic processes, and ultimately saving taxpayers money. The system is based on a model that has been standard practice in the private sector. One of the most meaningful and significant aspects of the system is the shift in the culture of the workforce toward pay for performance.

- Performance Management

  An integral part of the reform initiative is the system by which the State will identify top performing employees. The previous performance management system was considered by many to be ineffective, inefficient, and burdensome. Furthermore, only covered employees (79% of the workforce in FY2012) were required to have an annual performance management review with their supervisor. The new performance management system applies to the remaining covered employees as well as most uncovered employees. Over 99.1% of the workforce is now subject to performance evaluation on a consistent framework of competencies. Some competencies are uniform across the entire State, and others are specifically defined by each agency. All agencies will have evaluated their employees during FY 2014.

  One of the goals of personnel reform is to attract top performers to the State, and to retain the top performers that are currently in the workforce. Given that the size of the overall workforce has been significantly reduced (Figure 4), future success depends on having a highly engaged, high performing team of employees. Compensating these employees appropriately must be a high priority for the State in order to attract and retain top talent in an improving economy.

- Incentive Payments

  The use of one-time incentives to recognize and reward high performing employees was a bold strategy for the State. Research was conducted into the compensation practices of employers of choice and selected strategies were identified as suitable for the State given appropriate controls and limitations.

  In FY2013, the State began the practice of allowing agencies to use up to 1% of their personal services base funding to implement a program of one-time incentive payments for top performing employees. Agencies wishing to participate in this program were required to submit a proposed plan to the Department of Administration for review and approval prior to implementing any incentive payments to employees. Tight controls were established to ensure incentives were only provided to employees that met eligibility criteria, and incentive amounts were limited depending upon the strategy.

  The program was successful and agency directors overwhelmingly lauded the opportunity to recognize and reward their best employees. Their only complaint was the severe limitation of only 1% of the agency's personal services base did not provide enough resources to meet the needs of the agency. In FY2014, the budgetary limit was increased to 2% of the agency's personal services base. More agencies participated in the program than in the previous year, and early indications from the agencies again indicate strong support and appreciation for these new compensation strategies. This approach has been instrumental in mitigating some of the market pressures and impacts from the State's salaries lagging behind the prevailing job market.

Classification System

The current classification system has been in place for several decades, in spite of several past attempts to overhaul and revise it. Over the course of years, it has gradually been changed to become a means of addressing compensation issues. Practices such as establishing "special recruitment rates," developing special salary schedules, and delineating classifications into narrow bands as an artificial means of providing additional "promotional" opportunities, all have served to increase the bureaucracy and cumbersome nature of managing within the existing classification system.

Moving forward, the classification system will be improved through establishing classifications based on reliable, industry-accepted occupational information and job groups. This process began in fiscal year 2014 with the information technology classifications. Changes will allow market salary ranges for each classification, and employee performance will be the driving force to move individual salaries toward the market rate. Toward that end, the State is participating in more salary surveys than ever before, ensuring solid and reliable market pricing for the majority of positions in State government.

Collectively, these strategies are expected to assist the State Personnel System to be competitive with other employers.

Current Environment – Competitive Job Market

Market Movement

The job market is constantly moving, and the State's market position must continually be analyzed to assess the competitive position of the State with respect to the market. Market salaries are influenced by the overall economy at the national and local levels as well as the relative demand for a particular skill or job family.

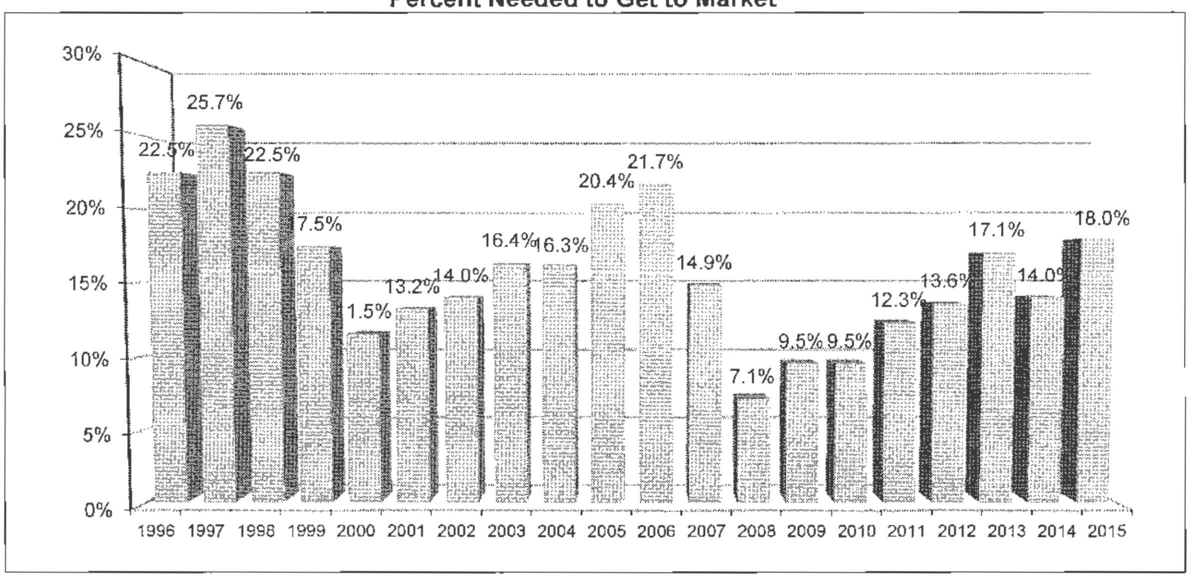
Figure 6
Actual and Projected Base Salary Increases[17]

Reference	2013 Actual	2014 Actual	2015 Projected
National - Hay	3.0%	3.0%	3.0%
National - Mercer	2.8%	2.9%	3.0%
National - WorldatWork	2.9%	3.0%	3.1%
Local (Private Sector Only) AZ Compensation Survey	2.7%	2.7%	2.8%
Local (Public & Private) AZ Compensation Survey	2.3%	2.7%	2.5%
Local (Public Sector Only) AZ Compensation Survey	1.1%	2.7%	1.5%
State of Arizona	**2.5%**[18]	**0%**	**TBD**

Distance To Market

Every year the State conducts a formal analysis of market pricing jobs to assess the relative position of State salaries with the external job market. The most recent analysis of market competitiveness suggests the market exceeds State employee base salaries by an estimated 18.0%.

Figure 7
Percent Needed to Get to Market[19]



[17] National data from Hay, Mercer, and WorldatWork websites; Arizona data from 2014 Arizona Compensation Survey.
[18] Approximately 50% of the workforce received the 5% retention payment increase to base salary
[19] Percent Needed to Get to Market is based on a suite of compensation surveys, including the Arizona Compensation Survey (previously referred to as the Joint Governmental Salary Survey). Average State Employee Salaries are based on employees in the State Personnel System calculated at the beginning of the fiscal year (July 1).

Some agencies have not been able to fill vacant positions unless they offer a starting salary at rates higher than many of the current incumbent employees. This creates a difficult situation for agencies attempting to manage internal pay equity with salaries that are competitive. This difficulty is only expected to be exacerbated by the continued movement of the job market (Figure 6), while State salaries remain essentially unchanged.

Using the most conservative projections for market movement in FY 2015 from Table 6, a 2.5% salary increase would be required in order to remain at the current position of 18% behind the market.

Critical Classifications

The job market is estimated to exceed the average State employee salary by 18.0%; however, there are employees in some classifications that are much further behind than others, as much as 50%, 60%, even 80%. Currently the State maintains a classification system with nearly 2,700 different classifications that have active employees assigned to a position within the classification. One of the major initiatives that will be implemented in the near future is the consolidation of classifications and establishment of salary ranges that are benchmarked to the job market. Although this process is not completed, an initial analysis of classification and market position reveals that many job families are significantly further off the market than the overall average. Many of these job families have also experienced turnover rates that exceed the statewide average.

The following table lists the job families that are recommended for salary adjustments due to distance from market, turnover, and other critical needs.

Figure 8
List of selected classifications with benchmarks and estimated distance to market and turnover

Classification Series	Number of Employees	Estimated % To Market	Estimated Turnover
Audit	200	49.1%	11.9%
Occupational Safety	18	44.4%	16.3%
Statistical Analysis	19	38.1%	20.0%
Budget Analysis	44	36.1%	12.9%
Contract Management	79	35.9%	10.7%
Hydrology	61	32.6%	10.4%
Legal Support	138	30.1%	11.8%
IT-Info Security	53	30.0%	12.6%
Accounting	280	28.3%	10.8%
Skilled Trades	92	27.5%	23.5%
IT-Business Analysis	90	27.4%	12.6%
IT-Mainframe	65	27.4%	12.6%
Procurement	162	26.8%	12.1%

Other Classifications

In addition to the classification families listed in Figure 8, there are several other classification families that are also significantly behind the prevailing job market. Although these classes have not been included in the recommendation for funding this year due to factors such as low turnover and limited funding availability, it is important to recognize the job families are considerably behind the market.

The following table lists the job families that have not been included in the recommendation for salary adjustments.

Figure 9
List of selected classifications with benchmarks and estimated distance to market and turnover

Classification Series	Number of Employees	Estimated % To Market	Estimated Turnover
Chaplain	38	36.3%	6.0%
Administrative Support	2,044	33.6%	15.6%
Equipment Operation	34	30.0%	4.8%
Social Services	3,835	29.1%	19.0%
Warehouse/Storage/Supplies	37	26.0%	19.4%
Environmental Programs	158	25.8%	16.2%
IT-Systems Architect	336	25.7%	12.6%
Legal	465	25.3%	13.9%
General Labor	11	24.4%	0.0%
Elevator Inspection	11	24.1%	9.1%
Construction/Maintenance	205	23.9%	14.8%
IT-Geographic Info Sys	36	23.8%	12.6%
Epidemiology	23	22.8%	26.7%
IT-Database	60	22.7%	12.6%
Food Service	68	21.3%	36.7%
IT-Applications Development	379	20.0%	12.6%
Fiscal Services	321	19.6%	14.4%

Conclusion

As evident in Figure 7, the market competitiveness of State salaries has fluctuated over the years. As the economy continues to improve at both the national and local levels, it is anticipated that voluntary separations will continue to increase driving an overall increase in turnover rates, and creating more difficulty for agencies to attract the talent that the State needs.

In FY2013 (specifically in October 2012), uncovered employees began receiving 5% critical retention payments, which were subsequently converted to base pay. However, there have been no funded salary increases since that time. While agencies have been able to make some base salary adjustments and provide some one-time performance pay incentives, those actions have been almost exclusively funded under existing agency budgets. As illustrated in Table 6, the market continues to move and State base salaries have fallen further behind the market.

In order to close the gap to bring State salaries within 5%, an estimated $196.8 million would be required. While this strategy would dramatically improve the State's position relative to the market, it isn't realistic given the economic realities of the State's budget. In fact, even providing enough funds for the State to match the projected market movement in FY 2015 would require over $37.8M; and that would be just enough to maintain the State's position at 18% behind the market. Agencies may have the opportunity to address individual employees' salaries through a limited set of compensation strategies, or in some cases pursue market adjustments for specific classifications unique to the agency. These actions should be viewed as positive steps, however, they should not be relied upon to resolve infrastructure issues within the State's compensation framework.

Given the current and anticipated economic conditions, we are recommending a restrained alternative. It limits funding to the classification series that are greater than 18% off the market. Therefore, an individual classification may be more than 18% off the market, but if the weighted average of the entire series is not greater than 18% off the market, it was not given further consideration. We then calculated the estimated funding necessary to bring these employees' salaries not up to market, but up to the average of other State employees, namely within 18% of market. We also took into consideration those classification series that were high profile and of critical importance.

By using this approach, we can generate a conservative recommendation that minimizes the degradation of the State's current market position while addressing those classifications that are further off market than the other classifications in the State. The following classifications are recommended due to factors mentioned above: high profile, critical importance, distance from market and turnover:

- Accounting
- Audit
- Budget Analysis
- Contract Management
- Hydrology
- IT-Business Analysis
- IT-Information Security
- IT-Mainframe
- Legal Support
- Occupational Safety
- Procurement
- Skilled Trades
- Statistical Analysis

Recommendation

Recognizing the multiple demands on the state budget, a conservative recommendation focuses on maintaining the State's position relative to the job market. It targets limited resources toward the classification series that are furthest off the market.

- Funding for Critical Classification Series

  In order to address the classification series that are furthest off market, have experienced high turnover, and/or have a high impact on State government operations, we recommend that each agency be appropriated and funded sufficiently to bring employee salaries in the classifications previously identified up to the statewide average of 18% off the market. The Arizona Department of Administration will coordinate with the Governor's Office of Strategic Planning and Budgeting and the Joint Legislative Budget Committee as each classification is reviewed to identify specific funds that are affected.

Total Estimated Funding: **$10,629,694**

General Fund (38.0%)	**$3,953,026**
Appropriated Fund (26.5%)	**$2,804,044**
Non-Appropriated Fund (15.3%)	**$2,003,752**
Federal Fund (20.2%)	**$1,868,872**

Notes: In accordance with A.R.S. § 41-751, this recommendation only addresses active employees in the State Personnel System. This recommendation does not include appropriate budgeting for vacant positions. The following agencies are excluded from this recommendation: Arizona State University, Auditor General, Board of Regents, Cotton Research Council, Court of Appeals, Department of Public Safety, House of Representatives, Joint Legislative Budget Committee, Law Enforcement Merit System, Legislative Council, Northern Arizona University, School for the Deaf and Blind, Senate, Supreme Court, and University of Arizona. Funding estimate based on HRIS base salary, payroll records for the pay period ending June 20, 2014, an estimated variable ERE rate of 21%, and statewide fund allocations from FY 2014.

Exhibit 7

ASRS Classification Groups	# of Pos.	Pay Grades included in Group	ASRS Group Average	Group Minimum	Group Mid-Point	Group Max	% to Mid-Point	PSPRS/ Treasurer	Department of Labor	McLagan 2014	McLagan (Total Cash)	SURS 2014	Bureau of Labor Statistics	AZ Comp. Survey 2013	ERI Survey 2013 (Base)	ERI Survey 2013 (Total Cash)	Buck (Base)	Buck (Total Cash)
Management - Supervision																		
EX/CIO/SR MGT	9	Inv 05, Inv 06, E4, E3	$143,752	$70,871	$178,062	$285,252	-19%	$268,000 (CIO)	$153,100	$295,000 (Ex Dir) $286,800 (CIO)	$341,300*(Ex Dir) $301,500*(CIO)	$263,287 (Ex Dir.) $171,824 (Dir of Ops.) $154,527 (CFO) $140,363 (Dir/Mbr Svs)	$151,341		$323,686 (Ex Dir) $216,522(COO) $201,673 (CFO) $183,159 (Top IT Officer) $224,951 (Top Admin Off.)	$443,489 (Ex Dir) $280,041 (COO) $224,006 (CFO) $224,713 (Top IT Officer) $285,591 (Top Admin Off.)	$197,413 (CIO) $164,213 (SR MGT)	$212,647 (CIO) $212,752 (SR MGT)
Management Occupations	11	23,24	$77,400	$46,932	$69,211	$91,490	12%		$72,200-$99,800			$79,350-$85,042	$87,976-$98,800	$92,005	$67,950-$77,183	$72311-$79,996	$98,759	$103,066
Public Relations, Communications Managers	2	22,23	$71,953	$43,240	$63,699	$84,157	13%		$87,400			$82,407		$72,826	$54,518-$77,380	$57,229-$82,317	$68,501	$72,493
Business Unit Supervisors	16	21	$53,432	$39,983	$55,773	$71,564	-4%		$58,700			$52,586-$61,290	$58,364	$64,063	$53,830-$64,586	$55,833-$71,215	$69,236	$71,337
IT																		
Computer and Information Systems Managers	7	29,30	$96,827	*$73,981*	$108,982	$143,983	-11%		$102,700-$117,700			$103,210-$122,713	$76,414-$115,702	$95,581	$100,769-$114,974	$106,729-$129,053	$109,371-$113,153	$119,457-$122,083
Project Manager	2	29	$86,962	*$73,981*	$101,303	$128,624	-14%							$66,2138-$94,805	$101,047	$119,707		
Software Developers,	7	27,28	$99,112	*$44,951*	$79,779	$114,606	24%							$96,409	$101,526	$106,682		
Network and Computer Systems Administrators	8	19,23,24,25,28	$62,138	*$31,193*	$77,161	$123,129	-19%		$44,870-$74,550			$64,986-$83,702	$80,258	$72171-$75,855	$72,471	$75,675	$101,701	$103,382
Database Administers	2	27	$90,812	*$56,806*	$84,559	$112,313	7%		$73,700				$74,405	$80,319	$89,205	$93,808		
Software Developers	6	24,26	$82,112	*$40,019*	$69,871	$99,724	18%		$87,900-$99,900				$88,939-$97,888	$88,206	$85,974	$90,700	$97,918	$100,860
IT Security	2	24,26	$73,613	*$35,087*	$68,725	$102,363	7%		$87,300				$84,655		$62,085-$70,689	$63,751-$73,846		
Project Manager, Business Analyst	5	25	$78,550	*$53,561*	$73,938	$94,316	6%		$81,800				$61,685	$67,243-$75,192	$73,379	$87,209	$64,508	$66,715
Quality Assurance IT	5	23	$76,100	*$44,086*	$62,841	$81,596	21%		$65,500				$74,538	$71,750				
Operations																		
Accountants, Most Senior	4	24,25	$80,981	$43,240	$71,370	$99,501	13%		$102,000			$100,446 (Controller)	$98,800	$58,870-$83,674	$62,267-$84,977 $149,118(Controller)	$64,907-$90,823 $151,875 (Controller)	$75,645-$106,429	$77,746-$114,203
Business Opperations Specialists	5	22,23	$65,619	$43,240	$63,699	$84,157	3%		$67,200			$107,515 (Leg. Liaison)	$62,710-$66,687	$51.690-$57,345	$57,620-$61,658	$58,355-$63,984		
Management Analysts	7	20,21,22	$56,011	$36,814	$57,141	$77,469	-2%		$69,800			$76,468	$44,372-$89,841	$54,346-$58,736	$62,440-$68,670	$64,289-$71,353	$57,154	$58,730
Accountants and Auditors	7	20,21,22	$56,156	$36,814	$57,141	$77,469	-2%		$58,800			$62,478-$71,769		$45,960-$69,085	$49,186	$51,069	$83,210	$85,521
Comunications, Marketing Specialists	3	20,21	$44,513	$36,814	$54,189	$71,564	-18%		$54,100			$62,393	$42,845	$47,267-$51,001	$51,876	$53,988		
Human Resources/Training	6	20,21	$54,475	$36,814	$54,189	$71,564	1%		$51,900-$52,900			$51,628	$53,546	$48,991-$65,190	$52,467	$53,668		
Advisor, Senior Customer Service	61	19,20	$38,940	$33,435	$49,631	$65,828	-22%		$36,900-$37,300			$37,516-$68,269	$37,853-$59,665	$42,134-$46,509	$29,094-$33,976	$32,620-$34,485	$45,072-$57,154	$47,599-$60,198
Office and Administrative Support Occupations	5	19	$40,958	$33,435	$46,624	$59,812	-12%		$33,500-$48,900			$49,948-$68,617	$32,513-$49,036	$26,833-$49,993	$40,348-$45,631	$41,034-$46,423		
Processing Specialists	10	19	$44,005	$33,435	$46,624	$59,812	-6%		$50,400			$44,202	$52,429		$35,653-$43,298	$36,438-$44,374	$57,154	$58,730
Processing Technicians	32	17,18	$34,886	$29,008	$42,386	$55,763	-18%		$33,600-$35,400			$40,642	$33,815-$39,452	$34,118-$40,671	$29,926-$34,509	$30,715-$35,245		
Imaging, Mail, Data Entry Clerks	8	14	$28,095	$24,551	$33,451	$42,350	-16%		$29,900-$34,400			$32,712-$34,364	$26,486-$34,850	$27,072	$25,905-$31,315	$26,295-$31,728	$37,192	$37,823
Investment Management																		
Sr. Portfolio Mgr.	2	Inv 04, Inv 05	$170,625	$88,067	$144,744	$201,422	18%	$173,397		$217,500	$262,900*						$146,457	$162,532
Portfolio Mgr.	3	Inv 03	$100,121	$75,497	$106,484	$137,471	-6%	$105,977	$99,800								$106,744	$112,207
Portfolio Analyst	3	Inv 01	$81,350	$50,891	$75,765	$100,638	7%	$58,986		$82,300	$85,000*		$71,422		$93,786	$99,820		
TOTALS	238		$58,512	$24,551	$73,976	$285,252	-21%				*Maximum Total Cash							

McLagan Notes:

- Total Compensation increased approximately 4% in public funds between 2012 and 2013. Industry comparables (i.e. Financial Sector), ranged between 10%-12%
- Max Incentive Opportunity Median Percent Change between 2013 and 2014 was 1% - 3%
- Approximate 43% of McLagan Survey Participants paid a bonus in 2014

Additional Notes:

- Bureau of Labor Statistics, AZ Comp. Survey, and ERI aged at 2.5% for one year
- Buck Statistics aged at 2.5% for two years
- IT Minimum Grade points are based on the recent ADOA IT compensation restructure. Due to limited funding, adjustments to current state IT salaries did not occur resulting in the minimums of the grades to be lower than market entry.
- ERI = Economic Research Institute
- SURS = State Universities Retirement System of Illinois

Exhibit 8

ADOA-HRD

STATE OF ARIZONA
WORKFORCE REPORT

Janice K. Brewer
Governor

2014

Brian C. McNeil, Director
Department of Administration

Janice K. Brewer
Governor

Brian C. McNeil
Director

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR

100 NORTH FIFTEENTH AVENUE • SUITE 401
PHOENIX, ARIZONA 85007

(602) 542-1500

September 2014

The Honorable Janice K. Brewer
Governor, State of Arizona
The Honorable Andy Biggs
President, Arizona State Senate
The Honorable Andy Tobin
Speaker, Arizona House of Representatives
1700 West Washington
Phoenix, Arizona 85007

Dear Governor Brewer, President Biggs and Speaker Tobin:

Pursuant to Arizona Revised Statutes § 41-751, it is my pleasure to share with you the 2014 annual report on State employees and the operation of the State Personnel System (SPS). As you know, SPS was established during FY 2013 due to comprehensive personnel reform legislation. This year's Workforce Report includes over 40 charts and tables of information regarding the status of the State's workforce.

In FY 2014, agency budgets and staffing levels remained lower than the years prior to the economic crisis. The hiring freeze, which the State implemented in February 2008, continued through the fiscal year. The overall size of the State's workforce remains significantly smaller, and yet the population that is served by our government agencies continues to increase. The impacts of these actions are illustrated in many of the charts and tables contained herein:

- There were 34,161 active SPS employees at the end of FY 2014 (page iii). This represents a loss of 3,795 filled positions, or a decrease of 10% since FY 2008 when the hiring freeze began.
- Covered employees accounted for 79% of the employee population in FY 2012, but with the implementation of Personnel Reform on September 29, 2012, transitioned to 33% by the end of FY 2014 (page iv).
- The average employee base salary was $43,832 (page 2).
- The employee turnover rate (page 11) decreased from 15.8% last year to 15.5%, although the relative proportion of voluntary separations continues to increase.
- Arizona ranks 49th in the nation (pages 8 & 37) in the ratio of State payroll to the population served.

We hope the information provided in this report will assist you when making decisions regarding Arizona State government and its employees.

Sincerely,

Brian C. McNeil
Director

Table of Contents

Overview

Arizona Revised Statutes (A.R.S.) § 41-751 requires the Director of the Arizona Department of Administration (ADOA) to provide an annual report to the Governor and the Legislature on State personnel and the operation of the State Personnel System (SPS). The statute requires that the report include information on the following:

- All State employees including the executive, legislative, and judicial branch agencies
- The number of employees separating from State employment and the reasons for separation
- Information concerning employee compensation during the preceding year
- The overtime pay of all State agencies
- Other information as determined by the Director

The State Personnel System is the largest personnel system in State government. Pursuant to applicable federal and Arizona State law, ADOA administers the system by establishing statewide policies and procedures and providing support to individual agencies and oversight of their personnel management. Agencies outside SPS have the authority to develop their own employee-related policies and practices. Figure A identifies the number of active SPS employees as well as employee counts for each of the 11 State agencies (excluding the universities and Board of Regents) that operate their own personnel systems. Following Figure A, the remainder of this report provides information related to SPS employees only.

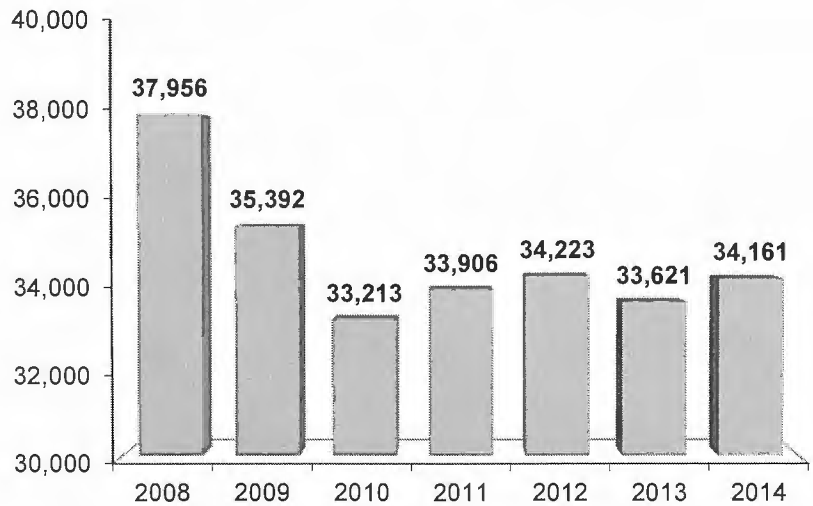
Figure A – FY 2014 Active Employee Headcount

Branch of Government	Active Employees
Executive	**36,056**
State Personnel System Agencies	34,161
Department of Public Safety	1,895
Legislative	**569**
Auditor General	192
House Of Representatives	190
Joint Legislative Budget Committee	23
Legislative Council	39
Senate	125
Judicial	**750**
Court Of Appeals Division I	93
Court Of Appeals Division II	37
Supreme Court	620
Other	**716**
Arizona Schools for the Deaf And Blind	681
Cotton Research Council	35
TOTAL	**38,091**

Source: The State's Human Resources Information Solution (HRIS). Data includes all regular, active employees at fiscal year-end (June 30).

The total number of SPS employees increased by 1.6% in FY 2014. Over the past 5 years, Arizona State government has experienced a considerable reduction in the size of the workforce. Compared to FY 2008, the State workforce has decreased by 10%, or 3,795 employees. Figure B illustrates the trend of decreased staffing levels in State government since FY 2008.

Figure B – SPS Employee Headcount
FY 2008 - 2014



Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

The State's Human Resources Information Solution (HRIS) captures information from nearly 100 different agencies, boards, and commissions that are included within SPS. Many of these organizations have a small number of employees. In order to facilitate the usefulness of this report to a broad audience, many of the tables and charts aggregate the agencies with less than 50 active employees into one line item labeled "small agencies". Additionally, this report is intended to focus attention on the majority of the State's workforce which is comprised of regular, full-time employees. Therefore, employees in positions that were identified as temporary or working less than 0.25 full time equivalents have been excluded from this report.

Personnel Reform

On May 10, 2012, Governor Janice K. Brewer signed into law a comprehensive personnel reform bill. This bill, which went into effect on September 29, 2012, included 5 major components:

- Consolidation of agency personnel systems
- Transition to an at-will workforce
- Improved management of the State workforce
- Restructured grievance and appeal system
- Updated human resource practices

<u>Consolidation of Personnel Systems and Improved Management</u>

With the implementation of personnel reform, agencies that were previously within the ADOA Personnel System were moved into the new State Personnel System, along with six other Executive

Branch agencies that had previously operated their personnel systems independently. This consolidation was concurrent with significant statutory and rules changes that brought about increased consistency in the management of the State's workforce.

The annual reports, prior to FY 2013, provided information on ADOA Personnel System employees only. The consolidation of personnel systems added approximately 700 employees to the total population of the workforce considered within this report. Although the State Personnel System was not established until FY 2013, in order to provide consistent analysis over time, all fiscal years represented in this report include information for all current SPS agencies. As a result, the statewide data in this report should not be compared with the workforce reports that only included ADOA Personnel System agencies.

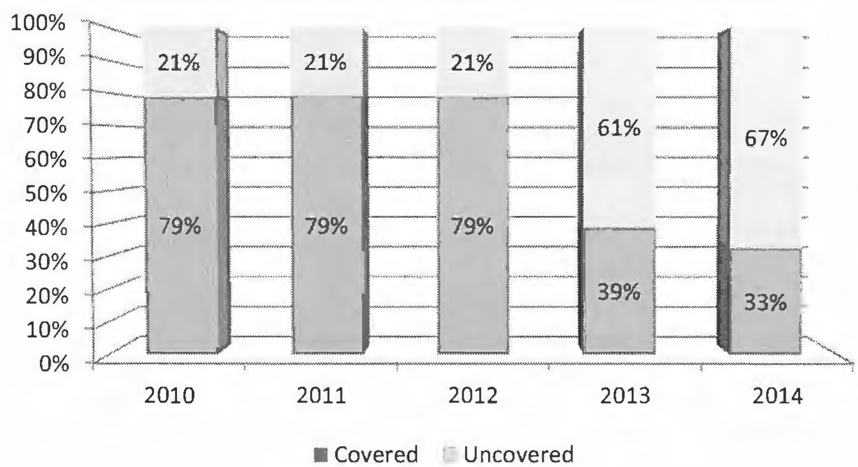
Transition to an At-Will Workforce

At the time of implementation of personnel reform, beginning September 29, 2012, the following employees became at-will uncovered:

- New hires
- Supervisors
- Employees in Attorney positions
- Employees in Information Technology positions
- Employees in positions of Grade 19 or higher
- Covered employees that voluntarily elected to become uncovered
- Covered employees who voluntarily accepted a new assignment (e.g. promotion, transfer)

Figure C illustrates the shift in the relative percentage of at-will uncovered employees. In the years prior to FY 2013, the majority of the workforce was covered; the majority is now uncovered. Furthermore, the percentage of uncovered employees will continue to increase as the remaining covered employees voluntarily accept changes in assignment or elect to become uncovered, and as new hires replace covered employees leaving the workforce.

Figure C – Covered vs. Uncovered Employees
FY 2010 – 2014

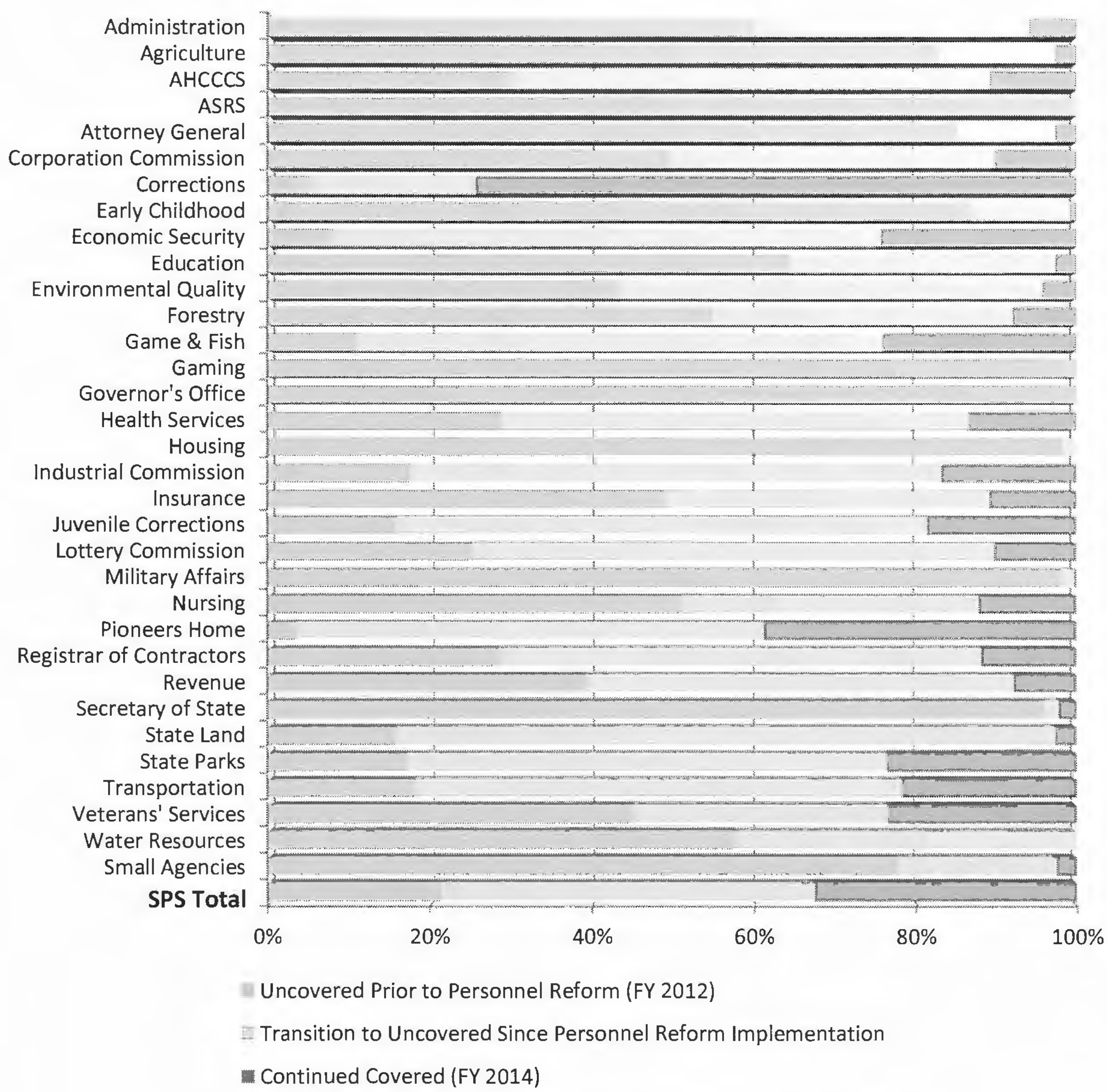


Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30). Data includes Correctional Officers (I, II, III), Community Corrections Officers, and Full Authority Peace Officers.

Covered employees who were not otherwise required to become at-will uncovered were allowed to remain covered. Employees employed as Correctional Officers I, II, III, or Community Corrections Officers remained covered, and employees in positions that require Full Authority Peace Officer certification were allowed to remain covered.

Figure D illustrates the conversion from covered to uncovered status by agency. Fourteen agencies experienced a change of at least 50%. The State Land Department experienced the largest shift; 82% of its workforce has become uncovered.

Figure D – Covered vs. Uncovered Employees Changes from FY 2012 to FY 2014



Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

Figure E illustrates the job classifications that have the largest numbers of active employees that are still covered. Correctional Officers I, II, III and Community Corrections Officer positions have remained entirely covered, as well as Wildlife Managers II and III, which are certified Full Authority Peace Officer positions. Other classifications that are listed below have historically been some of the largest classifications in the State, and the bulk of the employees in these classification series are in positions of Grade 18 or lower and were not required to become uncovered at the time of Personnel Reform.

Figure E – Job Classes with Largest Number of Covered Employees

Class Title	Covered Employees	Uncovered Employees	Total Employees	% Covered
Corrections Officer (I, II, III)	6,360	0	6,360	100%
Program Services Evaluator (I, II, III, IV, V)	722	1,608	2,330	31%
Customer Services Representative (I, II, III)	362	546	908	40%
Human Services Specialist (I, II, III)	322	648	970	33%
Child Protective Services Specialist (I, II, III)	261	899	1,160	23%
Administrative Assistant (I, II, III)	255	882	1,137	22%
Motor Vehicle Division Customer Services Rep	206	218	424	49%
Habilitation Technician (II, III)	169	165	334	51%
Highway Operations Technician (I, II, III, IV)	135	410	545	25%
Child Support Enforcement Officer (I,II)	132	222	354	37%
Child Protection Services Case Aide (I,II)	92	140	232	40%
Traffic Construction Tech (I,II,III,IV)	88	180	268	33%
Administrative Secretary (I, II, III)	85	137	222	38%
Rehabilitation Services Specialist (I,II,III)	82	111	193	42%
Community Corrections Officer	81	0	81	100%
Correctional Education Program Teacher	73	43	116	63%
Wildlife Manager (I,II,III)	71	0	71	100%
Employment and Compliance Officer	63	2	65	97%
Secretary	59	96	155	38%
Youth Corrections Officer (I, II, III)	58	342	400	15%
Nursing Assistant	54	91	145	37%
Mental Health Program Specialist (I,II,III)	53	169	222	24%
Program & Project Specialist (I, II)	47	641	688	7%
Transportation Engineering Specialist	46	170	216	21%
Clerk Typist (I, II, III)	44	46	90	49%
Fiscal Services Specialist (I,II,III,IV)	43	187	230	19%

Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

Performance Management

An integral part of personnel reform was the creation of the Managing Accountability and Performance (MAP) system. The previous performance management system was considered by many to be ineffective, inefficient, and burdensome. Furthermore, only covered employees (79% of the workforce in FY2012) were required to have an annual performance management review with their supervisor. The new performance management system applies to the remaining covered employees as well as most uncovered employees. Over 99.1% of the workforce is now subject to performance evaluation on a consistent framework of competencies. Some competencies are uniform across the entire State, and others are specifically defined by each agency. All agencies will have evaluated their employees during FY 2014.

All agencies used MAP to evaluate their employees during FY 2014. Each employee is evaluated on three standard statewide competencies (four for supervisors), three agency-selected competencies, and a "results orientation" competency, which is based on goals set by the employee and his or her supervisor. For each competency, the employee receives a rating of "Needs Improvement," "Meets Expectations," or "Exceeds Expectations," which has a corresponding numerical rating level (see Figure F below).

Figure F – MAP Rating Scale

Word Anchor	Rating Level	Score Range Begin	Score Range End
Needs Improvement	1	1.00	1.99
Meets Expectations	2	2.00	2.49
Exceeds Expectations	3	2.50	3.00

Using a specific formula, these ratings are combined to create a single overall rating score between 1.00 and 3.00 which is then tied back to the word anchor for an overall rating. The overall rating is used to help identify top performers and as a condition for the execution of certain compensation strategies.

Figure G provides data for those employees that completed a MAP evaluation cycle in FY 2014, including the number of employees who receive an overall MAP rating and the distribution of the overall rating by agency. As MAP data becomes more plentiful in future years, the workforce report will utilize it to provide additional performance management analysis, including trend analyses over time.

Figure G – Overall MAP Rating Distribution by Agency

Agency	Employees Reviewed	Needs Improvement	Meets Expectations	Exceeds Expectations
Administration	545	1.7%	59.8%	38.5%
Agriculture	6	0.0%	83.3%	16.7%
AHCCCS	129	7.8%	70.5%	21.7%
ASRS	10	10.0%	50.0%	40.0%
Attorney General	217	7.4%	72.4%	20.3%
Corporation Commission	110	4.5%	81.8%	13.6%
Corrections	2,784	5.5%	73.9%	20.7%
Early Childhood	5,771	4.5%	75.0%	20.5%
Economic Security	480	6.3%	51.5%	42.3%
Education	3,588	7.5%	74.4%	18.2%
Environmental Quality	388	4.1%	71.9%	24.0%
Forestry	467	18.2%	65.3%	16.5%
Game & Fish	33	3.0%	66.7%	30.3%
Gaming	530	2.6%	77.0%	20.4%
Governor's Office	95	2.1%	52.6%	45.3%
Health Services	67	11.9%	50.7%	37.3%
Housing	71	1.4%	70.4%	28.2%
Industrial Commission	48	2.1%	93.8%	4.2%
Insurance	711	5.5%	71.9%	22.6%
Juvenile Corrections	239	5.4%	58.6%	36.0%
Lottery Commission	82	11.0%	75.6%	13.4%
Military Affairs	72	5.6%	59.7%	34.7%
Nursing	70	11.4%	77.1%	11.4%
Pioneers' Home	259	8.1%	63.3%	28.6%
Registrar of Contractors	9	0.0%	100.0%	0.0%
Revenue	144	8.3%	61.1%	30.6%
Secretary of State	76	6.6%	51.3%	42.1%
State Land	188	6.4%	60.6%	33.0%
State Parks	619	8.2%	60.1%	31.7%
Transportation	98	11.2%	74.5%	14.3%
Veterans' Services	245	18.4%	67.3%	14.3%
Water Resources	102	0.0%	25.5%	74.5%
Small Agencies	461	8.7%	64.6%	26.7%
SPS Average	**18,714**	**6.1%**	**71.2%**	**22.7%**

Source: HRIS. Data includes the most recent MAP score for all SPS employees who had been evaluated as of July, 15, 2014.

Workforce Reporting Modifications

There have been significant organizational and technical modifications to the methodology of gathering data since the FY 2012 report was published. These changes, which are discussed in the FY 2013 report, are reflected in each fiscal year that is represented in the report. As a result, the data that is included in this report should not be compared with data in any annual reports prior to the FY 2013.

1 Compensation

- Average Salary per Employee by Agency
- Average Total Compensation Estimate
- Average Salary by Age
- Average Salary by Length of Service
- Overtime Costs by Agency
- Average Annual Leave Use per Employee by Agency
- Average Sick Leave Use per Employee by Agency
- Ratio of Total State Payroll to State Population

1.1 – Average Salary per Employee by Agency
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014
Administration	$52,176	$52,599	$56,045	$57,318	$62,102*
Agriculture	34,528	35,334	36,715	38,561	42,222*
AHCCCS	42,742	42,919	42,946	43,808	46,217
ASRS	50,970	51,666	54,132	54,786	58,704*
Attorney General	62,803	64,732	64,777	65,129	68,206
Corporation Commission	54,570	56,537	55,899	58,266	61,550
Corrections	40,721	40,435	40,215	39,517	40,088
Early Childhood	60,717	59,705	60,722	59,726	62,460
Economic Security	37,260	37,004	37,048	37,404	38,307
Education	53,527	53,738	54,106	55,432	58,033
Environmental Quality	46,154	46,304	46,919	47,694	50,888
Forestry	45,585	44,637	44,061	45,081	46,072
Game & Fish	48,466	49,054	49,205	50,231	51,851
Gaming	55,256	54,337	54,337	55,029	57,188
Governor's Office	63,970	58,153	60,501	61,518	65,533
Health Services	47,631	47,563	48,614	48,570	50,738
Housing	53,398	55,446	56,389	56,671	58,475
Industrial Commission	42,168	42,509	42,916	44,181	46,646
Insurance	51,903	51,830	50,917	51,561	53,610
Juvenile Corrections	44,237	42,944	41,964	42,015	43,098
Lottery Commission	43,734	43,508	43,366	43,040	45,595
Military Affairs	42,059	41,923	42,308	41,776	43,792
Nursing	48,001	48,056	49,089	50,402	51,990
Pioneers' Home	32,498	32,286	32,379	33,846	33,846
Registrar of Contractors	41,321	42,123	43,469	43,644	46,467
Revenue	44,662	43,939	44,809	45,640	48,379
Secretary of State	42,067	42,201	42,717	42,748	44,583
State Land	50,158	51,366	52,719	53,026	55,552
State Parks	41,201	41,286	41,528	41,936	43,335
Transportation	41,549	42,164	42,751	42,874	44,770
Veterans' Services	38,692	38,829	39,549	37,365	38,360
Water Resources	60,389	58,735	60,380	59,469	59,859
Small Agencies	53,577	54,784	54,593	54,476	55,811
SPS Average	**$42,304**	**$42,235**	**$42,322**	**$42,447**	**$43,832**

Source: HRIS. Calculations are based on fiscal year-end (June 30) annual salary data for all regular, active SPS employees. Performance pay and other additional compensation (stipends) are not included, and furloughs and other unpaid time off are also not included. The retention pay in FY 2013 is excluded.

Notes: In FY 2013, beginning on the 10/18/2012 payday, eligible uncovered employees began receiving one-time 5% critical retention payments. At the beginning of FY 2014 employees that had been receiving retention payments had those payments converted to base salary increases; this accounts for the majority of the increase in the average salary from FY 2013 to FY 2014. Other reasons for the increase may be attributable to changes in the structure of the workforce such as abolishing or leaving lower paid positions vacant and establishing or filling higher paid positions.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

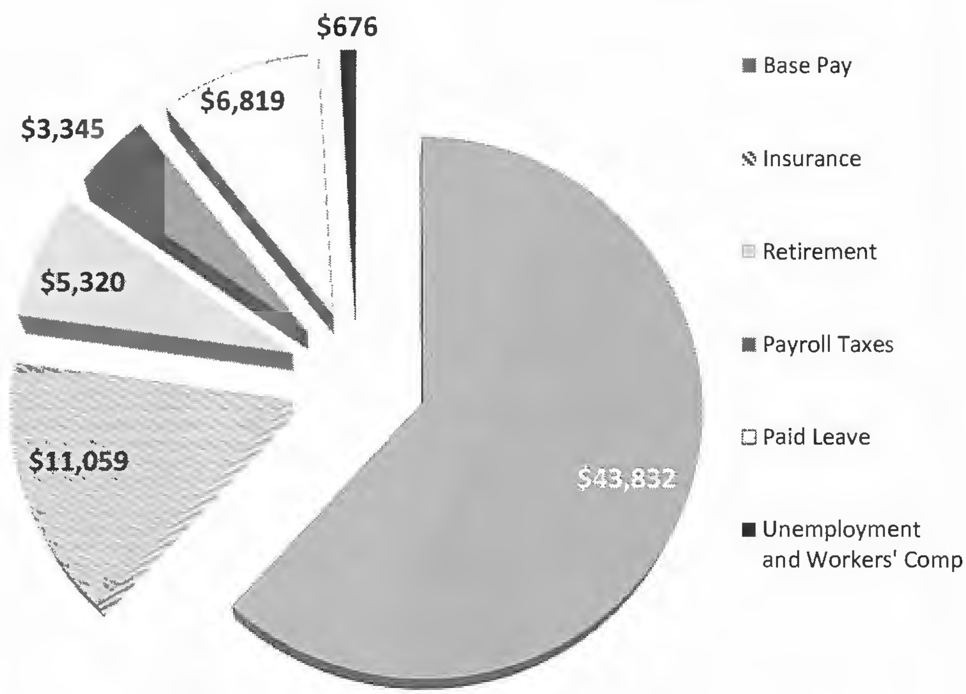
Key Points

- The average salary for SPS employees increased by 3.5 % over the past 5 years, while the market increased by 9.2% over the same time period (*Arizona Compensation Survey*).
- The following table illustrates the year-over-year percentage change to salaries for SPS employees with respect to the market (based on the *Arizona Compensation Survey*).

Year	SPS	Market
'11	-0.2%	1.9%
'12	0.2%	2.3%
'13	0.3%	2.3%
'14	3.3%	2.7%

- **NO** agency experienced a decrease in the average salary of its employees last year.
- **16** agencies experienced increases in average salary in each of the past five years.
- For more information on SPS employee compensation relative to the market, see the *2014 Advisory Recommendation*.

1.2 – Average Total Compensation Estimate
Fiscal Year 2014



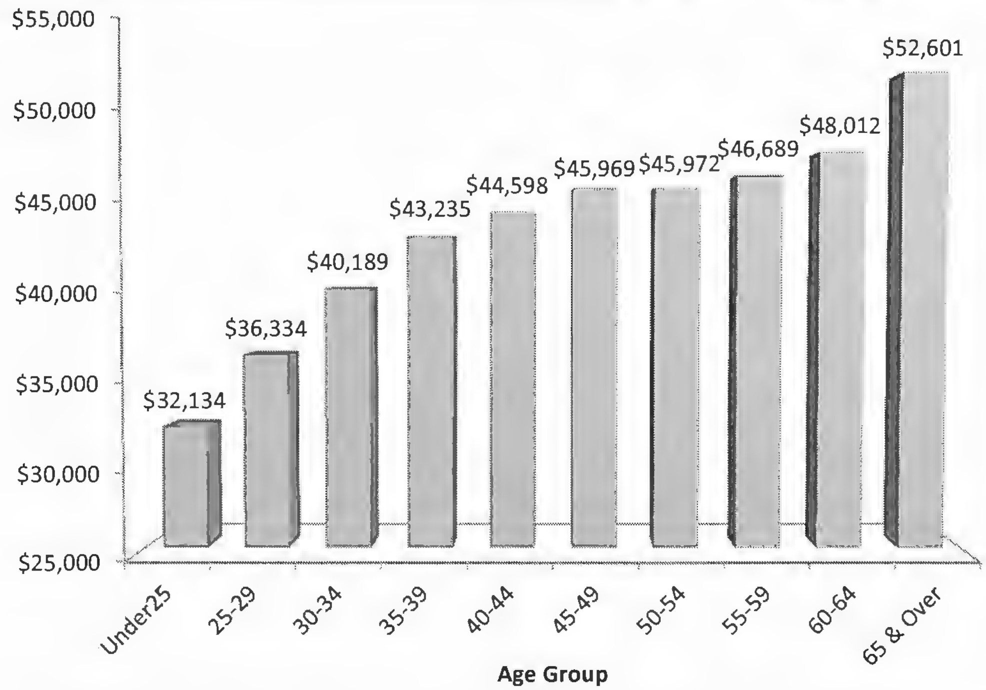
Source: HRIS. Calculations represent estimations based on the last payroll run of the fiscal year, and do not reflect amounts actually incurred or paid. Amounts shown are based on individuals employed on the dates shown by agencies covered by the State Personnel System. These amounts exclude supplemental pay items such as stipends, shift differentials, overtime compensation, and other certain taxable income.

Notes: Compared with the distribution from FY 2013, there was no significant change in relative percentage of total compensation derived from base pay. In FY 2013 eligible uncovered employees began receiving a 5% critical retention payment. In FY 2014 these one-time retention payments were converted to base salary increases, and is now reflected in the base pay. Other changes from FY 2013 include an increase in retirement (up 8.9%) and a decrease in the percentage of Unemployment and Workers' Compensation (down 4.5%).

Key Points

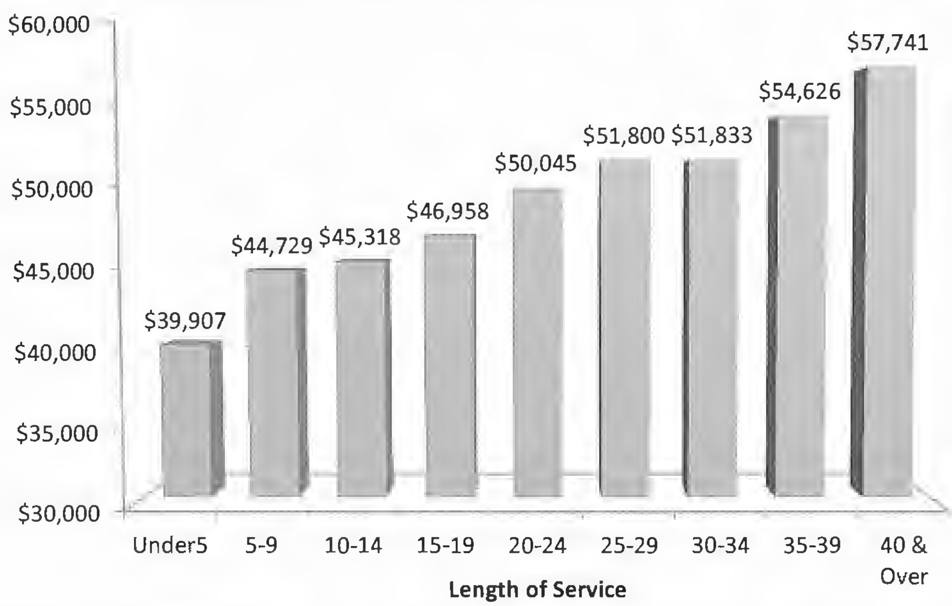
- The average total compensation for SPS employees is **$71,051**.
- On average, base salary **($43,832)** constitutes **61.7%** of a SPS employee's total compensation.

1.3 – Average Salary by Age
Fiscal Year 2014



Source: HRIS. Calculations are based on fiscal year-end (June 30) annual salary data for all regular, active SPS employees. Performance pay and other additional compensation (stipends) are not included, and furloughs and other unpaid time off are also not included.

1.4 – Average Salary by Length of Service (LOS)
Fiscal Year 2014



Source: HRIS. Calculations are based on fiscal year-end (June 30) annual salary data for all regular, active SPS employees. Performance pay and other additional compensation (stipends) are not included, and furloughs and other unpaid time off are also not included.

Key Points

- The following table represents the percentage increase in average salary from one age group to the next.

AGE	% Change
Under25	
25-29	13.07%
30-34	10.61%
35-39	7.58%
40-44	3.15%
45-49	3.07%
50-54	0.01%
55-59	1.56%
60-64	2.83%
65&Over	9.56%

- The following table represents the percentage increase in average salary from one LOS group to the next.

LOS	% Change
Under5	
5-9	12.08%
10-14	1.32%
15-19	3.62%
20-24	6.58%
25-29	3.51%
30-34	0.06%
35-39	5.39%
40&Over	5.70%

- For a breakdown of the SPS employee population by age or LOS, see the Workforce Statistics section, pages 29 and 30.

- For more detailed information on average salary and population by age and LOS, see Appendix 5.1.

1.5 – Overtime Costs by Agency
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014
Administration	$102,580	$162,877	$123,405	$137,407	$105,584
Agriculture	330,397	332,778	340,168	202,194	222,426
AHCCCS	78	330	277	53,480	114,831*
ASRS	28,244	5,559	7,612	21,608	48,430*
Attorney General	114,335	153,413	124,353	182,558	161,159
Corporation Commission	6,862	3,131	21,086	35,045	15,530
Corrections	7,578,479	24,080,092	19,829,115	12,441,987	17,623,275*
Early Childhood	0	0	0	0	386
Economic Security	3,720,439	8,195,741	11,733,737	12,334,429	12,788,895
Education	8,375	3,525	23,581	55,175	60,177
Environmental Quality	33,739	26,077	25,167	29,363	17,029
Forestry	996,694	1,004,071	1,084,446	981,180	1,341,358
Game & Fish	56,371	64,142	73,658	52,368	94,856*
Gaming	0	0	664	188	0
Governor's Office	1,548	133	0	0	0
Health Services	169,875	675,924	1,146,911	1,393,170	2,576,278*
Housing	0	0	0	0	0
Industrial Commission	0	0	0	1,021	1,944
Insurance	0	0	168	2,452	2,272
Juvenile Corrections	612,709	1,161,137	758,029	217,791	381,731*
Lottery Commission	9,787	4,809	5,567	5,114	9,751
Military Affairs	500,940	450,875	579,891	593,572	521,811
Nursing	119	14,485	3,466	9,138	6,014
Pioneers' Home	17,784	19,500	43,982	42,240	39,226
Registrar of Contractors	624	3,345	3,258	5,403	8,161
Revenue	47,302	69,251	28,938	46,768	40,240
Secretary of State	4,437	1,131	3,584	3,956	1,936
State Land	1,032	136	0	30	787
State Parks	6,656	29,367	33,162	19,337	38,120
Transportation	1,910,901	2,636,057	3,858,790	4,631,037	5,121,336
Veterans Service	364,500	332,570	554,234	649,622	890,570
Water Resources	207	0	0	0	0
Small Agencies	255,114	299,166	345,382	374,086	471,330
SPS Average	$16,880,129	$39,729,623	$40,752,632	$34,531,718	$42,705,444

Source: The State's financial system (Arizona Financial Information System) accessed via OpenBooks.az.gov, Arizona's official transparency web site provided data for this table. Data is based on a fiscal year after all corrections have been made at the close of the fiscal year. Expenses may be charged to prior "appropriation years" yet in general are illustrated in the year in which the expense occurred. Data includes all funding sources, but does not include expenditures for compensatory time earned for overtime hours worked.

Notes: Notable increases in overtime expenses from the year before were observed at AHCCCS, ASRS, Corrections, Game and Fish, Health Services, and Juvenile Corrections.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

Key Points

- The total overtime expenses of all SPS agencies increased by **24%** from last year.
- **2** agencies account for **71%** of the total overtime expenditures.
- **13** agencies experienced an increase of 25% or more in overtime expenses, **10** of which increased by over 50%.
- **5** agencies experienced a decrease of 25% or more in overtime expenses, including **3** that experienced a decrease of more than 50%.

1.6 – Average Annual Leave Use (days) per Employee by Agency
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014
Administration	15.9	15.2	16.1	15.9	16.1
Agriculture	13.4	14.0	14.3	16.6	16.3
AHCCCS	17.0	16.1	16.0	15.8	15.7
ASRS	16.3	18.9	15.3	16.9	15.3
Attorney General	16.3	15.5	16.5	16.1	15.9
Corporation Commission	16.8	17.5	16.1	15.9	15.4
Corrections	13.9	12.6	13.6	13.9	13.9
Early Childhood	15.1	11.8	14.6	16.0	16.3
Economic Security	15.1	13.1	13.1	13.3	13.5
Education	17.0	14.6	14.0	14.3	13.9
Environmental Quality	17.0	17.7	18.4	16.7	16.7
Forestry	6.1	5.6	6.1	6.2	7.3*
Game & Fish	14.2	13.8	14.3	13.6	14.0
Gaming	17.4	16.2	17.4	17.6	18.9*
Governor's Office	12.1	13.2	14.3	16.0	14.4
Health Services	16.2	15.4	15.3	14.5	14.2
Housing	17.5	14.7	14.7	16.9	15.5
Industrial Commission	16.6	15.7	15.6	15.6	15.1
Insurance	19.4	17.4	16.8	19.9	13.9*
Juvenile Corrections	14.6	13.8	13.9	15.1	14.0
Lottery Commission	15.6	16.6	17.2	15.8	13.9
Military Affairs	16.1	15.5	16.6	16.9	15.6
Nursing	13.1	13.6	13.9	12.3	13.0
Pioneers' Home	12.4	11.9	13.8	12.2	12.5
Registrar of Contractors	16.8	16.7	16.8	15.7	13.8*
Revenue	16.9	14.7	16.7	15.6	16.0
Secretary of State	16.6	17.1	18.1	16.4	16.5
State Land	15.7	14.5	16.1	17.3	16.5
State Parks	15.1	16.0	15.1	14.4	15.2
Transportation	17.0	14.8	15.3	15.2	15.5
Veterans' Services	14.3	12.0	11.9	10.8	12.1
Water Resources	16.4	16.3	16.7	16.1	14.5
Small Agencies	16.4	15.1	15.8	15.8	15.3
SPS Average	**15.2**	**13.8**	**14.2**	**14.3**	**14.3**

Source: HRIS. The above calculations include annual leave taken and annual leave payout for all regular, active SPS employees.

Notes: Forestry experienced a much lower use of leave than the SPS average while Gaming had a higher rate. The Dept of Insurance and Registrar of Contractors experienced a notable reduction from the year before.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

Key Points

- The average annual leave used per State employee over the past 5 years was **14.4** days.
- The average annual leave taken per employee did not increase from the prior year.
- The estimated cost of annual leave (leave taken and leave payout) in FY 2013 was **$2,490** per employee, please see Appendix 5.2.

1.7 – Average Sick Leave Use (days) per Employee by Agency
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014
Administration	7.6	6.7	7.2	6.5	5.9
Agriculture	5.9	7.7	7.2	7.7	6.6
AHCCCS	9.3	8.7	8.5	7.1	7.0
ASRS	7.7	6.3	7.2	7.3	6.3
Attorney General	7.9	8.3	7.7	7.8	6.8
Corporation Commission	10.7	9.7	8.8	8.7	7.2
Corrections	9.6	8.1	8.8	8.6	8.0
Early Childhood	7.9	5.9	6.1	8.1	7.0
Economic Security	10.2	8.9	8.5	8.5	8.0
Education	9.4	8.0	7.1	6.9	6.6
Environmental Quality	10.4	10.0	10.5	8.5	7.6
Forestry	2.8	2.8	3.1	3.1	2.9*
Game & Fish	6.3	6.2	6.4	4.7	4.0
Gaming	8.4	7.4	8.0	7.7	7.3
Governor's Office	4.5	5.2	5.1	5.3	5.3
Health Services	9.8	9.6	9.0	7.8	7.7
Housing	7.6	7.1	6.8	7.5	7.2
Industrial Commission	9.5	8.4	9.6	8.6	7.7
Insurance	8.5	7.4	6.5	6.2	5.2
Juvenile Corrections	9.3	8.7	8.1	9.3	7.5
Lottery Commission	8.8	9.4	9.4	8.4	7.6
Military Affairs	7.7	7.7	7.5	7.5	7.3
Nursing	7.5	6.4	5.9	6.3	5.3
Pioneers' Home	8.0	8.8	10.2	7.8	7.2
Registrar of Contractors	9.4	9.5	10.5	8.7	6.8
Revenue	10.8	8.8	9.7	8.6	8.3
Secretary of State	9.0	9.3	9.6	8.1	7.6
State Land	9.8	8.3	7.5	7.9	6.4
State Parks	8.1	6.6	7.1	6.1	5.3
Transportation	10.2	8.6	8.6	8.4	8.3
Veterans' Services	8.2	8.1	7.2	6.5	8.0
Water Resources	7.7	7.0	6.9	6.8	6.5
Small Agencies	7.2	6.9	7.1	7.1	6.5
SPS Average	**9.5**	**8.4**	**8.5**	**8.2**	**7.7**

Source: HRIS. In addition to sick leave, the above calculations include donated leave and family leave for all regular, active SPS employees.

Notes: One agency had much lower than average use of sick leave; Forestry was 62% less than the SPS average.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

Key Points

- The average sick leave used per State employee over the past 5 years was **8.4** days.
- The average sick leave taken per employee decreased by **5.8%** last year and by **19.2%** since FY 2010.
- The estimated productivity loss from sick leave in FY 2014 was **$1,235** per employee, a **3.3%** decrease from FY 2013, please see Appendix 5.3.

1.8 – Ratio of Total State Payroll to State Population
Payroll Dollars per Resident – 2012

Source: U.S. Census Bureau, Governments Division. March 2012, the most current information available. Population data estimate for July 2012. Data collected by the U.S. Census Bureau includes higher education, police protection, judicial and legal functions within State government, whereas the majority of the tables and charts in the Workforce Report are limited to the agencies within the State Personnel System.

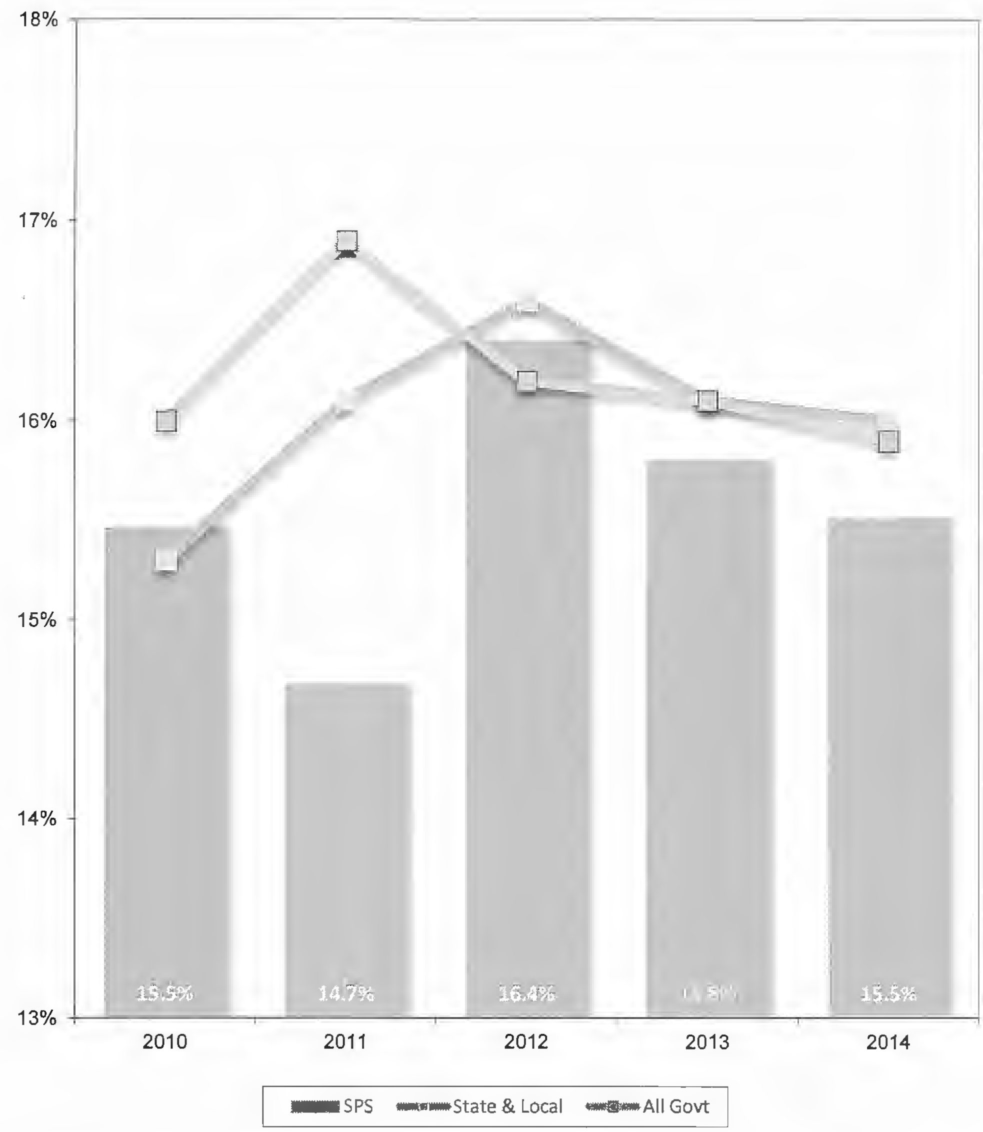
Key Points

- Of the Western States, Arizona continues to have the lowest ratio of State payroll compared to the overall population of the State.
- Arizona remained **49th** when comparing State payroll to State population in 2012. Arizona has held this ranking since 2000.
- For the list of all states by their payroll to population ratio, please see Appendix 5.4.

2 Employee Turnover

- Turnover Rates: SPS Compared to Benchmarks
- Turnover Rates by Type of Separation
- Turnover Rates by Agency and Type of Separation
- Turnover Rates by Agency
- Job Titles with Highest Turnover Rates
- Turnover Rates by Age
- Turnover Rates by Length of Service
- Percentage of Separations Due to Retirement
- Employees Meeting Retirement Criteria

2.1 – Turnover Rates: SPS Compared to Benchmarks
Fiscal Year 2010 – 2014

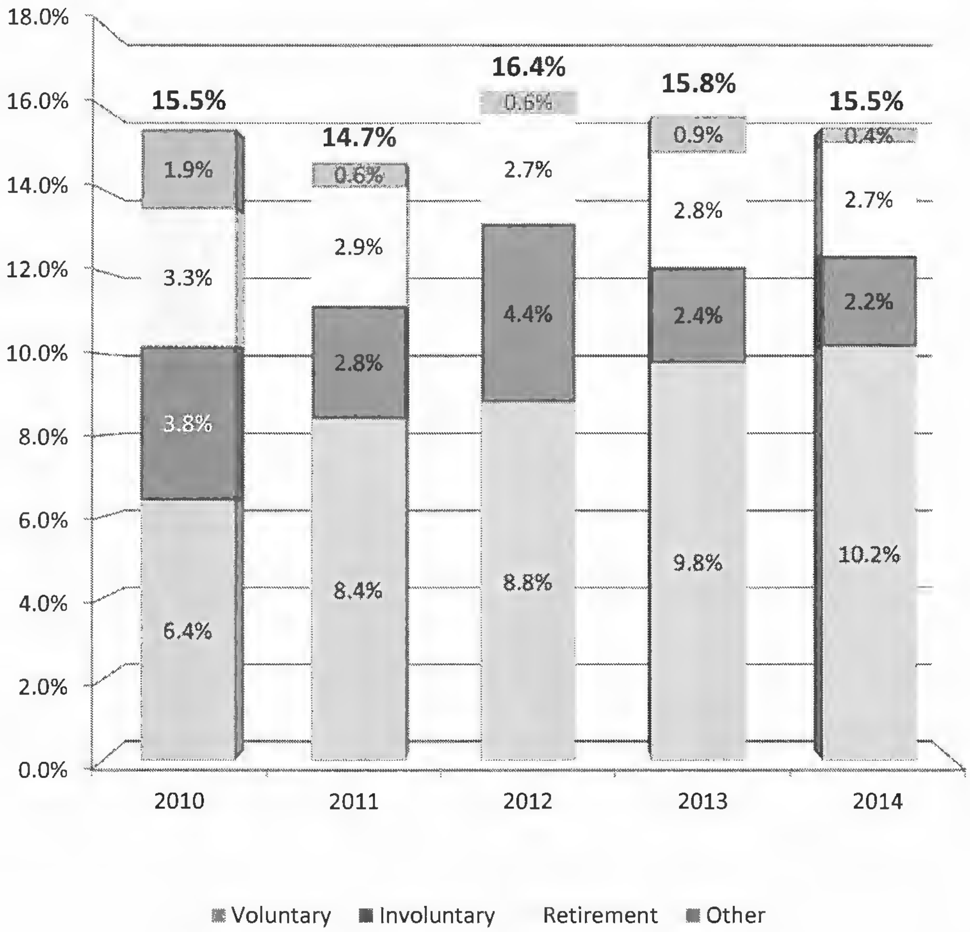


Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations. Comparative data from the Bureau of Labor Statistics, U.S. Department of Labor, seasonally adjusted turnover rates. State and Local includes state and local government entities in the 50 states and the District of Columbia. All Government includes federal, state, and local government entities in the 50 states and the District of Columbia.

Key Points

- Over the past 5 years, SPS had an average annual turnover rate of 15.6%, which was lower than the average annual rates for state and local governments (16.0%) and all government entities (16.2%) nationwide.
- For the third time in the past 5 years, SPS experienced a lower rate of turnover in FY 2014 than both state and local governments and all government entities nationwide.

2.2 – Turnover Rates by Type of Separation
Fiscal Year 2010 – 2014



Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

Key Points

- The 5-year average SPS employee turnover rate is **15.6%.**
- The employee turnover rate decreased by **0.3%** last year.
- Involuntary separations decreased from **4.4%** in FY12 to **2.2%** in FY14; a **49.4%** decrease.
- Voluntary separations remained the leading category of separations in FY 2014, increasing by **56.9%** over the past 5 years.

2.3 – Turnover Rates by Agency and Type of Separation
Fiscal Year 2014

Agency	Voluntary	Involuntary	Retirement	Other	Total
Administration	7.6%	0.9%	3.2%	0.4%	**12.1%**
Agriculture	9.0%	8.5%	4.5%	6.0%	**27.9%***
AHCCCS	7.3%	3.7%	3.2%	0.5%	**14.7%**
ASRS	6.1%	4.4%	0.4%	0.0%	**11.0%**
Attorney General	6.1%	0.7%	2.3%	0.3%	**9.4%**
Corporation Commission	7.9%	1.6%	4.0%	0.0%	**13.5%**
Corrections	9.6%	2.6%	2.3%	0.2%	**14.7%**
Early Childhood	6.9%	1.4%	1.4%	0.7%	**10.4%**
Economic Security	13.1%	1.4%	2.9%	0.2%	**17.6%**
Education	11.0%	0.4%	2.4%	0.7%	**14.5%**
Environmental Quality	4.7%	4.1%	4.3%	0.0%	**13.1%**
Forestry	18.0%	0.8%	2.4%	0.0%	**21.2%**
Game & Fish	6.1%	0.5%	3.6%	0.5%	**10.7%**
Gaming	5.0%	2.0%	2.0%	0.0%	**9.0%**
Governor's Office	18.0%	2.4%	1.6%	0.0%	**22.0%**
Health Services	10.9%	3.7%	3.6%	0.1%	**18.4%**
Housing	10.4%	0.0%	1.7%	0.0%	**12.2%**
Industrial Commission	8.1%	1.7%	2.5%	0.0%	**12.3%**
Insurance	4.3%	0.0%	6.5%	1.1%	**12.0%***
Juvenile Corrections	17.0%	4.6%	1.4%	0.2%	**23.1%***
Lottery Commission	10.4%	1.2%	3.5%	0.0%	**15.0%**
Military Affairs	11.7%	8.1%	2.4%	0.4%	**22.7%***
Nursing	12.5%	0.0%	5.4%	0.0%	**17.9%**
Pioneers' Home	20.7%	2.3%	2.3%	1.1%	**26.4%***
Registrar of Contractors	14.6%	5.6%	2.2%	0.0%	**22.5%***
Revenue	7.4%	1.8%	5.6%	0.3%	**15.0%**
Secretary of State	10.0%	0.7%	2.9%	0.0%	**13.6%**
State Land	5.3%	2.7%	4.4%	1.8%	**14.2%**
State Parks	4.2%	0.6%	5.4%	6.6%	**16.9%***
Transportation	6.4%	1.5%	2.6%	1.0%	**11.5%**
Veterans' Services	16.7%	5.8%	1.6%	0.3%	**24.4%***
Water Resources	6.9%	0.0%	1.7%	0.0%	**8.7%**
Small Agencies	9.1%	3.5%	1.6%	0.4%	14.6%
SPS Average	**10.1%**	**2.2%**	**2.7%**	**0.5%**	**15.5%**

Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

Key Points

- Voluntary separations accounted for approximately 66% of separations of SPS employees this past year.
- Agencies with higher annual turnover rates generally have high levels of voluntary separations or "other" separations, which are primarily limited appointments.

2.4 – Turnover Rates by Agency
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014
Administration	17.4%	12.6%	11.8%	11.8%	12.1%
Agriculture	29.0%	30.4%	28.4%	25.3%	27.9%
AHCCCS	22.3%	12.3%	15.0%	13.4%	14.7%
ASRS	9.7%	16.9%	16.0%	17.8%	11.0%
Attorney General	15.0%	15.8%	14.1%	13.9%	9.4%
Corporation Commission	7.3%	6.1%	12.4%	9.9%	13.5%*
Corrections	12.4%	12.5%	17.5%	13.1%	14.7%
Early Childhood	17.8%	20.7%	15.2%	18.8%	10.4%
Economic Security	14.9%	16.5%	16.7%	20.4%	17.6%
Education	16.2%	15.8%	16.2%	17.0%	14.5%
Environmental Quality	14.6%	9.5%	9.1%	10.8%	13.1%
Forestry	17.2%	26.9%	16.6%	16.1%	21.2%
Game & Fish	7.3%	8.0%	9.6%	9.3%	10.7%
Gaming	11.8%	8.8%	11.5%	12.6%	9.0%
Governor's Office	30.9%	20.3%	19.1%	22.6%	22.0%
Health Services	14.4%	17.4%	20.2%	19.8%	18.4%
Housing	17.5%	22.2%	27.3%	12.4%	12.2%
Industrial Commission	7.0%	15.6%	8.4%	16.7%	12.3%
Insurance	5.2%	12.9%	13.0%	6.5%	12.0%*
Juvenile Corrections	47.4%	23.2%	28.7%	19.7%	23.1%
Lottery Commission	8.6%	7.6%	16.7%	11.6%	15.0%
Military Affairs	11.8%	16.6%	21.1%	14.4%	22.7%*
Nursing	14.7%	16.7%	18.0%	23.2%	17.9%
Pioneers' Home	20.0%	21.9%	21.5%	32.0%	26.4%
Registrar of Contractors	14.6%	6.9%	19.7%	11.2%	22.5%*
Revenue	13.5%	18.0%	15.2%	14.2%	15.0%
Secretary of State	12.0%	11.3%	13.0%	11.6%	13.6%
State Land	10.9%	8.4%	16.3%	9.7%	14.2%
State Parks	38.8%	19.8%	17.9%	17.7%	16.9%
Transportation	12.6%	10.7%	12.3%	12.2%	11.5%
Veterans' Services	25.7%	30.1%	25.4%	26.8%	24.4%
Water Resources	72.4%	17.4%	10.1%	7.5%	8.7%*
Small Agencies	19.3%	21.3%	14.0%	13.0%	14.6%
SPS Average	15.5%	14.7%	16.4%	15.8%	15.5%

Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

* Additional information for selected agencies is included in the Notes section beginning on page 47.

Key Points

- **15** agencies experienced decreased turnover rates in FY 2014; **5** agencies observed a decrease of more than 25%.
- **17** agencies, as well as the average of all small agencies, experienced an increase in turnover rates from last year, **7** of which observed an increase of more than 25%.
- **8** agencies had turnover rates greater than 20%.

2.5 – Job Titles with Highest Turnover Rates
Fiscal Year 2014

Job Title	Turnover Rate
Corrections Officer I	73.8%
Motor Vehicle Division Customer Service Associate	51.2%
Psychiatric Nurse II	40.5%
Habilitation Technician II	39.6%
Youth Corrections Officer I	39.5%
Program Services Evaluator I	36.1%
Mental Health Program Specialist III	31.4%
Child Protective Services Specialist II	29.2%
Firefighter Group Member	29.0%
Child Protective Services Specialist I	28.5%
Nursing Assistant	26.4%
Collector III	26.2%
ASH Security Officer I	25.7%
Federal & State Licensing Surveyor	24.5%
Industrial Program Specialist	23.6%
Special Investigator	23.5%
Environmental Program Specialist	22.2%
Fiscal Services Specialist I	22.1%
Human Services Specialist II	22.0%
Administrative Assistant I	21.6%
Highway Operations Worker	21.5%
Child Protective Services Specialist III	21.4%
Child Protective Services Case Aide II	18.9%
Revenue Field Auditor III	18.9%
Health Program Manager I	18.7%
Administrative Secretary I	18.7%
Program Services Evaluator II	18.6%
Human Services Worker II	18.5%
Enforcement & Compliance Officer/Full Authority	18.5%
Human Services Specialist III	18.3%

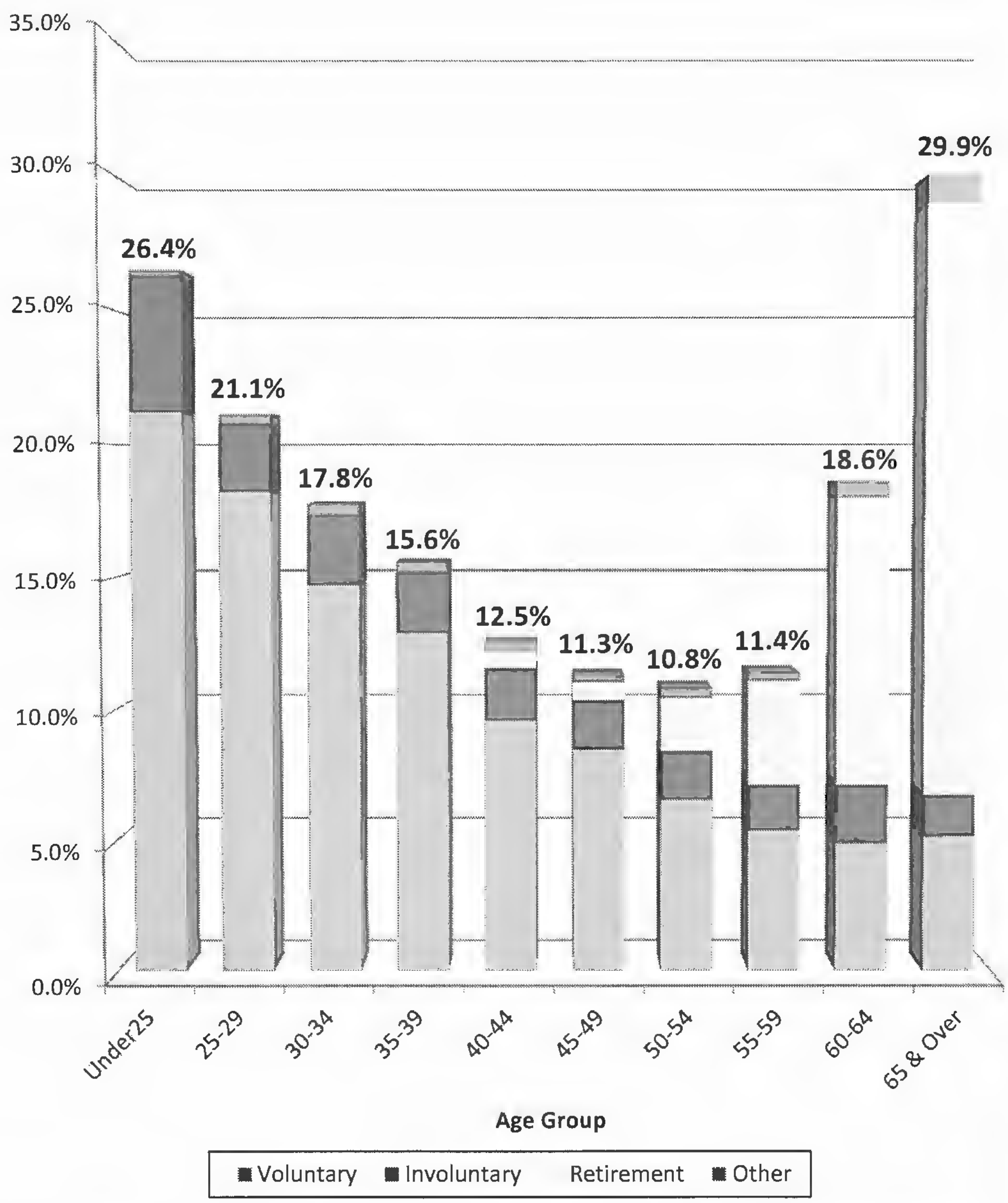
Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations. Only classifications with at least 50 filled positions at the beginning of the fiscal year are listed in this table.

Notes: The Corrections Officer I classification is a training position used by the Department of Corrections when newly hired employees do not have certified Correctional Officer training. These positions are required to attend extensive training at the Arizona Law Enforcement Training Academy. At the successful conclusion of this training, the employees are moved into Correctional Officer II positions and assume the full duties and responsibilities of a Correctional Officer. This job movement from a Correctional Officer I to a Correctional Officer II is not considered turnover, but is categorized as a promotion. Turnover only includes separations from the State.

Key Points

- Classifications related to health and social services, (e.g. Child Protective Services Program Services Evaluators, Mental Health Program Specialists), have some of the highest turnover rates, which has also been true historically.
- Correctional Officer positions (Adult and Youth) also experienced high turnover, which has also been a recurring pattern.

2.6 – Turnover Rates by Age
Fiscal Year 2014

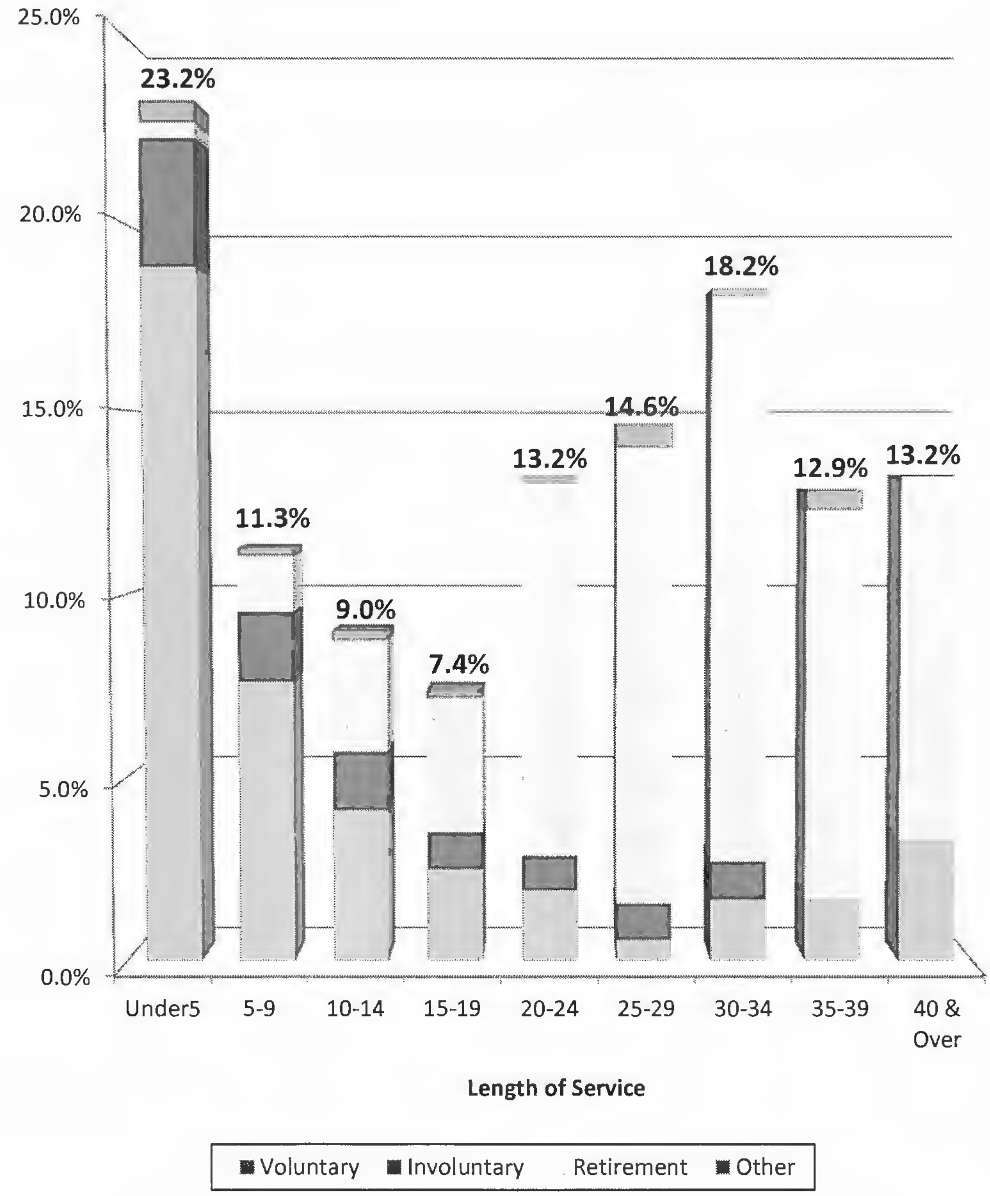


Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

Key Points

- Turnover rates were highest for the employee population under the age of 35 and over the age of 60.
- The turnover rate generally decreases as the average age increases until employees reach the common retirement years, when the turnover rate begins to rise again.
- The relative percentage of voluntary separations decreases with increasing age, while the relative percentage of separations due to retirements increases.

2.7 – Turnover Rates by Length of Service
Fiscal Year 2014

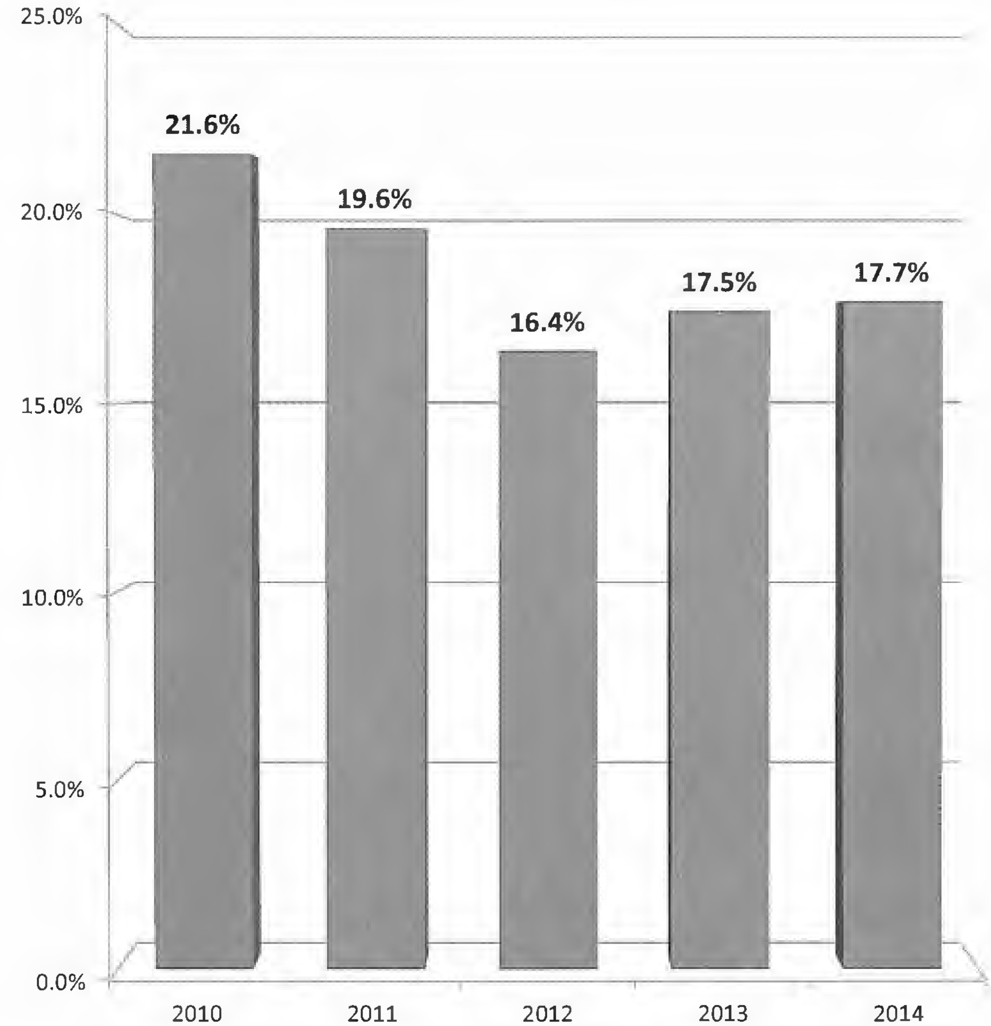


Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

Key Points

- Turnover rates were highest for employees with less than 5 years of service, as well as those with 30 to 34 years of service.
- The turnover rate was lowest for employees with 15 to 19 years of service.
- As anticipated, the relative percentage of voluntary separations decreases with increasing length of service, while the relative percentage of separations due to retirements increases with longer service time.

2.8 – Percentage of Separations Due to Retirement
Fiscal Year 2010 – 2014



Source: HRIS. Data represents separations of all regular, active SPS employees from SPS during the fiscal year (July 1 – June 30). Inter- and intra-agency transfers are not counted as turnover provided the agency is within SPS. Similarly, promotions and job changes are not included in turnover calculations.

Key Points

- Over the past 5 years, the average percentage of separations due to retirement is **18.5%**.
- Retirements as a percentage of separations increased by **0.2%** last year.

2.9 – Employees Meeting Retirement Criteria
Fiscal Year 2015 – 2019 (Projected)

Agency	2015	2016	2017	2018	2019
Administration	18.3%	21.5%	25.5%	28.7%	32.9%
Agriculture	17.9%	23.7%	26.8%	31.6%	38.4%
AHCCCS	17.0%	20.3%	24.1%	28.1%	33.0%
ASRS	14.4%	16.5%	20.3%	22.0%	25.8%
Attorney General	18.7%	21.4%	23.3%	27.1%	30.7%
Corporation Commission	19.5%	22.7%	25.4%	30.1%	35.2%
Corrections	9.6%	12.0%	14.9%	17.7%	21.3%
Early Childhood	4.7%	8.0%	10.7%	12.0%	16.0%
Economic Security	13.3%	15.9%	18.6%	22.0%	25.3%
Education	16.4%	19.7%	21.7%	24.4%	26.9%
Environmental Quality	22.6%	27.5%	33.2%	37.1%	41.1%
Forestry	16.5%	22.8%	25.2%	29.9%	32.3%
Game & Fish	17.9%	21.1%	25.2%	27.4%	32.5%
Gaming	21.6%	25.8%	32.0%	38.1%	42.3%
Governor's Office	14.8%	16.4%	19.7%	21.3%	23.0%
Health Services	17.0%	20.3%	23.5%	26.6%	30.4%
Housing	6.9%	10.3%	13.8%	20.7%	22.4%
Industrial Commission	23.6%	27.0%	31.2%	36.7%	41.4%
Insurance	27.2%	28.3%	29.3%	34.8%	38.0%
Juvenile Corrections	11.3%	15.5%	19.5%	22.0%	25.5%
Lottery Commission	19.3%	21.6%	25.0%	30.7%	39.8%
Military Affairs	17.0%	19.1%	22.8%	25.8%	28.6%
Nursing	21.1%	21.1%	22.8%	29.8%	36.8%
Pioneers Home	12.2%	14.4%	21.1%	24.4%	27.8%
Registrar of Contractors	28.3%	30.4%	35.9%	40.2%	44.6%
Revenue	23.0%	27.2%	31.6%	34.7%	39.0%
Secretary of State	15.7%	18.6%	22.1%	25.7%	28.6%
State Land	27.0%	31.3%	34.8%	35.7%	38.3%
State Parks	24.3%	26.6%	30.2%	35.5%	40.8%
Transportation	16.9%	20.2%	23.8%	26.9%	30.7%
Veterans' Services	8.3%	9.4%	11.0%	13.9%	15.8%
Water Resources	19.8%	23.1%	27.3%	28.1%	30.6%
Small Agencies	20.5%	23.2%	28.1%	31.4%	35.3%
SPS Average	**14.2%**	**17.0%**	**20.2%**	**23.3%**	**27.0%**

Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30). Projected rates of employees that meet criteria for retirement are based on years of service and age criteria for the Arizona State Retirement System (ASRS) and Public Safety Personnel Retirement System (PSPRS). Employees may have "purchased" credited service in other organizations resulting in an earlier eligibility date than that which was calculated. In some instances, HRIS reports more years of service (based on hire date) than the actual ASRS or PSPRS credited service. Additionally, some employees have already retired and returned to the workforce. Return-to-work retirees, as well as employees who do not participate in ASRS or PSPRS and are age 65 or older, are considered meeting criteria for retirement. Therefore, actual ASRS and PSPRS retirement rates will differ from the numbers above.

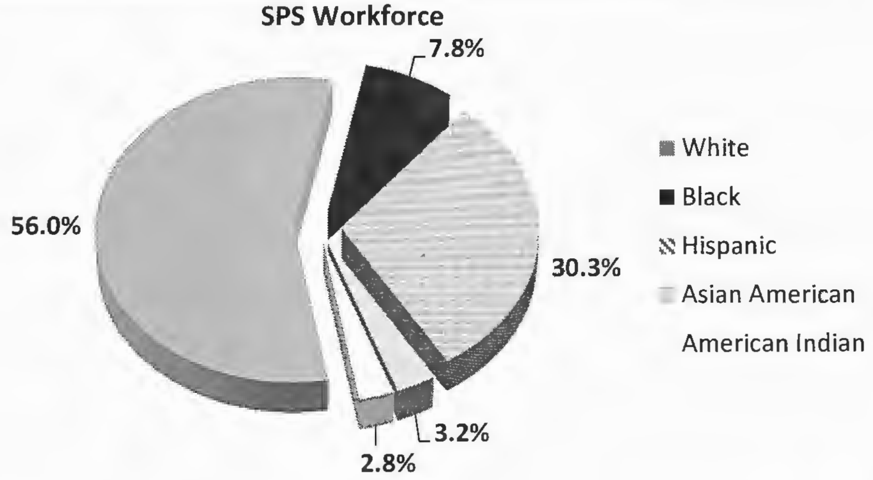
Key Points

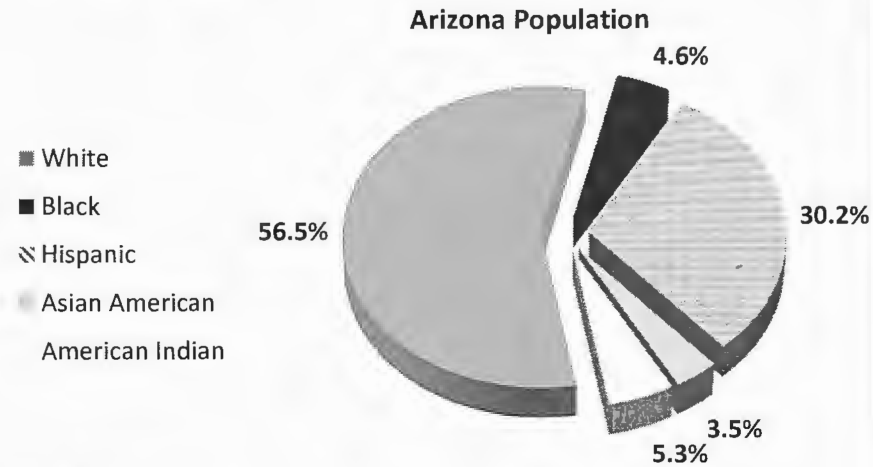
- **3** agencies are projected to have at least 25% of their active employees meet criteria for retirement in FY 2015.
- **27** agencies (84% of the agencies listed) are projected to have at least 25% of their active employees meet criteria for retirement in FY 2019.
- **12** agencies (38%) are projected to have one-third of their employees meet criteria for retirement in FY 2019.
- **5** agencies are anticipated to have over 40% of their current workforce meet criteria to retire in 5 years.

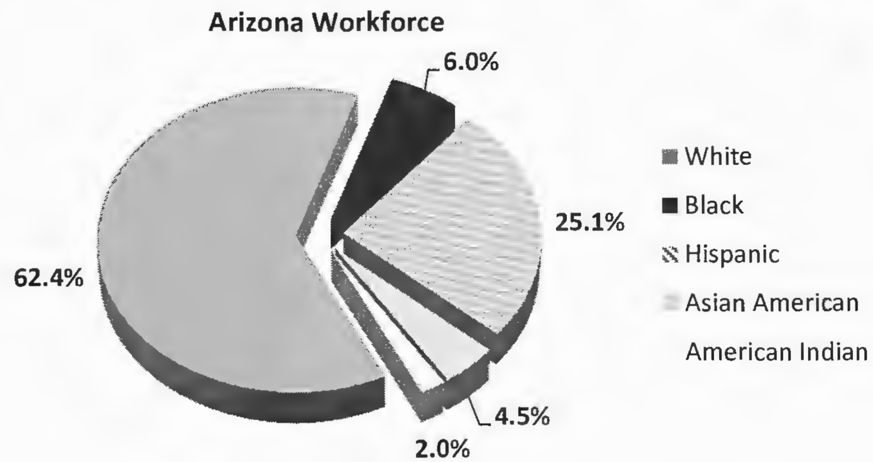
3 Equal Employment Opportunity

- Ethnic Composition of the SPS Workforce Compared to the Arizona Population and the Arizona Workforce
- Ethnic Composition by Agency
- Gender Composition of the SPS Workforce Compared to the Arizona Population and the Arizona Workforce
- Gender Representation by Agency
- Ethnic and Gender Composition of the SPS Workforce
- Distribution of SPS Employees by Occupational Group

3.1 – Ethnic Composition of the SPS Workforce Compared to the Arizona Population and the Arizona Workforce
Fiscal Year 2014





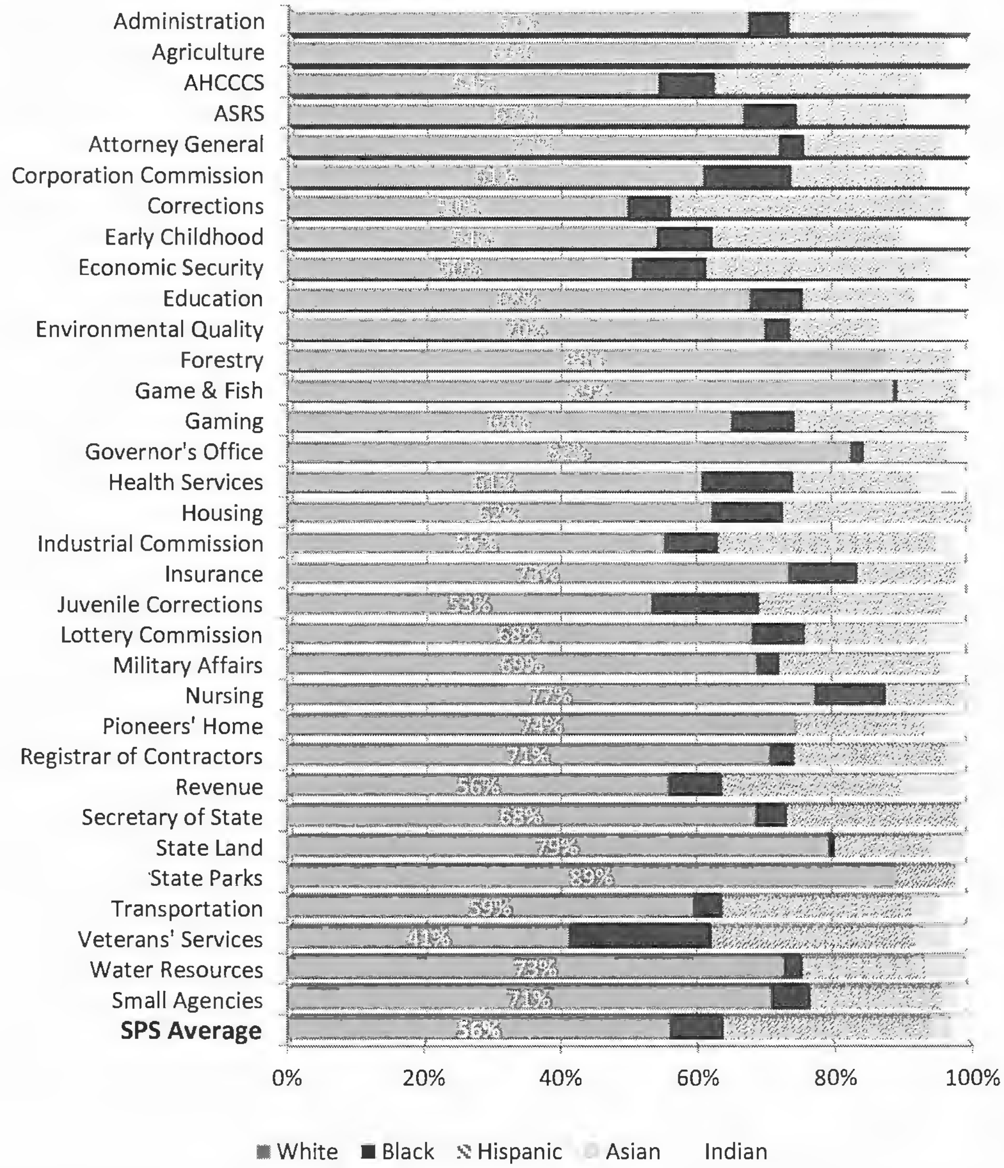


Source: The SPS Workforce chart includes HRIS data for all regular, active SPS employees at fiscal year-end (June 30). The Arizona Population chart from the U.S. Census Bureau; State and County QuickFacts Last Revised 7/8/2014. Arizona Workforce chart includes data from the U.S. Equal Employment Opportunity Commission 2012 EEO-1 Report. Percentages are based upon employees responding – a small percentage of employees choose not to disclose their ethnicity.

Key Points

- The majority of the SPS workforce (86.3%) was comprised of the White and Hispanic ethnic groups in FY 2014.
- Overall, the ethnic composition of the SPS agencies closely resembles the composition of the Arizona workforce as a whole.

3.2 – Ethnic Composition by Agency
Fiscal Year 2014



Source: HRIS. Data represents all regular, active SPS employees at fiscal year-end (June 30). Percentages are based upon employees who identified their ethnicity – a small percentage of employees choose not to disclose this information.

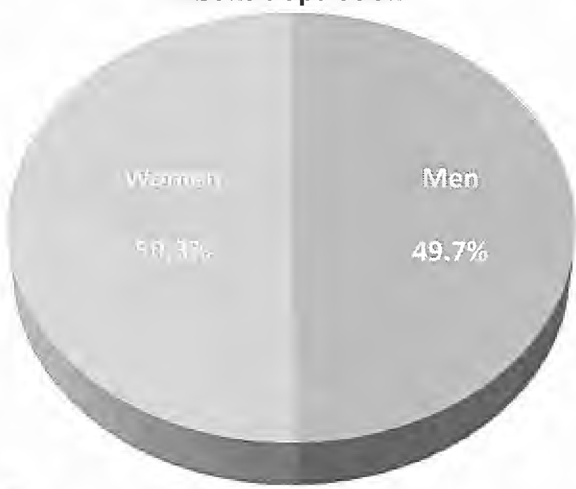
Key Points

- **44%** of the SPS workforce was represented by minority ethnic groups.
- **9** agencies had a minority population that was greater than or equal to 40% of their total employee population.

3.3 – Gender Composition of the SPS Workforce Compared to Arizona the Arizona Population and the Arizona Workforce
Fiscal Year 2014

SPS Workforce

Arizona Population



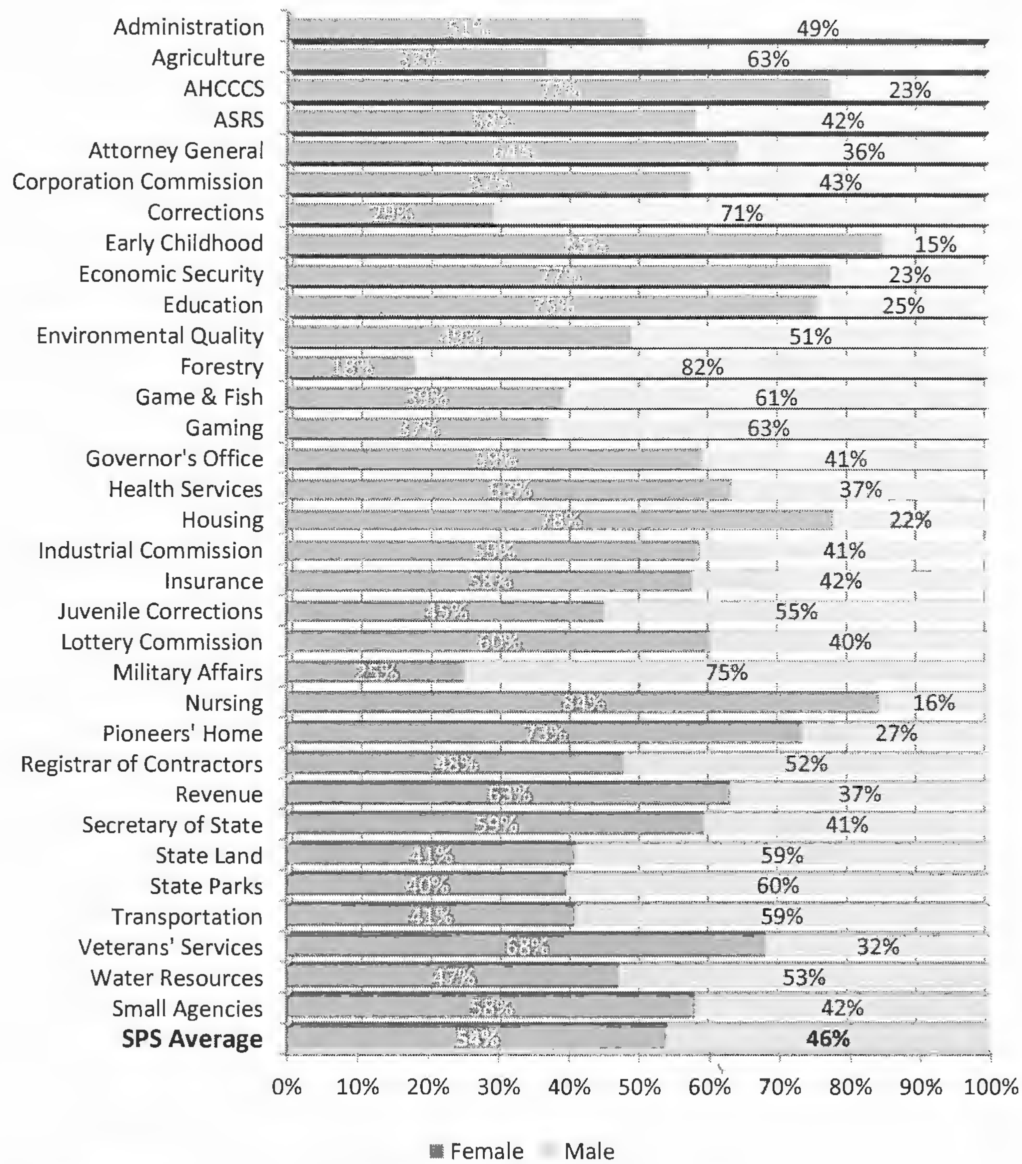
Arizona Workforce

Source: The SPS Workforce chart includes HRIS data for all regular, active SPS employees at fiscal year-end (June 30). The Arizona Population chart from the U.S. Census Bureau; State and County QuickFacts Last Revised 7/8/2014. Arizona Workforce chart includes data from the U.S. Equal Employment Opportunity Commission 2012 EEO-1 Report.

Key Points

- The majority of the SPS workforce (53.9%) was comprised of females in FY 2014.
- SPS agencies employ a higher percentage of females than the Arizona workforce as a whole.

3.4 – Gender Representation by Agency
Fiscal Year 2014

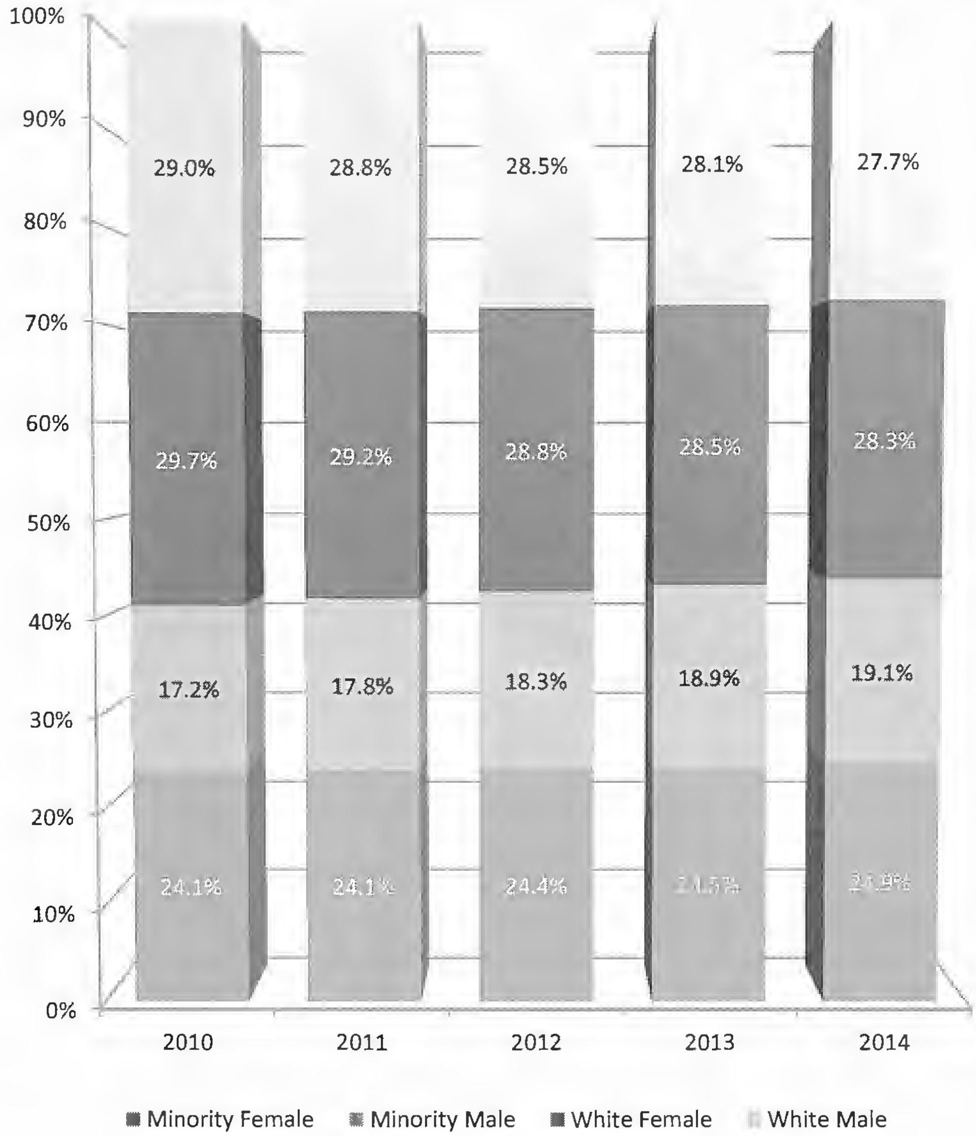


Source: HRIS. Data represents all regular, active SPS employees at fiscal year-end (June 30).

Key Points

- **54%** of the SPS workforce was female in FY 2014.
- **20** agencies, as well as the average of all small SPS agencies, had a workforce in which females were in the majority.

3.5 – Ethnic and Gender Composition of the SPS Workforce
Fiscal Year 2010 – 2014

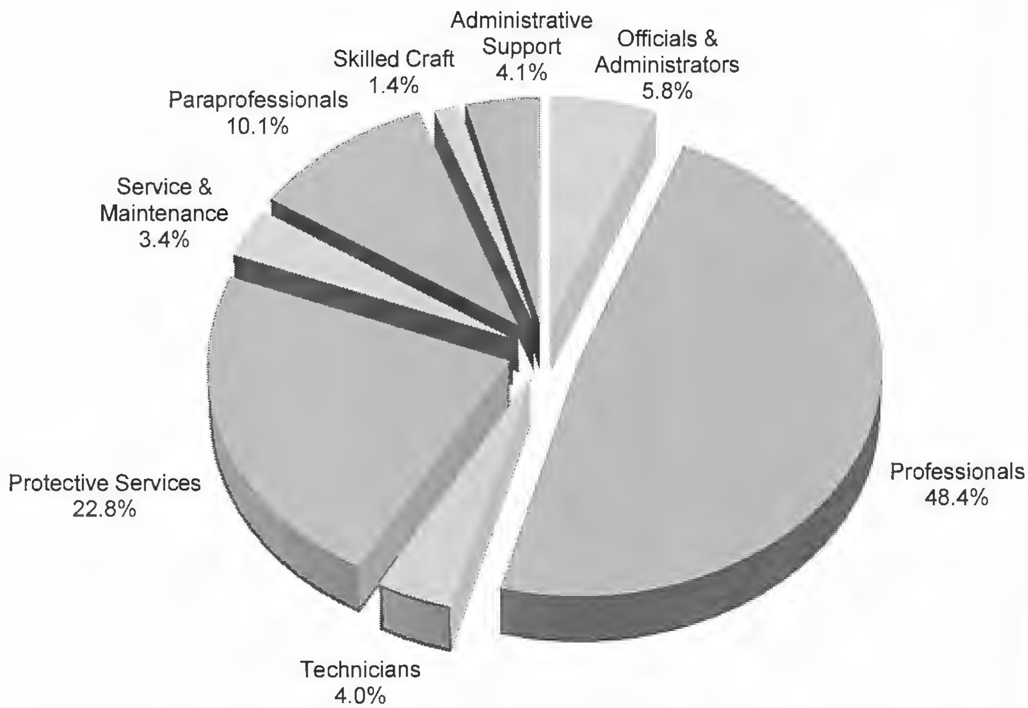


Source: HRIS. Data represents all regular, active SPS employees at fiscal year-end (June 30). Percentages are based upon employees who identified their ethnicity – a small percentage of employees choose not to disclose this information.

Key Points

- Minority employees as a proportion of the SPS population increased by **2.7%** from FY 2010 to FY 2014, increasing on average by **0.69%** year to year.
- The proportion of minority females grew by **0.8%** over the 5 year period, while the proportion of minority males grew by **1.9%.**

3.6 – Distribution of SPS Employees by Occupational Group
Fiscal Year 2014



Source: HRIS. Data represents all regular, active SPS employees at fiscal year-end (June 30). Categories are based upon the Equal Employment Opportunity Commission's Occupational Categories for State and Local Government (EEO-4).

Key Points

- In FY 2013, the largest percentage (**48.4%**) of SPS employees worked in positions categorized as Professional.
- Skilled craft (**1.4%**) and service workers (**3.4%**) encompassed the smallest percentage of SPS employees.

4 Workforce Characteristics

- SPS Employees by Agency
- Age Distribution of SPS Employees
- Length of Service Distribution of SPS Employees
- State Government Employees per 10,000 Residents
- SPS Employees by County

4.1 – SPS Employees by Agency
Fiscal Year 2010 – 2014

Agency	2010[1]	2011	2012	2013	2014
Administration	544	536	528	544	568
Agriculture	313	266	256	211	190*
AHCCCS	912	915	957	940	946
ASRS	216	221	230	220	236
Attorney General	556	572	577	587	631
Corporation Commission	265	260	256	249	256
Corrections	9,285	9,676	9,871	9,196	9,069
Early Childhood	123	138	138	138	150
Economic Security	8,982	9,241	9,625	9,600	10,178
Education	491	496	526	519	554
Environmental Quality	553	502	468	474	455
Forestry	143	132	133	128	127
Game & Fish	582	594	596	585	588
Gaming	99	105	104	102	97
Governor's Office	125	170	133	133	122
Health Services	1,699	1,656	1,563	1,593	1,586
Housing	54	54	56	57	58
Industrial Commission	242	232	245	234	237
Insurance	96	90	94	92	92
Juvenile Corrections	674	656	611	568	573
Lottery Commission	92	92	88	85	88
Military Affairs	522	515	482	478	430*
Nursing	54	54	57	55	57
Pioneers' Home	91	92	85	84	90
Registrar of Contractors	103	101	92	86	92
Revenue	701	779	711	738	703
Secretary of State[2]	145	139	138	139	140
State Land	121	118	115	111	115
State Parks	192	171	164	163	169
Transportation	3,924	4,084	4,059	4,174	4,208
Veterans' Services	258	253	314	380	373
Water Resources	101	94	104	110	121*
Small Agencies	955	902	847	848	862
SPS Average	**33,213**	**33,906**	**34,223**	**33,621**	**34,161**

Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

Notes: Notable changes in headcount from the year before were observed at Agriculture, Military Affairs, and Water Resources.

* Additional information for selected agencies is included in the Notes section beginning on page 47

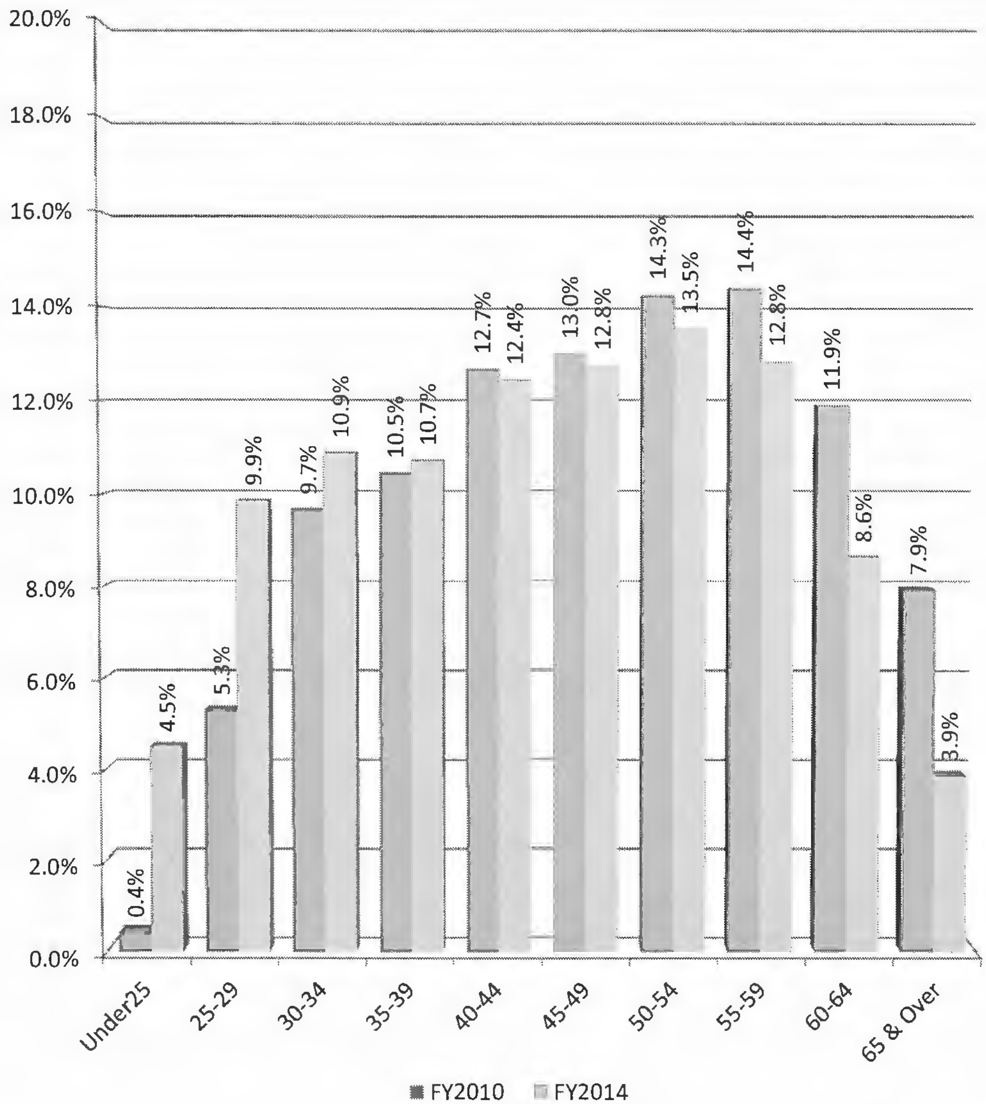
[1] As reflected in this table, several agencies experienced staff reductions in FY 2010.

[2] Laws 2009, Chapter 114 transferred the functions and employees of the Arizona State Library, Archives and Public Records to the Secretary of State in FY2010.

Key Points

- The 5-year average SPS employee population is **33,825**.
- The SPS employee population increased by **1.6%** last year and by **2.9%** since FY 2010.
- **2** agencies experienced a staffing level decrease of at least 10% from the prior year.
- **One** agency experienced a staffing level decrease of 20% or more since FY 2010.
- The Department of Veterans' Services experienced a staffing level increase of 45% over the past 5 years due to the opening of a new Veterans Home in Tucson.

4.2 – Age Distribution of SPS Employees
Fiscal Year 2010 and Fiscal Year 2014



Age Group

Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

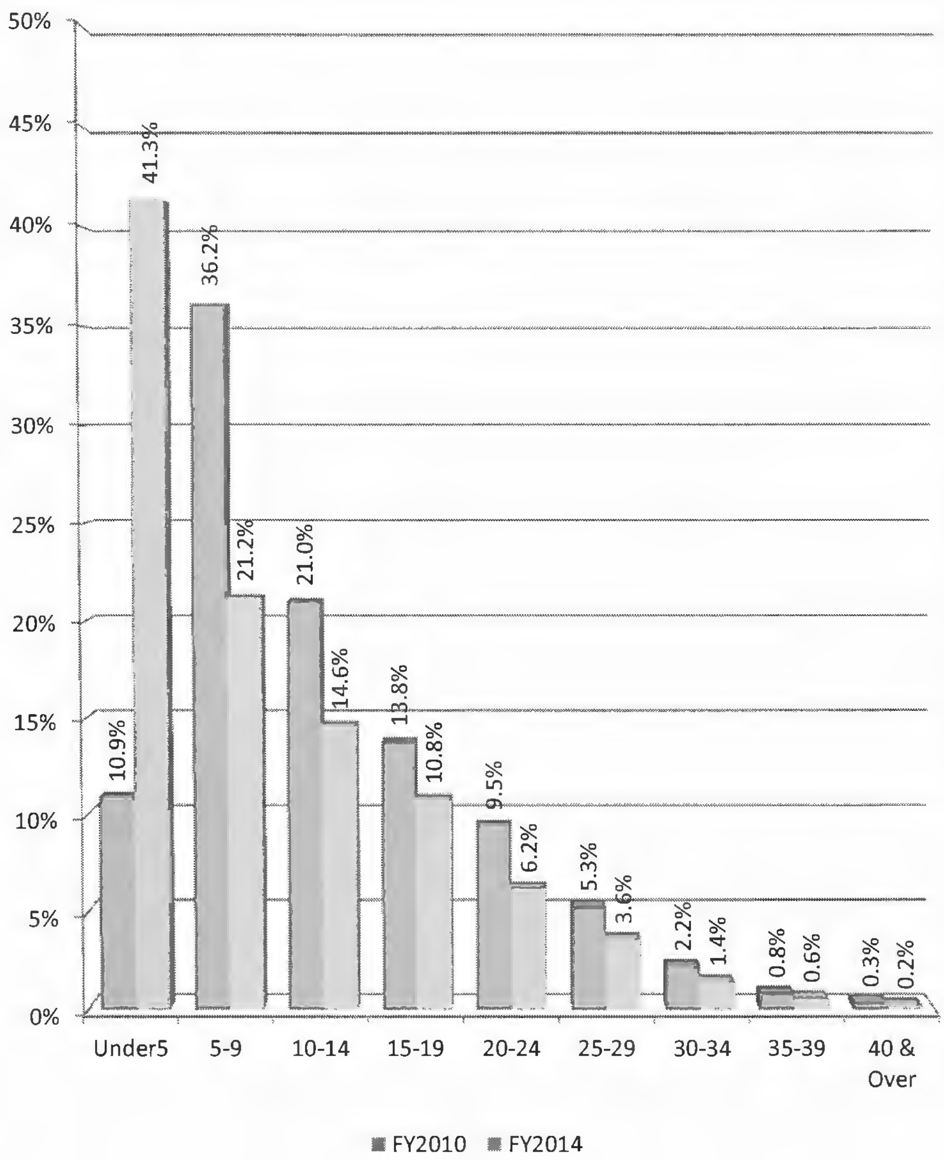
Key Points

- The following table represents the average age of SPS employees in each of the past 5 years.

Fiscal Year	Avg. Age
2010	48.9
2011	45.6
2012	45.5
2013	45.4
2014	45.2

- Compared to FY 2010, the employee population under age 35 has increased by **69%**.
- Compared to FY 2010, the employee population between 35 and 55 years of age increased by 0.9%.
- The number of employees in the "Over 65" age group decreased by 49.9% compared by 2010.

4.3 – Length of Service Distribution of SPS Employees
Fiscal Year 2010 and Fiscal Year 2014



Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

Key Points

- The following table represents the average length of service (LOS) of SPS employees in each of the past 5 years.

Fiscal Year	LOS
2010	12.8
2011	9.6
2012	9.5
2013	9.5
2014	9.3

- The population of employees with less than 5 years of service has increased by 289% since FY 2010.

- Compared to FY 2010, the employee population with 5 to 9 years of service decreased by 40%.

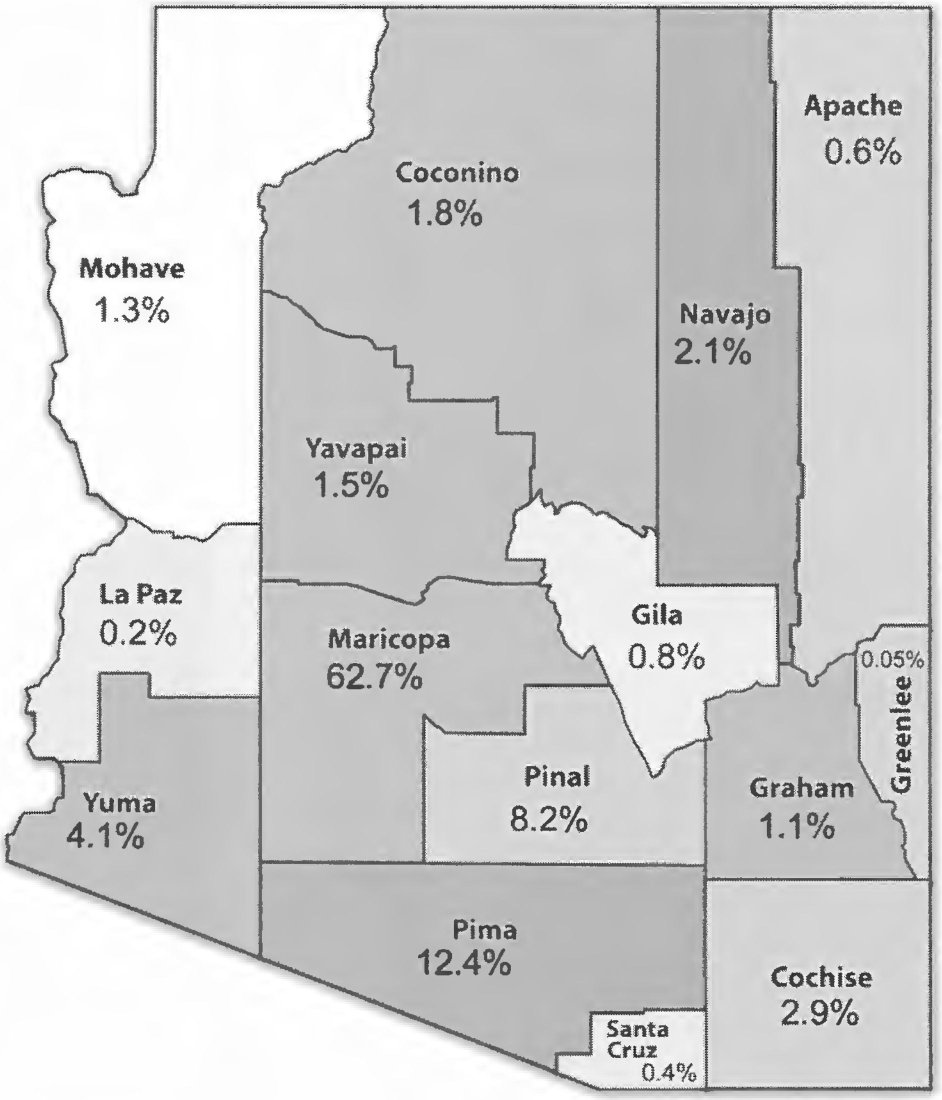
4.4 – State Government Employees Per 10,000 Residents

Source: U.S. Census Bureau, Governments Division. March 2012, the most current information available. Population data estimate for July 2012. Data collected by the U.S. Census Bureau includes higher education, police protection, judicial and legal functions within State government, whereas the majority of the tables and charts in the Workforce Report are limited to the agencies within the State Personnel System.

Key Points

- Arizona ranks **9th** out of the 11 continental Western states in the ratio of full-time equivalent (FTE) state employees compared to the overall population of each state.
- Arizona's ratio of FTEs per 10,000 residents decreased by **14.2%** since 2002, compared to the national average decrease of **4.6%**.
- Arizona ranked **46th** among all states when comparing FTEs to population.
- For the list of states by their FTEs to population ratio, please see Appendix 5.5.

4.5 – SPS Employees by County
FY 2014



Source: HRIS. Data includes all regular, active SPS employees at fiscal year-end (June 30).

Key Points

- The majority of SPS employees work in Maricopa County, followed by Pima and Pinal counties. These three counties account for over 83% of all SPS employees.

5 Appendix

- Age and Length of Service Salary Matrix
- Average Annual Leave Use and Costs
- Average Sick Leave Use and Costs
- Rank Order of All States by Ratio of Total State Payroll to State Population
- Rank Order of All States by State Government Employees per 10,000 Residents
- Agency Statistics
- Notes

5.1 – Age and Length of Service Salary Matrix

Fiscal Year 2014

		Length of Service									
		Under 5	5-9	10-14	15-19	20-24	25-29	30-34	35-39	Over 40	Total
Age	Under 25	1,515	15								**1,530**
		$32,144	$31,025								**$32,134**
	25-29	2,856	499	12							**3,367**
		$36,038	$38,009	$36,931							**$36,334**
	30-34	2,097	1,215	386	19						**3,717**
		$39,037	$41,647	$41,618	$45,034						**$40,189**
	35-39	1,602	1,022	764	265	8					**3,661**
		$41,260	$44,273	$45,257	$45,183	$48,481					**$43,235**
	40-44	1,508	1,024	824	707	180	8				**4,251**
		$41,986	$44,949	$45,064	$48,205	$47,392	$62,448				**$44,598**
	45-49	1,379	888	710	754	457	163	9			**4,360**
		$43,549	$44,988	$45,942	$46,814	$51,686	$52,033	$45,042			**$45,969**
	50-54	1,261	876	763	705	525	380	108	3		**4,621**
		$42,906	$45,978	$44,837	$46,275	$48,812	$48,812	$49,916	$57,289		**$45,972**
	55-59	1,074	816	753	653	483	373	162	69	5	**4,388**
		$43,361	$47,046	$44,774	$47,312	$49,346	$51,520	$50,603	$54,709	$56,054	**$46,689**
	60-64	619	594	538	419	324	207	143	77	26	**2,947**
		$46,339	$46,781	$46,857	$47,224	$50,794	$50,115	$53,451	$53,605	$54,715	**$48,012**
	65 and Over	203	300	248	173	155	98	62	42	38	**1,319**
		$53,861	$55,110	$50,527	$46,220	$53,163	$51,599	$55,639	$56,172	$60,033	**$52,601**
	Total	**14,114**	**7,249**	**4,998**	**3,695**	**2,132**	**1,229**	**484**	**191**	**69**	**34,161**
		$39,907	**$44,729**	**$45,318**	**$46,958**	**$50,045**	**$51,800**	**$51,833**	**$54,626**	**$57,741**	**$43,832**

Source: HRIS. Calculations are based on fiscal year-end (June 30) annual salary data for all regular, active SPS employees. Performance pay and other additional compensation (stipends) are not included, and furloughs and other unpaid time off are also not included.

Explanation of Content: The figure in the gray row represents the SPS employee count for the respective age and length of service combination. The dollar amount in the turquoise row represents the average annual salary of the group of employees in the respective age and length of service combination. For example, there are 1,515 employees under the age of 25 with less than 5 years of service (as of June 30, 2014). The average annual salary for that group of employees is $32,144.

5.2 – Average Annual Leave Use and Costs
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Administration	15.9	15.2	16.1	15.9	16.1	$3,298	$3,136	$3,575	$3,577	$3,894
Agriculture	13.4	14.0	14.3	16.6	16.3	2,074	2,069	2,155	2,520	2,690
AHCCCS	17.0	16.1	16.0	15.8	15.7	2,851	2,730	2,709	2,708	2,860
ASRS	16.3	18.9	15.3	16.9	15.3	3,252	3,836	3,224	3,697	3,487
Attorney General	16.3	15.5	16.5	16.1	15.9	4,004	3,784	4,133	4,065	4,270
Corporation Commission	16.8	17.5	16.1	15.9	15.4	3,622	3,815	3,635	3,530	3,698
Corrections	13.9	12.6	13.6	13.9	13.9	2,249	2,024	2,182	2,175	2,203
Early Childhood	15.1	11.8	14.6	16.0	16.3	3,552	2,813	3,646	3,927	3,902
Economic Security	15.1	13.1	13.1	13.3	13.5	2,222	1,935	1,941	1,971	2,065
Education	17.0	14.6	14.0	14.3	13.9	3,529	3,041	2,978	3,075	3,101
Environmental Quality	17.0	17.7	18.4	16.7	16.7	3,065	3,145	3,317	3,106	3,276
Forestry	6.1	5.6	6.1	6.2	7.3	1,045	942	1,033	1,062	1,302
Game & Fish	14.2	13.8	14.3	13.6	14.0	2,777	2,770	2,877	2,707	2,868
Gaming	17.4	16.2	17.4	17.6	18.9	3,636	3,381	3,623	3,711	4,117
Governor's Office	12.1	13.2	14.3	16.0	14.4	2,876	2,770	3,292	3,836	3,723
Health Services	16.2	15.4	15.3	14.5	14.2	3,062	2,919	2,936	2,808	2,830
Housing	17.5	14.7	14.7	16.9	15.5	3,580	3,043	3,255	3,654	3,555
Industrial Commission	16.6	15.7	15.6	15.6	15.1	2,787	2,652	2,596	2,680	2,701
Insurance	19.4	17.4	16.8	19.9	13.9	3,911	3,491	3,413	4,046	2,904
Juvenile Corrections	14.6	13.8	13.9	15.1	14.0	2,497	2,376	2,382	2,536	2,401
Lottery Commission	15.6	16.6	17.2	15.8	13.9	2,685	2,847	2,935	2,644	2,481
Military Affairs	16.1	15.5	16.6	16.9	15.6	2,647	2,531	2,715	2,771	2,691
Nursing	13.1	13.6	13.9	12.3	13.0	2,498	2,749	2,593	2,255	2,507
Pioneers' Home	12.4	11.9	13.8	12.2	12.5	1,583	1,492	1,832	1,657	1,620
Registrar of Contractors	16.8	16.7	16.8	15.7	13.8	2,711	2,711	2,794	2,649	2,556
Revenue	16.9	14.7	16.7	15.6	16.0	2,901	2,541	2,898	2,765	2,994
Secretary of State	16.6	17.1	18.1	16.4	16.5	2,694	2,743	2,982	2,748	2,957
State Land	15.7	14.5	16.1	17.3	16.5	2,990	2,883	3,302	3,521	3,466
State Parks	15.1	16.0	15.1	14.4	15.2	2,472	2,695	2,539	2,453	2,627
Transportation	17.0	14.8	15.3	15.2	15.5	2,779	2,459	2,593	2,581	2,732
Veterans' Services	14.3	12.0	11.9	10.8	12.1	2,171	1,782	1,830	1,693	1,879
Water Resources	16.4	16.3	16.7	16.1	14.5	3,850	3,673	3,939	3,863	3,509
Small Agencies	16.4	15.1	15.8	15.8	15.3	3,329	3,042	3,203	3,221	3,332
SPS Average	**15.2**	**13.8**	**14.2**	**14.3**	**14.3**	**$2,550**	**$2,318**	**$2,406**	**$2,414**	**$2,490**

Source: HRIS. The above calculations include annual leave taken and annual leave payout for all regular, active SPS employees.

5.3 – Average Sick Leave Use and Costs
Fiscal Year 2010 – 2014

Agency	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Administration	7.6	6.7	7.2	6.5	5.9	$1,418	$1,263	$1,423	$1,342	$1,310
Agriculture	5.9	7.7	7.2	7.7	6.6	855	1,092	1,010	1,073	1,024
AHCCCS	9.3	8.7	8.5	7.1	7.0	1,407	1,308	1,260	1,070	1,110
ASRS	7.7	6.3	7.2	7.3	6.3	1,378	1,134	1,358	1,364	1,239
Attorney General	7.9	8.3	7.7	7.8	6.8	1,642	1,794	1,743	1,749	1,604
Corporation Commission	10.7	9.7	8.8	8.7	7.2	2,085	2,021	1,742	1,765	1,568
Corrections	9.6	8.1	8.8	8.6	8.0	1,510	1,276	1,383	1,306	1,230
Early Childhood	7.9	5.9	6.1	8.1	7.0	1,752	1,254	1,330	1,942	1,615
Economic Security	10.2	8.9	8.5	8.5	8.0	1,422	1,231	1,185	1,182	1,143
Education	9.4	8.0	7.1	6.9	6.6	1,876	1,537	1,391	1,381	1,351
Environmental Quality	10.4	10.0	10.5	8.5	7.6	1,772	1,694	1,792	1,464	1,389
Forestry	2.8	2.8	3.1	3.1	2.9	471	425	479	507	517
Game & Fish	6.3	6.2	6.4	4.7	4.0	1,130	1,172	1,142	884	751
Gaming	8.4	7.4	8.0	7.7	7.3	1,658	1,487	1,566	1,506	1,486
Governor's Office	4.5	5.2	5.1	5.3	5.3	962	979	1,078	1,212	1,330
Health Services	9.8	9.6	9.0	7.8	7.7	1,745	1,680	1,617	1,397	1,431
Housing	7.6	7.1	6.8	7.5	7.2	1,452	1,390	1,409	1,502	1,494
Industrial Commission	9.5	8.4	9.6	8.6	7.7	1,396	1,278	1,463	1,332	1,194
Insurance	8.5	7.4	6.5	6.2	5.2	1,523	1,287	1,144	1,015	943
Juvenile Corrections	9.3	8.7	8.1	9.3	7.5	1,559	1,434	1,320	1,480	1,232
Lottery Commission	8.8	9.4	9.4	8.4	7.6	1,440	1,520	1,537	1,385	1,255
Military Affairs	7.7	7.7	7.5	7.5	7.3	1,221	1,252	1,216	1,195	1,222
Nursing	7.5	6.4	5.9	6.3	5.3	1,382	995	923	1,129	931
Pioneers' Home	8.0	8.8	10.2	7.8	7.2	1,012	1,093	1,385	1,017	964
Registrar of Contractors	9.4	9.5	10.5	8.7	6.8	1,395	1,468	1,648	1,369	1,151
Revenue	10.8	8.8	9.7	8.6	8.3	1,714	1,412	1,584	1,439	1,473
Secretary of State	9.0	9.3	9.6	8.1	7.6	1,327	1,419	1,525	1,357	1,236
State Land	9.8	8.3	7.5	7.9	6.4	1,794	1,561	1,393	1,497	1,225
State Parks	8.1	6.6	7.1	6.1	5.3	1,246	997	1,105	966	848
Transportation	10.2	8.6	8.6	8.4	8.3	1,542	1,312	1,353	1,325	1,370
Veterans' Services	8.2	8.1	7.2	6.5	8.0	1,165	1,147	1,021	944	1,163
Water Resources	7.7	7.0	6.9	6.8	6.5	1,647	1,469	1,427	1,437	1,421
Small Agencies	7.2	6.9	7.1	7.1	6.5	1,335	1,280	1,310	1,316	1,264
SPS Average	9.5	8.4	8.5	8.1	7.7	$1,485	$1,311	$1,330	$1,276	$1,235

Source: HRIS. In addition to sick leave, the above calculations include donated leave and family leave for all regular, active SPS employees.

5.4 – Rank Order of All States by Ratio of Total State Payroll to State Population
2012

Rank	State	Payroll per Capita
1	Alaska	$195.47
2	Hawaii	$168.04
3	Delaware	$122.39
4	Vermont	$110.11
5	North Dakota	$106.16
6	Wyoming	$98.24
7	Rhode Island	$97.40
8	Connecticut	$95.18
9	New Jersey	$94.66
10	New Mexico	$94.45
11	Iowa	$83.55
12	Arkansas	$82.68
13	Oregon	$81.09
14	Montana	$80.28
15	Utah	$78.42
16	West Virginia	$78.40
17	Minnesota	$75.20
18	Massachusetts	$74.86
19	Alabama	$74.59
20	Kentucky	$74.24
21	Michigan	$72.64
22	Kansas	$72.54
23	Louisiana	$72.41
24	South Dakota	$72.10
25	Washington	$71.06
26	Maryland	$70.31

Rank	State	Payroll per Capita
27	Mississippi	$69.25
28	New York	$69.06
29	Colorado	$68.26
30	Virginia	$66.73
31	Nebraska	$65.08
32	Maine	$64.91
33	Oklahoma	$64.50
34	North Carolina	$64.28
35	California	$64.11
36	New Hampshire	$61.85
37	South Carolina	$61.08
38	Pennsylvania	$59.74
39	Wisconsin	$56.26
40	Ohio	$55.83
41	Idaho	$55.75
42	Indiana	$53.92
43	Texas	$51.91
44	Illinois	$51.80
45	Tennessee	$51.70
46	Georgia	$50.46
47	Missouri	$49.28
48	Nevada	$45.17
49	**Arizona**	**$43.59**
50	Florida	$36.81
*	United States	$63.81

Source: U.S. Census Bureau, Governments Division. March 2012, the most current information available. Population data estimate for July 2012. Data collected by the U.S. Census Bureau includes higher education, police protection, judicial and legal functions within State government, whereas the majority of the tables and charts in the Workforce Report are limited to the agencies within the State Personnel System.

5.5 – Rank Order of All States by State Government Employees per 10,000 Residents
2012

Rank	State	FTEs per Capita	Rank	State	FTEs per Capita
1	Hawaii	408.1	27	Iowa	155.1
2	Alaska	371.2	28	Virginia	153.2
3	Delaware	287.2	29	North Carolina	152.7
4	North Dakota	261.2	30	Michigan	147.7
5	Vermont	239.7	31	Minnesota	147.1
6	Wyoming	234.2	32	Maryland	146.7
7	West Virginia	216.9	33	Massachusetts	144.6
8	New Mexico	216.8	34	Missouri	142.2
9	Arkansas	214.9	35	New Hampshire	140.5
10	Montana	199.5	36	Colorado	139.4
11	Mississippi	194.2	37	Indiana	136.0
12	Kentucky	194.1	38	Idaho	133.7
13	Utah	183.6	39	Tennessee	130.1
14	Rhode Island	180.4	40	Georgia	128.5
15	Alabama	179.9	41	Pennsylvania	123.8
16	South Dakota	177.2	42	Wisconsin	123.4
17	Nebraska	171.8	43	New York	123.3
18	Louisiana	171.6	44	Texas	117.4
19	Connecticut	171.2	45	Ohio	117.2
20	Oklahoma	169.3	**46**	**Arizona**	**104.7**
21	Kansas	167.6	47	California	103.2
22	Oregon	167.4	48	Illinois	101.1
23	New Jersey	164.3	49	Nevada	94.6
24	South Carolina	164.1	50	Florida	92.7
25	Washington	160.5	*	**United States**	**136.4**
26	Maine	158.3			

Source: U.S. Census Bureau, Governments Division. March 2012, the most current information available. Population data estimate for July 2012. Data collected by the U.S. Census Bureau includes higher education, police protection, judicial and legal functions within State government, whereas the majority of the tables and charts in the Workforce Report are limited to the agencies within the State Personnel System.

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Accountancy	2012	12	50.8	11.9	$52,232	41.7%	66.7%	50.0%	25.0%
	2013	11	52.8	13.9	$51,980	27.3%	72.7%	45.5%	27.3%
	2014	12	53.1	13.7	$55,725	25.0%	66.7%	41.7%	41.7%
Administration	2012	528	47.9	10.8	$56,045	39.8%	51.3%	31.1%	17.2%
	2013	544	48.2	10.6	$57,318	6.6%	51.3%	31.6%	17.7%
	2014	568	48.2	10.4	$62,102	5.8%	50.9%	31.3%	18.3%
Administrative Hearings	2012	16	51.0	17.7	$66,233	0.0%	56.3%	31.3%	18.8%
	2013	17	51.1	17.6	$66,928	0.0%	58.8%	29.4%	23.5%
	2014	16	52.0	18.2	$72,258	0.0%	56.3%	25.0%	43.8%
Agriculture	2012	256	46.7	8.9	$36,715	17.2%	34.4%	36.7%	19.5%
	2013	211	47.2	10.0	$38,561	3.3%	35.6%	38.9%	18.0%
	2014	190	47.8	10.7	$42,222	2.6%	36.8%	33.2%	17.9%
AHCCCS	2012	957	48.2	11.0	$42,946	69.9%	78.3%	43.5%	17.2%
	2013	940	48.3	11.1	$43,808	17.2%	78.0%	41.8%	17.6%
	2014	946	48.1	10.8	$46,217	10.8%	77.2%	41.5%	17.0%
Appraisal	2012	5	45.7	5.7	$53,799	0.0%	80.0%	20.0%	20.0%
	2013	6	50.3	4.3	$49,368	0.0%	100.0%	16.7%	0.0%
	2014	7	54.2	4.1	$53,238	0.0%	100.0%	14.3%	0.0%
Arts Commission	2012	11	44.6	9.1	$43,365	18.2%	81.8%	18.2%	0.0%
	2013	12	42.0	7.5	$44,121	0.0%	75.0%	16.7%	8.3%
	2014	13	42.2	7.5	$45,310	0.0%	61.5%	15.4%	7.7%
ASRS	2012	230	45.7	8.3	$54,132	0.0%	59.6%	31.3%	11.3%
	2013	220	46.6	9.2	$54,786	0.0%	61.4%	31.4%	12.3%
	2014	236	46.6	8.9	$58,704	0.0%	58.1%	32.6%	14.4%
Attorney General	2012	577	48.3	9.7	$64,777	14.9%	65.3%	25.5%	17.3%
	2013	587	48.2	9.5	$65,129	5.8%	65.8%	26.6%	17.6%
	2014	631	47.8	9.2	$68,206	2.5%	64.0%	26.9%	18.7%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Behavioral Health	2012	13	45.8	8.7	$50,577	0.0%	100.0%	23.1%	23.1%
	2013	15	43.0	7.2	$47,711	0.0%	93.3%	33.3%	13.3%
	2014	12	46.3	5.8	$57,231	0.0%	91.7%	33.3%	8.3%
Charter Schools	2012	8	44.1	4.2	$54,235	0.0%	75.0%	12.5%	12.5%
	2013	8	45.1	5.2	$54,235	0.0%	75.0%	12.5%	12.5%
	2014	6	44.2	6.7	$55,804	0.0%	66.7%	16.7%	0.0%
Corporation Commission	2012	256	48.4	10.9	$55,899	50.4%	57.4%	41.0%	16.4%
	2013	249	49.4	11.6	$58,266	12.9%	55.0%	38.2%	18.9%
	2014	256	48.9	11.0	$61,550	10.2%	57.4%	37.1%	19.5%
Corrections	2012	9,871	41.6	8.4	$40,215	94.9%	31.7%	46.4%	8.5%
	2013	9,196	41.2	8.7	$39,517	77.1%	29.3%	48.7%	8.8%
	2014	9,069	41.1	8.8	$40,088	74.4%	29.3%	49.8%	9.6%
Cosmetology	2012	16	49.7	12.2	$41,896	87.5%	100.0%	25.0%	25.0%
	2013	17	48.6	11.8	$40,945	5.9%	100.0%	23.5%	23.5%
	2014	17	49.3	12.4	$43,106	0.0%	100.0%	29.4%	35.3%
Criminal Justice Commission	2012	23	46.6	10.3	$59,181	0.0%	60.9%	17.4%	13.0%
	2013	24	46.2	9.2	$58,582	0.0%	58.3%	16.7%	8.3%
	2014	25	46.2	9.8	$60,724	0.0%	56.0%	16.0%	20.0%
Deaf & Hard of Hearing	2012	14	45.0	6.9	$51,471	0.0%	85.7%	28.6%	7.1%
	2013	15	45.4	7.8	$51,547	0.0%	80.0%	26.7%	6.7%
	2014	13	46.5	8.6	$57,882	0.0%	76.9%	30.8%	0.0%
Dental Examiners	2012	9	45.3	6.4	$48,849	0.0%	100.0%	22.2%	0.0%
	2013	9	50.1	6.3	$48,704	0.0%	100.0%	22.2%	0.0%
	2014	9	51.1	7.3	$52,141	0.0%	100.0%	22.2%	11.1%
Early Childhood	2012	138	44.0	4.8	$60,722	13.0%	87.0%	44.9%	4.4%
	2013	138	43.7	5.3	$59,726	2.2%	85.5%	46.4%	6.5%
	2014	150	43.7	5.7	$62,460	0.7%	84.7%	45.3%	4.7%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Economic Security	2012	9,625	45.8	9.5	$37,048	91.8%	76.7%	45.7%	14.1%
	2013	9,600	45.6	9.2	$37,404	35.2%	77.2%	44.8%	14.0%
	2014	10,178	45.2	8.6	$38,307	24.4%	77.3%	44.6%	13.3%
Education	2012	526	47.5	7.6	$54,106	35.6%	74.9%	28.0%	15.6%
	2013	519	47.8	7.6	$55,432	3.1%	75.7%	27.0%	18.3%
	2014	554	47.0	7.4	$58,033	2.5%	75.5%	29.4%	16.4%
Environmental Quality	2012	468	50.5	13.5	$46,919	56.8%	47.9%	29.1%	24.2%
	2013	474	49.2	12.7	$47,694	5.3%	49.2%	29.3%	23.8%
	2014	455	48.7	12.4	$50,888	4.2%	49.0%	29.9%	22.6%
Executive Clemency	2012	10	52.4	8.8	$45,493	40.0%	60.0%	70.0%	20.0%
	2013	9	53.7	10.6	$48,244	0.0%	55.6%	66.7%	11.1%
	2014	12	50.1	5.9	$43,650	0.0%	75.0%	50.0%	16.7%
Exposition & State Fair	2012	23	48.2	15.3	$51,425	43.5%	56.5%	26.1%	17.4%
	2013	23	48.2	15.6	$53,651	8.7%	56.5%	26.1%	30.4%
	2014	40	44.6	10.0	$44,129	2.5%	35.0%	40.0%	22.5%
Financial Institutions	2012	38	51.1	10.2	$49,001	79.0%	52.6%	21.1%	18.4%
	2013	45	49.7	9.8	$49,161	11.1%	48.9%	20.0%	20.0%
	2014	47	49.5	8.7	$49,946	6.4%	55.3%	25.5%	19.2%
Fingerprinting	2012	5	52.4	12.4	$49,654	80.0%	20.0%	20.0%	40.0%
	2013	6	47.2	9.1	$50,045	16.7%	33.3%	16.7%	16.7%
	2014	6	48.9	7.1	$54,263	0.0%	33.3%	0.0%	16.7%
Fire, Building & Life Safety	2012	25	52.4	8.9	$47,014	28.0%	52.0%	20.0%	24.0%
	2013	21	51.2	10.5	$47,430	0.0%	47.6%	23.8%	23.8%
	2014	27	49.4	9.3	$48,681	0.0%	37.0%	22.2%	22.2%
Forestry	2012	133	49.3	8.1	$44,061	45.1%	19.6%	11.3%	19.6%
	2013	128	49.3	8.5	$45,081	12.5%	20.3%	11.7%	18.8%
	2014	127	48.6	9.2	$46,072	7.9%	18.1%	11.8%	16.5%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Game & Fish	2012	596	45.1	11.3	$49,205	89.1%	36.6%	10.1%	16.1%
	2013	585	45.4	11.7	$50,231	26.2%	36.8%	10.1%	18.1%
	2014	588	44.9	11.2	$51,851	24.2%	39.3%	11.4%	17.9%
Gaming	2012	104	50.1	9.0	$54,337	0.0%	38.5%	33.7%	14.4%
	2013	102	50.3	8.7	$55,029	0.0%	38.2%	35.3%	18.6%
	2014	97	51.3	9.9	$57,188	0.0%	37.1%	35.1%	21.7%
Geological Survey	2012	40	42.5	6.8	$50,273	12.5%	55.0%	15.0%	15.0%
	2013	38	43.2	8.0	$51,655	0.0%	52.6%	10.5%	18.4%
	2014	38	43.6	8.6	$53,754	2.6%	57.9%	7.9%	18.4%
Governor's Office	2012	133	41.9	7.5	$60,501	0.0%	61.7%	18.8%	11.3%
	2013	133	41.3	8.1	$61,518	0.0%	56.4%	19.6%	12.0%
	2014	122	42.6	8.4	$65,533	0.0%	59.0%	15.6%	14.8%
Health Services	2012	1,563	48.5	9.8	$48,614	71.3%	64.4%	36.2%	17.0%
	2013	1,593	47.8	9.2	$48,570	20.5%	63.8%	35.5%	16.8%
	2014	1,586	47.4	8.9	$50,738	13.4%	63.3%	36.1%	17.0%
Highway Safety	2012	11	43.1	6.0	$60,808	0.0%	63.6%	54.6%	18.2%
	2013	11	44.1	7.0	$61,265	0.0%	63.6%	54.6%	18.2%
	2014	12	47.4	6.7	$61,424	0.0%	75.0%	50.0%	25.0%
Historical Society	2012	40	50.1	11.0	$40,102	80.0%	65.0%	35.0%	22.5%
	2013	38	49.1	11.0	$40,461	31.6%	65.8%	31.6%	26.3%
	2014	37	50.8	11.0	$45,751	21.6%	67.6%	29.7%	27.0%
Homeland Security	2012	16	41.9	7.7	$59,672	0.0%	56.3%	18.8%	6.3%
	2013	16	42.9	6.4	$59,099	0.0%	56.3%	18.8%	6.3%
	2014	15	44.0	7.4	$63,249	0.0%	46.7%	26.7%	6.7%
Housing	2012	56	48.3	6.5	$56,389	1.8%	80.4%	37.5%	8.9%
	2013	57	47.4	5.9	$56,671	0.0%	77.2%	35.1%	7.0%
	2014	58	47.0	6.2	$58,475	0.0%	77.6%	37.9%	6.9%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Industrial Commission	2012	245	50.5	11.6	$42,916	82.5%	59.2%	44.5%	19.6%
	2013	234	50.7	11.6	$44,182	25.2%	58.6%	43.2%	20.1%
	2014	237	50.8	11.3	$46,646	16.9%	58.7%	43.5%	23.6%
Insurance	2012	94	50.8	12.6	$50,917	51.1%	58.5%	22.3%	23.4%
	2013	92	50.6	12.4	$51,561	13.0%	56.5%	23.9%	27.2%
	2014	92	50.5	11.6	$53,610	10.9%	57.6%	26.1%	27.2%
Juvenile Corrections	2012	611	43.6	9.1	$41,964	84.3%	44.2%	44.8%	8.7%
	2013	568	43.8	9.4	$42,015	35.4%	46.7%	44.7%	10.2%
	2014	573	43.1	9.1	$43,098	18.7%	45.0%	46.1%	11.3%
Liquor Licenses	2012	39	46.0	8.8	$49,136	12.8%	59.0%	46.2%	15.4%
	2013	41	47.9	7.9	$48,833	0.0%	53.7%	41.5%	12.2%
	2014	38	48.5	8.8	$51,852	0.0%	52.6%	44.7%	13.2%
Lottery Commission	2012	88	50.1	12.0	$43,366	75.0%	62.5%	29.6%	22.7%
	2013	85	50.9	11.5	$43,040	27.1%	61.2%	29.4%	21.2%
	2014	88	50.8	11.0	$45,595	10.2%	60.2%	28.4%	19.3%
Medical Board	2012	35	46.9	7.3	$73,129	0.0%	77.1%	11.4%	8.6%
	2013	33	45.9	7.5	$70,576	0.0%	84.9%	18.2%	9.1%
	2014	40	45.6	6.7	$68,744	0.0%	82.5%	17.5%	12.5%
Military Affairs	2012	482	46.0	8.5	$42,308	1.9%	23.7%	29.3%	14.5%
	2013	478	46.8	8.6	$41,776	0.4%	24.7%	29.1%	14.2%
	2014	430	47.6	9.0	$43,792	0.2%	25.1%	26.3%	17.0%
Mine Inspector	2012	15	55.8	7.3	$48,299	0.0%	26.7%	20.0%	26.7%
	2013	13	57.0	9.0	$50,249	0.0%	23.1%	23.1%	30.8%
	2014	15	53.1	8.3	$50,646	0.0%	20.0%	26.7%	40.0%
Nursing	2012	57	54.0	9.3	$49,089	49.1%	87.7%	28.1%	26.3%
	2013	55	52.8	8.6	$50,402	18.2%	87.3%	23.6%	29.1%
	2014	57	51.0	7.5	$51,990	12.3%	84.2%	19.3%	21.1%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Office of Pest Management	2012	19	49.5	10.1	$40,039	31.6%	36.8%	42.1%	15.8%
	2013	19	49.6	11.0	$40,039	15.8%	31.6%	42.1%	21.1%
	2014	17	51.2	11.1	$43,135	5.9%	29.4%	23.5%	23.5%
Osteopathic Examiners	2012	6	53.5	6.7	$61,198	0.0%	83.3%	0.0%	16.7%
	2013	6	56.9	7.6	$61,371	0.0%	100.0%	0.0%	16.7%
	2014	5	57.8	10.1	$72,948	0.0%	100.0%	0.0%	40.0%
Pharmacy Board	2012	15	52.7	10.3	$75,067	0.0%	46.7%	6.7%	26.7%
	2013	17	53.2	10.0	$74,715	0.0%	47.1%	11.8%	23.5%
	2014	17	51.7	10.2	$74,924	0.0%	58.8%	11.8%	17.7%
Pioneers' Home	2012	85	48.0	7.1	$32,379	96.5%	72.9%	20.0%	11.8%
	2013	84	48.2	7.1	$33,846	64.3%	70.2%	22.6%	13.1%
	2014	90	48.7	6.5	$33,846	38.9%	73.3%	24.4%	12.2%
Postsecondary Education	2012	7	44.9	4.3	$49,658	0.0%	57.1%	28.6%	14.3%
	2013	9	47.9	4.7	$51,223	0.0%	77.8%	22.2%	22.2%
	2014	8	52.4	3.6	$54,602	0.0%	87.5%	12.5%	12.5%
Power Authority	2012	8	56.9	8.8	$90,275	0.0%	50.0%	25.0%	25.0%
	2013	6	53.6	7.1	$77,987	0.0%	50.0%	33.3%	0.0%
	2014	6	54.6	8.1	$77,987	0.0%	50.0%	33.3%	0.0%
Prescott Historical Society	2012	10	58.8	13.2	$38,451	80.0%	30.0%	10.0%	40.0%
	2013	10	59.8	14.2	$39,740	30.0%	30.0%	10.0%	40.0%
	2014	9	60.6	13.5	$39,346	11.1%	44.4%	11.1%	44.4%
PSPRS	2012	53	48.2	8.3	$83,919	0.0%	49.1%	7.6%	7.6%
	2013	54	48.2	9.1	$84,895	0.0%	50.0%	11.1%	9.3%
	2014	43	46.7	9.4	$80,991	0.0%	53.5%	9.3%	7.0%
Racing	2012	31	53.9	10.9	$45,594	9.7%	29.0%	25.8%	32.3%
	2013	32	51.8	9.3	$47,353	0.0%	28.1%	34.4%	28.1%
	2014	31	51.3	8.7	$50,724	0.0%	29.0%	35.5%	22.6%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Radiation Regulatory Agency	2012	27	48.7	10.7	$45,199	29.6%	37.0%	25.9%	25.9%
	2013	27	51.4	10.9	$44,445	3.7%	37.0%	25.9%	40.7%
	2014	27	50.7	10.3	$47,112	0.0%	37.0%	14.8%	33.3%
Real Estate	2012	30	52.5	13.6	$41,457	26.7%	56.7%	23.3%	43.3%
	2013	29	51.4	10.1	$40,752	3.5%	62.1%	24.1%	34.5%
	2014	33	51.4	10.1	$41,819	0.0%	54.6%	21.2%	30.3%
Redistricting Commission	2012	5	52.1	3.7	$65,536	0.0%	60.0%	40.0%	20.0%
	2013	5	53.1	4.7	$66,976	0.0%	60.0%	40.0%	20.0%
	2014	5	54.1	5.7	$70,325	0.0%	60.0%	40.0%	20.0%
Registrar of Contractors	2012	92	52.8	11.3	$43,469	71.7%	47.8%	29.4%	23.9%
	2013	86	54.2	11.8	$43,644	22.1%	46.5%	29.1%	25.6%
	2014	92	52.0	10.3	$46,467	12.0%	47.8%	27.2%	28.3%
Revenue	2012	711	49.4	12.2	$44,809	60.9%	62.7%	42.2%	21.4%
	2013	738	49.4	11.5	$45,640	12.1%	63.4%	40.9%	20.7%
	2014	703	49.7	11.5	$48,379	7.8%	63.0%	42.1%	23.0%
RUCO	2012	8	55.6	16.0	$75,082	25.0%	37.5%	0.0%	50.0%
	2013	8	58.2	13.4	$76,539	0.0%	25.0%	0.0%	50.0%
	2014	7	53.3	11.6	$81,861	0.0%	14.3%	0.0%	42.9%
School Facilities Board	2012	14	54.2	7.5	$67,553	0.0%	42.9%	35.7%	35.7%
	2013	14	55.2	8.5	$67,553	0.0%	42.9%	35.7%	35.7%
	2014	13	55.3	9.5	$72,962	0.0%	38.5%	30.8%	30.8%
Secretary of State	2012	138	47.6	9.0	$42,717	0.0%	64.5%	23.9%	13.0%
	2013	139	47.2	9.0	$42,748	2.9%	59.7%	23.0%	14.4%
	2014	140	47.6	9.0	$44,583	2.1%	59.3%	25.0%	15.7%
State Land	2012	115	49.5	11.3	$52,719	84.4%	40.9%	18.3%	21.7%
	2013	111	49.6	11.7	$53,026	5.4%	37.8%	18.0%	27.0%
	2014	115	49.3	11.0	$55,552	2.6%	40.9%	19.1%	27.0%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
State Parks	2012	164	51.1	13.7	$41,528	82.9%	37.2%	12.8%	26.8%
	2013	163	51.2	13.4	$41,936	29.5%	39.3%	11.7%	24.5%
	2014	169	49.7	13.0	$43,335	23.7%	39.6%	10.7%	24.3%
Technical Registration	2012	18	53.5	11.4	$41,572	5.6%	66.7%	33.3%	33.3%
	2013	20	51.0	10.5	$42,000	5.0%	65.0%	35.0%	15.0%
	2014	19	46.6	9.8	$46,852	5.3%	68.4%	52.6%	5.3%
Tourism	2012	25	47.0	6.8	$57,987	0.0%	92.0%	32.0%	16.0%
	2013	24	47.0	7.3	$58,853	0.0%	91.7%	33.3%	12.5%
	2014	27	47.3	7.1	$61,142	0.0%	88.9%	29.6%	11.1%
Transportation	2012	4,059	47.8	11.1	$42,751	82.1%	41.0%	39.8%	17.1%
	2013	4,174	47.8	10.7	$42,874	26.7%	40.9%	40.0%	16.7%
	2014	4,208	47.8	10.7	$44,770	21.9%	40.8%	39.5%	16.9%
Treasurer	2012	25	46.7	13.0	$59,795	40.0%	60.0%	36.0%	12.0%
	2013	26	48.7	13.4	$60,168	7.7%	57.7%	34.6%	11.5%
	2014	26	49.2	12.7	$64,286	7.7%	57.7%	30.8%	15.4%
Veterans' Services	2012	314	47.6	5.3	$39,549	55.1%	64.3%	54.1%	11.8%
	2013	380	45.4	4.6	$37,365	34.0%	66.6%	56.1%	8.4%
	2014	373	46.0	4.8	$38,360	23.6%	68.1%	58.2%	8.3%
Veterinary Medical Exam	2012	4	51.0	5.4	$48,901	0.0%	100.0%	0.0%	0.0%
	2013	4	52.0	6.4	$53,151	0.0%	100.0%	0.0%	0.0%
	2014	5	50.0	5.9	$53,847	0.0%	100.0%	0.0%	20.0%
Water Infrastructure	2012	18	42.5	11.1	$58,867	0.0%	66.7%	61.1%	11.1%
	2013	17	42.8	12.0	$61,518	0.0%	70.6%	52.9%	11.8%
	2014	19	43.4	12.4	$65,245	0.0%	73.7%	42.1%	10.5%
Water Resources	2012	104	48.0	12.7	$60,380	42.3%	53.9%	26.0%	16.4%
	2013	110	48.7	12.6	$59,469	0.0%	48.2%	26.4%	19.1%
	2014	121	47.9	11.8	$59,859	0.0%	47.1%	26.5%	19.8%

5.6 - Agency Statistics (FY2012 - FY2014)

Agency	Fiscal Year	Employee Count	Average Age	Average Length of Service	Average Salary	Covered	Female	Minority	Retirement Eligible
Weights And Measures	2012	29	48.4	9.6	$43,654	13.8%	34.5%	31.0%	13.8%
	2013	32	47.7	9.2	$43,348	0.0%	34.4%	34.4%	18.8%
	2014	31	47.5	9.2	$43,799	0.0%	32.3%	38.7%	19.4%
State Personnel System	**2012**	**34,223**	**45.5**	**9.5**	**$42,322**	**78.7%**	**53.5%**	**42.7%**	**13.8%**
	2013	**33,621**	**45.4**	**9.5**	**$42,447**	**38.9%**	**53.4%**	**43.4%**	**14.0%**
	2014	**34,161**	**45.2**	**9.3**	**$43,832**	**32.7%**	**53.9%**	**44.0%**	**14.2%**

Source: HRIS. Data represents all regular, active SPS employees at fiscal year-end (June 30). Only agencies with 5 or more employees at the end of FY 2014 are included.

5.7 – Notes

(The following information was provided by the agencies identified.)

1.1 – Average Salary per Employee by Agency (page 2)

(Includes agencies experiencing an average salary change of more than 7% from the year before.)

- Administration – The average salary increased by 8.3% from the year before. This increase includes the 5% critical retention pay which was initially provided as one-time payments in FY13, but were converted to base salary increases for employees receiving those payments in FY14. In addition, there were structural changes within the agency that resulted in leaving 60 positions vacant and creating or filling 84 new positions, including 29 IT positions and 55 non-IT positions. The positions that were left vacant were lower paid positions relative to the newly filled positions.
- Agriculture – The average salary increased by 9.5%; this increase includes the 5% critical retention pay that was added to the base pay of employees in FY 2013. Several divisions within the agency created a new supervisor tier to their reporting structure to better assist with the demands of the division while maintaining the same number of FTEs; also a number of inequities were corrected within the department. IT salaries were also adjusted within the last couple of years when recruiting for vacant positions. Lastly, there were several separations (see notes on 2.3 and 4.1) of employees that were earning lower salaries, which resulted in an overall increase in average salary per employee for the agency.
- ASRS (Retirement) – The average salary increased by 7.2% when comparing the average salary in 2014 to the average salary in 2013. Over the four years 2010 through 2014, the annual average salary increased 3.62%. The average salary increase includes the 5% critical retention pay which was initially provided as one-time payments in 2013 and then were converted to permanent base salary increases for employees in 2014 and salary increases for technology related positions in order to attract and retain highly skilled technology resources for critical technology positions.

1.5 – Overtime Costs by Agency (page 5)

(Includes agencies experiencing an increase of at least 40% from the year before provided the agency had at least $40,000 in overtime expenses.)

- AHCCCS – Overtime expenses increased by 115% from the year before. This increase is primarily the result of work required to implement changes under the Federal Affordable Care Act. This included policy development and the design, testing and implementation of a new eligibility system, along with a significant increase in applications.
- ASRS (Retirement) – Overtime expenses increased by 124% from the year before. Overtime expenses were incurred in 2014 due to two primary business activities; one activity is related to Arizona State Retirement System Technology Services/Resources dedicated to improving hardware and software applications in an effort to proactively address data security matters. The second activity is related to Arizona State Retirement System Financial Services/Resources dedicated to processing new retirements, member contributions and member service purchase requests. Overtime in Financial Services is incurred during the summer months when new retirements spike. In July 2013 alone, new retirements were up 59% over the same time period in June 2012. At the same time, there was a large increase in member service purchase requests due to a statutory deadline of January 2013. At the time of this large increase in production volume, Financial Services had three vacant positions.

- Corrections – Overtime expenses increased by 43% from the year before, and account for the majority of overtime expenses in the State. The increase is primarily the result of recruitment and retention challenges for Correctional Officers which has resulted in staff shortages. Vacancy rates of Correctional Officers increased from 1.7% in July 2012 to 8.0% in June 2014. Vacancy rates in various prisons – Eyman, Florence, Safford, and Winslow – range from 11.3% to 14.7%. During FY 2014 overtime was used to cover many of the posts left unfilled due to the increased vacancy rate. The agency continues to aggressively recruit Correctional Officers and has implemented measures aimed at reducing the vacancy rate of these critical security positions, including increased advertising efforts and 5% stipends at hard to fill locations.
- Game and Fish – Overtime expenses increased by 81% from the year before. This increase primarily occurred in two work units, the Clay Target Center (CTC) and the Research Branch. The increase at the CTC was the result of hosting several multi-day, large shooting events that included up to 500 participants for each event. These large events require more staff time to ensure the events run smoothly and to ensure public safety, which is the number one priority during any shooting event. The CTC operations are primarily funded by revenues generated from range use fees. The increase in overtime for the Research Branch occurred in four separate projects in the Aquatic Research and the Wildlife Health Programs. These programs are funded through various federal contracts, and overtime was accrued in order to meet contractual obligations. The Department has been closely monitoring the ADOA assigned headcount and as a result positions located within the CTC and Research Branch were held vacant which further impacted the accrual of overtime by staff throughout the Department.
- Health Services – Overtime expenses increased by 85% from the year before. About 99% of the agency's overtime expenses are generated at the Arizona State Hospital. In October 2013 the agency received a citation during a Centers for Medicare and Medicaid Services (CMS) survey regarding the failure to staff units in accordance with the acuity needs of the patient population. The citation placed the Hospital in probationary status and failure to correct the issue could have jeopardized CMS certification. Loss of certification would have meant the State would not have received approximately $28.5 million in Disproportionate Share funds during FY 2015 and the Hospital would have been unable to bill CMS for approximately $3.5 million annually in Medicare services. The agency was able to mitigate the issue through a plan of correction and in January 2014 a follow-up CMS survey confirmed the staffing issue was corrected and CMS lifted the probationary status. Nevertheless, the agency continues to experience recruitment and retention challenges, especially among nursing and direct care staff. The agency has implemented a number of corrective strategies to address these issues.
- Juvenile Corrections – Overtime expenses increased by 75% from the year before. This increase is primarily the result of recruitment and retention challenges within the Youth Corrections Officer (YCO) and Correctional Food Service Supervisor job classifications, which have resulted in severe staff shortages. In comparison to the prior year, the YCO turnover rate increased from 26% to 29%, resulting in a chronic vacancy rate of approximately 13%. The increased overtime is also attributed to a significant change in operational procedures pertaining to the manner in which correctional posts are covered. During the prior year, the Department utilized Youth Program Officer III staff to assist in covering YCO posts in an effort to decrease overtime usage; however, this practice resulted in programming deficiencies provided to the youth. As a result, the agency discontinued this practice, which forced the agency to revert to utilizing YCO staff to cover posts through the utilization of overtime. Although recruitment and retention challenges remain, beginning FY 2015, the agency has implemented several corrective measures to address these issues.

1.6 – Average Annual Leave Use per Employee (page 6)

(Includes agencies experiencing a change of more than 12% in average annual leave use from the year before, or a difference of more than 30% from the statewide average.)

- Forestry – The State Forestry Division experienced annual leave use at a rate nearly half the statewide average. This is primarily due to the large percentage of employees at the agency that are not benefits eligible. Across all of the SPS agencies, 99.5% of the workforce is benefits eligible, however, in Forestry only 48.8% of employees are benefits eligible, thus explaining the significant deviation from the statewide average.
- Gaming – The average annual leave used per employee was over 30% more than the statewide average. As an uncovered agency, 91% of Gaming's employees earn annual leave at the highest rate allowable (6.47 hours per pay period). Employees of the agency have an average length of service slightly greater than the state wide average, resulting in employees with high leave balances. Gaming employees with higher leave balances have taken more annual leave than the state average in order to maintain a leave balance at or below the 320 hours that can be transferred into the next calendar year.
- Insurance – The average annual leave used per employee decreased by more than 30% from the year before. This may be the result of some employees being allowed to receive payment for annual leave in June 2013, which may have consequently reduced employee interest in using annual leave during FY 2014.
- Registrar of Contractors – The Registrar of Contractors had a higher than usual number of long term employees retire or leave state service in FY2014. Most of the separating employees were accruing 6.47 hours of annual leave per pay period. Furthermore the agency expanded by 7 positions during FY 2014. Most of the employees hired for the new or vacated positions were new to state service and earned 4 hours of annual leave per pay period. This lower accrual rate and the limited availability of leave to new employees lowered the agency average of annual leave usage.

1.7 – Average Sick Leave Use per Employee (page 7)

(Includes agencies experiencing a difference of more than 50% from the statewide average.)

- Forestry – The State Forestry Division experienced sick leave use at a rate nearly 62% less than the statewide average. This is primarily due to the large percentage of employees at the agency that are not benefits eligible. Across all of the SPS agencies, 99.5% of the workforce is benefits eligible, however, in Forestry only 48.8% of employees are benefits eligible, thus explaining the significant deviation from the statewide average.

2.3 – Turnover Rates by Agency and Type of Separation (page 12)

(Includes agencies experiencing a total turnover rate more than 45% difference from the statewide average, or a difference of more than 130% in a specific category of turnover type.)

- Agriculture – The Department of Agriculture experienced higher than average turnover, driven in part by the high levels of involuntary turnover and turnover attributed to the "Other" category (mostly appointment expiration). In 2013 one division within the agency saw a large cut in their Federal funding which caused a layoff of approximately 16 employees in one location; most of the "Other" category is due to seasonal employees who only work from 1 to 6 months at a time. Most involuntary terminations were due to employee misconduct, job performance or insubordination.
- Insurance – The Department of Insurance experienced an overall turnover rate lower than average, in spite of a particularly high turnover rate due to retirement. More than half of the Department's turnover was due to employee retirement, which is unusual.

- Juvenile Corrections – The agency experienced a high rate of voluntary turnover in FY 2014. The majority of the reasons employees stated as their reason for leaving was "better job or pay."
- Military Affairs – The relatively high rate of involuntary turnover was the reason this agency had an overall rate of turnover higher than average. In November 2013, the agency ended a cooperative agreement with the federal government that had provided funding for State staffed security forces at the Arizona Air National Guard wings. This resulted in the layoff of 28 State employees, all of whom were converted to federal employees.
- Pioneers' Home – The Arizona Pioneers' Home had an overall turnover rate higher than average, due mostly to the relatively high levels of voluntary turnover. Arizona Pioneers' Home voluntary turnover may be related to the improved economic outlook. During the recent recession, most of the nursing organizations in this area, instituted hiring freezes. This made nursing jobs more difficult to find. Now, with the improved economic climate, job availability has increased. Many of these new nursing positions offer higher salaries and some, include sign-on bonuses or other incentives to encourage the experienced to apply. In an effort to curb some of the turnover, Arizona Pioneers' Home is seeking additional funding to bring our agency's Nursing Department salaries in alignment with other state agencies that use Registered and Licensed Practical Nurses and are closer to private sector salaries.
- Registrar of Contractors – The agency experienced a turnover rate that was double the rate of the year before. Increased turnover at the Registrar of Contractors stems from several sources. First, FY 2014 showed an increase in retiring employees which is expected with the ROC's relatively older workforce, as noted in current and previous workforce analysis reports. Second, as the economy and specifically the construction industry improve, a significant number of ROC employees leave state service to return to higher paying jobs in the construction industry.
- State Parks – The overall turnover rate for the agency was close to the average; the agency experienced particularly low voluntary turnover rates, however, this was offset by the high rates of retirements and turnover in the "Other" category. Arizona State Parks has a high percentage of "Other" separations due to the large number seasonal/temporary staff that may not return after one season. Although this number is higher than other agencies it has decreased since last reporting fiscal year, FY2013. Arizona State Parks has 25% of its employees meeting retirement criteria which each year is increasing by at least 4% for the next four to five years. These numbers include employees who are members of the Public Safety Personnel Retirement System and are in the Deferred Retirement Options Plan (DROP).
- Veterans' Services – Approximately seventy-eight percent of the agency's employees work at one of two skilled nursing facilities. These types of facilities typically have high turnover rates, particularly among the nursing staff. In January 2014, the Arizona State Veteran Home – Phoenix also lost ten employees through a reduction in force when it was determined that contracting with an outside company for dietary services would result in both cost and efficiency savings. Finally, prior to implementing the initial phase of a market adjustment in November of 2013, the agency was losing Veteran Benefit Counselor's to the Federal government.

2.4 – Turnover Rates by Agency (page 13)

(Includes agencies experiencing a turnover rate more than 50% difference from the year before, or a turnover rate more than 50% difference from the average of the previous 4 years.)

- Corporation Commission – The Corporation Commission experienced an overall turnover rate more than 50% greater than the average over the prior four years. Over the past year, the agency had a significant number of eligible employees retire, most with over 20 years of service. A reorganization of the IT Division resulted in increased turnover of staff in that division. Many of the agency's separations were to the private sector where the former state employees could receive higher pay.
- Insurance – The Department of Insurance experienced an overall turnover rate significantly higher than the year before. More than half of the Department's turnover was due to employee retirement, which is unusual.
- Military Affairs – The relatively high rate of turnover was greater than last year and greater than the average over the prior four years. In November 2013, the agency ended a cooperative agreement with the federal government that had provided funding for State staffed security forces at the Arizona Air National Guard wings. This resulted in the layoff of 28 State employees, all of whom were converted to federal employees.
- Registrar of Contractors – The agency experienced a turnover rate that was double the rate of the year before. Increased turnover at the agency stems from several sources. First, FY 2014 showed an increase in retiring employees which is expected with the agency's relatively older workforce, as noted in current and previous workforce analysis reports. Second, as the economy and specifically the construction industry improve, a significant number of employees leave state service to return to higher paying jobs in the construction industry.
- Water Resources – The agency's overall turnover rate was significantly less than the average over the prior four years. During FY 2010 the agency lost approximately 60% of staff due to budget cuts, hence the 72.4% turnover rate. The agency continued to lose employees during FY 2011, but has since begun to rebuild. It is expected that turnover rates should stabilize around 7 – 10% if there are no material changes in the agency's budget.

4.1 – Employees by Agency (page 28)

(Includes agencies experiencing a change in headcount of 10% or more from the year before.)

- Agriculture – The agency experienced a 10% decrease in headcount from the prior year and a 27% decrease from the average over the prior four years. Federal funding cuts have significantly contributed to the decrease in staff; unfortunately when an employee resigns we are usually not able to fill the vacancy. The Nogales staff have seen a decrease in recent years because the amount of produce coming over the border from Mexico has decreased, therefore the agency does not need as many FTEs or seasonal employees in that location.
- Military Affairs – The agency's headcount decreased by 10% from the year before. In November 2013, the agency ended a cooperative agreement with the federal government that had provided funding for State staffed security forces at the Arizona Air National Guard wings. This resulted in the layoff of 28 State employees, all of whom were converted to federal employees. Additionally, the agency has experienced significant difficulty in filling vacant positions such as ordnance handlers, environmental professionals, and information technology professionals.
- Water Resources – The agency experienced a 10% increase in headcount from the prior year and an 18% increase from the average over the prior four years. During FY 2010 the agency lost approximately 60% of staff due to budget cuts. The agency lost additional personnel in FY 2011 as employees left due to normal turnover and the State's hiring freeze remained in effect. The agency began to rebuild in FY 2012 and has added employees each succeeding year as they approach the appropriated FTE count of 131.

Exhibit 9

INCENTIVE COMPENSATION PLAN
for
Internal Investment Professionals

Arizona State Retirement System

November 2013

Arizona State Retirement System

Incentive Compensation Plan for Internal Investment Professionals

Contents

Arizona State Retirement System
Incentive Compensation Plan for Internal Investment Professionals

Authority

A.R.S. § 38-611.01 provides that the ASRS, in consultation with the Director of the Arizona Department of Administration (ADOA), may establish and administer an incentive compensation plan (hereafter the "ICP") for investment-related personnel. This document describes the ICP and specifies the methods and procedures related to the administration of the ICP.

Nothing in this document is intended to alter the nature of ASRS employment or to create or be construed as creating an expressed or implied contract of employment or to define conditions of employment. This document does not provide a contract, guarantee of payment, guarantee of participation in the incentive plan in subsequent years, or guarantee of employment with the ASRS. The ICP and the payments that result from the ICP are public information and will be disclosed upon request.

In addition, upon consultation with the Director of ADOA, the ASRS reserves the right to alter, amend, modify, rescind, or otherwise change the content of the ICP at any time for any reason as permitted by law, in its sole discretion, and without advance notice to any employee affected by the provisions of the ICP.

Purpose and Objectives

The purpose of the ICP is to further enhance the investment management and performance of the ASRS Trust Fund.

In order to achieve this purpose, the ICP has been designed to contribute to the ASRS' ability to meet the following objectives:

1. Retain high caliber investment professionals
   (By providing performance based compensation.)

2. Attract high caliber investment professionals
   (By providing performance based compensation.)

3. Incentivize investment performance
   (By aligning investment personnel compensation with investment results.)

Eligibility for Participation

To be eligible to participate (a "Participant") in the ICP, an ASRS employee must be in a position that:

- Is allocated to Investment Management as determined by the Director or Board of Trustees, and

- Has a classification in the INV series in the Arizona Statewide Personnel System

If an employee begins employment in an eligible position after July 1 of any year, the employee will become a Participant on the first date of employment and participation will be prorated based on the total number of days employed during the Performance Period. Any eligible employee may opt out of the ICP at any time. Once an employee opts out of the ICP, that decision will be valid and binding on the employee for the fiscal year during which the employee opted out. An employee will not be eligible for any ICP payments for the full fiscal year during which they opted out. No partial ICP payments will be made for partial fiscal years during which an employee opted out. The performance of an employee who opts out will be documented and measured utilizing the same metrics.

Participant Eligibility for Other Approved Compensation Strategies
Participants in the ICP remain eligible to participate in compensation strategies such as merit, criteria-based, market or other base pay adjustments and variable pay incentives that are employed by the State of Arizona or the ASRS with the following exception:

- Any strategy or combination of strategies whose express purpose is to provide incentive to achieve performance-based goals and the opportunity to receive variable pay (i.e., pay that is not considered part of base salary).

The ICP will provide the only opportunity for Participants to receive variable pay for goal- and merit-based purposes.

Performance Period

For purposes of the ICP, the Performance Period is the state fiscal year, which begins on July 1 of each year and ends on June 30 of the following year. Due to lagged valuations, Private Market returns will be for the years ending March 31.

Maximum Incentive Compensation Opportunity

A Participant has the opportunity to earn incentive compensation up to 25% of the base salary in effect on July 1 of the Performance Period.

Performance Categories

Incentive compensation categories were developed to have the following characteristics:

- Result in enhanced investment performance
- Controlled or influenced by Participants
- Fair
- Achievable
- Measurable
- Flexible for the agency

Applicability of Performance Categories
Performance categories 1, 3, 5, 6 apply to the Chief Investment Officer (CIO). For the CIO, category 3 includes all asset classes including ‘Real Estate and Inflation Linked’ and Private

Equity' asset classes. The methodological approach utilized for the 'Real Estate and Inflation Linked' and Private Equity' asset classes will be consistent with the approach used to measure the Private Markets professionals for categories 2 and 4.

Performance categories 1, 3, 5, 6 apply to all eligible Public Markets Investment Professionals:

- **Assistant Chief Investment Officer/Senior Equities Manager**
- **Assistant Equity Portfolio Manager**
- **Assistant Equity Portfolio Manager**
- **Fixed Income Portfolio Manager**
- **Fixed Income Portfolio Analyst**
- **Fixed Income Investment Analyst**

Performance categories 2, 4, 5, 6 apply to all eligible Non-Public Markets Investment Professionals:

- **Head of Private Markets Investing**
- **Private Equity Portfolio Manager**
- **Private Markets Asset Manager**

Performance Categories:

1. *Internal Portfolio Performance: 25% Weight*
   Portfolio performance is measured on 1- and 3-year historical net returns, as of June 30, relative to established benchmarks (see Appendix B), with each period, including the implementation period, weighted equally at 50%. Each portfolio will be dollar weighted to determine the overall excess performance. Any new internally managed portfolios will be included during the first available full month of performance utilizing relevant benchmarks.

2. *Private Real Estate & Inflation Linked Portfolio Performance: 25% Weight*
   Portfolio performance is measured using inception-to-date internal rates of return (IRR's), as of June 30, relative to an absolute rate of return (see Appendix B). The inception IRR will be calculated using the combined flows and terminal values of all investments to determine the overall excess performance. Due to the more liquid nature of commodity investing, Commodities will be incorporated into the outperformance calculation by utilizing a time-weighted rate of return compared to the Dow Jones USB Commodity Index (DJUBS) time-weighted and capitalization weighting this return difference with the difference between the inception-to-date IRR and the absolute return target. For example, if commodities had a $1 billion Net Asset Value and inception outperformance of 100bp (relative to the DJUBS), and real estate had $2 billion Net Asset Value and inception outperformance of 200bp (relative to the absolute 7%), then the combined outperformance would be (100bp *1/3) + (200bp*2/3).

3. *Asset Class Performance: 25% Weight*
   Asset class performance is measured on 1- and 3-year historical asset class net returns, as of June 30, relative to established benchmarks (see Appendix B), with each period, including the implementation period, weighted equally at 50%. Opportunistic Debt and Private Debt will be included in the Fixed Income asset class.

4. *Private Equity & Opportunistic Equity Performance: 25% Weight*
   Portfolio performance is measured using inception-to-date IRR's, as of June 30, relative to an absolute rate of return (see Appendix B). The inception IRR will be calculated using the combined cash flows and terminal values of all investments will be dollar weighted to determine the overall excess performance.

5. *Total Fund Performance: 25% Weight*
   Total fund performance is measured on 1- and 3-year historical net rates of return, as of June 30, relative to the ASRS Strategic Asset Allocation Policy benchmark (see Appendix B), with each period, including the implementation period, weighted equally at 50%. Total fund represents aggregate Plan, System and Health Benefit Supplement (HBS) assets.

6. *Qualitative Performance: 25% Weight*
   Individual and team goals, objectives, and other contributions and attributes will be reviewed. Evaluation criteria may vary by Participant and will be designed to reflect desired organizational attributes such as leadership, organizational competence, interpersonal relationship skills, effective teamwork, accountability, training and mentoring, project participation, process improvement, and other factors. Each year, criteria will be developed and documented by the CIO and/or Director for each Participant as part of this program and the statewide Managing Accountability and Performance (MAP) process. Consideration will be given to compliance exceptions, investment risks, reputational risks, and ethics violations.

Participants may earn between 0% and 25% of their base pay as incentive compensation.

The points allocated to Participants for each category will be calculated based upon the proportionate Actual Outperformance as a ratio of the Excess Return Target. Achieving 80% of the Excess Return Target will result in receiving 80% of the points for that category. Achieving 20% of the Excess Return Target will result in receiving 20% of the points for that category.

Outperformance in at least one of the first five performance categories must occur for any incentive compensation to be earned. In other words, no incentive compensation will be paid if the only out-performance occurs in the qualitative category.

Total Fund performance must be greater than 0% for the current 1 year period in order for any incentive compensation to be earned. In other words, no incentive compensation will be paid in a year when the Total Fund rate-of-return is not greater than 0%.

In order to align and reward superior performance over the Excess Return Targets, up to 30 points can be earned in each category. If the sum of the points in each category totals more than 100, then 100 points will be allocated. Achieving superior performance in any category can make up for lower points in another category, but the total of all the points cannot exceed 100. If superior performance leads to surpassing the Excess Return Targets, then points above 25 up to a maximum of 30 will be allocated to Participants for the particular category and will be calculated based upon the proportional Actual Outperformance as a ratio of the Excess Return Target. Achieving 110% of the Excess Return Target will result in receiving

110% of the points for that category. Achieving 120% of the Excess Return Target will result in receiving 120% of the points for that category. Achieving in excess of 120% of the Excess Return Target will result in receiving 120% of the points for that category.

Private Market investment returns will be calculated using since-inception IRR beginning October 1, 2011, which is the beginning of the first full quarter since the retention of the new Private Markets Manager. All private market investments (excluding commodities which are included on an annual basis) that were authorized on or after September 20, 2010, which is the retention date of the new Private Markets Manager, will be included in the since inception IRR calculations. Private market investments that were authorized prior to September 20, 2010 will be excluded from the since inception IRR calculations.

All returns utilized will be calculated or reviewed by the ASRS external general investment consultant.

All weightings and other methodological issues will be determined or calculated by the ASRS Budget Manager or Strategic Planning analyst.

<u>Incentive Compensation Distribution</u>

The distribution of all and any incentive compensation is subject to available funding, as determined solely by the ASRS Director. If the Director determines funding is not available, ICP payments will be either pro-rated or not made at all. If ICP payments are pro-rated or not made at all, the Director, at his discretion, may, or may not, make retroactive payments in the future when funding is available.

Should an error be discovered after the payment date, the ASRS may make an adjustment and recover payments, including offsetting future compensation, or make additional payments.

Payment Date
When made, ICP payments will be made on or before September 30, following the close of the Performance Period (fiscal year ended June 30).

Treatment of Payments
All payments under the ICP are subject to any deductions and withholdings required by federal, state, or local law at the time of payment. The ASRS is not obligated to otherwise advise an employee of the existence of any amounts that ASRS is required to withhold.

The payments will be lump sum, not added to base pay, and not spread out over the year. The payments must be re-earned each year.

Incentive compensation payments will be considered “compensation” and will have standard retirement, health benefit supplement and LTD contributions paid on it by either or both the employee and the employer at the time it is paid.

Due to the temporal effect on Private Market IRR’s (both Real Estate and Private Equity) caused by the lagged valuation nature of portfolio assets, the deferred drawdown of committed capital, and the J-Curve effect, there will be a two-year look-back period for

Private Market IRR's. In order to implement this, the current year inception-to-date IRRs will also be utilized for the two prior year periods. If, after utilizing the current year inception-to-date IRRs for the past two years results in previously unpaid ICP amounts, then these previously unpaid ICP amounts will be paid in the current year.

Employment Status
A Participant must be considered in "good standing" on the payment date to be eligible to receive an incentive compensation payment. That is, the employee must not be subject to current or pending corrective action, which includes working under a performance improvement plan.

A Participant also must be employed by the ASRS on the scheduled payment date to be eligible to receive an incentive compensation payment. A Participant will not receive any payment, either in full or on a pro-rated basis, if they separate for any reason, including resignation, retirement, disability, death, or involuntary termination, prior to the date of payment.

Administration

The ASRS Director will administer the ICP, with oversight by the ASRS Board of Trustees. Specifically, the Director will notify the Board of the individual and aggregate ICP payments made to each employee on or before September 30, following the close of the Performance Period (fiscal year ended June 30). The Director will also notify the Board if ICP payments are not made due to non-availability of funding.

The ICP will be in compliance with all applicable state or federal laws, regulations, policies, and guidelines. The ASRS Director will have full discretion to decide all questions or matters relating to the interpretation of the ICP and its administration.

Power to Amend
The ICP may be amended by the Director upon:
1. Presenting amendments to the ASRS Investment Committee for acceptance; and
2. Presenting amendments to the full Board for acceptance; and
3. Consultation with the Director of ADOA

Effective Date
The initial Performance Period for the ICP will begin July 1 of the year the plan is adopted and a copy filed with the governmental offices required by A.R.S. § 38-611.01.

Record Keeping and Reporting
All performance, salary, and incentive compensation records for the ICP will be maintained by the ASRS Human Resources in accordance with established records retention schedules and requirements.

Performance Category Weightings and Net Excess Return Targets

Public Market performance objectives will be weighted as follows:

Internal Portfolio(s) Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
25	25	25	25	100

Public Market net (after investment expenses) excess return targets as follows:

Internal Portfolio(s) Excess Return Target (bps)	Asset Class Excess Return Target (bps)	Total Fund Excess Return Target (bps)	Qualitative Performance
10	25	40	Determined by CIO and/or Director

Private Market performance objectives will be weighted as follows:

Private Real Estate, REIT and Inflation Linked Performance	Private Equity Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
25	25	25	25	100

Private Market net (after investment expenses) excess return targets as follows:

Private Real Estate, REIT and Inflation Linked Excess Return Target (bps)	Private Equity Excess Return Target (bps)	Total Fund Excess Return Target (bps)	Qualitative Performance
100	300	40	Determined by CIO and/or Director

APPENDIX A: Responsibility Matrices

Chief Investment Officer

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal Portfolios	All Asset Classes	Total Fund	MAP	100

Assistant Chief Investment Officer/Senior Equities Manager

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal E Portfolios	All Public U.S. and Non-U.S. Equities	Total Fund	MAP	100

Assistant Equity Portfolio Manager

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal E Portfolios	All Public U.S. and Non-U.S. Equities	Total Fund	MAP	100

Assistant Equity Portfolio Manager

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
Securities Lending, All Internal E Portfolios	Externally-managed U.S. and Non-U.S. Equity Portfolios	Total Fund	MAP	100

Fixed Income Portfolio Manager

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal F Portfolios	All Public and Private Fixed Income & Opportunistic Debt	Total Fund	MAP	100

Fixed Income Portfolio Analyst

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal F Portfolios	All Public and Private Fixed Income & Opportunistic Debt	Total Fund	MAP	100

Fixed Income Investment Analyst

Internal Portfolio Performance	Asset Class Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Internal F Portfolios	All Public and Private Fixed Income & Opportunistic Debt	Total Fund	MAP	100

Head of Private Markets Investing

Real Estate and Inflation Linked Performance	Private Equity Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Private Real Estate, REIT and Inflation Linked investments authorized on or after September 20, 2010	All Private Equity investments authorized on or after September 20, 2010	Total Fund	MAP	100

Private Equity Portfolio Manager

Real Estate and Inflation Linked Performance	Private Equity Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Private Real Estate, REIT and Inflation Linked investments authorized on or after September 20, 2010	All Private Equity investments authorized on or after September 20, 2010	Total Fund	MAP	100

Private Markets Asset Manager

Real Estate and Inflation Linked Performance	Private Equity Performance	Total Fund Performance	Qualitative Performance	TOTAL Points
All Private Real Estate, REIT and Inflation Linked investments authorized on or after September 20, 2010	All Private Equity investments authorized on or after September 20, 2010	Total Fund	MAP	100

APPENDIX B: Performance Benchmarks

<u>Internal Portfolios</u>

E2:	S&P 500 Index
E3:	S&P 400 Growth Index
E4:	S&P 400 Value Index
E6:	S&P 600 index
E7:	MSCI USA High Dividend Yield Index
E8:	MSCI USA Minimum Volatility Index
F2:	Barclays Capital Aggregate Index
Securities Lending:	Included in Total Fund performance

<u>Asset Classes</u>

<u>Public Markets:</u>

Asset Class benchmarks as explicitly denoted on the ASRS Strategic Asset Allocation Policy Schematic (SAAP). Public Markets investment returns will be calculated using time-weighted rates of return. Asset Class sub-categories will be measured on a standalone basis and then aggregated based upon market value weights.

Opportunistic Debt will be included for Fixed Income professionals. Opportunistic Debt returns will be calculated using since-inception internal rates of return (IRR) and compared to the absolute benchmark on a 1 quarter lag (due to third-party pricing methodologies).

Opportunistic Debt Benchmark: 8% Absolute

Private Debt will be included for Fixed Income professionals. Private Debt returns will be calculated using since-inception internal rates of return (IRR) and compared to the relative benchmark on a 1 quarter lag (due to third-party pricing methodologies). Both the since-inception internal rates of return (IRR) and the benchmark will therefore be for the periods ending March 31.

Private Debt Benchmark: S&P/ LSTA Levered Loan Index plus 250 bps

<u>Private Markets (including REITS & Commodities):</u>

The Asset Class return for Real Estate & Inflation Linked will be a dollar-weighted composite of Real Estate, REITS and Inflation Linked Assets (Commodities, Farmland, and Infrastructure).

Real Estate & Inflation Linked: 7% Absolute

The Asset Class return for Private Equity will be a dollar weighted composite of Private Equities and Opportunistic Private Equities.

Private Equity: 8% Absolute

Private Market investment returns will be calculated using since-inception IRRs beginning October 1, 2010, which is the beginning of the first full quarter since the retention of the new Private Markets Manager. These from-inception-IRRs will include all investments authorized on or after September 2010, which is the date the current portfolio manager was hired.

Commodities:	DJUBS Commodity Index

<u>**Total Fund**</u>

ASRS Total Fund Return:	Strategic Asset Allocation Benchmark Returns

APPENDIX C: Example

Steps to calculate amounts for distribution:	For purposes of this example, we use the following assumptions: • Position is Public Markets Portfolio Manager • July 1 base salary is $100,000 • Maximum incentive opportunity is 25% • Total Fund 1 year rate of return is greater than 0% • Each category (Internal Portfolio, Asset Class, Total Fund, and Qualitative) is worth a possible 25 points (or 30 points for excess) to equal 100 points • Expected net excess return is 10 bps for internal portfolios, 25 bps for asset class, and 40 bps for total fund • Actual Excess Returns (illustrative only): Category / 1-year (50%) / 3-year (50%) Internal Portfolio / 33 bps / 29 bps Asset Class / -10 bps / 10 bps Total Fund / -100 bps / 10 bps Qualitative / Meets / Exceeds
1. Determine maximum incentive compensation opportunity (See Maximum Incentive Compensation Opportunity section)	$100,000 X 25% = $25,000
2. Identify established performance categories and compare to actual performance (See Performance Categories section)	Category / 1-year Expected / Actual / 3-year Expected / Actual Internal Portfolio / 10 bps / 33 / 10 bps / 29 Asset Class / 25 bps / -10 / 25 bps / 10 Total Fund / 40 bps / -100 / 40 bps / 10 Qualitative^ / / Meets / / Exceeds *(^Note: The qualitative performance points are determined by the CIO and the Director, depending on individual objectives achieved and contributions made.)*
3. Convert actual performance (in bps) to points (See Performance Category Weightings and Net Excess Return Targets section)	Category / 1-year (12.5 pts) + 3-year (12.5 pts) = 25 pts Internal Portfolio / 15 (33>=120% of points) / 15 (29>=120% of points) / 30.00 Asset Class / 0 (-10=0% of points) / 5 (10=40% of points) / 5.00 Total Fund / 0 (-100=0% of points) / 3.13 (10=25% of points) / 3.13 Qualitative^ / Meets / Exceeds / 20.00 58.13
4. Convert points to a percentage	Total Points = Percentage 58.13 / 58.13%
5. Determine incentive compensation amount to distribute	58.13% * $25,000 **$14,532.50**

Exhibit 10

ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW. AZASRS.GOV

Paul Matson
Director

February 5, 2014

Ms. Marie Isaacson
Human Resources Director
Arizona Department of Administration
100 N 15th Ave Suite 401
Phoenix, AZ 85007

Dear Ms. Isaacson:

RE: ASRS COMPENSATION STRATEGIES FOR FISCAL YEAR 2014

The purpose of this letter is to forward the revised Arizona State Retirement System's (ASRS) Compensation Strategies for Fiscal Year 2014 (FY14) in accordance with the provisions of the Arizona Department of Administration's (ADOA) approval letter dated February 4, 2014.

In accordance with the State Personnel System Compensation Strategies guidelines, the following plan documents ASRS's plan for administering a complement of five strategies related to variable compensation for eligible employees, including:

- Goal-Based Incentive
- Merit-Based Incentive
- Spot Incentive
- Conditional Retention Pay Incentive
- Meritorious Service Leave

The total combined cost of the strategies included in this plan will not exceed $255,140, which is estimated to be approximately 2% of the agency's FY14 appropriated dollars for personal services, exclusive of ERE.

Thank you for your time, assistance, and comments during the process of modifying the plan for final approval. If you require additional information or need to communicate with the agency, please contact Martha Rozen, Chief of Administrative Services, at 602-240-5355 or marthar@azasrs.gov.

Sincerely,

Paul Matson
Director

COMPENSATION STRATEGIES
FISCAL YEAR 2014

Arizona State Retirement System

Approved
February 2014

Contents

INTRODUCTION

The Arizona State Retirement System (ASRS) vision to be a top performing benefit plan and to be a leader in the areas of Core Member Services, Operational Effectiveness, and Investment Performance serves as the guidepost in the design of ASRS compensation strategies. Ensuring consistent high performance within the agency is a cornerstone of the ASRS Strategic Plan. The utilization of the outlined strategies is consistent with, and a prerequisite to, achieving the agency's goal to retain and attract a highly professional and capable staff who exemplify the ASRS values and vision.

Administration and Reporting

The strategies outlined in this document will be used to support the agency's strategic direction during Fiscal Year 2014. All strategies are subject to available funding and will be managed within the ASRS budget. In consultation with the ASRS director and/or deputy director, the ASRS Administrative Services Division and Human Resources will serve as a central point of contact to monitor, document, and track proposed and actual compensation awards to ensure:

- All strategies are administered without regard to race, color, national origin, sex, age, disability, religion, or political affiliation
- All awards are reviewed to certify the awards meet other legal and State Personnel System requirements and guidelines
- An employee who receives an award meets the stated criteria and justification is provided when similarly situated employees do not receive an award
- All combinations of incentive payments, as well as any in-grade adjustments, received by any employee in the fiscal year will not exceed 5% of that employee's annualized base pay
- Funding is available within the approved fiscal year budget and those funds are available without degradation of public service
- An award does not create any undue future budget obligations
- Any and all awards will be distributed on or before June 30, 2014
- A report with required details (overview, key information about recipients, total dollar value spent, organizational impact, etc.) is submitted to ADOA by September 1, 2014

The ASRS director and/or deputy director, in consultation with or written notification to the ADOA director, may approve an exception to eligibility and award requirements to ensure unique circumstances are appropriately considered.

Information or inquiries regarding the administration of the plan may be directed to:

Martha Rozen
Chief of Administrative Services
602-240-5355
marthar@azasrs.gov

General Eligibility Requirements

To be considered for an award, either as an individual or as part of a team[1], an ASRS employee must meet the following criteria:

- Be considered in "good standing." The employee must not be subject to current or pending corrective action, which includes working under a performance improvement plan, and must not have been involuntarily demoted or suspended during the fiscal year.
- Received an overall rating of "Meets Expectations" or better rating on the most recent performance review using MAP, if conducted, or, when appropriate to consider, has significantly improved performance.
- Be employed by the ASRS on the scheduled payment date. An employee will not receive any payment or award, either in full or on a pro-rated basis, if they separate for any reason, including resignation, retirement, disability, death, or involuntary termination, prior to the established date of payment.

In addition, the following employee groups are not eligible for any of the compensation strategies:

- Board of Trustees members
- ASRS director, deputy director, and chief investment officer
- ASRS employees who are considered investment professionals and *whenever an ASRS Incentive Compensation Plan for Investment Professionals is actively implemented and an employee has not opted out of that plan* (see Meritorious Service Leave as an exception)Interns
- Employees hired as a temporary appointment

Communication Plan

The ASRS will utilize *InfoQuest (IQ)*, the web-based intranet content management system, and email to communicate information relating to the Compensation Strategies Fiscal Year 2014 to all agency employees.

An employee who has been identified as a recipient of an award will be advised, in a timely manner, of the incentive or leave that will be awarded either via written communication or during a one-on-one discussion with a supervisor, manager, senior manager[2], or executive management.[3]

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[1] A team is defined as any group of ASRS employees working together.
[2] A senior manager is an assistant director, the chief of internal audit, or the chief of administrative services.
[3] Executive management includes the director, deputy director, and chief investment officer.

GOAL-BASED INCENTIVE

Purpose

The purpose of a Goal-Based Incentive is to provide ASRS management the opportunity to recognize and reward an employee, team, work unit, or division based on their contribution to the achievement of the priorities, goals, and objectives outlined in the ASRS Five-Year Strategic Plan and Operational Goals and Objectives[4].

Eligibility

- All ASRS employees who meet the general ASRS Compensation Strategies eligibility criteria, ***and***
- An employee who has demonstrably contributed toward the achievement of the established performance objectives during the applicable measurement period (monthly, quarterly, semi-annual, and/or annual basis, as appropriate).

Award Criteria

- Achievement by an individual, team, work unit or division of established performance objectives. The ASRS Operational Goals and Objectives outlines clear, measurable, performance targets that contribute toward the achievement of one or more priorities and goals.
- The strategic goals that apply to each ASRS division are as follows:

ASRS Division	Applicable Goal(s)
Administrative Services	4, 7, 10
Director's Office/Internal Audit	1, 10
External Affairs	1, 2, 5, 8, 9
Financial Services	2, 5, 6, 7
Member Services	2, 5, 6
Technology Services	5, 6, 7, 8, 10

- Under the goals, each measurable objective that is applicable to a work unit will be given equal weight.

Selection Process

- Senior managers, in consultation with the Strategic Planning and Analysis program manager, will work with supervisors and managers to confirm the set of performance objectives and identify the employee, team, business unit, or division to which the objectives may apply during the measurement period.
- An immediate supervisor, manager, and senior manager, in consultation with the Strategic Planning and Analysis program manager and the Human Resources manager, will review the performance results and establish an appropriate

[4] The ASRS Five-Year Strategic Plan and Operational Goals and Objectives are available on IQ or on the ASRS public website.

differentiation in performance and relevant factors to determine proposed award amounts.

- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification and supporting documentation, and submit for review by the deputy director. If the request is initiated by the deputy director, the ASRS director or designee will review.
- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- Up to 2% of base pay – achieved the established objective and demonstrably contributed to achievement
- Up to 4% of base pay – exceeded the established objective and significantly contributed to achievement

Additional Requirements

- No employee will receive a percentage amount equal to more than $3,000 per year.
- The incentive payment will be distributed in a one-time lump sum after the end of established measurement periods.
- Once achieved, levels of performance required to receive future consideration of an award will be reassessed, as appropriate, and/or new performance targets or goals will be established.

MERIT-BASED INCENTIVE

Purpose

The purpose of a Merit-Based Incentive is to provide ASRS management the opportunity to recognize and reward an employee based on their MAP performance evaluation and for meeting or exceeding established competencies and performance period results.

Eligibility

- An ASRS employee who meets the general ASRS Compensation Strategies eligibility criteria, ***and***
- An employee who has successfully completed one year of employment at the ASRS

In addition to the employee groups outlined under the General Eligibility Requirements, the following are not eligible for an award under this compensation strategy:

- ASRS employees who are considered senior managers (i.e., the equivalent of an assistant director)

Award Criteria

- An employee receives an overall rating of "Meets Expectations" or better on the most recent performance review using MAP.

Selection Process

- A supervisor and employee will complete a performance evaluation using the MAP system, following the guidelines and requirements established for the State Personnel System.
- An immediate supervisor, manager, and senior manager, in consultation with the Human Resources manager, will review the evaluation results and establish an appropriate differentiation in employee performance and relevant factors to determine proposed award amounts.
- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by the deputy director, ASRS director or designee.
- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- 0% of base pay - Received a rating of Needs Improvement on any factor
- Up to 2% of base pay - Received an overall rating of "Meets Expectations" or better
- Up to 4% of base pay - Received an overall rating of "Exceeds Expectations"

Additional Requirements

- The incentive payment will be distributed in a one-time lump sum.

- This Merit-Based Incentive may not be used to provide uniform awards for all employees across the agency. Given this incentive's purpose, criteria, and selection process, the ASRS anticipates a distribution as follows:

Merit-Based Incentive (as percent of base pay)	% Employees Eligible to Receive
0%	10%
Up to 2%	70%
Up to 4%	20%

SPOT INCENTIVE

Purpose

The purpose of a Spot Incentive is to provide ASRS management the opportunity to recognize and reward an employee or team for extraordinary achievements that go beyond the everyday work approach and that result in efficiencies, cost savings, or improved productivity.

Eligibility

- All ASRS employees and teams who meet the general ASRS Compensation Strategies eligibility criteria.

Award Criteria

- Achievement by an individual or team that results in efficiency, cost savings, or improved productivity. For example, making a process more efficient, implementing a cost-savings idea, or completing a significant project.

Selection Process

- Information justifying an award, including details of actions taken and the method for determining the level of impact will be provided by someone who is in a position of authority. Typically this is an individual who is an immediate supervisor, manager, or senior manager. The individual may also be the deputy director, chief investment officer (CIO), ASRS director, or a staff representative in a program area that has responsibility in the administration of a policy, procedure, or program.
- The requesting supervisor/manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by a senior manager. If the request is initiated by a senior manager, the deputy director or designee will review. If the request is initiated by the deputy director or CIO, the ASRS director or designee will review.
- The ASRS director and/or deputy director has final authority to approve an award.

Awards

- Tier 1: $100 - Level of impact deemed Notable (or 4-8 hours of Meritorious Service Leave)
- Tier 2: $250 - Level of impact deemed Superior (or 9-16 hours of Meritorious Service Leave)
- Tier 3: $500 - Level of impact deemed Extraordinary (or 17-24 hours of Meritorious Service Leave)

Additional Requirements

- No employee will receive more than a total of $2,000 or 24 hours of Meritorious Service Leave per year (see also Meritorious Service Leave strategy)
- The use of Meritorious Service Leave in lieu of a dollar amount may be used when executive management determines that agency budget restrictions prohibit or reduce

the availability of dollars; however, no more than 5% of ASRS employees may receive Meritorious Service Leave under this compensation strategy (see also Meritorious Service Leave strategy).

- The incentive payment will be distributed in a one-time lump sum, as close as possible to the achievement that warrants the recognition.

Given the Spot Incentive's purpose, criteria, and selection process, the ASRS anticipates that no more than approximately 25%-30% of ASRS employees will receive an award and that approximately 85% of the incentives awarded will be targeted for distribution to employees in non-supervisory positions.

CONDITIONAL RETENTION PAY INCENTIVE

Purpose

The purpose of a Conditional Retention Pay Incentive is to enhance an employee's pay based on the use of specialized skills and knowledge that are in high demand as the challenge to employ top talent intensifies. This incentive will assist the ASRS in remaining a competitor in both the local and retirement industry job markets and in retaining experienced employees in critical positions. The end result will be stabilizing program areas that have a prominent impact on service and operations and where the agency is experiencing high and undesirable turnover without creating inequities in base pay for like positions across the agency.

Eligibility and Award Criteria

- An ASRS employee who meets the general ASRS Compensation Strategies eligibility criteria, ***and***
- The position, as well as the employee in the position, are identified as critical due to skill set and direct impact on the business operations necessary to achieve ASRS strategic objectives and priorities, such that a voluntary exit would create a significant decrease in productivity and create or increase additional administrative costs, ***or***
- An employee who:
  - Is in a position assigned to the Member Advisory Center (MAC) in the Member Services Division
  - Has successfully completed[5] one year of employment in the MAC position
  - Consistently achieves acceptable call quality ratings and service levels, ***or***
- An employee who:
  - Is in a technical position assigned to the System Design unit in the Technology Services Division
  - Has successfully completed one year of employment in the position
  - Consistently and successfully completes the position responsibilities that are critical to the ASRS business systems

An employee who is in a supervisory or management position is not eligible for an award under this compensation strategy.

Selection Process

- The senior managers, in consultation with the ASRS director, deputy director, and Human Resources manager will determine the positions and number of positions eligible for the incentive.
- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by the deputy director, ASRS director or designee.

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[5] "Successfully completed" or "successful completion" is defined as remaining in good standing and meeting all applicable conditions for the entirety of any established intervals.

- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- Up to 5% of base pay – paid in a one-time lump sum
- Up to $1,000 – paid on established payment dates, after the successful completion of one year and each subsequent three months' of employment, for the purposes of the MAC retention program. A payment date will be the first pay period ending date following the first day of January, April, July, and October.
- Up to $2,400 – paid on established payment dates, after the successful completion of one year and each subsequent three months' of employment, for the purposes of the System Design retention program. A payment date will be the first pay period ending date following the first day of January, April, July, and October.

Additional Requirements

- No employee will receive an amount equal to more than 5% of base pay per year.
- Payments will not be made in advance of established intervals.
- A Conditional Retention Pay Incentive will be discontinued whenever qualifying conditions are not met.
- An employee who has received a payment under the MAC or System Design program will be notified in writing when they are no longer eligible for consideration.
- The MAC and System Design programs will be re-evaluated on a semi-annual basis to review the results and to consider the effect of any changes, such as in market conditions and staffing trends, to determine whether to continue, revise, or discontinue the Conditional Retention Pay Incentive.

MERITORIOUS SERVICE LEAVE

Purpose

The purpose of Meritorious Service Leave is to provide ASRS management the opportunity to recognize and reward an employee or team for exemplary service and performance. The ASRS will utilize the *ASRS Employee PRIDE Rewards and Recognition Program* to guide the use of this incentive and to motivate the workforce. With our values-focused brand of *Delivering Service with PRIDE*, the ASRS is promising its employees, members, employers, vendors, and other constituents that we will deliver professionalism, results, improvement, diversity, and excellence in all we do.

Eligibility

- All ASRS employees and teams who meet the general ASRS Compensation Strategies eligibility criteria, ***or***
- An ASRS employee who is considered an investment professional, whether or not the *ASRS Incentive Compensation Plan for Investment Professionals* is actively implemented and whether or not the employee has opted out of that plan, ***and***
- An employee or team who is nominated for a PRIDE Value award.

Temporary staffing resources, interns, vendor staff, and consultants are not eligible for the incentive and may not nominate nor be nominated nor participate in the selection process.

Award Criteria

- The criteria outlined in the Spot Incentive strategy, ***or***
- Award criteria consistent with the core values of **P**rofessionalism, **R**esults, **I**mprovement, **D**iversity, and **E**xcellence. Examples of specific measures or results are as follows:

PRIDE Value	Award Criteria	
Professionalism	Employee/Team: • Displays positive demeanor (friendly, responsive, courteous) even when confronted by adversity • Has subject matter expertise • Possesses good communication and active listening skills • Is a trusted contributor (manager, leader, SME, analyst, teammate)	• Takes personal accountability • Has proactive and responsive approach to internal and external customer needs • Has critical thinking skills • Has an honest, fair and non-judgmental mind-set • Is adaptable to change that benefits members, associates and stakeholders • Adheres to the Code of Conduct
Results	Employee/Team: • Meets goals and objectives • Satisfies customers • Completes projects	• Attains individual accomplishments • Produces quality work products • Successfully manages risks
Improvement	Employee/Team: • Promotes new ideas • Solves problems • Enhances outcomes and performance	• Improves relationships • Enhances morale • Increases efficiency, effectiveness or reduces costs
Diversity	Employee/Team:	• Recognizes and promotes new skills in

	• Exhibits an attitude of openness to encourage a free flow of ideas and opinions • Works effectively to accomplish goals with teams comprised of dissimilar individuals or groups	others attained on and off the job to achieve desirable results • Treats others with dignity and respect
Excellence	Employee/Team: • Surpasses member, stakeholder and associate expectations • Embraces positive changes in a manner that inspires others • Demonstrates a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize • Accepts personal responsibility and challenges with enthusiasm	• Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others • Takes a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)

Selection Process

- The selection process outlined in the Spot Incentive strategy, ***or***
- On a bi-monthly basis, electronic nomination forms for one featured PRIDE Value will be emailed to all ASRS employees. All ASRS employees may submit nominations until the identified due date. In writing the nomination, employees are encouraged to:
  - Describe what they personally observed, heard or experienced
  - Provide specific examples of the demonstrated behavior(s)
  - Explain the impact on co-workers, members or the agency
- Human Resources will review all nominations to ensure nominees' eligibility.
- All eligible nominations will be placed in a survey.
- The survey will be distributed to all ASRS employees who may score each nomination using a scale of one to ten.

Awards

- The awards outlined in the Spot Incentive strategy, ***or***
- Up to 8 hours of Meritorious Service Leave, as determined and granted by the ASRS director and/or deputy director.

Additional Requirements
Meritorious Service Leave awarded under this plan is subject to the following:

- No employee will receive more than 24 hours per fiscal year
- No more than 5% of ASRS employees may receive Meritorious Service Leave under the Spot Incentive strategy (see also Spot Incentive strategy and Exceptions to Limits below)
- Leave will be prorated for less than full-time employees
- The employee must use the leave within 12 months
- Leave will not be paid out or transferred upon separation

Given this incentive's purpose, criteria, and selection process, the ASRS anticipates that approximately 85% of the leave awarded will be distributed to employees in non-supervisory positions.

Exception to Limits
The established guidelines provide that no more than 5% of an agency's employees may receive Meritorious Service Leave and that each employee may receive no more than 24 hours per year. Under those parameters, the ASRS, which currently has 247 authorized positions, has the ability to award Meritorious Service Leave to approximately 12 employees (or potentially 288 hours in terms of total maximum hours).

Under the *ASRS Employee PRIDE Rewards and Recognition Program*, paid leave is among the possible awards that may be given to nominees and winners as an acknowledgment of exemplary service or contributions. The ASRS has established work units and often utilizes project teams comprised of more than 12 staff members. Based on past results[6] and the program outline, the ASRS anticipates having the opportunity to award up to approximately 288 hours (8 hours for each recognized PRIDE Value nominee or winner) of Meritorious Service Leave.

For the purposes of leave granted as a result of the formal *ASRS Employee PRIDE Rewards and Recognition Program*, the ASRS may grant leave to more than 5% of the agency's employees. This flexibility, in conjunction with other strategies outlined in this plan will assist the ASRS in retaining key employees, encouraging employee productivity, and improving quality service as a state agency to our members, participating employers, and the public.

[6] Each year since 2009, between 21-33 ASRS employees - either as individuals or team members - have been recognized for one of the bi-monthly PRIDE Value awards.

Exhibit 11

ARIZONA STATE RETIREMENT SYSTEM

3300 NORTH CENTRAL AVENUE • PO BOX 33910 • PHOENIX, AZ 85067-3910 • PHONE (602) 240-2000
7660 EAST BROADWAY BOULEVARD • SUITE 108 • TUCSON, AZ 85710-3776 • PHONE (520) 239-3100
TOLL FREE OUTSIDE METRO PHOENIX AND TUCSON 1 (800) 621-3778
EMAIL ADDRESS: ASKMAC@AZASRS.GOV • WEB ADDRESS: WWW.AZASRS.GOV

Paul Matson
Director

August 11, 2014

Ms. Marie Isaacson
Human Resources Director
Arizona Department of Administration
100 N 15th Ave Suite 401
Phoenix, AZ 85007

Dear Ms. Isaacson:

RE: ASRS COMPENSATION STRATEGIES FOR FISCAL YEAR 2015

The purpose of this letter is to forward the Arizona State Retirement System's (ASRS) Compensation Strategies for Fiscal Year 2015 (FY15).

In accordance with the State Personnel System Compensation Strategies guidelines, the following plan documents ASRS's plan for administering a complement of five strategies related to variable compensation for eligible employees, including:

- Goal-Based Incentive
- Merit-Based Incentive
- Spot Incentive
- Conditional Retention Pay Incentive
- Meritorious Service Leave

We look forward to having these incentive tools available throughout the fiscal year, which will enable ASRS management to more effectively achieve a pragmatic, balanced approach to drive, direct, and motivate performance. The total combined cost of the strategies included in this plan will not exceed $255,140, which is estimated to be approximately 2% of the agency's FY15 appropriated dollars for personal services, exclusive of ERE.

The compensation plan is focused on rewarding staff for performance in exceeding goals, adding to plan assets and/or reducing plan liabilities, reducing risk and costs, improving efficiency, productivity, customer service, and the member experience while ensuring the overall health and long-term viability of the benefit programs managed by the ASRS.

Thank you for your consideration of this plan for approval. If you require additional information or need to communicate with the agency, please contact Martha Rozen, Chief of Administrative Services, at 602-240-5355 or marthar@azasrs.gov.

Sincerely,

P Matson

Paul Matson
Director

COMPENSATION STRATEGIES
FISCAL YEAR 2015

Arizona State Retirement System

Submitted
August 2014

Contents

INTRODUCTION

The Arizona State Retirement System (ASRS) vision to be a top performing benefit plan and to be a leader in the areas of Core Member Services, Operational Effectiveness, and Investment Performance serves as the guidepost in the design of ASRS compensation strategies. Ensuring consistent high performance within the agency is a cornerstone of the ASRS Strategic Plan. The utilization of the outlined strategies is consistent with, and a prerequisite to, achieving the agency's goal to retain and attract a highly professional and capable staff who exemplify the ASRS values and vision.

Administration and Reporting

The strategies outlined in this document will be used to support the agency's strategic direction during Fiscal Year 2015. All strategies are subject to available funding and will be managed within the ASRS budget. In consultation with the ASRS director and/or deputy director, the ASRS Administrative Services Division and Human Resources will serve as a central point of contact to monitor, document, and track proposed and actual compensation awards to ensure:

- All strategies are administered without regard to race, color, national origin, sex, age, disability, religion, or political affiliation.
- All awards are reviewed to certify the awards meet other legal and State Personnel System requirements and guidelines.
- An employee who receives an award meets the stated criteria and justification is provided when similarly situated employees do not receive an award.
- All combinations of incentive payments, as well as any in-grade adjustments, received by any employee in the fiscal year will not exceed 5% of that employee's annualized base pay.
- Funding is available within the approved fiscal year budget and those funds are available without degradation of public service.
- An award does not create any undue future budget obligations.
- Any and all awards will be distributed on or before June 30, 2015.
- A report with required details (overview, key information about recipients, total dollar value spent, organizational impact, etc.) is submitted to ADOA by September 1, 2015.

The ASRS director and/or deputy director may approve an exception to eligibility and award requirements to ensure unique circumstances are appropriately considered.

Information or inquiries regarding the administration of the plan may be directed to:

Martha Rozen
Chief of Administrative Services
602-240-5355
marthar@azasrs.gov

General Eligibility Requirements

To be considered for an award, either as an individual or as part of a team[1], an ASRS employee must meet the following criteria:

- Be considered in "good standing." The employee must not be subject to current or pending corrective action at the time of award, which includes working under a performance improvement plan, and must not have been involuntarily demoted or suspended during the fiscal year.
- Received an overall rating of "Meets Expectations" or better rating on the most recent performance review using MAP, if conducted, or, when appropriate to consider, has significantly improved performance at the time of award.
- Be employed by the ASRS on the scheduled payment date. An employee will not receive any payment or award, either in full or on a pro-rated basis, if they separate for any reason, including resignation, retirement, disability, death, or involuntary termination, prior to the established date of payment.

The following employee groups are not subject to the criteria nor are eligible for award under the compensation strategies as outlined in this plan:

- Board of Trustees members.
- ASRS director, deputy director, and chief investment officer.
- ASRS senior managers[2].
- ASRS employees who are considered investment professionals and *whenever an ASRS Incentive Compensation Plan for Investment Professionals is actively implemented and an employee has not opted out of that plan* (see Meritorious Service Leave as an exception).
- Interns.
- Employees hired as a temporary appointment.

Communication Plan

The ASRS will utilize *InfoQuest (IQ)*, the web-based intranet content management system, and email to communicate information relating to the Compensation Strategies Fiscal Year 2015 to all agency employees.

An employee who has been identified as a recipient of an award will be advised, in a timely manner, of the incentive or leave that will be awarded either via written communication or during a one-on-one discussion with a supervisor, manager, senior manager, or executive management.[3]

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[1] A team is defined as any group of ASRS employees working together.
[2] A senior manager is an assistant director, the chief of internal audit, or the chief of administrative services.
[3] Executive management includes the director, deputy director, and chief investment officer.

1. GOAL-BASED INCENTIVE

Purpose

The purpose of a Goal-Based Incentive is to provide ASRS management the opportunity to recognize and reward an employee, team, business unit, or division based on their contribution to the ASRS's ability to achieve the priorities, goals, and objectives outlined in the ASRS Five-Year Strategic Plan and Operational Goals and Objectives[4].

Eligibility

- All ASRS employees who meet the general ASRS Compensation Strategies eligibility criteria, ***and***
- An employee who has demonstrably contributed toward the achievement of specific, measureable, and quantitative process or behavioral performance objectives established during the applicable measurement period (monthly, quarterly, semi-annual, and/or annual basis, as appropriate).

Award Criteria

- Achievement by an individual, team, business unit or division of established process or behavioral performance objectives.

The ASRS's approach to achieving success is outlined in the ASRS Operational Goals and Objectives. The strategic goals that apply to each ASRS division are as follows:

ASRS Division	Applicable Goal(s)
Administrative Services	4, 10
Director's Office/Internal Audit	1, 10
External Affairs	1, 2, 5, 8, 9
Financial Services	2, 5, 6, 7
Member Services	2, 5, 6
Technology Services	5, 6, 7, 8, 10

For each of the goals, the ASRS has identified key performance objectives for each of the business functions that must work together to successfully achieve the goal.

Senior managers, in consultation with the Strategic Planning and Analysis program manager, will work with supervisors and managers to confirm the set of process or behavioral performance objectives and identify the individual, team, business unit, or division to which the objectives may apply during the measurement period, as well as the proportional weighting each objective will be considered. Levels of performance required will be evaluated, and as appropriate, new performance targets or objectives will be established to motivate, direct, and energize performance to further enhance overall performance.

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[4] The ASRS Five-Year Strategic Plan and Operational Goals and Objectives are available on IQ or on the ASRS public website.

Performance targets must be clear, attainable, measurable, and contribute toward the ability of the agency to achieve one or more priorities, goals, and objectives outlined in the ASRS 5-year Strategic Plan.

Selection Process

- An immediate supervisor, manager, and senior manager, in consultation with the Strategic Planning and Analysis program manager, as appropriate, will review the performance results and relevant factors to determine proposed award amounts.
- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification and supporting documentation, and submit for review by the deputy director. If the request is initiated by the deputy director, the ASRS director or designee will review.
- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- Up to 2% of base pay – demonstrably contributed to the ability of the individual, team, business unit, or division to achieve established objective(s)
- Up to 4% of base pay – significantly contributed to the ability of the individual, team, business unit, or division to achieve established objective(s)

Additional Requirements

- No employee will receive a percentage amount equal to more than $3,000 per year.
- The incentive payment will be distributed in a one-time lump sum after the end of established measurement periods.
- An award will be prorated for less than full-time employees.

2. MERIT-BASED INCENTIVE

Purpose

The purpose of a Merit-Based Incentive is to provide ASRS management the opportunity to recognize and reward an employee based on their MAP performance evaluation and for meeting or exceeding established competencies and performance period results.

Eligibility

- An ASRS employee who meets the general ASRS Compensation Strategies eligibility criteria, ***and***
- An employee who has successfully completed one year of employment at the ASRS

Award Criteria

- An employee receives an overall rating of "Meets Expectations" or better on the most recent performance review using MAP.

Selection Process

- A supervisor and employee will complete a performance evaluation using the MAP system, following the guidelines and requirements established for the State Personnel System.
- An immediate supervisor, manager, and senior manager, in consultation with the Human Resources manager, will review the evaluation results and establish an appropriate differentiation in employee performance and relevant factors to determine proposed award amounts.
- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by the deputy director, ASRS director or designee.
- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- 0% of base pay - Received a rating of Needs Improvement on any factor
- Up to 2% of base pay - Received an overall rating of "Meets Expectations" or better
- Up to 4% of base pay - Received an overall rating of "Exceeds Expectations"

Additional Requirements

- The incentive payment will be distributed in a one-time lump sum.
- This Merit-Based Incentive may not be used to provide uniform awards for all employees across the agency. Given this incentive's purpose, criteria, and selection

process, the ASRS anticipates a distribution as follows:

Merit-Based Incentive (as percent of base pay)	% Employees Eligible to Receive
0%	10%
Up to 2%	70%
Up to 4%	20%

3. SPOT INCENTIVE

Purpose

The purpose of a Spot Incentive is to provide ASRS management the opportunity to recognize and reward an employee or team for extraordinary achievements that go beyond the everyday work approach and that result in efficiencies, cost savings, or improved productivity.

Eligibility

- All ASRS employees and teams who meet the general ASRS Compensation Strategies eligibility criteria.

Award Criteria

- Achievement by an individual or team that results in efficiency, cost savings, or improved productivity. For example, making a process more efficient, implementing a cost-savings idea, or completing a significant project.

Selection Process

- Information justifying an award, including details of actions taken and the method for determining the level of impact will be provided by someone who is in a position of authority. Typically this is an individual who is an immediate supervisor, manager, or senior manager. The individual may also be the deputy director, chief investment officer (CIO), ASRS director, or a staff representative in a program area that has responsibility in the administration of a policy, procedure, or program.
- The requesting supervisor/manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by a senior manager. If the request is initiated by a senior manager, the deputy director or designee will review. If the request is initiated by the deputy director or CIO, the ASRS director or designee will review.
- The ASRS director and/or deputy director has final authority to approve an award.

Awards

- Tier 1: $100 - Level of impact deemed Notable (or 4-8 hours of Meritorious Service Leave)
- Tier 2: $250 - Level of impact deemed Superior (or 9-16 hours of Meritorious Service Leave)
- Tier 3: $500 - Level of impact deemed Extraordinary (or 17-24 hours of Meritorious Service Leave)

Additional Requirements

- No employee will receive more than a total of $2,000 or 24 hours of Meritorious Service Leave per year (see also Meritorious Service Leave strategy).
- The use of Meritorious Service Leave in lieu of a dollar amount may be awarded by executive management only; however, no more than 5% of ASRS employees may

receive Meritorious Service Leave under this compensation strategy (see also Meritorious Service Leave strategy).

- The incentive payment will be distributed in a one-time lump sum, as close as possible to the achievement that warrants the recognition.

Given the Spot Incentive's purpose, criteria, and selection process, the ASRS anticipates that no more than approximately 25%-30% of ASRS employees will receive an award for an individual achievement. Because of the ASRS's team approach to project management with the sponsorship or participation of employees in a supervisory position, the ASRS anticipates that an additional 25%-30% of ASRS employees may receive an award for a team achievement.

4. CONDITIONAL RETENTION PAY INCENTIVE

Purpose

The purpose of a Conditional Retention Pay Incentive is to enhance an employee's pay based on the use of specialized skills and knowledge that are in high demand as the challenge to employ top talent intensifies. This incentive will assist the ASRS in remaining a competitor in both the local and retirement industry job markets and in retaining experienced employees in critical positions. The end result will be stabilizing program areas that have a prominent impact on service and operations and where the agency is experiencing high and undesirable turnover without creating inequities in base pay for like positions across the agency.

Eligibility and Award Criteria

- An ASRS employee who meets the general ASRS Compensation Strategies eligibility criteria, ***and***
- The position, as well as the employee in the position, are identified as critical due to skill set and direct impact on the business operations necessary to achieve ASRS strategic objectives and priorities, such that a voluntary exit would create a significant decrease in productivity and create or increase additional administrative costs

An employee who is in a supervisory or management position is not eligible for an award under this compensation strategy.

Selection Process

- The senior managers, in consultation with the ASRS director, deputy director, and Human Resources manager will determine the positions and number of positions eligible for the incentive.
- The senior manager will complete an ASRS Personnel Action Request (PAR) form, including the justification, and submit for review by the deputy director, ASRS director or designee.
- The ASRS director and/or deputy director has final authority to approve an award and the amount of the award.

Awards

- Up to 5% of base pay – paid in a one-time lump sum

Additional Requirements

- No employee will receive an amount equal to more than 5% of base pay per year.

5. MERITORIOUS SERVICE LEAVE

Purpose

The purpose of Meritorious Service Leave is to provide ASRS management the opportunity to recognize and reward an employee or team for exemplary service and performance. The ASRS will utilize the *ASRS Employee PRIDE Rewards and Recognition Program* to guide the use of this incentive and to motivate the workforce. With our values-focused brand of *Delivering Service with PRIDE*, the ASRS is promising its employees, members, employers, vendors, and other constituents that we will deliver professionalism, results, improvement, diversity, and excellence in all we do.

Eligibility

- All ASRS employees and teams who meet the general ASRS Compensation Strategies eligibility criteria, ***or***
- An ASRS employee who is considered an investment professional, whether or not the *ASRS Incentive Compensation Plan for Investment Professionals* is actively implemented and whether or not the employee has opted out of that plan, ***and***
- An employee or team who is nominated for a PRIDE Value award.

Temporary staffing resources, interns, vendor staff, and consultants are not eligible for the incentive and may not nominate nor be nominated nor participate in the selection process.

Award Criteria

- The criteria outlined in the Spot Incentive strategy, ***or***
- Award criteria consistent with the core values of **P**rofessionalism, **R**esults, **I**mprovement, **D**iversity, and **E**xcellence. Examples of specific measures or results are as follows:

PRIDE Value	Award Criteria	
Professionalism	Employee/Team: • Displays positive demeanor (friendly, responsive, courteous) even when confronted by adversity • Has subject matter expertise • Possesses good communication and active listening skills • Is a trusted contributor (manager, leader, SME, analyst, teammate)	• Takes personal accountability • Has proactive and responsive approach to internal and external customer needs • Has critical thinking skills • Has an honest, fair and non-judgmental mind-set • Is adaptable to change that benefits members, associates and stakeholders • Adheres to the Code of Conduct
Results	Employee/Team: • Meets goals and objectives • Satisfies customers • Completes projects	• Attains individual accomplishments • Produces quality work products • Successfully manages risks
Improvement	Employee/Team: • Promotes new ideas • Solves problems • Enhances outcomes and performance	• Improves relationships • Enhances morale • Increases efficiency, effectiveness or reduces costs
Diversity	Employee/Team:	• Recognizes and promotes new skills in

	• Exhibits an attitude of openness to encourage a free flow of ideas and opinions • Works effectively to accomplish goals with teams comprised of dissimilar individuals or groups	others attained on and off the job to achieve desirable results • Treats others with dignity and respect
Excellence	Employee/Team: • Surpasses member, stakeholder and associate expectations • Embraces positive changes in a manner that inspires others • Demonstrates a willingness to go the extra mile to engender a positive public image that solidifies the perception the ASRS is a trusted brand that members, stakeholders and associates will recognize • Accepts personal responsibility and challenges with enthusiasm	• Creates a motivated, healthy and productive work environment that celebrates and rewards the accomplishments and contributions of others • Takes a personal interest in promoting teamwork through effective use of communication methods within the ASRS to ensure the effective flow of information and knowledge (This includes verbal, non-verbal, written and technological communication techniques)

Selection Process

- The selection process outlined in the Spot Incentive strategy, ***or***
- On a bi-monthly basis, electronic nomination forms for one featured PRIDE Value will be emailed to all ASRS employees. All ASRS employees may submit nominations until the identified due date. In writing the nomination, employees are encouraged to:
  - Describe what they personally observed, heard or experienced
  - Provide specific examples of the demonstrated behavior(s)
  - Explain the impact on co-workers, members or the agency
- Human Resources will review all nominations to ensure nominees' eligibility.
- All eligible nominations will be placed in a survey.
- The survey will be distributed to all ASRS employees who may score each nomination using a scale of one to ten.

Awards

- The awards outlined in the Spot Incentive strategy, ***or***
- Up to 8 hours of Meritorious Service Leave, as determined and granted by the ASRS director and/or deputy director.

Additional Requirements

Meritorious Service Leave awarded under this plan is subject to the following:

- No employee will receive more than 24 hours per fiscal year
- No more than 5% of ASRS employees may receive Meritorious Service Leave under the Spot Incentive strategy (see also Spot Incentive strategy and Exceptions to Limits below)
- Leave will be prorated for less than full-time employees
- The employee must use the leave within 12 months
- Leave will not be paid out or transferred upon separation

Exception to Limits
The established guidelines provide that no more than 5% of an agency's employees may receive Meritorious Service Leave and that each employee may receive no more than 24 hours per year. Under those parameters, the ASRS, which currently has 247 authorized positions, has the ability to award Meritorious Service Leave to approximately 12 employees (or potentially 288 hours in terms of total maximum hours).

Under the *ASRS Employee PRIDE Rewards and Recognition Program*, paid leave is among the possible awards that may be given to nominees and winners as an acknowledgment of exemplary service or contributions. The ASRS has established work units and often utilizes project teams comprised of more than 12 staff members. Based on past results and the program outline, the ASRS anticipates having the opportunity to award up to approximately 288 hours (8 hours for each recognized PRIDE Value nominee or winner) of Meritorious Service Leave.

For the purposes of leave granted as a result of the formal *ASRS Employee PRIDE Rewards and Recognition Program*, the ASRS may grant leave to more than 5% of the agency's employees. This flexibility, in conjunction with other strategies outlined in this plan will assist the ASRS in retaining key employees, encouraging employee productivity, and improving quality service as a state agency to our members, participating employers, and the public.

Exhibit 12

The Four Cornerstones of Reform

Third Cornerstone of Reform: State Government - Personnel Reform

Provisions of Personnel Reform Legislation

Consolidate Personnel Systems

- The personnel systems within the Executive Branch listed below will be consolidated into one system called the State Personnel System.
    - ADOA Personnel System, which includes 91 state agencies, boards and commissions
    - Department of Gaming
    - Department of Tourism
    - Governor's Office
    - Secretary of State
    - Arizona State Retirement System
    - Public Safety Personnel Retirement System
- The Department of Public Safety will maintain a separate personnel system for its employees.

Transition to At-Will Workforce

- Beginning September 29, 2012, the following individuals would become at-will uncovered:
    - New hires
    - Supervisors
    - Employees employed as attorneys
    - Employees employed in information technology positions
    - Employees in grade 19 and higher positions
    - A covered employee who voluntarily elects to become uncovered
    - A covered employee who voluntarily accepts a new assignment (e.g. promotion, transfer)
- A current covered employee that does not meet the criteria listed above shall remain covered as long as the employee continues in covered status without a break in service.
- Employees in positions that require full authority peace officer certification and employees in Correctional Officer I, II or III and Community Corrections Officer positions will retain their current covered/uncovered status unless the employee in the position elects to become uncovered.

Director Term and For Cause Provisions

- With the exception of the DPS Director, eliminates agency director terms and removal for cause provisions.
- Allows current directors with term provisions to continue to serve until the expiration of their term.
- Modifies the term of the DPS Director; serves concurrently with the appointing Governor.
- Amends the appointment of the director of the Industrial Commission by adding subject to Senate confirmation; the Director serves at the pleasure of the Governor.
- Amends the authority to appoint the Executive Director of Arizona State Parks to the Governor pursuant to A.R.S.§38-211; the Director serves at the pleasure of the Governor.

Search Committees

- Eliminates requirements for search committees of Cabinet Agency Directors and for the Board of Executive Clemency.

Hiring Practices

- Requires ADOA to develop procedures and standard forms for all agencies to use to verify education and work history of applicants.

Compensation

- Makes conforming changes to agencies' statutes that ADOA salary schedules are mandatory for all employees except those specifically exempted.
- Except for state employees engaged in law enforcement, probation officer and firefighting activities, eliminates the requirement for employees exempt from the Fair Labor Standards Act (FLSA) to receive leave for each hour worked over 40 hours in a work week.
- Subject to ADOA approval, allows agencies to spend monies for travel expenses associated with interviewing out-of-state candidates and relocation expenses if an out-of-state candidate is appointed; agencies must report by September 1 each year to OSPB and JLBC if any monies are spent for this purpose.
- Defines the state workweek with specific provisions for Department of Corrections.
- Allows for incentive compensation plans for investment-related positions at ASRS and PSPRS and requires ASRS and PSPRS to file a copy of the plan with the Governor, President of the Senate, Speaker of the House of Representatives, OSPB, JLBC and ADOA. Allows for special pay plans and employment contracts for certain positions at ASRS and PSPRS.
- Repeals teacher/school staff salary study by ADOA (A.R.S.§15-1331).

Administrative Leave

- Requires agencies to report to ADOA if an employee is placed on administrative leave with pay during any investigation if the leave totals 80 hours or more. Agencies must report on a weekly basis thereafter until the administrative leave is terminated.
- Requires approval from ADOA if administrative leave exceeds 30 days.

Employee Complaints

- Requires ADOA to establish procedures for reviewing harassment and discrimination complaints filed by employees.
- Whistleblower Complaints:
    - Increases the penalty for an employee who is found by the Personnel Board to have knowingly committed a prohibited personnel practice against an employee who disclosed information evidencing a violation of a law; penalty includes paying a civil penalty of $10,000 (currently $5,000), immediate dismissal, and removal from future consideration for state employment.
    - Allows a court to award reasonable attorney fees to an employee/former employee who prevails in a civil action concerning a whistleblower claim, up to $10,000.
    - Modifies the level of superior court review for whistleblower complaints from a trial de novo to a review of the administrative hearing record.

Disciplinary Actions

- With the exception of certain positions, establishes a requirement that all suspensions over 80 hours, demotions and dismissals be reviewed by ADOA prior to implementing the adverse actions.

State Personnel Board

- Increases the threshold for appealing suspensions from greater than 40 to greater than 80 hours.
- Modifies the Board's authority. The Board shall affirm the agency's decision unless the decision was arbitrary and capricious. If the Board finds the decision arbitrary and capricious or the agency has not proven by a preponderance of the evidence the facts, the Board may recommend the agency modify the disciplinary action; if cause did not exist, the Board must reverse the agency decision; the agency head shall make the final decision.
- Modifies the compensation of the Board members from $30/day to $100/day.

Law Enforcement Merit System Council

- Increases the current Law Enforcement Merit System Council (LEMSC) from three members to five members; with staggered terms, and reduces term of members from six to three years.
- For DPS employees, the Council:
  - Continues to adopt rules, administer classification, compensation and performance management systems
  - Continues to hear appeals
    - Modifies the Council's authority. The Council shall affirm the agency's decision unless the decision was arbitrary and capricious. If the Council finds the decision arbitrary and capricious or the agency has not proven by a preponderance of the evidence the facts, the Council may recommend the agency modify the disciplinary action; if cause did not exist, the Council must reverse the agency decision; the agency head shall make the final decision. If the Director does not accept the Council's recommendation, the Director shall state the reason(s) for rejecting the recommendation.
- A non-DPS covered full authority peace officer in the State Personnel System would be able to appeal a suspension of more than 40 hours, demotion or dismissal to LEMSC instead of the State Personnel Board.
- Provides for the compensation of the Board members of $100/day (currently only eligible for reimbursement of expenses).

Reduction in Force

- For covered employees, retention will be based on the employee's performance and not on seniority; prohibits an agency from adopting policies that provide retention based on tenure or seniority.

Miscellaneous

- Makes conforming changes to agencies' statutes that agency employees are subject to the new state personnel system article.
- Requires agencies to treat employees in accordance with guiding principles except those specifically exempted.
- Authorizes the reduction in state office hours to implement furloughs if necessary.
- Provides exemption from rule making requirements.
- Changes the date in which ADOA is required to submit an annual report on the financial status of the special employee insurance trust fund from March 1 to July 1.
- Effective September 29, 2012.

Exhibit 13

Pensions&Investments

Paying for performance

By: Pensions & Investments
Published: June 10, 2013

Roger Schillerstrom

Public pension funds face the challenge of competing with the private sector to recruit and retain investment talent.

Trustees overseeing billions in pension assets have a constant struggle to find and hire staff in investment positions that command much greater compensation in the market than typical public-sector pay levels.

These trustees must make the case to politicians and the public that competitive salaries for public fund investment professionals are likely to pay off in the long run in lower contributions from taxpayers.

Investment returns provide most of the funding to finance retirement benefits, according to National Association of State Retirement Administrators. Reaching investment objectives makes pension promises more secure by lifting the level of funding, and might reduce needed contributions.

Trustees have a responsibility to make sure their funds perform well by taking advantage of the opportunities in the investment markets to achieve return goals at acceptable risk levels.

Funds need to take some risk to meet their investment objectives, especially in the current investment environment of low fixed-income returns and volatile equity markets. Many seek to meet their investment return assumptions by diversifying into alternative investments, from real estate and private equity to hedge funds and real assets.

As Bernard J. “Jerry” Allen, executive director of the $4.6 billion City of Milwaukee Employes' Retirement System, said, without appropriate professionals overseeing assets, “it's like riding on a freeway in a tricycle. You don't belong there. You don't have the wherewithal to keep up with traffic.”

Funds need to navigate against the headwinds of the markets to reach their destination, their goals. They risk major losses, or at least failing to meet actuarially assumed returns — and thus the need for higher contributions — by sailing in volatile seas without modern navigation equipment, sails, rudder, radar, anchor and the crew to use them effectively.

But pay at many public pension funds hasn't kept up with the market, putting the funds at risk of losing needed talent. To address the situation, some systems have put into place, or proposed, new compensation structures, including incentive pay, to better align the interests of the investment staff and the objectives of the funds.

The $168.5 billion Florida State Board of Administration, Tallahassee, is considering a restructuring of its pay for its 194-member staff. Most of them haven't had a pay raise since 2009. Ashbel C. Williams Jr., executive director and chief investment officer, hasn't had a change in pay since he rejoined the system in October 2008. In 2009, Mr. Williams scrapped the FSBA's incentive pay program because it wasn't well aligned with the interests of the board or staff. The proposed structure could raise the combined annual base salary and incentive award of Mr. Williams by 70.3% to $553,500. That would place him only in the middle of the pay scale for the chief investment officers of the five largest U.S. public funds, excluding the FSBA.

Last December, the $52 billion Massachusetts Pension Reserves Investment Management Board, Boston, approved a compensation structure geared toward helping recruit and retain investment professionals, as reported in *Pensions & Investments*. And in April, as *P&I* also reported, 22 staff members of MassPRIM received raises. In a letter about the raises, Michael Trotsky, executive director and CIO, noted “there have been no across-the-board staff compensation adjustments at PRIM since 2006.”

Some public funds face more challenges than others in recruiting and retaining staff. In New York and Boston, among centers of the money management industry, public fund talent can walk across the street to much-higher-paying positions without disrupting their personal lives.

Mary Hobson, executive vice president and managing director of the Colorado office, pensions and benefits practice, EFL Associates, said it's hard to generalize about the competitiveness of pay at public funds. Some public systems pay at competitive levels, while others don't, she said, describing FSBA's current compensation as “incredibly low.” Pay isn't the only driver in attracting talent, Ms. Hobson notes. Public systems can promote their job security and retirement benefits.

Gary Findlay, executive director of the $8.1 billion Missouri State Employees' Retirement System, Jefferson City, wrote in an e-mail in response to a request for comment: “The biggest challenge is competing with the private sector for the talent you need to generate good nominal and risk-adjusted return levels. Maintaining the right talent is critical because every additional dollar in return is one dollar less that is needed from the taxpayers to properly finance retirement benefits. ... The conflicting irony is that it's generally viewed as being OK to pay private-sector people at private-sector rates but not pay comparable talent inside a quasi-governmental organization at even a fraction of those levels.”

Well-structured, competitive compensation is part of good governance. Public funds with less qualified investment staffs risk not meeting their objectives in an environment of ever more complex investment strategies in markets that trade faster.

To meet objectives in investments and funding, trustees have to decide what resources they can bring to bear to compete in the capital markets for talent. Public fund trustees need to develop appropriate governance budgets of necessary resources to oversee their assets, from compensation to system technology. If funds don't have the appropriate governance budgets, they shouldn't move to more sophisticated asset allocations.

Simpler asset allocation might be more appropriate, although it could come with the cost of lower results and lower actuarial assumptions, causing higher contributions. Talent not up to the appropriate level of a fund's structure can raise funding cost by underperforming benchmarks.

To ease public concern, trustees ought to move more of total compensation to performance-based pay. Trustees must take care in designing compensation structures, properly aligning all the interests, especially in incentive compensation, so as to encourage only prudent risk taking. Incentive pay can promote better accountability and oversight of assets and it compels trustees to think intently about investment performance and risk levels.

In addition, trustees need to be more transparent to the public about the design of pay programs and should explain why competitive pay for investment professionals makes sense.

High pay doesn't guarantee outperformance, but without competitive pay, funds become more vulnerable to the costs of underperformance and higher employee turnover, leading to higher contributions.

When funds do outperform, “virtually all excess value (is) retained by the pension fund,” according to a 2009 report by McLagan, a compensation consulting firm and unit of Aon PLC.

That is good for taxpayers and beneficiaries alike. n

Original Story Link: http://www.pionline.com/article/20130610/printsub/306109997

Exhibit 14

THE NAPPA REPORT

Volume 26, Number 2 **May 2012**

IN THIS ISSUE:

NAPPA Website: www.nappa.org

New Governance Models Pay Off For Pensioners:
The American vs. Canadian Pension Fund Experience

By
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The Fall of 2008 marked the beginning of some tough times for North American pension funds. Global and domestic markets crashed, assets depreciated, and funds were left with nowhere to hide. The result is that many funds reported significant losses in their overall portfolio in 2008 and 2009. Since then, many pension funds are currently underfunded and are struggling to regain their footing in today's shaky investment environment.

Robert Novy-Marx and Joshua D. Rauh's 2010 Journal of Finance paper, *Public Pension Promises: How Big Are They and What Are They Worth?*, reported that the 50 U.S. states collectively faced $3.2 trillion in pension obligations in 2009, but they only had $1.94 trillion set aside in state pension funds. The following year, the PEW Center released, *The Widening Gap*, a study that reported that 48 public sector state pension funds were underfunded in 2009. By 2011, the Organization for Economic Co-operation and Development (OECD) study, *Pension Markets in Focus*, reported that as of last year, U.S. funds were still cumulatively 3% below 2007 asset levels.

Compounding this problem even more is the fact that American demographers anticipate that there will be vast number of baby boomers on the cusp of retirement, within the very near future which could result in a significant demand for pension payouts. According to the U.S. Census Bureau, as of 2010, 13% of the U.S. population was age 65 and older, equating to 40.3 million Americans. It is estimated that this number will more than double to 89 million by 2050.

Overall, it is easy to see why so many pension funds are currently concerned about future sustainability.

Outsourced History

Pension funds have always been committed to meeting their pension promise, but historically played the role of an administrator rather than the role of an investor. The vast majority of today's American funds primarily manage the administrative functions related to member relations, contribution collection, and pension payouts and then outsource the majority of their investment responsibilities.

Investment management expertise in pension funds is rare due to the historical practice of outsourcing majority of this work to external, third-party, money managers. The end result of this practice is that funds have historically had an arm's length control over investment activities and pay out tremendous amounts in management fees related to the size of assets allocated to third party managers.

The common trend in the asset management industry is for funds to pay a 2% fee on the total amount of assets outsourced as well as a 20% performance fee on any returns that are above a preferred rate of return. For example, a large fund that regularly contract out management of $20 billion of assets to third-party investment managers will normally pay a minimum of $400 million in annual management fees regardless of whether the outside investment activities result in positive returns for pension members.

In 2011, Alexander Dyck and Lukasz Pomorski at the University of Toronto's Rotman School of Management, released a study entitled, *Is Bigger Better? Size and Performance in Pension Plan Management*. One of their conclusions is that funds that depend on external or passive management tend to spend more to realize similar returns to those who manage in-house. Their findings concluded that organizations that do not possess internal expertise tend to spend three times more for the external management of active assets and five times more for the external management of alternatives.

The Transformation Experience

Most public pension funds in the U.S. are managed within government and are often just an extension of the state treasurer or comptroller office. Boards of Directors of these funds are also commonly comprised of government bureaucrat appointees and elected politicians. In Canada, public pension funds are moving away from this historic management style and are taking a more progressive approach to money management.

Canada's earliest example began in the early 1990's where Ontario Teachers' Pension Plan (Teachers) made a conscientious decision to break from tradition and run its operation more like a business rather than a government agency. One of the first steps in its transformation was to alter its governance philosophy and aggressively recruit top ranked professionals from Canada's financial, government, and business sectors. The former President and CEO of Teachers, Claude Lamoureux, notes in his paper *Effective Pension Governance: The Ontario Teacher's Story* that he originally declined the CEO position but later accepted under the condition that he be allowed to run Teachers like a business. When asked by the Chairman, Gerry Bouey, what he meant by this, he responded with a list of items that included his intention that Teachers "would have a compensation plan that would be reasonably competitive and include incentives." Upon accepting the position, Lamoureax had board support for a new management philosophy which enabled him to immediately hire a Chief Investment Officer and then build up an internal investment team.

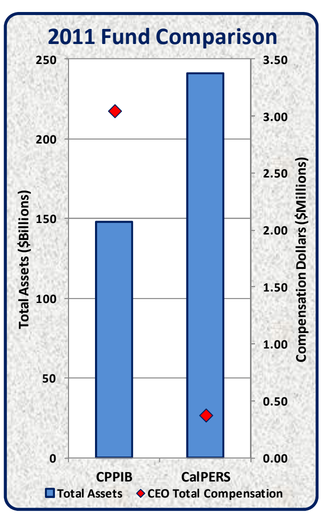
It is hard for stakeholders and Boards of Directors to embrace the understanding that higher compensation levels are required to attract and retain top talent. However, once Teachers' broke the barriers and began realizing the benefits, it did not take long for other Canadian pension funds such as the Canada Pension Plan Investment Board (CPPIB), Ontario Municipal Employees Retirement System (OMERS), Caisse de dépôt et placement du Québec (Caisse), and most recently Alberta Investment Management Co. (AIMCo) to follow.

During their transformations, each pension fund altered its governance philosophy, adopted market competitive compensation levels and incentive designs, recruited top talent, and internalized most, if not all, of their investment activity and expertise. As well, most of the transformed Canadian pension funds established strong teams of top investment professionals in strategic locations throughout the world and are now significant players in the world's M&A market. Over the last few years, these Canadian funds have successfully recruited professionals from London and New York and from organizations such as Goldman Sachs and Morgan Stanley which is most often unheard of within our U.S. pension market.

Competition for Talent

Establishing market competitive compensation was a key factor in the recruitment of talent. The gap for talent is clear when comparing the compensation within the two countries' (Canada and U.S.) largest pension funds – the California Public Employees' Retirement System (CalPERS) and CPPIB. In 2011 CalPERS had approximately $242 billion in total assets while CPPIB had $148 billion. Marc Lifsher, of the Los Angeles Times states in his article, *CalPERS awards $4.5 million in bonuses to managers*, that CalPERS' CEO, Anne Stausboll, received a base pay of $283,500 along with a bonus of $96,638 in 2011 which represents a total of $380,138 in received compensation. Comparatively, during that same year, CPPIB's annual report states that its President and CEO, David Denison, received a total of $3.05 million in salary and bonuses – approximately eight times larger than CalPERS.

As of the beginning of 2010 there were 11,677 private, state, local, and federal government pension funds throughout the country according to U.S. Census Bureau. If the Canadian transformation experience inspires U.S. pension funds to change their management approach, it is easy to see how demand for global investment talent could escalate as a result.



Realized Returns

Even with today's volatile investment environment, these Canadian pension funds are significantly benefitting from their new approach. The 2011 OECD study, *Pension Markets in Focus*, reported that their analysis showed that by the end of 2010, pension funds in most OECD countries had recovered from 2008 losses - Canadian pension funds are part of this group. Out of 29 select countries, Canadian pension funds were ranked 5th in overall returns while U.S. pensions fall well behind in 20th position. Part of this success should be attributed to the performance realized by Canada's transformed pension funds. In 2010 the average total pension return was 13.02% for the five transformed Canadian funds and by 2011 all five not only recovered from their 2008 and 2009 losses, but had surpassed their 2007 pre-crash asset levels.

By recruiting the expertise that they now have, transformed pension funds are not only saving significantly on management fees but are also repurposing their savings into additional investment opportunities. Janet McFarland's Globe and Mail article, *Canada's pension funds perform, at a cost*, notes that pension specialist Keith Ambachtsheer, director of the International Centre for Pension Management, supports this practice and claims that despite the higher salary costs in Canada, internal management has been a bigger advantage than it has been a cost. "OMERS, Teachers, CPPIB – they have all developed internal teams that are as good as anybody around the world in terms of assessing a project, pricing it, [and] doing risk analysis."

Savings aside, the new internal skill set has also enabled these funds to become major players in the global investment community at a time when governments around the world are looking for outside investors to help with asset and infrastructure costs. As stated in Pav Jordan and Andrea Hopkins' Financial Post article, *Canada's pension funds showing growing dominance*, "large, aggressive and patient, [transformed Canadian pension funds] are pushing into a financing vacuum that neither cash-strapped governments nor private equity alone can fill. Their power is a challenge to the world's biggest sovereign wealth funds and it is enabling the Canadians to take on the occasional role of activist investor."

Compensation and Incenting Performance

Considering the gap between public and private compensation practices, CalPERS lists a number of external equity managers that it currently uses. Of the list of six domestic companies, three are publicly listed. Their 2011 proxies note that in the previous year Richard Penza, CEO of Penza Investment Management made $1,392,737; James Kennedy, CEO and President of T. Rowe Price Group Inc. made $7,136,137; and James Dimon, Chairman and CEO of JP Morgan Chase & Co., made a cumulative total of $20,816,289. All three are a far cry from what CalPERS paid its CEO that same year. However, one could argue that CPPIB's CEO is at least at the table when it comes to competing with private sector compensation.

Furthering this gap, it is a general belief in the compensation advisory world that 10% of a person's base salary is the absolute bare minimum that can be used as an incentive. Our firm's observation is that anything below 10% is not substantial enough to incent positive changes in behaviour. Given that this is the bare minimum, it is not surprising to see that most public pension funds still espouse to follow public sector practices and offer incentives that are still relatively low in comparison to overall compensation levels and in some cases fall close to the 10% bare minimum.

Contrary to this, transformed Canadian pension funds have adopted stronger performance-based incentive plans that are much more in line with private sector practices. Claude Lamoureux, recounts the evolution and adoption of a new incentive design in his previously mentioned paper. He states that:

"The compensation program saw a number of changes over the years, but the basic principles were the same. The higher you were in the organization, the more your compensation depended on total results. People had to add value to be rewarded and this had to be sustained over time. Also, unlike many financial institutions, both our short-term and long-term incentives take into account several years of results. It is very important for the organization to get the right types of incentives."

The result is that all five of the transformed funds now have compensation plans that place far greater emphasis on incentive pay over base compensation. Similar to private sector practice, incentive levels in these organizations now make up 50 to 80% of executive total annual pay which acts as a significant motivator and further links pay with performance. Likewise, these pension funds not only instituted stronger annual incentive plans that better align with short-term objectives, they have also adopted long-term incentive plans that help to protect and strengthen the long-term sustainability demands for their pension members.

Will to Follow

Overall, the transformation of Canadian public pension funds has paid off and benefited Canadian pension members in a substantial way. Adopting private sector governance practices have enabled them to attract, retain and incent high performance talent within their respective organizations. Operating costs are lower and these funds are now regarded as highly esteemed players in the global investment community. Unfortunately, in many respects, most U.S. pension funds have lagged behind in their governance practices and as a result are falling behind in sustaining their pension promise. Fortunately, as the Canadian experience has shown, even in today's volatile investment environment, changes in organizational governance can definitely lead to strong rewards, higher returns and strengthened sustainability for today's' struggling pension funds. If U.S. pension funds wish to meet their members' future pension demands, they need to become competitive players in the world's financial community. If smaller Canadian pension funds have successfully accomplished this, certainly our U.S. public pension funds should have the capacity and the will to follow.