

GENERAL APPROPRIATION ACT BUDGET GENERAL PROVISIONS

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GENERAL PROVISIONS OF THE GENERAL APPROPRIATION ACT AND OTHER OVERALL ISSUES

In addition to the specific appropriations to agencies, departments, and institutions, the FY 2024 General Appropriation Act provides direction regarding several general provisions.

General Provisions

Statewide Adjustments — In addition to the individual agency sections, Section 123 of the FY 2024 General Appropriation Act makes technical adjustments to agency budgets in a statewide lump sum. The Joint Legislative Budget Committee Staff, in consultation with the Governor's Office of Strategic Planning and Budgeting, determines the distribution of the lump sum amounts to individual agencies.

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

The components of Section 123 are as follows:

- **Employer Health Insurance Contribution One-time Reduction:** \$(63,244,800) General Fund and \$(32,224,200) Other Appropriated Funds for a reduction in the employer contribution rates for employee health insurance. This amount backs out the FY 2023 one-time premium adjustment. *(Please see Health Insurance discussion below for more details.)*
- **University Health Insurance Backfill One-time Reduction:** \$(40,033,000) General Fund a reduction to the backfill of university tuition for the employer contribution rate increase for employee health insurance. This amount backs out the FY 2023 one-time premium adjustment. *(Please see the Health Insurance discussion below for more details.)*
- **Employer Health Insurance Contribution One-time Increase:** \$73,000,000 General Fund and \$30,000,000 Other Appropriated Funds for a one-time increase in the employer contribution rates for employee health insurance. *(Please see the Health Insurance discussion below for more details.)*
- **Agency Rent Adjustments:** \$(558,100) General Fund and \$100,000 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.)*
- **Agency Risk Management Adjustments:** \$(154,200) General Fund and \$100,000 Other Appropriated Funds for adjustments to agency Risk Management

premiums. *(Please see Risk Management below for more details.)*

- **Arizona Financial Information System Adjustment:** \$116,700 General Fund and \$200,000 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.)*
- **Retirement Adjustments:** \$359,600 General Fund and \$(22,000,000) Other Appropriated Funds for retirement contribution rate adjustments. *(Please see State Retirement Systems below for more details.)*
- **Salary Increase Adjustment:** \$7,517,000 General Fund and \$3,000,000 Other Appropriated Funds for adjustments to the FY 2023 Salary Increase. This amount includes adjustments to properly allocate adjustments for Agency Intergovernmental Agreements (IGAs) with the Attorney General and ADOA's Central Services Bureau. The adjustments also incorporate changes to account for calculation errors .
- **State Fleet Rate One-time Adjustments:** \$8,195,100 General Fund and \$600,000 Other Appropriated Funds for one-time adjustments operating the state motor pool fleet in ADOT.

Federal Funds — Section 127 outlines reporting requirements for the Office of the Governor, Superintendent of Public Instruction, the Arizona Board of Regents, and community college districts regarding expenditures from the Federal American Rescue Plan Act (ARPA) of 2021. Such reports are to be made within forty-five days after the end of each calendar quarter up through June 30, 2026, and shall include both total planned allocations and actual expenditures. Section 127 also states the legislative intent that the Executive Branch report similarly on any major additional federal aid to the state through federal legislation enacted by the end of FY 2024.

In addition, Section 1 of the Budget Implementation Budget Reconciliation Bill (Laws 2023, Chapter 145) continues a session law from prior years that requires unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.

Expenditure Reporting — Section 127 continues to state that it is the intent of the Legislature that all budget units receiving appropriations 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 128 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 2024 report by October 1, 2024 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 129 continues to state that by October 1, 2023 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, 2023.

Transfer Authority — Section 130 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 131 continues to require the Executive Branch to provide to the JLBC a preliminary estimate of the FY 2023 General Fund ending balance by September 15, 2023. Based on this information, JLBC Staff shall report to JLBC by October 15, 2023 as to whether FY 2024's revenues and ending balance are expected to change by more than \$50,000,000 from the budgeted projections. Section 131 states the revenues are forecasted to be \$18,122,600,000 for FY 2023 and \$17,827,000,000 for FY 2024. As a result of certain bills not being passed and technical re-estimates, these figures are now \$18,122,650,300 for FY 2023 and \$17,828,904,100 for FY 2024.

Section 131 also provides revenue and expenditure estimates for FY 2025 and FY 2026 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 2025 and FY 2026 estimates.)*

Expenditure Authority — Section 133 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 134 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.

Employee Related Expenditures

The following employee benefits and other issues are funded within the Employee Related Expenditures line item, which can be found in the budget table for each individual agency.

Health Insurance — Under a self-insurance plan, 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 2024 are shown in *Table 2* on the following page.

Dental Insurance — Employees have a choice between one Dental PPO plan and one Dental HMO plan. Employee and employer premiums for PY 2024 are shown in *Table 1*.

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

Table 2		
Health Insurance		
State Employee and Employer Monthly Contributions ^{1/}		
PY 2024		
	<u>State Employee Contribution</u>	<u>Employer Contribution</u>
<u>Triple Option Plan</u>		
Employee	\$ 56.70	\$ 702.80
Employee Plus One Adult	154.90	1,447.32
Employee Plus One Child	124.15	941.31
Family	263.49	1,638.80
<u>Health Spending Account (HSA) Option</u>		
Employee	22.00	474.57 ^{2/}
Employee Plus One Adult	66.00	983.60 ^{2/}
Employee Plus One Child	56.10	642.96 ^{2/}
Family	122.10	1,095.84 ^{2/}
^{1/} PY 2024 employer rates are effective July 2023 to June 2024. PY employee rates are effective from January 2024 to December 2024.		
^{2/} Includes deposit of \$60 into Single Employee account and \$120 into all other Employee accounts.		

Employer Contribution Rates — *Table 3* provides a list of budgeted state employer contribution rates for state employee benefits during FY 2024. 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 2023 rate set by ADOA.

Unemployment Insurance – 0.10% of Personal Services for each agency, unchanged from the rate originally set by ADOA and assumed in the FY 2023 budget. In September 2022, ADOA paused UI charges to agencies due to the balance of the UI fund administered by ADOA. Although

the budget funds agencies at 0.10%, the agency says the charge will remain paused through FY 2024.

Personnel Division Pro Rata - 0.86% of Personal Services for each agency in the State Personnel System, unchanged from the FY 2023 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, Ombudsman-Citizens Aide Office, Auditor General, Joint Legislative Budget Committee)
- 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 0.15% of Personal Services for disability insurance, a 0.01% increase from the FY 2023 rate. The employee rate will also increase to 0.15%.

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 1.96%

Table 1		
Dental Insurance		
State Employee and Employer Monthly Contributions		
PY 2024		
	<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	65.72	9.92
Employee + 1 Child	50.57	9.92
Family	104.56	13.70

in FY 2024, unchanged from FY 2023; the rate for defined-contribution employees will be 1.43% (a decrease from 1.66%). For CORP defined-benefit employees, the employer-only rate is 0.32%; the rate for defined-contribution employees will be 0.45% (an increase from 0.44%). The rate for participants in the Elected Officials' Defined Contribution Retirement System is 0.15% (a decrease from 0.165%).

Information Technology Planning - 0.61% of Personal Services for each agency, unchanged from the FY 2023. 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 the ADOA narrative for more details.)*

Retiree Accumulated Sick Leave - 0.40% of Personal Services for each agency, unchanged from the FY 2023 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 2023 workers' compensation rates. ADOA estimates the average statewide rate is 0.96% in FY 2024. 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 January 1, 2023, Social Security taxes are paid at a rate of 6.20% up to \$160,200 of an employee's salary, an increase from the previous maximum of \$147,000. The rate is unchanged from FY 2023. The 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 2023. 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 2024 rates as determined by the state's retirement systems have changed from the FY 2023 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 expenses are funded within the Other Operating Expenditures line item, which can be found in the budget table for each individual agency.

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 have changed from the budgeted FY 2023 rates. FY 2024 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 124 outlines \$1,798,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2023 amount. *(Please see the Attorney General narrative for details.)*

<u>Category</u>	<u>Rate</u>
Life Insurance (per FTE Position)	\$7.28
Unemployment Insurance	0.00%
Personnel Division Pro Rata	0.86%
Disability (ASRS)	0.15%
Disability (PSPRS Defined Benefit)	1.96%
Disability (PSPRS Defined Contribution)	1.43%
Disability (CORP Defined Benefit)	0.32%
Disability (CORP Defined Contribution)	0.45%
Disability (Elected Officials' Defined Contribution)	0.15%
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 \$160,200)	6.20%
Medicare (no salary cap)	1.45%
<u>Retirement System</u>	<u>1/</u>
1/ See the Consolidated Retirement Report section for contribution rates.	

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 for 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 \$150,000,000 in FY 2024 for FY 2023 obligations. Agencies are permitted to make “administrative adjustments” for expenditures obligated in FY 2023 but for which the state was unbilled until FY 2024. An agency’s administrative adjustments cannot exceed its prior year reversion, or unused appropriation authority.

The enacted FY 2024 budget assumed FY 2023 administrative adjustments of \$225,000,000, which was an increase from the original estimate in the FY 2023 budget of \$160,000,000.

Reversions — The budget assumes that state agencies will revert \$(215,000,000) of FY 2024 appropriations back to the General Fund because the agencies will not spend their entire appropriation. In comparison, the enacted FY 2024 budget assumed FY 2023 reversion of \$(158,080,000).

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 26 regulatory agencies are called “90/10” agencies since they 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
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