

The State of Arizona Budget and the Legislature

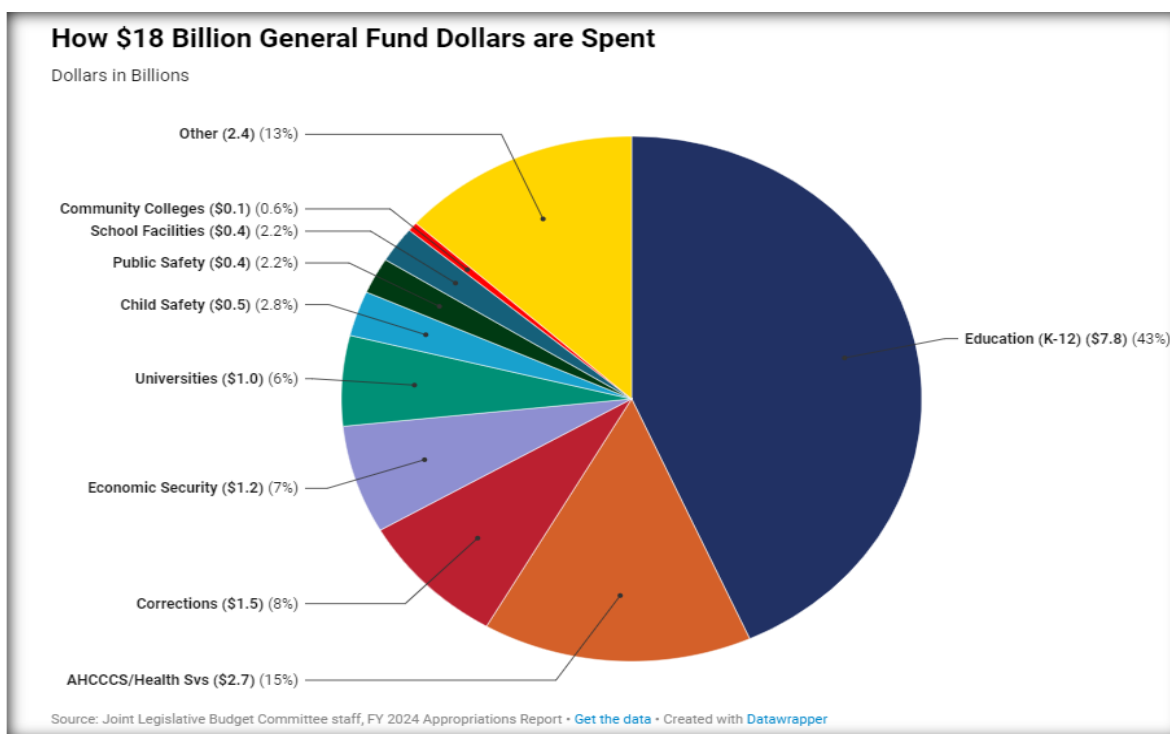
The State General Fund serves as the backbone of Arizona’s state government structure, funneling funds to more than 60 agencies in the State.¹ 87% of the funds go to 10 agencies, due to these agencies providing critical services.¹ The State Budgeting process and the State General Fund are what allow the State of Arizona to operate, providing services like public safety, schooling, Medicaid, and funding of correctional facilities.¹

For a list of State agencies within Arizona that are taken into consideration in the yearly budget, please view:

- <https://www.azospb.gov/Documents/2024/FY%202025%20Agency%20Detail%20Book.pdf>

The Governor and the State Legislature allocate resources based on estimated revenue collection levels, requests from state agencies, and other cost projections through the budgeting process. The revenue anticipated from each state agency is also included in the State Budget proposed by the Governor each year.

The Arizona Center for Economic Progress does an excellent job of showcasing how dollars are spent.¹



To better understand the budgeting process, here are some important terms to know.

¹ <https://azeconcenter.org/state-budget-101/#:~:text=What%20is%20the%20General%20Fund,more%20than%2060%20state%20agencies.>



Important Terms to Know:

Funding Types:

- **General Fund:** The portion of state revenues that are not dedicated for a specific purpose. The money primarily comes from sales and use tax (the majority of funds), individual income tax (second largest contributor) and corporate income tax. There are also additional funding sources, which vary from year-to-year. This “other” category and the corporate income taxes make up the smallest source of monies for the State General Fund.³
- **Appropriation:** Money that is budgeted for a state agency or program.³
- **Budget Stabilization Fund:** Otherwise known as the “Rainy Day Fund”, it is essentially the state’s savings account. Statute limits the balance of the fund to 10 percent of total General Fund Revenues.³
- **Highway User Revenue Fund (HURF):** Highway User Revenue Fund, which is used primarily for state transportation projects. The money primarily comes from gas taxes and license fees.³
- **Matching Funds:** Money given to the state by the federal government contingent upon state funding for a program.³
 - Example 1: A 3 to 1 match would indicate that for every state dollar, the federal government would contribute \$3.³
 - Example 2: When we discuss the 100% Federal Medical Assistance Percentage (FMAP) dollars for the State Medicaid Program.
- **One-Time Funds:** Refers either to revenues or expenditures, and denotes budget items that will only have an impact for one fiscal year. Ongoing: Refers either to revenues or expenditures. Ongoing items – sometimes called permanent – are expected to impact budgets for several years, if not indefinitely.⁵
- **Lump Sum:** An appropriation format where an agency is given a single amount of funding, which it can spend across line items without further legislative review.⁵

Budget Years

- **Federal Fiscal Year:** October 1 through September 30 of each year. The fiscal year is called by the year it ends; for example, Fiscal Year 2024-2025 (or “FY 2025”), begins on October 1, 2024 and ends on September 30, 2025.
- **State Fiscal Year:** July 1 through June 30 of each year. The fiscal year is called by the year it ends; for example, Fiscal Year 2024-2025 (or “SFY 2025”), begins on July 1, 2024 and ends on June 30, 2025.

Bill Terms:

- **General Appropriations Act (GAA):** General Appropriation Act, the general appropriations bill provides the annual funding level for each state agency in a single bill.⁵
- **Budget Reconciliation Bill (BRB):** Budget Reconciliation Bill, it is commonly pronounced as “burb”. These series of bills include statutory changes necessary to enact the budget. They do not typically include appropriations.⁵
 - **Note on Budget Reconciliation Bills:** The Arizona Constitution prohibits substantive law from being included in the general appropriations, capital outlay appropriations and supplemental appropriations bills. However, it is often necessary to make statutory and session law changes to effectuate the budget. Thus, separate bills called budget reconciliation bills (BRBs) are introduced to enact these provisions. Because BRBs contain substantive law changes, the Arizona Constitution provides that they become effective on the general effective date, unless an emergency clause is enacted.²
- **Line Item:** Each agency budget in the General Appropriations Act has one or more line items of expenditure. A single line item typically represents an agency’s operating budget. Additional line items delineate spending apart from normal agency operating expenditures for monies involved with programs that provide benefits to individuals or contracted services.⁷

Other Budget-Related Terms

- **Federal Medical Assistance Percentage (FMAP):** The amount of money the federal government will match for every dollar spent by the State’s Medicaid program. The FMAP determines the federal share of the cost of Medicaid services in each State, with the federal government paying at least half the cost of providing needed services to program (Medicaid) beneficiaries. By law, the FMAP cannot be less than 50%. The FMAP is different for each State, each year, and certain populations can have a multiplier applied to them to increase the federal share of the FMAP.³
 - Origins and Calculation: The Social Security Act requires the Secretary of Health and Human Services to calculate and publish the FMAPs each year, and Section 1905(b) of the Act specifies the formula for calculating the FMAP. The formula allows for a calculation result that is inversely proportional to a state’s average personal income relative to the national average. States with lower average personal incomes have higher FMAPs³
 - CHIP: Federal matching rates for the costs of the Children’s Health Insurance Program (CHIP) are enhanced relative to the Medicaid FMAP.³
 - American Indians and Alaska Natives (AI/AN) Populations and 100% FMAP: For AI/AN individuals enrolled with the State Medicaid plan, who are receiving services through an IHS, tribally-run 638, or an urban Indian health organization (I/T/U) there is 100% FMAP. This

² https://www.azleg.gov/legtext/56leg/2R/summary/S.2897-1735APPROP_ASENACTED.pdf

means that the federal government will cover 100% of all costs associated with treating AI/AN individuals in these circumstances. This has legislative significance in granting exemptions for Medicaid benefit dollar caps, such as the dollar cap for Medicaid-enrollees in Arizona for emergency dental (\$1000 as of 2024). However, AI/AN individuals have no such cap. This is an important caveat to emphasize in advocacy work, that we can remove caps for AI/AN individuals and that there is historical precedence for it.

- Arizona FMAPs for FY25: 64.89% with a multiplier of 1.85³
- **Joint Legislative Budget Committee (JLBC)**: May reference two entities, either (1) the Joint Legislative Budget Committee itself, or (2) the JLBC committee staff.
 - **JLBC Committee**: The JLBC is a 16 member committee (8 members from each chamber of the Arizona Legislature) that is responsible for oversight of all facets of the state budget.
 - **JLBC Staff**: 20-person non-partisan staff members that provide assistance on fiscal issues, and help the committee in fulfilling its duties. This includes helping analysts assigned to review the budgets of over 100 state agencies, including economists responsible for creating revenue forecasts. They also provide briefing materials and final analysis for JLBC and JCCR committees, responding to all requests from members of the Legislature.^{5 4}
- **Joint Committee on Capital Review (JCCR)**: Joint Committee on Capital Review is a 14 member committee responsible for oversight of capital projects. The JLBC Staff also provides support to this committee. They are also responsible for developing cost estimates of newly proposed bills.⁵⁷
- **Finance Advisory Committee (FAC)**: A 14-member committee of public and private sector economists which meets publicly 3 times yearly, including each fall. They are an important part of the forecasting process for the State Budget when it comes to forecasting revenue projections against the funding requests from state agencies.⁷
- **Formula Spending**: Funding levels for state programs that are mandated by voter-approved ballot measures or other state law. These formulas define eligibility for a program and may also determine the spending per person.⁵
- **Supplemental**: An appropriation that adds funding to an agency's existing current fiscal year budget.⁵
- **Trigger**: A spending provision in the budget that will not occur unless revenues reach a specified level⁵

Budget Process

1. State Agency Budgets

State agencies prepare their budget requests the year prior, and requests are prepared according to guidelines set by the Governor.

³ <https://www.kff.org/medicaid/state-indicator/federal-matching-rate-and-multiplier/?currentTimeframe=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>

⁴ <https://www.azjlbc.gov/budget/jlbcorientation013023.pdf>

⁵ <https://www.azjlbc.gov/budget/glossaryofbudgetterms013023.pdf>

- Agency Budget Preparation Timeline: Agencies typically aim to have their first drafts for each department completed by June 30th of each year. State agencies have budget teams that work together with each division within their agency to refine and trim budgets in July and August. ⁷
 - Submission Timeline: Requests are submitted to the Governor’s Office of Strategic Planning and Budgeting (OSP) by September 1st for the following State Fiscal Year.
 - i. For example: Budgets submitted from State Agencies to OSPB by September 1, 2024, for the SFY26, which begins on July 1, 2025 and is voted on in the legislature in March-May of 2025.
2. The Governor’s Office of Strategic Planning and Budgeting (OSP) provides copies of the budget requests to the Joint Legislative Budget Committee (JLBC) Staff. ⁷
- Timeline: September of each year
3. Forecasting Season (Pre-Session) – Occurs each Fall:

Each Fall the legwork for the following fiscal year’s budget begins. Revenue projections are made, and Agency requests for funding are reviewed and tallied against the projected state revenue and their funding sources.

- a. Review of Agency Budget Requests: The Governor’s Office of Strategic Planning and Budgeting and the Joint Legislative Budget Committee (JLBC) Staff review budget requests in the fall of each year. ⁷
 - b. Forecasting Revenue Projections: The JLBC Staff consults with the Finance Advisory Committee (FAC), a 14-member committee of public and private sector economists which meets publicly 3 times yearly, including each fall. Revenue estimates from the FAC, JLBC Staff, and 2 University of Arizona econometric models are equally weighted to produce a 4-sector “consensus” revenue estimate for the current and upcoming fiscal years. ⁶OSP and JLBC may independently produce revenue estimates. ⁷
 - c. Timeline: Fall
 - i. Note: The Governor and Legislature are not bound by these forecasts and may use their own estimates for budget development. In a review of the Arizona budgeting process⁷, it was found that Arizona was weak in its balanced budget requirements. This is a point of potential failure due to non-standardization.
4. Governor’s Budget Proposal:
- The Governor is required to produce a budget for the upcoming year (along with any adjustments to the current fiscal year) for consideration by the Legislature. ⁷
- Timeline: Within 5 days after the start of each regular session of the Legislature.

⁶ <https://www.azjlbc.gov/budget/budgetingprocessforweb08-18.pdf>

⁷ <https://www.azjlbc.gov/budget/azbudgetprocess.pdf>

- Link: The Governor’s proposal can be found here, along with calculations regarding state agency details, <https://www.azospb.gov/publications2014newweb.aspx>

5. Joint Legislative Budget Committee (JLBC) Baseline Document

Once session is in play, the work done the previous Fall becomes a document. JLBC Staff produce a Baseline document, which reflects the 4-sector consensus economic forecast (made by equally weighting the forecasts of the Financial Advisory Committee or FAC Staff, JLBC Staff, and the 2 University of Arizona econometric models) and spending estimates based on funding formula requirements and other obligations. ⁷

- Timeline: Within 5 days after the start of each regular session of the Legislature.
- Note: Unlike the Governor’s budget, which includes discretionary spending and revenue changes necessary to enact a balanced budget. ***The Baseline is not a budget proposal but provides guidance on the size of a projected budget balance.*** This means it will either reflect a balanced budget, or it will not, and it will provide the projected deficit or surplus. ⁷

6. Drafting the Bill Text

The Joint Legislative Budget Committee (JLBC) administrative staff will begin to draft the requested text of the State Budget Bill, which is called the General Appropriations Act or the “Feed Bill”. This is based on:

- The baseline document referenced in Step #5 above; *and*
- Any additions/policies the Governor includes in their budget proposal that they wish to pursue; *and*
- Any additional areas the legislature would like to pursue, that they think (bill wise) can get over the finish line to approval that session.

From a broad perspective, the JLBC administrative staff draft the text and appropriations with consultation from legislators. Negotiations are ongoing and can occur both in and out of session regarding these items. This changes throughout the session and is eventually introduced. Which chamber it starts in is up to the house/senate each year. Nothing is required statutorily to start it in one house over another.

Timeline: Ongoing throughout session

7. Legislative Budget Hearings:

Public hearings may be conducted regarding the State Budget.

This may occur *before* the General Fund Appropriations (“Feed Bill”) is introduced into a chamber, because sometimes there are policies/agendas that the Governor’s Office or members of the Legislature would like to see added to the upcoming years budget, but that have a price tag attached. It is up to the legislature each year how to pursue the order of this, but typically they will review those bills prior to the State Budget’s General Fund Appropriation (“Feed Bill”).

- Timeline: January and February
- Name of Bill: The General Appropriations Act (AKA: “Feed Bill”)
- What’s Included in the “Feed Bill”? The bill includes General Fund appropriations, other dedicated funds to state agencies for the upcoming fiscal year, and supplemental

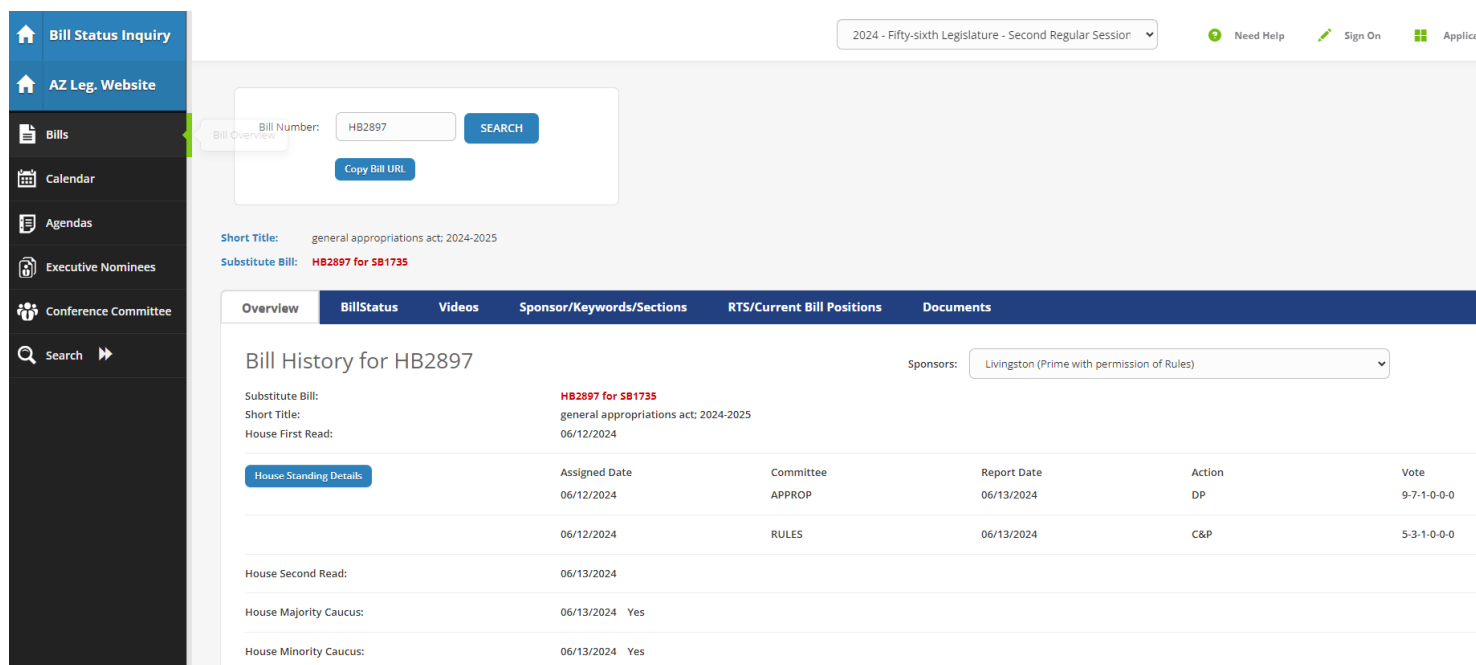
appropriations and ex-appropriations for the current fiscal year. The budget package also typically includes a Capital Outlay bill, which appropriates money for capital projects in various state agencies and several Budget Reconciliation Bills (BRBs), which group statutory changes required to enact the budget by subject area (e.g., health or criminal justice).⁷

- d. Please note, that the Constitution of Arizona requires the General Appropriations Act (the “Feed Bill”) to only contain appropriations for State Agencies/Departments, State institutions, public schools and interest on public debt. Statutory changes necessary to reconcile the appropriations made in the feed bill and other changes are drafted into separate budget bills prepared according to subject area.⁸

8. Chamber Passage

The General Appropriations Act (the “Feed Bill”) is heard in both chambers, and follows the typical process all bills follow.

- Note: While nearly all states maintain requirements for a balanced budget in their constitutions or in statute. Balanced budget provisions are designed to limit the extent to which states can incur debt. However, Arizona does not have a requirement to have a balanced budget in statute.⁶
- Example:
<https://www.azleg.gov/legtext/56leg/2R/adopted/H.2897FLOORLIVINGSTON4.PDF>
- How to look up the bill in the Request to Speak / Bill Status Inquiry System:



The screenshot shows the Arizona Legislative Bill Status Inquiry System interface. The top navigation bar includes "Bill Status Inquiry", "AZ Leg. Website", and a search icon. The main content area displays the bill number "HB2897" and a "SEARCH" button. Below the search bar, the "Short Title" is "general appropriations act: 2024-2025" and the "Substitute Bill" is "HB2897 for SB1735". The "Bill History for HB2897" section shows the bill's progress through the House, including assigned dates, committees, report dates, and actions. The "House Standing Details" table is as follows:

House Standing Details	Assigned Date	Committee	Report Date	Action	Vote
	06/12/2024	APPROP	06/13/2024	DP	9-7-1-0-0-0
	06/12/2024	RULES	06/13/2024	C&P	5-3-1-0-0-0

Other details include "House Second Read:" on 06/13/2024, "House Majority Caucus:" on 06/13/2024 (Yes), and "House Minority Caucus:" on 06/13/2024 (Yes). The "Sponsors" dropdown menu shows "Livingston (Prime with permission of Rules)".

9. Governor’s Approval

⁸ https://www.azleg.gov/legtext/56leg/1R/summary/H.HB2570_013123_APPROP.pdf



Once approved by both chambers, budget bills are sent to the Governor. The Governor may either:

- Sign the bills, *or*
- Let them go into effect without a signature, *or*
- Veto the bills, *or*
- Line-item veto appropriations. ⁷

If the Governor chooses to veto or line-item veto a bill, the Legislature may override the veto before adjournment with a 2/3rd vote of each chamber. ⁷

During the 2024 legislative session, Governor Hobbs signed the bill on 6/18/2024. This can also be looked up in the Request to Speak / Bill Status Inquiry System. If you look up the General Appropriations Bill by its number, you can scroll down under the Overview tab and see the below status.

Transmit to House:	06/15/2024	
Transmit to Governor:	06/16/2024	
Governor Action	06/18/2024	Signed
Chapter:	209	
Chapter Version:	House Engrossed	

10. Budget Becomes Effective

The General Appropriation Act takes effect immediately, though most appropriations are for the fiscal year that begins the upcoming July 1. The Budget Reconciliation Bills generally take effect 90 days after the end of the session in which they are passed. ⁷

11. Budget Summary Publication

A summary of the budget for the upcoming fiscal year is published each year by JLBC Staff. Copies of the most recent Appropriations Report are available here. ⁷

State Agency Relationship to Legislature

State Agency's submit their budget request to the Governor's Office of Strategic Planning and Budgeting (OSPB) by September 1st for the following State Fiscal Year. These are reviewed and compared to projected state revenue and available funding sources. Once the final State budget is passed per the steps above, the budgets are sent out to each respective agency. At that juncture, each State Agency Director will divvy up the funds according to how they were appropriated and between different agency divisions.

In years where there is a budget deficit, this has a trickle-down effect to other organizations.

For instance, in 2024 the budget deficit for the State of Arizona was anticipated to be at \$1.2 to \$1.4 billion.

Consequently, there were the following downstream effects:

- In lieu of a hiring freeze, agencies were asked not to fill vacated positions unless absolutely necessary (headcount cap);

- State agencies were asked to cut 3.45% from their overall budgets for future years;⁹
- Previously planned expenditures, which the State had saved for, such as a \$333 million dollar savings earmarked for water infrastructure build up, along with highway projects to widen Interstate 10 through Buckeye, have been canceled. They are on pause indefinitely, until the budget deficit has fully resolved;⁹
- Cutting funding for optional programs that benefit the community but are not considered essential services, like funding to universities to provide funding to make it more affordable for individuals to train to be primary care physicians or teachers and scholarships for low-income students;⁹
- Not approving new positions for State Agencies if they are considered non-critical services.

This translates to workload of State employees being spread farther across a smaller and smaller workforce, if older positions are not all filled due to the new statewide cap on agency headcount, for all executive agencies, boards, and commissions. This also means budget requests from State agencies that previously would have been considered for expansion, will not be unless it is deemed a critical service. For a copy of the letter sent to State agencies explaining the budget exercise (originally 4% savings with 2% ongoing savings) please see here:

- <https://www.azfamily.com/2024/04/22/governors-office-calls-government-agencies-implement-hiring-freeze-budget-reductions/>

When there is a budget deficit, the bills introduced will include agency lump sum reductions if agencies were requested to reduce their budgets. Example for FY2025:

- <https://www.azjlb.gov/budget/h-splanasengrossed061524.pdf>

⁹ <https://apnews.com/article/arizona-budget-deficit-cuts-hobbs-legislature-f84e9144310146ceb0f58c742af53973>