

Arizona Department of Administration

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	548.1	549.1	517.1
Personal Services	29,344,200	32,806,400	32,806,400
Employee Related Expenditures	11,022,300	12,644,800	13,937,600
Professional and Outside Services	3,100,600	20,160,800	20,160,800
Travel - In State	360,400	406,600	406,600
Travel - Out of State	30,300	52,800	52,800
Other Operating Expenditures	36,729,300	30,691,000	30,835,500
Equipment	482,100	710,300	710,300
OPERATING SUBTOTAL	81,069,200	97,472,700	98,910,000 ^{1/}
SPECIAL LINE ITEMS			
Operating Budget Lump Sum Reduction	0	0	(235,200)
Facilities Management			
Utilities	5,867,100	7,649,900	7,657,400
Financial Services			
Arizona Financial Information System	10,612,200	15,274,600	13,406,700
Named Claimants	65,300	22,500	0
Information Technology Services			
Critical Applications Catalogue	844,300	400,000	398,500
Cybersecurity Systems Administration	446,500	446,500	446,600
Digital Solutions Office	627,400	1,356,800	1,373,200
Enterprise Resource Planning Division	0	0	7,512,200
Information Technology Project Management and Oversight	1,468,200	1,791,000	1,805,300
Risk Management			
Cyber Risk Insurance	2,663,900	23,037,200	23,037,200 ^{2/}
Federal Transfer Payment	15,000,000	2,018,700	0 ^{3/}
Risk Management Administrative Expenses	11,501,000	14,770,700	14,775,200
Risk Management Losses and Premiums	40,322,300	93,864,300	63,480,400
Workers' Compensation Losses and Premiums	28,738,000	28,741,000	28,749,900
Support Services			
Emergency Telecommunications Call Handling Services	0	0	4,000,000
Erroneous Convictions Fund Deposit	0	3,000,000	0
Government Transformation Office	1,955,100	2,093,800	2,119,500
School District Health Insurance Actuarial Study	164,200	0	0
State Employee Child Care Study	0	100,000	0
State Employee Professional Development Pilot Program	0	1,000,000	1,000,000
State Surplus Property Sales Agency Proceeds	1,694,600	1,810,000	1,809,300
Grants			
Fire Incident Management Grants	0	2,291,600	0
Food Bank Capital	0	0	3,000,000 ^{4/}
Health Care Interoperability Grants	0	1,000,000	0
Law Enforcement Records Management System	0	3,208,500	0
Navajo Nation Household Electrical Connections	1,000,000	0	0
School Safety Interoperability Fund Deposit	0	0	0 ^{5/}
Tribal Health Care Investment	0	3,000,000	0
County Funding			
County Sheriff Support	0	0	7,000,000 ^{6/}
County Support for Corrections Officer Employer Contributions	0	0	377,100 ^{7/}
Elected Officials Retirement Plan Offset	3,000,000	3,000,000	3,000,000 ^{8/}
Gila County Disaster Relief	0	0	10,000,000 ^{9/}
Small County Assistance	7,650,700	7,650,700	7,650,700 ^{10/}

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 APPROVED
AGENCY TOTAL	214,690,000	315,000,500	301,274,000 ^{11/12/13/}
FUND SOURCES			
General Fund	35,413,900	32,059,300	30,380,600
<u>Other Appropriated Funds</u>			
Air Quality Fund	470,700	930,300	932,000
Arizona Financial Information System Collections Fund	10,612,200	12,134,200	16,806,300
Arizona Highway Patrol Fund	0	0	2,000,000
Automation Operations Fund	24,441,800	29,942,000	30,149,600 ^{14/}
Capital Outlay Stabilization Fund	18,824,300	21,165,700	21,436,400
Corrections Fund	549,400	640,100	651,400
Cyber Risk Insurance Fund	2,663,900	23,037,200	23,037,200
Federal Surplus Materials Revolving Fund	37,500	473,600	478,500
Information Technology Fund	2,741,800	6,221,400	6,279,000
Livestock Operator Fire and Flood Assistance Fund	0	0	10,000,000
Peace Officer Training Equipment Fund	0	500,000	0
Personnel Division Fund	12,673,000	18,740,100	18,936,800
Risk Management Revolving Fund	86,759,200	147,777,400	115,533,200
Special Employee Health Insurance Trust Fund	5,105,000	5,748,100	5,918,900
Special Services Revolving Fund	1,143,400	1,302,800	1,322,400
State Surplus Materials Revolving Fund	3,007,000	3,216,200	3,241,600 ^{15/}
State Web Portal Fund	8,260,600	9,012,600	12,024,700
Telecommunications Fund	1,986,300	2,099,500	2,145,400
SUBTOTAL - Other Appropriated Funds	179,276,100	282,941,200	270,893,400
SUBTOTAL - Appropriated Funds	214,690,000	315,000,500	301,274,000
Other Non-Appropriated Funds	1,273,620,800	1,373,766,000	1,493,764,400
Federal Funds	48,350,200	58,418,300	7,977,900
TOTAL - ALL SOURCES	1,536,661,000	1,747,184,800	1,803,016,300

AGENCY DESCRIPTION — The Arizona Department of Administration (ADOA) provides centralized general support services to state agencies, including accounting, financial, purchasing, building and grounds maintenance, personnel, information technology, motor pool, travel reduction, and risk management services.

FOOTNOTES

- 1/ On or before September 1, 2027, the department shall submit a report to the joint legislative budget committee on the results of projects implemented in fiscal year 2026-2027 for the state employee public transportation service reimbursements pursuant to section 41-710.01, Arizona Revised Statutes, in a vehicle emissions control area as defined in section 49-541, Arizona Revised Statutes, of a county with a population of more than four hundred thousand persons. (General Appropriations Act footnote)
- 2/ On or before November 1, 2027, the department shall submit a report to the director of the joint legislative budget committee on expenditures made from the cyber risk insurance fund established by section 41-622, Arizona Revised Statutes, from the prior year. (General Appropriations Act footnote)
- 3/ The legislature intends that the department of administration not enter into any agreements to pay for any federal reimbursements related to excess balances in the special employee health insurance trust fund established by section 38-654, Arizona Revised Statutes, unless the proposed agreements have been reviewed by the joint legislative budget committee. (General Appropriations Act footnote, Section 104)
- 4/ The amount appropriated for the food bank capital line item shall be used for a onetime distribution to a food bank for a capital need. To qualify for distribution in this paragraph, the food bank must be a registered nonprofit organization that is exempt from taxation under section 501(c)(3) of the internal revenue code, have a core mission to provide food to hungry people, have been established between 1980 and 1999, be located in a county with a population of more than four million persons and be headquartered in the city of Mesa. (General Appropriations Act footnote)

- 5/ A. Of the amount appropriated by Laws 2025, chapter 233, section 31 for the school safety program, the department of education shall transfer \$2,000,000 to the school safety interoperability fund established by section 41-1733, Arizona Revised Statutes, in fiscal year 2026-2027.
- B. In fiscal year 2026-2027, the department of administration shall distribute the \$2,000,000 transferred to the school safety interoperability fund pursuant to subsection A of this section to the sheriffs of the following counties in the following amounts to install and support the school safety projects authorized pursuant to section 41-1733, Arizona Revised Statutes:
1. \$170,800 to Apache county.
 2. \$173,900 to Gila county.
 3. \$173,900 to Graham county.
 4. \$105,600 to Greenlee county.
 5. \$124,200 to La Paz county.
 6. \$326,100 to Mohave county.
 7. \$335,400 to Navajo county.
 8. \$217,400 to Santa Cruz county.
 9. \$372,700 to Yavapai county.
- (General Appropriations Act footnote, Section 118)
- 6/ On or before July 31, 2026, the department shall distribute the amount appropriated for the county sheriff support line item in fiscal year 2026-2027 to the sheriff's offices of the following counties:
1. Apache county \$ 400,000
 2. Cochise county \$ 1,100,000
 3. Coconino county \$ 400,000
 4. Gila county \$ 600,000
 5. Graham county \$ 300,000
 6. Greenlee county \$ 100,000
 7. La Paz county \$ 400,000
 8. Mohave county \$ 300,000
 9. Navajo county \$ 600,000
 10. Pinal county \$ 600,000
 11. Santa Cruz county \$ 300,000
 12. Yavapai county \$ 1,200,000
 13. Yuma county \$ 700,000
- 7/ The amount appropriated in the county support for corrections officer employer contributions line item shall be distributed to the following counties to fully cover the corrections officer retirement plan employer contribution rate increase as prescribed by section 38-867, Arizona Revised Statutes:
1. Apache county \$ 4,600
 2. Cochise county \$ 10,100
 3. Coconino county \$ 14,100
 4. Gila county \$ 7,700
 5. Graham county \$ 7,800
 6. La Paz county \$ 4,400
 7. Maricopa county \$ 134,400
 8. Mohave county \$ 19,900
 9. Navajo county \$ 8,800
 10. Pima county \$ 81,300
 11. Pinal county \$ 15,100
 12. Santa Cruz county \$ 6,600
 13. Yavapai county \$ 38,300
 14. Yuma county \$ 24,000
- 8/ The department shall distribute the amount appropriated for the elected officials' retirement plan offset line item to counties to supplement the normal cost plus an amount to amortize the unfunded accrued liability pursuant to section 38-810, subsection C, Arizona Revised Statutes. The department shall distribute the appropriation equally among all counties with a population of less than three hundred thousand persons according to the 2020 United States decennial census. The counties may use the monies allocated in this section only for required employer contributions to the elected officials' retirement plan. (General Appropriations Act footnote)
- 9/ On or before July 15, 2026, the department shall distribute the full amount appropriated for the Gila county disaster relief line item in fiscal year 2026-2027 to the following political subdivisions:
1. Town of Miami \$ 2,500,000

2. City of Globe \$ 2,500,000
3. Gila county \$ 5,000,000
- 10/ Of the amount appropriated in the small county assistance line item, the first \$500,000 shall be distributed to Graham county and the remaining amount shall be distributed equally among all counties with a population of less than nine hundred thousand persons according to the 2020 United States decennial census for maintaining essential county services. (General Appropriations Act footnote)
- 11/ Within fifteen days of the last day after each quarter in fiscal year 2026-2027, the department of administration shall report to the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting the year-to-date expenditures and year-to-date encumbrances for operating and capital spending from the state general fund and other agency funds in fiscal year 2026-2027. The information shall be separately delineated by agency, budget fiscal year and fund source and shall classify each appropriation by agency lump sum, special line item or project. (General Appropriations Act footnote, Section 127)
- 12/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 13/ On or before March 31, 2027, the department shall submit a report to the director of the joint legislative budget committee and the governor's office of strategic planning and budgeting on the amount that the Maricopa county special health care district has agreed to send to the department for deposit in the state general fund in fiscal year 2026-2027. If the amount that the district has agreed to send to the department for deposit in fiscal year 2026-2027 has changed from the amount the district sent to the department for deposit in fiscal year 2025-2026, the report must include the reason for the change. (General Appropriations Act footnote)
- 14/ The appropriation from the automation operations fund established by section 41-711, Arizona Revised Statutes, is an estimate representing all monies, including balance forward, revenues and transfers during fiscal year 2026-2027. These monies are appropriated to the department of administration for the purposes established in section 41-711, Arizona Revised Statutes. The appropriation is adjusted as necessary to reflect monies credited to the automation operations fund for automation operation center projects. Before spending any automation operations fund monies in excess of \$30,149,600 in fiscal year 2026-2027, the department shall report the intended use of the monies to the joint legislative budget committee. (General Appropriations Act footnote, as adjusted for statewide allocations)
- 15/ All state surplus materials revolving fund monies received by the department of administration in excess of \$3,241,600 in fiscal year 2026-2027 are appropriated to the department. Before spending state surplus materials revolving fund monies in excess of \$3,241,600 in fiscal year 2026-2027, the department shall report the intended use of the monies to the joint legislative budget committee. (General Appropriations Act footnote, as adjusted for statewide allocations)

Operating Budget

The budget includes \$98,910,000 and 497.1 FTE Positions in FY 2027 for the operating budget. These amounts consist of:

	<u>FY 2027</u>
General Fund	\$9,588,000
Air Quality Fund	932,000
Arizona Financial Information System Collections Fund	574,000
Automation Operations Fund	30,149,600
Capital Outlay Stabilization Fund (COSF)	13,779,000
Corrections Fund	651,400
Federal Surplus Materials Revolving Fund	478,500
Information Technology Fund	4,353,300
Personnel Division Fund	14,250,200
Risk Management Revolving Fund	8,527,700
Special Employee Health Insurance Trust Fund	5,918,900
Special Services Revolving Fund	1,322,400
State Surplus Materials Revolving Fund	1,432,300
State Web Portal Fund	4,807,300
Telecommunications Fund	2,145,400

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$1,437,300 in FY 2027 for statewide adjustments. This amount consists of:

General Fund	\$180,500
Air Quality Fund	1,700
Automation Operations Fund	209,200
Capital Outlay Stabilization Fund (COSF)	263,200
Corrections Fund	11,300
Federal Surplus Materials Revolving Fund	4,900
Information Technology Fund	38,700
Personnel Division Fund	324,500
Risk Management Revolving Fund	162,900
Special Employee Health Insurance Trust Fund	172,800
Special Services Revolving Fund	19,600
State Surplus Materials Revolving Fund	26,100
State Web Portal Fund	(24,000)
Telecommunications Fund	45,900

(Please see Agency Detail and Allocations section.)

Operating Budget Lump Sum Reduction

The budget includes a one-time decrease of \$(235,200) from the General Fund in FY 2027 for a lump sum reduction. Agencies receiving a lump sum reduction will apply the reduction to the operating lump sum appropriation in the FY 2028 budget request submittal. Agencies have discretion in how the reduction in spending is achieved. The FY 2028 Baseline Book will incorporate the agency's planned reduction into the operating budget display.

Facilities Management

Utilities

The budget includes \$7,657,400 from the Capital Outlay Stabilization Fund in FY 2027 for Utilities. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$7,500 from COSF in FY 2027 for statewide adjustments.

This line item funds utility charges, including electric, water, gas, and garbage disposal for state-owned buildings.

Financial Services

Arizona Financial Information System

The budget includes \$13,406,700 and 28 FTE Positions in FY 2027 for the Arizona Financial Information System (AFIS). This amount consists of:

Arizona Financial Information System	11,604,100
Collections Fund	
Personnel Division Fund	1,802,600

Adjustments are as follows:

Remove AZ360 Transition Funding

The budget includes a decrease of \$(1,911,800) from the Personnel Division Fund in FY 2027 to remove one-time funding for the payment of personnel assigned to the AZ360/Human Resource Information System (HRIS) Modernization project through the end of FY 2026.

Statewide Adjustments

The budget includes an increase of \$43,900 from the Arizona Financial Information System Collections Fund in FY 2027 for statewide adjustments.

This line item funds the operations of AFIS including staffing and support, software licensing and maintenance, hosted production, and disaster discovery.

Named Claimants

The budget includes no funding in FY 2027 for Named Claimants. Adjustments are as follows:

Eliminate One-Time Named Claimants Funding

The budget includes a decrease of \$(22,537.56) in FY 2026 for the elimination of one-time funding of prior year unpaid claims. This amount consists of:

General Fund	(1,025.25)
Automation Operations Fund	(1,571.03)
Special Employee Health Insurance Trust Fund	(1,997.24)
Risk Management Revolving Fund	(17,944.04)

The state must annually settle unpaid claims against received goods and services. Vendors providing goods and services to the state can make claims against the receiving agencies if invoices are not paid in full. Up to 1 year following receipt, state agencies have the financial authority to pay such claims through administrative adjustments. However, the Legislature must grant special appropriation authority to pay claims older than 1 year.

Monies in this line item are not included in the General Appropriation Act. A separate legislative act usually makes this appropriation. Laws 2026, Chapter 15 appropriated \$403,232.26 in FY 2026 for prior year unpaid claims from all state agencies.

Information Technology Services

Critical Applications Catalogue

The budget includes \$398,500 from the State Web Portal Fund in FY 2027 the Critical Applications Catalogue. Adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,500) from the State Web Portal Fund in FY 2027 for statewide adjustments.

This line item funds a database of comprehensive information on all state IT systems.

Cybersecurity Systems Administration

The budget includes \$446,600 from the Information Technology Fund in FY 2027 for Cybersecurity Systems Administration. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$100 from the Information Technology Fund in FY 2027 for statewide adjustments.

This line item funds costs related to the administration and operation of the single sign-on tool, domain name system and active directory. The IT Fund receives revenue from a 0.61% pro-rata charge on agency payroll.

Digital Solutions Office

The budget includes \$1,373,200 and 8 FTE Positions from the Information Technology Fund in FY 2027 for the Digital Solutions Office. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$16,400 from the Information Technology Fund in FY 2027 for statewide adjustments.

This line item provides funding to perform management support for state IT services. The office provides guidance in the areas of IT procurement, product management and design. The IT Fund receives revenue from a 0.61% pro-rata charge on agency payroll.

Enterprise Resource Planning Division

The budget includes \$7,512,200 and 18 FTE positions in FY 2027 for the Enterprise Resource Planning Division. Adjustments are as follows:

Ongoing Administrative Funding

The budget includes an increase of \$7,512,200 and 18 FTE positions in FY 2027 to establish the Enterprise Resource Planning Division. This amount consists of:

Arizona Financial Information System	4,628,200
Collections Fund	
Personnel Division Fund	2,884,000

Monies in this line item fund costs related to the administration of the Enterprise Resource Planning Division. The division is responsible for operating and maintaining the AZ360 human resources and finance system.

Information Technology Project Management and Oversight

The budget includes \$1,805,300 and 16 FTE Positions in FY 2027 for IT Project Management and Oversight. This amount consists of:

Information Technology Fund	105,900
State Web Portal Fund	1,699,400

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$14,300 in FY 2027 for statewide adjustments. This amount consists of:

Information Technology Fund	2,400
State Web Portal Fund	11,900

This line item funds staffing costs for statewide project management and oversight at the ADOA Arizona Strategic Enterprise Technology Office. A.R.S § 18-104 requires ADOA to approve all IT projects over \$25,000.

Risk Management

Cyber Risk Insurance

The budget includes \$23,037,200 from the Cyber Risk Insurance Fund in FY 2027 for Cyber Risk Insurance. This amount is unchanged from FY 2026.

This amount funds an insurance deductible in the event of a cyber security breach or incident, plus funding for insurance premiums. The latter would fund third-party insurance to assist the state with a large cyber breach with costs over \$10,000,000.

Federal Transfer Payment

The budget includes no funding in FY 2027 for one-time payments to the federal government. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,018,700) from the Risk Management Revolving Fund in FY 2027 to eliminate FY 2026 payments to the federal government for disallowed costs and fund transfers in FY 2025.

The FY 2027 General Appropriations Act included an FY 2026 supplemental appropriation of \$2,018,700 from the Risk Management Revolving Fund for one-time payments to the federal government for disallowed costs and for

fund transfers in FY 2025. In addition, the FY 2027 General Appropriations Act continued to specify that it is the intent of the Legislature that ADOA shall not enter into any agreements to pay for any federal reimbursements related to excess retained earnings in the Health Insurance Trust Fund (HITF), unless the proposed agreements are reviewed by the JLBC.

To receive Federal Funds, the state enters into a contractual obligation with the federal government, which restricts the use of these Federal Funds. If the state then uses these funds in restricted ways, the federal government requires that the state pay back a proportional share of these funds. Examples of restricted use include fund transfers from one ADOA fund to another fund, using an ADOA fund for a federally disallowed operating purpose, or retaining an excess fund balance.

Amounts owed for FY 2026 will be paid through a supplemental appropriation. The final appropriated amount will be determined once ADOA reaches agreement with the federal government. *(Please see the FY 2026 Federal Financial Participation Payment section in Other Issues for more information.)*

Risk Management Administrative Expenses

The budget includes \$14,775,200 from the Risk Management Revolving Fund in FY 2027 for Risk Management Administrative Expenses. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$4,500 from the Risk Management Revolving Fund in FY 2027 for statewide adjustments.

This line item funds financial and actuarial analyses, relevant investigations, and related travel. This line item also funds legal representation from outside the Office of the Attorney General.

Risk Management Losses and Premiums

The budget includes \$63,480,400 from the Risk Management Revolving Fund in FY 2027 for Risk Management Losses and Premiums. Adjustments are as follows:

Remove One-Time Risk Management Funding

The budget includes a decrease of \$(37,000,000) from the Risk Management Revolving Fund in FY 2027 to remove one-time funding for anticipated higher claims costs in FY 2026.

Risk Management Claims Adjustment

The budget includes an increase of \$6,596,600 from the Risk Management Revolving Fund in FY 2027 for anticipated higher claims costs.

Statewide Adjustments

The budget includes an increase of \$19,500 from the Risk Management Revolving Fund in FY 2027 for statewide adjustments.

This line item represents estimated payments for liability and property settlements, medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Workers' Compensation Losses and Premiums

The budget includes \$28,749,900 from the Risk Management Revolving Fund in FY 2027 for Workers' Compensation Losses and Premiums. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$8,900 from the Risk Management Revolving Fund in FY 2027 for statewide adjustments.

This line item accounts for the state's liability in workplace injuries. The funding represents payments for workers' compensation beneficiaries, hospital and medical expenses, and supplemental insurance premiums. An actuarial study annually updates the projected loss exposures.

Support Services

Emergency Telecommunications Call Handling Services

The budget includes \$4,000,000 in FY 2027 for Emergency Telecommunications Call Handling Services. Adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$4,000,000 in FY 2027 for Emergency Telecommunications Call Handling Services to improve call response times for the state 911 program. This amount consists of:

Arizona Highway Patrol Fund	2,000,000
State Web Portal Fund	2,000,000

This funding is intended for distribution to local governments for operating their 911 emergency call systems.

Erroneous Convictions Fund Deposit

The budget includes no funding in FY 2027 for an Erroneous Convictions Fund Deposit. Adjustments are as follows:

Remove One-Time Deposit

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2027 to remove one-time funding for a deposit into the Erroneous Convictions Fund.

As permanent law, the FY 2027 Criminal Justice Budget Reconciliation Bill (BRB) prohibits the state from using any source other than the Erroneous Convictions Fund to pay erroneous convictions compensation claims and specifies that the state is not liable to pay any amount for erroneous convictions claims in excess of the available monies in the fund.

Monies in the fund are used to award claims to individuals who were found to be erroneously convicted of a felony and subsequently incarcerated. Monies in the fund are continuously appropriated and exempt from lapsing.

Government Transformation Office

The budget includes \$2,119,500 from the State Web Portal Fund in FY 2027 for the Government Transformation Office (GTO). Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$25,700 from the State Web Portal Fund in FY 2027 for statewide adjustments.

The GTO assists state agencies in designing and implementing process improvements.

State Employee Child Care Study

The budget includes no funding in FY 2027 for a State Employee Child Care Study. Adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(100,000) from the Personnel Division Fund in FY 2027 to remove one-time funding for a study to analyze the options available to the state in providing child care to employees.

State Employee Professional Development Pilot Program

The budget includes \$1,000,000 from the State Web Portal Fund in FY 2027 for a State Employee Professional Development Program. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the Personnel Division Fund in FY 2027 to remove one-time funding for a State Employee Professional Development Pilot Program that partners with state universities to provide job-training, skills and courses to state employees.

FY 2027 One-Time Funding

The budget includes a one-time increase of \$1,000,000 from the State Web Portal Fund in FY 2027 to continue funding for the State Employee Professional Development Pilot Program.

State Surplus Property Sales Agency Proceeds

The budget includes \$1,809,300 from the State Surplus Materials Revolving Fund in FY 2027 for State Surplus Property Sales Agency Proceeds. Adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(700) from the State Surplus Materials Revolving Fund in FY 2027 for statewide adjustments.

This line item separates surplus sales proceeds returned to agencies from the division's operating budget. The surplus property yard returns 90% of sales proceeds to the agency from which the property originated. The yard retains 10% of the proceeds to fund its operations.

Grants

Fire Incident Management Grants

The budget includes no funding in FY 2027 for Fire Incident Management Grants. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,291,600) from the General Fund in FY 2027 to remove one-time funding for ADOA to distribute grants to municipal fire departments and fire districts for fire incident management hardware and software.

The FY 2026 Environment BRB established a fire incident management grants program in ADOA with the purpose of providing grants for fire incident management hardware and software. Additionally, the BRB outlines certain system requirements and specifies that ADOA may not spend more than \$250,000 from the appropriation to administer the grant program.

Food Bank Capital

The budget includes \$3,000,000 from the General Fund in FY 2027 for Food Bank Capital. Adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$3,000,000 from the General Fund in FY 2027 for distribution to a food bank for a capital need.

The FY 2027 General Appropriations Act footnote specifies that this funding shall be distributed to a non-profit entity that has a core mission to provide food to hungry people, was established between 1980 and 1999, is located in a county with a population of more than four million persons and is headquartered in the city of Mesa.

Health Care Interoperability Grants

The budget includes no funding in FY 2027 for Health Care Interoperability Grants. Adjustments are as follows:

Remove One-Time Grants

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2027 to remove one-time funding for the distribution of health care interoperability grants.

The FY 2026 Health Care BRB established a health care interoperability grant program in ADOA with the purpose of providing grants for an interoperable software technology solution to support rural hospitals, health care providers and trauma centers to reduce public and private health care costs and unnecessary transportation costs.

Law Enforcement Records Management System

The budget includes no funding in FY 2027 for a Law Enforcement Records Management System. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(3,208,000) in FY 2027 to remove one-time funding for a Law Enforcement Records Management System. This amount consists of:

General Fund	(2,708,000)
Peace Officer Training Equipment Fund	(500,000)

An FY 2026 General Appropriations Act footnote specified that the funding shall be used to expand participation in the Pinal County records management system pilot program as established in the FY 2025 budget, to connect the records management and computer aided dispatch systems of law enforcement agencies. The footnote specified allocations of the funding to 24 distinct law

enforcement agencies. The FY 2026 Law Enforcement Records Management System funding is non-lapsing.

The FY 2027 budget includes \$4,079,300 from the Peace Officer Training Equipment Fund to the State Treasurer for distribution to local, county, and state law enforcement agencies for participation in a records management software. *(Please see the State Treasurer.)*

Navajo Nation Household Electrical Connections

The budget includes no funding in FY 2027 for Navajo Nation Household Electrical Connections. This amount is unchanged from FY 2026.

An FY 2026 General Appropriations Act footnote makes the FY 2025 appropriation for Navajo Nation household electrical connections non-lapsing through FY 2026.

School Safety Interoperability Fund Deposit

The budget includes no funding in FY 2027 for a School Safety Interoperability Fund Deposit. This amount is unchanged from FY 2026.

Section 118 of the FY 2027 General Appropriations Act requires ADE to transfer \$2,000,000 from the non-lapsing, unencumbered balance of monies appropriated to the School Safety Program in FY 2026 to ADOA's School Safety Interoperability Fund in FY 2027. Section 118 further directs ADOA to distribute the \$2,000,000 to specified counties to install and support school safety projects. *(Please see footnote 5 in the table above for the distribution.)*

Monies in the School Safety Interoperability Fund are distributed to county sheriffs to be used for school safety programs which enable the deployment of a secure, multimedia data communications system to a user base consisting of public safety agencies and public schools. Among other requirements, the communications system must provide for the sharing of text messaging, images, voice audio, full-motion video, files, maps and building floor plans.

Tribal Health Care Investment

The budget includes no funding in FY 2027 for a Tribal Health Care Investment. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2027 to remove one-time funding for a grant to an operator of a health care facility to construct an outpatient treatment center for the benefit of tribal members in need of dialysis services.

The FY 2026 Health Care BRB outlined the requirements that a health care facility must meet to qualify for the grant. The FY 2026 appropriation is non-lapsing.

County Funding

County Sheriff Support

The budget includes \$7,000,000 from the General Fund in FY 2027 for County Sheriff Support. Adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$7,000,000 from the General Fund in FY 2027 for distributions to county sheriffs.

An FY 2027 General Appropriations Act footnote allocates the funding to the sheriff's offices of 13 counties and requires that the funding be distributed on or before July 31, 2026. *(Please see footnote 6 in the table above.)*

County Support for Corrections Officer Employer Contributions

The budget includes \$377,100 from the General Fund in FY 2027 for County Support for Corrections Officer Employer Contributions. Adjustments are as follows:

CORP Employer Contributions Increase Funding

The budget includes an increase of \$377,100 from the General Fund in FY 2027 for distributions to the counties to fully cover the corrections officer retirement plan (CORP) employer contribution rate increase established by the FY 2026 Criminal Justice BRB. *(Please see footnote 7 in the table above.)*

Background - For most Corrections Officer Retirement Plan (CORP) employees hired after 7/1/2018 (Tier 3 employees), the retirement plan includes an annual employer contribution that consists of: 1) a fixed 5% deposited into the employee's defined contribution retirement account; 2) actuarial rates associated with disability and post-retirement health coverage; and 3) an actuarial rate associated with paying down the unfunded liabilities of CORP employees hired before 7/1/2018.

The FY 2026 Criminal Justice BRB increased the fixed employer contribution rate for Tier 3 employees from 5.0% to 5.5% beginning in FY 2027.

Elected Officials Retirement Plan Offset

The budget includes \$3,000,000 from the General Fund in FY 2027 for the Elected Officials Retirement Plan (EORP) Offset. This amount is unchanged from FY 2026.

This amount is allocated equally among counties with a population of less than 300,000 according to the 2020 Decennial Census. Each of the 12 smallest counties receives \$250,000.

This appropriation was previously displayed in a separate County Funding section.

Gila County Disaster Relief

The budget includes \$10,000,000 from the Livestock Operator Fire and Flood Assistance Fund in FY 2027 for Gila County Disaster Relief. Adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$10,000,000 from the Livestock Operator Fire and Flood Assistance Fund in FY 2027 for distribution to the Town of Miami, the City of Globe, and Gila County for disaster relief.

An FY 2026 General Appropriations Act footnote specifies that on or before July 15, 2026, the department shall distribute \$2,500,000 to the Town of Miami, \$2,500,000 to the City of Globe, and \$5,000,000 to Gila County.

Small County Assistance

The budget includes \$7,650,650 from the General Fund in FY 2027 for Small County Assistance. This amount is unchanged from FY 2026.

This line item provides funding for counties with populations less than 900,000 according to the 2020 Decennial Census. With one exception, each qualifying county receives \$550,050 *(see Table 1)*. Graham County receives \$1,050,050.

This appropriation was previously displayed in a separate County Funding section. Beginning with the FY 2027 Baseline, this is being displayed within ADOA.

Table 1

**Small County Assistance
Distribution and County Population**

County	Ongoing Distribution	2020 Census Population
Apache	\$ 550,050	66,021
Cochise	550,050	125,447
Coconino	550,050	145,101
Gila	550,050	53,272
Graham	1,050,050	38,533
Greenlee	550,050	9,563
La Paz	550,050	16,557
Maricopa	-	4,420,568
Mohave	550,050	213,267
Navajo	550,050	106,717
Pima	-	1,043,433
Pinal	550,050	425,264
Santa Cruz	550,050	47,669
Yavapai	550,050	236,209
Yuma	550,050	203,771
Total	\$7,650,650	7,151,392

Other Issues

This section includes information on the following topics:

- FY 2026 Supplementals
- Lapse Prior Year Appropriations
- Statutory Changes
- Fund Transfers
- Reduce Vacant FTE Positions
- Health Insurance Trust Fund
- Valleywise Transfer
- County Expenditure Limits
- County Flexible Revenue Report

FY 2026 Supplementals

Named Claimants

Laws 2026, Chapter 15 provides \$403,232.26 in FY 2026 supplemental funding to various agencies for Named Claimants. This amount consists of:

	<u>Claim Amount</u>
<u>General Fund</u>	
Department of Administration	\$1,025.25
Department of Corrections	3,145.02
Department of Public Safety	366,040.81

Other Appropriated Funds

Department of Administration	
Automation Operations Fund	1,571.03
Risk Management Revolving Fund	17,944.04
Special Employee Health Insurance Trust Fund	1,997.24

Industrial Commission of Arizona	
Administrative Fund	3,532.96
Department of Transportation	
Department Fleet Operations Fund	399.03
State Highway Fund	7,576.88

FY 2026 Federal Financial Participation Payment

The budget includes an FY 2026 supplemental appropriation of \$2,018,700 from the Risk Management Revolving Fund for one-time payments to the federal government for disallowed costs and fund transfers in FY 2025. This amount consists of:

- \$1,050,900 related to transfers from 3 funds in FY 2025.
- \$129,200 related to excess retained earnings in the IT fund.
- \$838,600 related to interest on fund transfers, disallowed costs, and interest on disallowed costs. This amount also includes a negotiation cushion estimated by ADOA.

(Please see the Federal Transfer Payment line item above for more information.)

Lapse Prior Year Appropriations

The FY 2027 budget lapses \$(5,037,800) from the General Fund appropriated in FY 2022 (Section 100) to reduce funding for the retirement of defeasance of financing agreements.

Statutory Changes

The State Budget Implementation BRB makes the following statutory change:

- As permanent law, grants ADOA the ability to delegate authority of specific information technology functions to any budget unit and the authority to enter into agreements with any state agency or political subdivision of this state to furnish IT services. Additionally, requires ADOA to adopt certain software and data sharing practices and develop a statewide IT strategic plan.

The Criminal Justice BRB makes the following statutory change:

- As permanent law, amends A.R.S. 41-710.03 to specify that the state shall not use monies from any source other than the Erroneous Convictions Fund to pay erroneous convictions compensation claims. Specifies that the state is not liable to pay any

amount for erroneous convictions claims in excess of the available monies in the Erroneous Convictions Fund. Applies this change retroactive to December 31, 2025.

	FY 2026
Construction Insurance Fund	\$5,500,000
Co-Op State Purchasing Fund	3,000,000
Risk Management Revolving Fund	6,100,000

The Health Care BRB makes the following statutory changes:

- As permanent law, establishes the Health Insurance Trust Fund (HITF) Oversight Board to approve changes to the state employee medical and dental insurance plans beginning in Plan Year 2028. *(Please see the Health Insurance Trust Fund section below for additional details.)*
- As permanent law, requires that the HITF Oversight Board develop requirements for the sharing of state employee health plan anonymized and aggregated claims and trend data with participating employers.

The Local Government BRB makes the following statutory changes:

- As session law, continues to allow counties with a population of less than 250,000 according to the 2020 Decennial Census to use any source of county revenue to meet a county fiscal obligation for FY 2027, up to \$1,250,000 of county revenue for each county. The bill continues to require counties using this authority to report to the Director of the Joint Legislative Budget Committee (JLBC) on the intended amount and sources of funds by October 1, 2026. *(Please see the County Flexible Revenue Report section below for more information.)*

The State Properties Management BRB makes the following statutory changes:

- As session law, continues to set the FY 2027 COSF rental rate charged by the Arizona Department of Administration at \$17.87/square foot for rentable office space and \$6.43/square foot for rentable storage space.
- As session law, requires the department to report sales of state property within the capitol mall to the Speaker of the House, President of the Senate, and JLBC within 10 days of the final transaction. The report shall include the address, square footage and final sales price of the property.

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

Reduce Vacant FTE Positions

The FY 2027 budget reduces the FTE count for ADOA by (50) Positions. While the agency table reflects the correct appropriated FTE, the narrative does not attempt to allocate this reduction in the agency budget. Agencies may use their discretion in allocating this FTE reduction within their budget and should reflect the changes in their FY 2028 budget request submitted pursuant to A.R.S. § 35-113. The FY 2028 JLBC Baseline will incorporate the changes as allocated by the agency.

Health Insurance Trust Fund

The Special Employee Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions.

The FY 2027 budget reflects the following changes to HITF, which are each described in more detail below:

- Employer premium contribution funding in FY 2027 (one-time) and FY 2029 (ongoing).
- A HITF Oversight Board to approve changes to the health plan.
- \$500,000 from HITF for a contracted special audit of the state employee health plan.
- Other plan design changes effective beginning Plan Year (PY) 2026.

Employer Premium Funding

Along with employee contributions, HITF has been funded since FY 2018 with a combination of ongoing and one-time employer funding, except for one year (FY 2022). The FY 2027 budget includes a \$660,202,000 one-time subsidy, including \$324,684,500 from the General Fund and \$335,517,500 from non-General Fund monies. The fund is estimated to have a FY 2027 ending balance of \$75,000,000. *Table 2* provides details on HITF revenues and expenditures in FY 2025 and FY 2026.

Table 2		
Health Insurance Trust Fund		
(\$ in M)		
	FY 25	FY 26
	(Actual)	(Actual)^{1/}
Beginning Balance	\$98.3	\$52.4
<u>Revenue</u>		
Ongoing Premiums	861.8	835.6
One-time Employer Increase	<u>230.9</u>	<u>423.2</u>
Net Revenues	\$1,092.7	\$1,258.8
<u>Expenses</u>		
Ongoing Medical Expenses	\$1,133.3	\$1,274.2
Administration	<u>5.3</u>	<u>7.7^{2/}</u>
Net Expenses	\$1,138.6	\$1,281.9
Cash Balance	\$52.4	\$29.3
^{1/} Figures are accurate as of July 7, 2026.		
^{2/} Administrative spending exceeded the FY 2026 appropriation.		

Additionally, the 3-year spending plan associated with the enacted budget includes an increase of \$100,000,000 from the General Fund on an ongoing basis beginning in FY 2029 for employer premium funding. Assuming the same General Fund/non-General Fund split as the FY 2027 subsidy, this increase is estimated to generate an ongoing employer premium increase of \$203,336,500 Total Funds. The 3-year spending plan does not include an increase to employer premium funding in FY 2028 beyond state agencies' regular base funding.

Oversight Board

The FY 2027 Health Care BRB establishes the HITF Oversight Board to approve changes to the state employee medical and dental insurance plans. The BRB includes the following provisions governing the Board:

- The Board consists of 5 voting members:
 - o The ADOA Benefits Division Assistant Director, Chair of the Board.
 - o The ADOA Director or their designee.
 - o The Department of Insurance and Financial Institutions Director or their designee.
 - o One member appointed by the Speaker of the House of Representatives.
 - o One member appointed by the President of the Senate.
- None of the 5 members may be sitting elected officials, and the 2 members appointed by the Speaker/President must have at least 3 years of experience in the health care industry in Arizona and may not be a registered lobbyist.

- The Board is required to meet at least twice per year and must vote to approve changes proposed by ADOA staff for any of the following:
 - o Benefits.
 - o Premiums.
 - o Cost sharing (e.g. deductibles, copays, coinsurance, and out-of-pocket maximums).
 - o Request for Proposals (RFP) contracts greater than \$3,000,000.
- The Board is required to design policies that seek to achieve the following by PY 2035:
 - o An 85% employer/15% employee medical premium cost share. The current cost share is estimated to be 93% employer/7% employee.
 - o A consistent HITF reserve balance that is 2x the health plan's "Incurred But Not Reported" (IBNR) costs. The IBNR represents the estimated liability for medical and dental insurance claims that have occurred but not yet been filed with the health plan. In September 2025, ADOA estimated that 2x the IBNR costs in PY 2026 would equal \$264,816,000.
 - o Optimal retiree cross-subsidization.

Additionally, the FY 2027 Health Care BRB mandates that the Board develop requirements for the sharing of state employee health plan anonymized and aggregated claims and trend data with participating employers.

Special Audit

The budget includes a one-time FY 2027 appropriation of \$500,000 from HITF to the Auditor General for a special audit of the state employee health plan. The FY 2027 budget requires that the Auditor General contract with an independent third party to conduct the audit. The audit must include an assessment of the state's application of best practices in health care cost containment and a forensic audit of a sample of claims from FY 2026. *(Please see the Auditor General narrative for the footnote language.)*

PY 2026 Changes

Prior to the enactment of the FY 2027 budget, ADOA implemented the following changes for PY 2026, which it estimates will result in a \$18,030,000 Total Funds net improvement to the HITF balance:

- Replace the previous Triple Choice Plan (TCP) with a Preferred Provider Organization (PPO) plan that eliminates the member's in-network deductible. The in-network deductible was previously \$200 for a single employee and \$400 for a family.
- \$5 copay increase for primary care physician, specialist, telehealth, and urgent care visits.
- \$50 copay increase for inpatient hospital, outpatient facility, and emergency room visits.

- 21.0% increase to retiree premiums. (Premiums for active employees are unchanged.)
- 19.7% increase to COBRA continuation coverage premiums.
- A minor increase to the Health Savings Account (HSA) deductible to comply with federal HSA requirements.

Valleywise Transfer

ADOA and the Maricopa County Special Health Care District (Valleywise) entered into an intergovernmental agreement (IGA) for Valleywise to transfer \$75,000,000 annually from FY 2025 through FY 2029 to ADOA for deposit to the General Fund. Half of this amount is due on March 30 of each year and the remainder is due on June 30 of each year.

The budget continues a footnote that would require ADOA to report to the JLBC and OSPB by March 31, 2027, on the amount Valleywise has agreed to send to the department for deposit to the General Fund in FY 2027. If there is any change in the amount that Valleywise has agreed to send to the department from FY 2026, the report shall include the reason for the change.

County Expenditure Limits

Article 9, Section 20 of the Arizona Constitution establishes the process for determining a county's expenditure limits. Section 20 directs the Economic Estimates Commission to determine and publish prior to April 1 of each year the expenditure limitation for the following fiscal year for each county. The expenditure limits are determined by adjusting the amount of actual payments of local revenues for each such political subdivision for FY 1980 to reflect the changes in the population of each political subdivision and the cost of living.

The governing board of any political subdivision may not authorize expenditures of local revenues more than the limit set by the Commission, except in certain circumstances outlined in Section 20 including natural and man-made disasters. Section 20 also permits the expenditure limits to be overridden, subject to voter approval, on either a one-time basis or permanently by raising the spending base. *(Please see Article 9, Section 20 of the Arizona Constitution for additional information.)*

Table 3 shows county expenditure limits set by the Commission for the most recent year with available data.

Table 3

County Expenditure Limits ^{1/}

County	Fiscal Year	Expenditure Limits	Expenditures Subject to Limit
Apache	2020	\$ 17,658,900	\$ 12,480,300
Cochise	2023	71,942,046	61,341,609
Coconino	2024	78,064,579	77,803,566
Gila	2023	46,330,256	38,857,535
Graham	2024	19,635,884	19,304,190
Greenlee	2023	13,770,969	13,412,993
La Paz	2022	34,400,063	13,778,800
Maricopa	2022	1,527,423,500	1,527,423,500
Mohave	2023	220,597,536	126,789,868
Navajo	2024	56,271,193	51,668,019
Pima	2023	653,975,000	653,974,000
Pinal	2022	303,396,000	190,262,000
Santa Cruz	2021	25,203,200	25,203,200
Yavapai	2023	146,246,043	146,246,043
Yuma	2024	110,274,426	101,588,459

^{1/} Amounts based on individual county Comprehensive Annual Financial Reports (CAFR), which are typically completed after county audits are conducted. The listed Fiscal Year indicates the most recent available data.

County Flexible Revenue Report

The FY 2026 Local Government BRB permits counties with a population of less than 250,000 according to the 2020 Census to use any source of county revenue, up to \$1,250,000, for purposes other than the purpose of the revenue source to meet a county fiscal obligation for FY 2026. Counties using the authority were required to report to the Director of the JLBC on the intended amount and sources of funds by October 1, 2025.

Of the 12 eligible counties, 3 reported using the flexibility in FY 2026:

- Apache County: \$1,200,000 from the Post-Secondary Education District, the Community College District and Flood Control District to the Jail District to pay for Jail District Operations.
- Coconino County: \$1,250,000 from the Jail District to the General Fund to pay down the Public Safety Personnel Retirement System (PSPRS) debt and pay for information technology needs for the Sheriff's Department. Only Coconino County used this authority in FY 2025, at the same level of \$1,250,000.
- Mohave County: \$1,250,000 from the Library District to the General Fund to pay for County Operations.

The following 7 counties indicated that they are not utilizing this provision: Cochise, Gila, Graham, Greenlee, Santa Cruz, Yavapai, and Yuma. La Paz and Navajo counties did not report their use of these funds.