

# GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments and institutions, the FY 2023 General Appropriation Act provides direction regarding several general provisions.

## General Provisions

**Statewide Adjustments** — Each individual agency narrative refers to the allocation of statewide adjustments. The *Agency Detail and Allocations* section includes the specific adjustments for each agency.

Section 123 of the General Appropriation Act makes statewide adjustment net increases totaling \$32,269,100 from the General Fund and \$42,450,000 from Other Appropriated Funds in FY 2023 for changes in 9 areas:

- **Employer Health Insurance Contribution Increase:** \$63,244,800 General Fund and \$40,000,000 Other Appropriated Funds for a one-time increase in the employer contribution rates for employee health insurance. *(Please see Health Insurance discussion below for more details.)*
- **University Health Insurance Backfill:** \$40,033,000 General Fund a one-time increase to backfill university tuition for the employer contribution rate increase for employee health insurance. *(Please see Health Insurance discussion below for more details.)*
- **Retirement Adjustments:** \$17,218,500 General Fund and \$(2,100,000) Other Appropriated Funds for retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Retirement Payoff Adjustments:** \$(98,119,900) General Fund for retirement contribution rate adjustments as a result of pension liability debt payoff from the FY 2022 budget. *(Please see State Retirement Systems below for more details.)*
- **Information Technology (IT) Pro Rata Adjustments:** \$1,618,000 General Fund and \$1,000,000 Other Appropriated Funds for adjustments to IT pro rata adjustments. *(Please see Information Technology Planning below for more details.)*
- **Arizona Financial Information System Adjustment:** \$330,900 General Fund and \$400,000 Other Appropriated Funds for adjustments to agency Arizona Financial Information System (AFIS) charges. *(Please see the Arizona Department of Administration (ADOA) narrative for more details on AFIS charges.)*
- **Human Resources Information System Adjustment:** \$8,011,400 General Fund and \$5,000,000 Other Appropriated Funds for adjustments for a charge to agencies to replace the Human Resource Information

System (HRIS). *(Please see the Arizona Department of Administration (ADOA) – Automation Projects Fund narrative for more details on HRIS charges.)*

- **Agency Rent Adjustments:** \$(695,600) General Fund and \$(2,300,000) Other Appropriated Funds for adjustments associated with relocation to and within state-owned and lease-purchase buildings. *(Please see Building Payments below for more details.)*
- **State Fleet Rate Adjustments:** \$628,000 General Fund and \$450,000 Other Appropriated Funds for adjustments operating the state motor pool fleet in ADOT.

**Employee Salary Increase** — Section 124 of the General Appropriation Act appropriates a total of \$210,372,800 General Fund and \$62,572,600 Other Appropriated Funds in FY 2023 for state employee salary increases. The pay raise is effective July 9, 2022 as follows:

- A 10% increase for state employees (excluding universities, elected officials, or otherwise noted below)
- A 20% increase for all ADC staff.
- A 15% increase for all DPS staff.
- A 20% increase for all DJC staff.
- Additional market rate adjustments above 10% for specified agencies.

The budget requires OSPB to report to JLBC on or before September 30, 2022, on the actual raises given by agency and classification. It also requires agencies to allocate this pay raise by fund and line item in their FY 2024 budget request as an adjustment for FY 2024.

Please see the *General Fund Salary Adjustments for State Employees Since FY 2013* section for other salary adjustments appropriated in agency sections.

**Expenditure Reporting** — Section 132 continues to state that it is the intent of the Legislature that all budget units receiving appropriations continue to report actual, estimated and requested expenditures by budget programs and classes in a format similar to the one used for budgetary purposes in prior years. The purpose of this section is to ensure stability and consistency in the expenditure reporting regardless of yearly changes in appropriation formats. A different format may be used if agreed to by the Director of the JLBC and incorporated into the budget instructions issued by the Governor's Office of Strategic Planning and Budgeting.

**FTE Position Reporting** — Section 133 continues to state that the Full-Time Equivalent (FTE) Positions contained in the General Appropriation Act sections are subject to appropriation. The section directs the Director of the Arizona Department of Administration (ADOA) to account for the utilization of all appropriated and non-appropriated FTE Positions, excluding FTE Positions in the Universities. The Director shall submit the FY 2023 report by October 1, 2023 to the Director of the JLBC.

The reports shall compare the level of FTE Position usage in each fiscal year to the appropriated level. This section defines FTE Positions as total number of hours worked, including both regular and overtime hours as well as hours taken as leave, divided by the number of hours in a work year. The ADOA Director shall notify the director of each budget unit if the budget unit has exceeded its number of appropriated FTE Positions. The Universities shall report to the JLBC Director in a manner comparable to the ADOA report.

**Filled FTE Position Reporting** — Section 134 continues to state that by October 1, 2022 each agency, including the Judiciary and the Universities, shall submit a report to the JLBC Director on the number of filled, appropriated and non-appropriated FTE Positions by fund source. The report shall reflect the number of filled, appropriated FTE Positions as of September 1, 2022.

**Transfer Authority** — Section 135 continues to require ADOA to provide a monthly report to the JLBC Staff on any agency transfers of spending authority from one expenditure class to another or between programs.

**Interim Reporting Requirements** — Section 136 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2022 General Fund ending balance by September 15, 2022. Based on this information, JLBC Staff shall report to JLBC by October 15, 2022 as to whether FY 2023's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 136 states the revenues are forecasted to be \$17,948,800,000 for FY 2022 and \$16,830,400,000 for FY 2023. As a result of certain bills not being passed and technical re-estimates, these figures are now \$17,948,877,400 for FY 2022 and \$16,832,370,200 for FY 2023.

Section 136 also provides revenue and expenditure estimates for FY 2024 and FY 2025 pursuant to A.R.S. § 35-125, which requires the General Appropriation Act to delineate the revenue and expenditure estimates for the budget year and the following 2 years based on existing statutory funding requirements. *(Please see the Budget Highlights section for more details on FY 2024 and FY 2025 estimates.)*

**Expenditure Authority** — Section 138 continues to state that for purposes of the General Appropriation Act, "expenditure authority" means that the fund sources are continuously appropriated monies that are included in the individual line items of appropriations.

**JLBC Review** — Section 139 continues to state that for purposes of the General Appropriation Act, "review by the Joint Legislative Budget Committee" means a review by a vote of a majority of a quorum of the members.

### **Statewide Standard Changes**

In addition to the adjustments to agency budgets and general provisions outlined previously, the FY 2023 budget reflects the adoption of technical assumptions. These technical assumptions are incorporated into each agency's individual appropriation in the FY 2023 General Appropriation Act. Statewide adjustment amounts are mentioned in any relevant agency narrative, but do not have additional discussion.

### ***Employee Related Expenditures***

**Health Insurance** — The state continues to self-insure state employee health benefits. Under self-insurance, the state assumes the risk of providing health coverage to state employees and pays the health claims directly. Therefore, if the costs of employee health coverage exceed estimates, the state will be responsible for those losses. Similarly, if the costs are less than estimated, the state will retain the savings.

Employees have a choice between a Triple Choice Plan (TCP) which has one premium incorporating 3 tiers of providers with different coverage, deductible, and out-of-pocket maximum levels, or a Health Savings Account (HSA). An HSA allows for pre-tax contributions and healthcare-related withdrawals, combined with a high-deductible coinsurance plan.

Employee and employer premiums for PY 2023 are shown in *Table 1*.

**Dental Insurance** — Employees have a choice between one Dental PPO plan and one Dental HMO plan. At the time of publication, PY 2023 Dental premium rates had not yet been set. Employee and employer premiums for PY 2022 are shown in *Table 2*.

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

<b>Table 1</b>		
<b>Health Insurance</b>		
<b>State Employee and Employer Monthly Contributions <sup>1/</sup></b>		
<b>PY 2023</b>		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Triple Option Plan</u>		
Employee	\$ 56.70	\$ 762.56
Employee Plus One Adult	154.90	1,570.44
Employee Plus One Child	124.15	1,021.37
Family	263.49	1,778.21
<u>Health Spending Account (HSA) Option</u>		
Employee	22.00	574.93 <sup>2/</sup>
Employee Plus One Adult	66.00	1,187.275 <sup>2/</sup>
Employee Plus One Child	56.10	817.65 <sup>2/</sup>
Family	122.10	1,311.23 <sup>2/</sup>

<sup>1/</sup> PY 2023 employer rates are effective July 2022 to June 2023. PY employee rates are effective January 2023 to December 2023.

<sup>2/</sup> Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.

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

**Employer Contribution Rates** — *Table 3* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2023. These rates may be different from actual funded charges (e.g., the Social Security FICA maximum may increase.) Except for life insurance, these rates are calculated as a percent of Personal Services. Except as noted, the budget does not include funding for the changes in rates.

*Life Insurance* - \$7.28 per employee per year, unchanged from the FY 2022 rate set by ADOA.

*Unemployment Insurance* - 0.10% of Personal Services for each agency, unchanged from the FY 2022 rate set by ADOA.

*Personnel Division Pro Rata* - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2022 rate established in statute. Of this amount, 0.83% is used to fund the ADOA Human Resources Division while the other 0.03% is used to fund the State Personnel Board.

The following agencies are not incorporated into state personnel system oversight and are therefore exempt from paying the pro rata charge:

- Arizona State Schools for the Deaf and the Blind
- Legislative agencies (House of Representatives, Senate, Legislative Council, Auditor General, Joint Legislative Budget Committee)

<b>Table 2</b>		
<b>Dental Insurance</b>		
<b>State Employee and Employer Monthly Contributions</b>		
<b>PY 2022</b>		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>DHMO</u>		
Employee	\$3.56	\$4.96
Employee + 1 Adult	7.12	9.92
Employee + 1 Child	6.67	9.92
Family	11.84	13.70
<u>PPO</u>		
Employee	30.98	4.96
Employee + 1 Adult	65.71	9.92
Employee + 1 Child	50.56	9.92
Family	104.56	13.70

- Judiciary (Supreme Court, Court of Appeals, Superior Court)
- Department of Public Safety
- Universities (including Arizona Board of Regents)

*Disability Insurance* - For Arizona State Retirement System (ASRS) employees, the employer pays 0.14% of Personal Services for disability insurance, a (0.05)% decrease from the FY 2022 rate. The employee rate will also decrease to 0.14%.

Employer rates in the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP) vary depending on whether the employee is participating in the defined benefit plan or defined contribution plans. For PSPRS defined-benefit employees, the employer-only disability insurance rate will be 2.41%

in FY 2023, unchanged from FY 2022; the rate for defined-contribution employees will be 1.66 % (an increase from 0.88%). For CORP defined-benefit employees, the employer-only rate is 0.32%; the rate for defined-contribution employees will be 0.44% (a decrease from 0.49%). The rate for participants in the Elected Officials' Defined Contribution Retirement System is 0.165% (an increase from 0.125%).

*Information Technology Planning* - 0.61% of Personal Services for each agency, an increase of 0.18% from the FY 2022 rate as authorized in the FY 2023 Automation Budget Reconciliation Bill (BRB). Statewide cyber security controls and the government information technology review function in ADOA's budget is funded from an assessment on the payroll of all state agencies except the Universities. (Please refer to *Statewide Adjustments above and the Arizona Department of Administration narrative for more details.*)

*Retiree Accumulated Sick Leave* - 0.40% of Personal Services for each agency, unchanged from the FY 2022 rate established in statute. The Retiree Accumulated Sick Leave Fund is funded from an assessment on the payroll of all state agencies. The fund is used to make payments to state employees who retire with 500 or more hours of sick leave. Employees' payments depend on the number of hours of sick leave and their salary, with the payment capped at 50% of 1,500 hours of sick leave, or \$30,000 maximum.

*Workers' Compensation* - The rates calculated by ADOA vary by individual agency and are unchanged from the FY

2022 workers' compensation rates. ADOA estimates the average statewide rate is 0.96% in FY 2023. Monies are deposited into the Risk Management Fund for payment of costs associated with Workers' Compensation losses. (Please see the ADOA narrative for more details.)

*Federal Insurance Contributions Act (FICA)* – Effective Social Security taxes are paid at a rate of 6.20% up to \$147,000 of an employee's salary, an increase from the previous maximum of \$142,800. The rate is unchanged from FY 2022. The FY 2023 budget does not adjust agency budgets for this change.

In addition, Medicare employer taxes are applied at a rate of 1.45% on the full level of an employee's salary. This rate is unchanged from FY 2022. An additional 0.9% is withheld for the amount of salaries above \$200,000. Employees will continue to be withheld at 1.45% for salaries below \$200,000. This additional 0.9% withholding does not apply to the employer-paid portion of the Medicare tax.

*State Retirement Systems* - There are 5 state employee retirement systems -- ASRS, PSPRS, CORP, the Elected Officials' Retirement Plan (EORP), and the Elected Officials' Defined Contribution (EODC) System. In addition, the Universities operate their own defined contribution plan. FY 2023 rates as determined by the state's retirement systems have changed from the FY 2022 rates. (Please see the *Consolidated Retirement Report for more details on retirement contribution rates, enrollment and funded status, and litigation impacts.*)

**Other Operating Expenditures**

The following items are included in agencies' Other Operating Expenditures.

**Risk Management** — Individual agency budgets' Other Operating Expenditures include funding to pay the Risk Management charges billed to agencies by the ADOA Risk Management Program. The billings vary by individual agency and are unchanged from the budgeted FY 2022 rates. FY 2023 rates are set based on ADOA's actuarial assessment of each agency's risk. (Please see the *Risk Management Charges table following this section for more details on overall charges.*)

Monies are deposited into an ADOA fund for payment of costs associated with Risk Management losses. The state self-insures for Risk Management services by assessing agencies charges based on actuarial projections and paying claims against the state.

**Attorney General** — Section 125 outlines \$1,798,500 in charges to selected state agencies for Attorney General

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$7.28
Unemployment Insurance	0.10%
Personnel Division Pro Rata	0.86%
Disability (ASRS)	0.19%
Disability (PSPRS Defined Benefit)	2.41%
Disability (PSPRS Defined Contribution)	1.66%
Disability (CORP Defined Benefit)	0.32%
Disability (CORP Defined Contribution)	0.44%
Disability (Elected Officials' Defined Contribution)	0.165%
Information Technology Planning and Security	0.61%
Retiree Accumulated Sick Leave	0.40%
Workers' Compensation	Varies
<u>Federal Insurance Contributions Act (FICA)</u>	
Social Security (salary max \$147,000)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
<u>1/</u> See Consolidated Retirement Report section for contribution rates.	

services, unchanged from the FY 2022 amount. *(Please see the Attorney General narrative for details.)*

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

Rent charges in state-owned office space will remain at \$17.87/square foot, with the charge for state-owned storage space remaining at \$6.43/square foot. These rates are set in statute and are based upon usable square feet. *(Please see the ADOA Capital Outlay section for more details.)*

Funding is also included in budgets for all agencies housed in buildings acquired by lease-purchase or PLTO, including changes to those payments. *(Please refer PLTO schedules in the Capital Outlay section for more details.)*

### **Other Budget Issues**

**Administrative Adjustments** — The budget assumes that state agencies will expend \$170,000,000 in FY 2023 for FY 2022 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2022 but for which the state was unbilled until FY 2023. An agency’s administrative adjustments cannot exceed its prior year reversion, or unused appropriation authority.

The enacted FY 2023 budget assumed FY 2022 administrative adjustments of \$160,000,000, which was an increase from the original estimate in the FY 2022 budget of \$120,000,000.

**Reversions** — The budget assumes that state agencies will revert \$(215,000,000) of FY 2023 appropriations back to the General Fund because the agencies will not spend their entire appropriation. In comparison, the enacted FY 2023 budget assumed FY 2022 reversions of \$(257,000,000).

**Budget Format** — The format governs how an agency’s appropriation appears in the General Appropriation Act. A less detailed format provides an agency with more discretion in implementing the budget. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds. Among the choices are the following:

*Lump Sum* - The appropriation for each fiscal year consists of a single dollar amount, thereby allowing the agency to shift funds among line items, programs and subprograms without further Legislative or Executive Branch review.

*Lump Sum with Special Line Items* - The appropriation for each fiscal year consists of a dollar amount for an operating budget and dollar amounts for individual special line items. Special line items are particular programs for which the Legislature has a specific policy interest. These line items may or may not include FTE Positions. Agencies are typically permitted to transfer funding between line items with Executive Branch approval but without further Legislative Branch review. Footnotes may require JLBC review, however, prior to transfers between certain line items.

**90/10 Agencies** — The following 27 regulatory agencies are called “90/10” agencies for the fact that these agencies retain 90% of their revenues and deposit the other 10% into the General Fund:

Arizona State Board of Accountancy  
Acupuncture Board of Examiners  
Board of Athletic Training  
Board of Barbering and Cosmetology  
Board of Behavioral Health Examiners  
State Board of Chiropractic Examiners  
Registrar of Contractors  
State Board of Dental Examiners  
State Board of Funeral Directors and Embalmers  
Board of Homeopathic and Integrated Medicine Examiners  
Board of Massage Therapy  
Arizona Medical Board  
Naturopathic Physicians Medical Board  
State Board of Nursing  
Board of Examiners of Nursing Care Institution Administrators and Assisted Living Facility Managers  
Board of Occupational Therapy Examiners  
State Board of Dispensing Opticians  
State Board of Optometry  
Arizona Board of Osteopathic Examiners in Medicine and Surgery  
Arizona State Board of Pharmacy  
Board of Physical Therapy  
State Board of Podiatry Examiners  
State Board for Private Postsecondary Education  
State Board of Psychologist Examiners  
Board of Respiratory Care Examiners  
State Board of Technical Registration  
Arizona State Veterinary Medical Examining Board