

**Department of Economic Security**  
**Employment and Rehabilitation Services**

A.R.S. § 41-1954

JLBC Analyst: John Malloy

	<b>FY 2004 Actual</b>	<b>FY 2005 Estimate</b>	<b>FY 2006 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	413.3	478.3	474.0
Personal Services	13,220,100	16,145,300	16,370,500
Employee Related Expenditures	4,465,200	4,794,900	5,468,400
Professional and Outside Services	241,200	262,700	262,700
Travel - In State	215,900	443,100	443,100
Other Operating Expenditures	1,286,300	2,395,800	2,439,400
Equipment	2,017,200	520,000	0
<b>OPERATING SUBTOTAL</b>	<b>21,445,900</b>	<b>24,561,800</b>	<b>24,984,100</b>
<b>SPECIAL LINE ITEMS</b>			
<b>JOBS Administration</b>			
JOBS	14,273,700	22,610,100	22,942,300 <sup>1/2/</sup>
Work-Related Transportation	295,400	302,200	0
Job Search Stipends	25,400	30,000	0
<b>Child Care Administration</b>			
Day Care Subsidy	112,779,000	137,520,100	148,720,100 <sup>3/4/</sup>
Transitional Child Care	29,944,000	32,911,900	32,911,900 <sup>4/</sup>
<b>Rehabilitation Services</b>			
Vocational Rehabilitation Services	3,279,800	3,489,800	3,489,800
Independent Living Rehabilitation Services	1,762,400	2,491,900	2,491,900 <sup>5/</sup>
<b>Workforce Development</b>			
Summer Youth Employment and Training	1,000,000	1,000,000	0
Workforce Investment Act - Discretionary	0	3,266,600	3,614,000 <sup>6/7/</sup>
Workforce Investment Act - Local Governments	0	45,088,100	48,040,600 <sup>8/</sup>
Workforce Investment Act Programs	42,384,700	0	0
<b>PROGRAM TOTAL</b>	<b>227,190,300</b>	<b>273,272,500</b>	<b>287,194,700<sup>9/</sup></b>
<b>FUND SOURCES</b>			
General Fund	38,075,600	86,484,600	81,548,500
<b>Other Appropriated Funds</b>			
Federal CCDF Block Grant	119,369,100	103,406,500	115,082,100
Federal TANF Block Grant	17,343,500	23,132,300	30,851,400
Job Training Fund	3,169,600	3,914,400	0
Special Administration Fund	637,000	1,585,000	1,585,000
Spinal and Head Injuries Trust Fund	1,698,900	2,404,800	2,421,400
Workforce Investment Act Grant	46,896,600	52,344,900	55,706,300
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>189,114,700</b>	<b>186,787,900</b>	<b>205,646,200<sup>2/</sup></b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>227,190,300</b>	<b>273,272,500</b>	<b>287,194,700<sup>6/7/8/</sup></b>
<b>Other Non-Appropriated Funds</b>			
Federal Funds	420,132,600	444,994,600	444,994,600
<b>TOTAL - ALL SOURCES</b>	<b>731,303,700</b>	<b>824,650,100</b>	<b>838,572,300</b>

<sup>1/</sup> It is the intent of the Legislature that the \$22,942,300 appropriated for JOBS may be used to support nonpermanent and seasonal positions to fulfill federal program requirements when contracts for services cannot be established with outside parties. The use of such positions shall be reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

<sup>2/</sup> It is the intent of the Legislature that the department shall use \$4,500,000 of the monies appropriated for the JOBS Special Line Item for contracts with education and training entities. These contracts shall focus on assisting JOBS clients in obtaining jobs paying, on average, \$10 per hour or more. The department shall report to the Joint Legislative Budget Committee by October 15, 2006 on these efforts. The report shall include expenditure details and placement data. (General Appropriation Act footnote)

<sup>3/</sup> Of the \$148,720,100 appropriated for Day Care Subsidy, \$115,222,200 is for a program in which the upper income limit is no more than 165% of the federal poverty level. This provision shall not be construed to impose a duty on an officer, agent or employee of the state to discharge a responsibility or to create any right in a person or group if the discharge or right would require an expenditure of state monies in excess of the \$115,222,200 appropriation. (General Appropriation Act footnote)

**COST CENTER DESCRIPTION** — The program provides: 1) employability services to Temporary Assistance for Needy Families (TANF) recipients through the Job Opportunity and Basic Skills (JOBS) training program; 2) child care subsidy programs; 3) rehabilitative services to individuals with disabilities; and 4) job training opportunities to economically disadvantaged adults and youth. Several 100% federally funded programs are located in this division, such as the Unemployment Insurance benefit program and the Workforce Investment Act programs.

<b>PERFORMANCE MEASURES</b>	FY 2003	FY 2004	FY 2006
	Actual	Actual	Approved
• Number of TANF recipients who obtained employment	15,879	20,185	26,280
• % of customer satisfaction with child care	94.0	95.6	95.6
• Vocational Rehabilitation individuals successfully rehabilitated	1,546	1,650	1,800

**Comments:** Decreases in TANF caseloads and increased funding in FY 2005 for the JOBS Program account for the increase in the number of TANF recipients expected to obtain employment in FY 2006.

**Operating Budget**

*(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

The budget provides \$24,984,100 for the operating budget in FY 2006. This amount consists of:

	<b>FY 2006</b>
General Fund	\$8,022,800
Federal Child Care and Development Fund (CCDF) Block Grant	9,103,300
Special Administration Fund	85,000
Spinal and Head Injuries Trust Fund	509,000
Federal Temporary Assistance for Needy Families (TANF) Block Grant	5,212,300
Workforce Investment Act (WIA) Grant	2,051,700

The approved amount also includes a decrease of \$(21,500) and (4) FTE Positions from the General Fund in FY 2006 for the elimination of vacant FTE Positions. By reducing the number of vacant FTE Positions, the budget reduced the amount of money appropriated for health, dental and life insurance. These monies are passed through directly to the Arizona Department of Administration for statewide insurance costs and will not affect the amount of monies the agency has for other purposes. All other funding for these vacant positions had been previously eliminated.

The approved amount includes an increase of \$963,800 in FY 2006 for statewide adjustments. This amount consists of:

General Fund	116,900
Federal CCDF Block Grant	475,600
Federal TANF Block Grant	319,100
Job Training Fund	(25,900)
WIA Grant	61,500
Spinal and Head Injuries Trust Fund	16,600

The approved amount also includes an increase of \$2,095,000 from the General Fund in FY 2006 and a corresponding decrease of \$(2,095,000) from the Job Training Fund in order to eliminate Job Training Fund support for the division's operating budget. Job Training Fund dollars were added in FY 2004 in order to generate General Fund savings in the agency's budget. The approved budget eliminates all Job Training Fund support in the division's budget (totaling \$3,888,500) and replaces those monies with General Fund dollars. *(Please see the JOBS description for more information).*

- 4/ The amounts appropriated for Day Care Subsidy and Transitional Child Care shall be used exclusively for child care costs unless a transfer of monies is reviewed by the Joint Legislative Budget Committee. Monies shall not be used from these appropriated amounts for any other expenses of the Department of Economic Security unless a transfer of monies is reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 5/ All Spinal and Head Injuries Trust Fund receipts received by the Department of Economic Security in excess of \$2,421,400 are appropriated to the Independent Living Rehabilitation Services Special Line Item. Before the expenditure of any Spinal and Head Injuries Trust Fund receipts in excess of \$2,421,400, the Department of Economic Security shall submit the intended use of the monies for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 6/ Monies appropriated to the Workforce Investment Act – Discretionary Special Line Item may not be expended until a proposed expenditure plan has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ All Federal Workforce Investment Act Discretionary funds that are received by the state in excess of \$3,614,000 are appropriated to the Workforce Investment Act – Discretionary Special Line Item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 8/ All federal Workforce Investment Act funds for local governments that are received by the state in excess of \$48,040,600 are appropriated to the Workforce Investment Act - Local Governments Special Line Item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 9/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

Finally, the approved amount includes a decrease of \$(520,000) from the General Fund for the elimination of one-time equipment that was part of monies added in FY 2005 to hire additional JOBS caseworkers.

**Special Line Items**

**JOBS Administration**

**JOBS**

The budget provides \$22,942,300 for JOBS in FY 2006. This amount consists of:

General Fund	1,823,500
Federal TANF Block Grant	17,618,800
WIA Grant	2,000,000
Special Administration Fund	1,500,000

The approved amount includes an increase of \$30,000 from the General Fund and \$302,200 from the Federal TANF Block Grant in order to transfer funding for Job Search Stipends and Work Related Transportation to the JOBS Program. This increase is technical and, therefore, there is no net change to the department's budget as a result of these transfers. *(Please see the Work Related Transportation and Jobs Search Stipends descriptions for more information.)*

The approved amount also includes an increase of \$1,793,500 from the General Fund in FY 2006 and a corresponding decrease of \$(1,793,500) from the Job Training Fund in order to eliminate Job Training Fund support for the Division's JOBS Program. Job Training Fund dollars were added in FY 2004 in order to generate General Fund savings in the agency's budget. The approved budget eliminates all Job Training Fund support in the Division's budget (totaling \$3,888,500) and replaces those monies with General Fund dollars. *(Please see the Operating Budget description for more information.)*

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well to former TANF recipients. These services are contracted out to third party vendors. *Table 1* highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Job Training	\$13,792,200
Post Employment Services	6,104,700
Case Management	2,713,200
Work-Related Transportation	302,200
Job Search Stipends	<u>30,000</u>
<b>Total</b>	<b>\$22,942,300</b>

**Work-Related Transportation**

The budget transfers funding of \$302,000 for Work Related Transportation in FY 2006 to the JOBS Program.

*(Please see the JOBS description for more information.)* Monies are used to fund transportation services to assist TANF recipients in finding and sustaining employment. Funding is also utilized to subsidize bus passes, assist with auto repair needs and to provide van services to clients that work outside normal business hours and where public transportation is not available.

**Job Search Stipends**

The budget transfers funding of \$30,000 for Job Search Stipends in FY 2006 to the JOBS Program. *(Please see the JOBS description for more information.)* Monies fund the state match for allowances paid to Food Stamp recipients searching for a job. There is no net change to the department's budget as a result of this transfer.

**Child Care Administration**

The DES Child Care Administration (CCA) helps eligible families pay a portion of child care costs when parents or caretakers participate in DES eligible activities. Requirements vary for each program.

CCA administers subsidies to TANF clients engaged in job activities, low-income working individuals under 165% of the Federal Poverty Level (FPL), and children in the Child Protective Services (CPS) program. Clients in the state's TANF, Transitional and CPS programs are entitled to services. The state, therefore, is required to provide subsidies to families in these categories. Families in the low-income working category are not entitled to services and receive subsidies only to the extent that funding is available. Statute requires that DES review each case at least once a year to evaluate a recipient's eligibility for assistance. If there is not enough funding to provide subsidies to low-income working families, then those individuals are placed on a wait list.

The average subsidy paid to providers per child is projected to be approximately \$301 per month in FY 2006. At this average cost, 47,600 children will be eligible to receive subsidies in the upcoming fiscal year. The program has served an average of 42,600 through the first 9 months of FY 2005. According to the department, the FY 2006 level of funding will be sufficient to fully fund projected caseload growth in the program and therefore will not necessitate the need for a wait list in FY 2006.

The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$25.58. Families in non-mandatory categories are required to make co-payments as a means to defray the state's share of the cost of care. For families with an income level at or below 100% FPL, the required daily co-payment for their first child in care is \$2.00. This \$2.00 co-payment accounts for 7.8% of the total cost of care (with the state paying the other 92.2%).

By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 39.1% of the child's day care costs. In practice, families may pay a higher percentage of care, as some providers charge more than the maximum reimbursement rate paid for by the state. For example, a provider may charge \$30.00 per day (while the maximum daily reimbursement paid by the state is \$25.58). In that case, a family at 165% FPL would pay the \$10.00 co-payment as well as an additional \$4.42, which represents the difference between what the provider charges (\$30.00) and what the state reimburses (\$25.58). Under this scenario, the family is paying for 48.1% of the child's day care.

#### Caseloads

Table 2 highlights the average number of children receiving child care services per month from FY 2004 through funded caseload levels in FY 2006. As indicated by the table, an average of 42,578 children have received subsidies per month through the first 9 months of FY 2005, an increase of 12% above FY 2004 levels. The largest increase is in families referred by Child Protective Services (CPS) and those in the Low-Income Working category. These 2 categories have experienced an increase of over 17% over FY 2004 levels. Caseloads for the TANF population have declined 5% through the first 9 months of FY 2005 compared to the FY 2004 monthly average. The agency had originally projected TANF caseloads to increase 18% over FY 2004 levels.

<b>Children Served</b>			
<b>Category</b>	<b>FY 2004</b>	<b>FY 2005<sup>1/</sup></b>	<b>FY 2006<sup>2/</sup></b>
TANF	6,441	6,103	6,200
CPS	4,026	4,788	5,700
Low Income Working	18,594	21,973	25,000
<b>Day Care Subsidy SLI Subtotal</b>	<b>29,061</b>	<b>32,864</b>	<b>36,900</b>
Transitional Child Care SLI	8,811	9,714	10,700
<b>Total Served</b>	<b>37,872</b>	<b>42,578</b>	<b>47,600</b>

<sup>1/</sup> First 9-month average  
<sup>2/</sup> Represents funded caseload growth. Actual caseload may be less.

For FY 2006, the child care program can serve 47,600 children, an increase of 12% from current FY 2005 levels. For the mandatory categories, TANF caseloads are expected to remain relatively constant, while the CPS (19% growth) and the Transitional Child Care (10%) categories are all expected to experience caseload growth into FY 2006.

Prior year caseloads for the Low Income Working category have been depressed due to the implementation of various waiting lists the past 3 fiscal years. As a result, growth in this non-mandatory category in FY 2005 has been overstated when compared to historical increases. Therefore, the growth seen in this category in FY 2005 is

not expected to continue into FY 2006. Historically, the Low Income Working category has grown approximately 6% per year. The approved budget contains funding for almost a 14% increase. According to the agency, the approved budget will be sufficient to fully fund projected caseload growth, and therefore will not necessitate the need for a wait list in FY 2006.

#### Enacted Legislative Reforms

The Health and Welfare Budget Reconciliation Bill (Laws 2005, Chapter 328) made a number of changes to the state's Child Care Program. These changes included:

- Limiting child care subsidies to 5 years per child;
- Limiting payments to 6 children per household (previously, there was no time limit);
- Requiring co-payments for all children (previously required for first 3 children in care);
- Requiring DES to prioritize wait list by income level regardless of time spent on wait list;
- Requiring DES to refer eligible families to child support and job training programs as well as providing information on the earned income tax credit; and
- Changing the definition of household income to include family members and cohabiting non-family members if they claim a member of the subsidized family on federal or state taxes.

#### Background on Child Care Wait List

CCA first instituted a waiting list in March 2003 for new applicants in non-mandatory categories (low-income working poor, teen parents in school, and parents in homeless shelters) in order to meet appropriated funding levels. Families that are on TANF and working in the JOBS program or who recently left TANF but are working (see *Transitional Child Care Special Line Item detail below*) are not placed on a waiting list, nor are families in Child Protective Services. The waiting list reached a high of 9,300 children in March 2004.

Sufficient resources were available to eliminate the waiting list in June 2004. The waiting list was eliminated because there were fewer families qualifying for mandatory programs than originally anticipated, as well as greater attrition from the waiting list. Of the 6,800 reported on the waiting list, approximately 3,400 received services (the other 3,400 either had increased income, made other child care arrangements, could not be located, etc).

DES reestablished the waiting list in September 2004 due to projected increases in caseloads. In February 2005, the department eliminated the waiting list and opened up services to all qualified applicants. While the department instituted a waiting list for FY 2005, it is expected that the agency will revert at least \$7,000,000 in appropriated funding for FY 2005, as projected caseloads have not materialized.

### ***Day Care Subsidy***

The budget provides \$148,720,100 for Day Care Subsidy in FY 2006. This amount consists of:

General Fund	67,632,900
Federal CCDF Block Grant	73,066,900
Federal TANF Block Grant	8,020,300

The approved amount includes a decrease of \$(7,400,000) from the General Fund in FY 2006 and a corresponding increase of \$7,400,000 from the federal TANF Block Grant.

In addition to the TANF Fund shift, the approved amount also includes an increase of \$11,200,000 from the federal CCDF Block Grant in order to fund expected caseload growth in the program in FY 2006. *(Please see Child Care Administration discussion above for more information.)*

### ***Transitional Child Care***

The budget provides \$32,911,900 from CCDF for Transitional Child Care in FY 2006. This amount is unchanged from FY 2005.

This line item funds child care subsidies to clients who no longer receive TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits. These subsidies require a co-pay from the recipient. *(Please see the Child Care Administration Summary for more information.)*

### **Rehabilitation Services Administration**

#### ***Vocational Rehabilitation Services***

The budget provides \$3,489,800 for Vocational Rehabilitation Services in FY 2006. This amount consists of \$3,285,100 from the General Fund and \$204,700 from the Spinal and Head Injuries Trust Fund. These amounts are unchanged from FY 2005.

This line item funds individually planned services for the disabled designed to return them to the workforce. Services provided include personal and social adjustment, rehabilitation technology, physical or mental restoration (e.g., prosthetics), and vocational training and placement. The federal government provides 78.7% of funding for every 21.3% of state match. In addition to the state-appropriated monies, DES has secured other sources of state match through agreements with agencies such as the Department of Health Services (DHS), the Arizona State Schools for the Deaf and the Blind, and also the City of Phoenix.

The program is expected to serve 1,681 clients at an average annual TF cost of \$6,322 per client. In addition to these clients, the division is also expected to serve 200

clients who are not developmentally disabled at an average annual cost of \$3,622 per client, using federal Social Services Block Grant and Arizona Industries for the Blind monies.

### ***Independent Living Rehabilitation Services***

The budget provides \$2,491,900 for Independent Living Rehabilitation Services in FY 2006. This amount consists of \$784,200 from the General Fund and \$1,707,700 from the Spinal and Head Injuries Trust Fund. These amounts are unchanged from FY 2005.

This line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training. Funds are also used to provide eye exams and glasses to financially needy persons. Funding is broken down as follows:

Services to Individuals: \$540,100 GF and \$1,707,700 Spinal and Head Injuries Trust Fund to provide independent living services (case management, counseling, or contracted services) to an estimated 7,563 clients.

Sight Conservation: \$244,100 GF to provide 9,208 eye examinations and 6,139 pairs of eyeglasses and other eye appliances at an average cost of \$26.51 per person.

### **Workforce Development Administration**

#### ***Summer Youth Employment and Training***

The budget provides no funding for Summer Youth Employment and Training in FY 2006. The approved amount includes a decrease of \$(1,000,000) from the General Fund in FY 2006 for the elimination of the line item. This line item provided funds for summer youth employment and training programs for at-risk youth. Monies in this line item were distributed as follows:

- \$275,000 to Pima County
- \$235,000 to Phoenix
- \$175,000 to Maricopa County
- \$115,000 to Mesa
- \$200,000 to Rural Counties

#### ***Workforce Investment Act - Discretionary***

The budget provides \$3,614,000 from the Workforce Investment Act (WIA) Grant for the Workforce Investment Act - Discretionary line item in FY 2006. The approved amount includes an increase of \$347,400 from the WIA Grant in FY 2006 for increased appropriation authority.

This line item funds various programs as recommended by the Governor's Council on Workforce Policy. These monies make up 15% of the total federal WIA Grant. Some examples of funded activities include:

High Concentration of Youth Activities: Funds are distributed to help defray high program costs associated with serving youth in poverty. Monies are allocated to local workforce boards receiving less than \$500,000 in youth formula funds.

Technical Assistance: Funds are provided to local areas that fail to meet local performance measures. Monies are used to incorporate new strategies that lead to improved customer service and performance outcomes.

Evaluations: Monies are provided to conduct ongoing evaluation studies of workforce investment activities carried out across Arizona to ensure customer satisfaction as well as to identify areas in need of improvement.

A footnote in the General Appropriation Act requires that an expenditure plan be reviewed by the JLBC prior to the expenditure of these funds.

***Workforce Investment Act - Local Governments***

The budget provides \$48,040,600 from the WIA Grant for the Workforce Investment Act - Local Governments line item in FY 2006. The approved amount includes an increase of \$2,952,500 from the WIA Grant in FY 2006 for increased appropriation authority.

This line item funds workforce training for dislocated workers and disadvantaged adults and youth at the local level. These monies are the state's allotment of the federal WIA Grant, established by Congress in 1998. Of the total grant received by the state, 85% is allocated to local governments.

The allocation of the WIA Grant for workforce related programs in FY 2006 are shown in *Table 3* below.

<b><u>Category</u></b>	<b><u>Amount</u></b>
Local Governments	\$48,040,600
Discretionary	3,614,000
Administration	2,051,700 <sup>1/</sup>
JOBS	<u>2,000,000</u> <sup>2/</sup>
<b>Total</b>	<b>\$55,706,300</b>

<sup>1/</sup> This funding is included in the operating budget.  
<sup>2/</sup> This funding is included in the JOBS line item.

***Workforce Investment Act Programs***

Funding for this line item was split into distinct programs in FY 2005. (*Please see Workforce Investment Act – Discretionary and Workforce Investment Act – Local Governments for further detail.*)