

TECHNICAL BUDGET ASSUMPTIONS

Baseline

This book reflects General Fund baseline revenue and spending estimates. The revenue projections are based on a consensus economic forecast while the spending estimates represent currently-funded formula requirements and other obligations. The Baseline does not represent a budget proposal. By providing an estimate of available resources after statutory requirements, however, the Baseline will help members of the Legislature evaluate the availability of resources for these discretionary adjustments. As such, the Baseline is only a starting point for discussion on the FY 2024 budget.

The Baseline also includes supplemental FY 2023 funding for selected budget units. All FY 2023 changes are referenced to the original FY 2023 appropriated amount.

In addition, A.R.S. § 35-125 requires the annual General Appropriation Act to include a 3-year revenue and expenditure projection. To assist in this effort, the JLBC Staff has developed General Fund Baseline estimates through FY 2026.

Changes from Prior Year

The Baseline includes adjustments for one-time appropriations, annualization of any items funded for a partial year, and funding formula requirements.

The individual agency descriptions in this volume provide further narrative detail on these changes. In addition, the book provides the line item detail for individual agency budgets. The major technical issues pertaining to each of these line items are described below.

The individual agency descriptions also include the following years of budget data:

- *FY 2022 Actual* - This dollar amount represents the FY 2022 expenditures as reported by the agency. Pursuant to the Executive's budget instructions, the amount is to exclude administrative adjustments, or payments for obligations incurred in FY 2021 but for which the state was not billed until FY 2022.
- *FY 2023 Estimate* - This dollar amount represents the FY 2023 appropriations as of the end of the 55th Legislature, 2nd Regular Session. It does *not* include any supplemental FY 2023 funding in the Baseline.
- *FY 2024 Baseline* - This dollar amount represents the FY 2024 Baseline spending estimate.

Each budget summary includes the level of non-appropriated and Federal Funds available to the agency. The detail for these funds can be found in the "Summary of Funds" section at the end of each individual agency's narrative pages.

Statewide and Standard Changes

Personal Services - This category includes salaries paid to state employees.

ERE Rates - This category typically represents changes in the state's cost of employee benefits. The rates have been held constant from FY 2023 to FY 2024 in the Baseline.

Medical and Dental Insurance - The Baseline includes a decrease of \$(103.3) million from the General Fund and \$(172.8) million total funds to remove one-time funding for a deposit into the Health Insurance Trust Fund (HITF). Although these monies were allocated to individual budgets in FY 2023, this decrease is reflected as a statewide adjustment in the Baseline for FY 2024. The Baseline includes no further changes to agency budgets for medical and dental insurance costs. (*Please see the HITF discussions in the Arizona Department of Administration (ADOA) narrative for further details on HITF balances.*)

Life Insurance - \$7.28 per employee per year, unchanged from the FY 2023 rate set by ADOA.

Unemployment Insurance (UI) - 0.10% of Personal Services for each agency, unchanged from the FY 2023 originally rate 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.

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, Auditor General, Joint Legislative Budget Committee)

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

Information Technology Planning - 0.61% of Personal Services for each agency, unchanged from the FY 2023 rate established in statute. Statewide Cybersecurity controls in the Department of Homeland Security budget and the government information technology review function in the ADOA budget are funded from an assessment on the payroll of all state agencies except the Universities.

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.

Attorney General Legal Services - \$1,798,500 in charges to selected state agencies for Attorney General services, unchanged from the FY 2023 amount set in the FY 2023 budget. *(Please see the Attorney General narrative for details.)*

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%.

Federal Insurance Contributions Act (FICA) - Effective January 1, 2023, Social Security employer taxes are paid at a rate of 6.20% up to \$160,200 an increase from the previous maximum of \$147,000. The rate is unchanged. The Baseline 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.

Retirement - Most FY 2024 rates as determined by the state's retirement systems have changed from the FY 2023 rates. The total contribution from ASRS employees and employers combined will be 24.28%, an increase from

the FY 2023 rate of 24.06%; both employers and employees will see their rates increase in FY 2024 to 12.14% from 12.03% in FY 2023. These rates exclude disability insurance (*see below*).

Employer contribution rates for other retirement systems including the Public Safety Personnel Retirement Plan, the Corrections Officers Retirement Plan, and the Elected Officials' Retirement Plan also changed. The Baseline does not adjust agency budgets for changes in retirement rates. *(Please see the Consolidated Retirement Report for more details.)*

Disability Insurance - For Arizona State Retirement Systems (ASRS) employees, the employer will pay 0.15% of Personal Services for disability insurance, an increase of 0.01% from the FY 2023 rate of 0.14%. The employee rate will also be 0.15%.

Rates for disability insurance for PSPRS and CORP employers are changed from FY 2023. The PSPRS rate is 1.43% for defined-contribution employees (a decrease from 1.66%). The CORP rate is 0.45% (an increase from 0.44%) for employees in defined-contribution plans. The Baseline assumes no changes in the rates for employees in defined-benefit plans, which were 2.41% in PSPRS and 0.32% in CORP in FY 2023. The disability insurance rate for participants in the Elected Officials' Defined Contribution Retirement System will be 0.15%, a decrease from 0.165%). The Baseline does not adjust agency budgets for any changes in disability insurance rates.

Risk Management - Individual agency budgets' Other Operating Expenditures include funding for Risk Management charges determined and billed by ADOA. The billings vary by individual agency. The Baseline does not adjust agency budgets for changes in these rates.

Rent - Individual agency budgets' Other Operating Expenditures include monies to pay rent for state-owned or lease-purchase space, as well as for privately-owned space.

As required by statute, ADOA charges \$17.87 per square foot for all state agencies occupying state-owned space and \$6.43 per square foot for state-owned storage space in FY 2023. These rates are based upon usable square feet. The Baseline assumes no changes to these rates for FY 2024. *(Please see the Capital Outlay - ADOA Building System narrative for more details.)*

The Baseline does not address increases in rent for privately-owned space.

Arizona Financial Information System - The Baseline includes no changes to statewide adjustments for the

Arizona Financial Information System. The FY 2023 budget included an increase of \$490,000 from the General Fund and \$1,000,000 from Other Appropriated Funds for adjustments allocated to individual agency budgets. In FY 2023, total charges to state agencies were \$3,500,000 for the project. The Baseline assumes these amounts are sufficient to complete the AFIS upgrade project in FY 2024. (Please see the Arizona Department of Administration (ADOA) narrative for more details on AFIS charges.)

Format

Each agency section in this book includes the proposed agency budget format. Any changes from the prior year format are noted. The format governs how an agency's appropriation will appear in the General Appropriation Act. The most common budget formats are as follows:

- Lump Sum by Agency
- Lump Sum by Program
- Modified Lump Sum by Agency
- Detailed Line Item by Agency

A less detailed format will provide an agency with more discretion in implementing the budget at the expense of legislative oversight for that agency. Conversely, a more detailed format may require an agency to use formal processes for redirecting appropriated funds to a purpose different from that originally intended by the Legislature.

Details on each of these common formats are below:

Lump Sum by Agency - The appropriation consists of a single dollar amount, thereby allowing the agency to shift funds among line items and programs without further legislative review. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Lump sum appropriation	\$100,000

Within this format, the Legislature will need to determine whether Special Line Items (funds generally granted to entities or individuals outside of state government, or which merit special attention) will be included in the Lump Sum or listed separately. If Special Line Items are listed separately, transfers to or from those lines must receive prior ADOA and Governor's Office of Strategic Planning and Budgeting (OSPB) approval.

Lump Sum by Program - The appropriation consists of a single dollar amount for each agency program. Agencies must receive ADOA and OSPB approval prior to shifting monies from one program to another. Any Special Line

Items would be listed under the program with which they are associated. In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Program A	\$30,000
Program B	30,000
Program C	<u>40,000</u>
Total Appropriations - Agency X	\$100,000

Modified Lump Sum - The appropriation consists of at least 3 lines: Personal Services, Employee Related Expenditures, and All Other Operating Expenditures. Any Special Line Items would be listed separately. Under this format, an agency must seek the recommendation of the Joint Legislative Budget Committee and approval by ADOA and OSPB before moving any funds into or out of the Personal Services or ERE line items (A.R.S. § 35-173E). In the General Appropriation Act, the agency's budget would appear as follows:

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
All Other Operating Expenditures	<u>25,000</u>
Total Appropriations - Agency X	\$100,000

Detailed Line Item - The appropriation consists of each line item listed in this book, including Personal Services, Employee Related Expenditures, Professional and Outside Services, Travel, Other Operating Expenditures, and Equipment. Any Special Line Items would be listed separately. While the same rules govern Personal Services/ERE transfers as noted in the Modified Lump Sum description, the detailed line item appropriation requires the agency to seek ADOA and OSPB approval before transferring monies between any other line items.

Agency X	
FTE Positions	2.0
Personal Services	\$60,000
Employee Related Expenditures	15,000
Professional & Outside Services	3,000
Travel - In State	7,500
Travel - Out of State	2,500
Other Operating Expenditures	5,000
Equipment	2,000
Local Grants	<u>5,000</u>
Total Appropriations - Agency X	\$100,000

Footnotes

The individual agency sections of this book include proposed footnotes, which are narrative statements in the General Appropriation Act that establish conditions

for expenditures, reporting requirements, and legislative intent. A footnote, however, cannot be used to modify an existing program’s authorizing law.

Agency footnotes are shown after the number table at the start of an agency's narrative. Most footnotes are unchanged from FY 2023 or updated for technical reasons (e.g., fiscal year references). One-time FY 2023 footnotes do not reappear in the FY 2024 Baseline. Non-technical changes are indicated with strike-through font for deletions and all-capital text for new language. Proposed new footnotes will include the word "NEW" at the start of the footnote. Footnotes proposed for deletion will be footnoted with a "D/" and the entire text struck-through.

(Please see the Major Footnote Changes section for a listing of major footnote changes from FY 2023.)

Statewide Footnotes

In addition to individual agency footnotes, the Baseline would include several footnotes applying to statewide issues to the General Appropriation Act. All the following footnotes are unchanged from FY 2023 unless noted.

Federal Funds Reporting – In FY 2024, prior to spending more than \$10,000,000, the Governor's Office, Superintendent of Public Instruction, and Arizona Board of Regents are required to report to the Legislature on the use of discretionary monies received from the American Rescue Plan Act. In addition, each entity is required to report quarterly on all such expenditures.

Expenditure Reporting - 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.

FTE Position Reporting - The FTE Positions in the General Appropriation Act are subject to appropriation. The ADOA Director shall compile an FTE Position utilization report for FY 2024 for submission to the JLBC Director by October 1, 2024. This report shall include both appropriated and non-appropriated positions. The Universities are exempt from the ADOA report but are to report in a comparable manner. In addition, each agency shall submit a report to the JLBC Director by October 1, 2023 on the number of filled, appropriated and non-appropriated FTE Positions by fund source as of September 1, 2023.

Transfer Authority - ADOA shall provide a monthly report to JLBC Staff on agency transfers of spending authority from one expenditure class to another or between programs.

Interim Reporting Requirements - ADOA shall provide to the JLBC a preliminary estimate of the FY 2023 General Fund ending balance by September 15, 2023. The 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.

Long-Term Budget Estimates - A.R.S. § 35-125 requires that the General Appropriation Act delineate the revenue and expenditure estimates for the budget year and the following 2 years. The expenditure estimates are to be based on existing statutory funding requirements. A.R.S. § 35-125 requires the Legislature to discuss the estimates in a public hearing before the adoption of the General Appropriation Act. *(Please see the FY 2024 Baseline Summary section for details on the FY 2024 - FY 2026 revenue and expenditure estimates.)*

Non-Lapsing Appropriations - The General Appropriation Act will designate certain appropriations with “*,” meaning that the appropriation is exempt from lapsing.

Expenditure Authority - For the 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 - For the 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.

Statutory Changes

The individual agency sections of this book include proposed statutory changes related to the budget. These changes will be introduced in Budget Reconciliation Bills (BRBs). *(Please see the FY 2024 Budget Reconciliation Bill Provisions section for a complete listing of proposed statutory changes.)*

In addition to agency-specific statutory changes, the Baseline would, as session law, continue to require unrestricted Federal Funds to be deposited in the General Fund for the payment of essential government services.

Other Issues

This section may also include other information of general interest, including FY 2023 supplementals and Auditor General reports.

Statewide Expenditure Adjustments

In addition to changes in individual agency budgets, the Baseline includes 2 “balance sheet” expenditure items not discussed elsewhere: Administrative Adjustments, Revertments, and Statutory Revertments.

Administrative Adjustments - The Baseline assumes that state agencies will have expenditures totaling \$225,000,000 in FY 2023 for FY 2022 expenditures. 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 revertment, or unused appropriation authority. The \$225,000,000 is an increase of \$55,000,000 from the originally-budgeted FY 2023 total.

In addition to the FY 2023 figure, the Baseline assumes a FY 2024 administrative adjustment total of \$150,000,000, a decrease of \$(75,000,000) from the revised FY 2023 total.

Revertments - The Baseline assumes that state agencies will revert \$(150,000,000) of FY 2023 appropriations back to the General Fund because the agencies will not spend their entire appropriation. Agencies will be permitted to make administrative adjustments totaling no more than this amount in FY 2024. This amount is \$(65,000,000) less than the originally-budgeted FY 2023 total of \$(215,000,000).

In addition to the FY 2023 estimate, the Baseline also assumes a FY 2024 revertment total of \$(215,000,000), an increase of \$(65,000,000) from the revised FY 2023 total.