

Department of Economic Security
Employment and Rehabilitation Services

A.R.S. § 41-1954

JLBC Analyst: Eric Jorgensen

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	478.3	474.0	488.9
Personal Services	13,971,000	16,735,000	18,034,700
Employee Related Expenditures	4,717,000	5,497,900	6,426,100
Professional and Outside Services	655,500	262,700	293,100
Travel - In State	297,200	442,900	448,100
Travel - Out of State	100	200	200
Other Operating Expenditures	1,494,900	2,474,500	2,794,700
Equipment	933,500	0	182,000
OPERATING SUBTOTAL	22,069,200	25,413,200	28,178,900
SPECIAL LINE ITEMS			
JOBS Administration			
JOBS	17,094,200	22,942,300	22,942,300 ^{1/2/}
Child Care Administration			
Day Care Subsidy	123,079,600	148,720,100	155,000,100 ^{3/4/5/6/}
Transitional Child Care	33,920,200	32,911,900	34,481,900
Rehabilitation Services			
Vocational Rehabilitation Services	2,216,000	3,489,800	5,419,100
Independent Living Rehabilitation Services	2,266,700	2,491,900	2,491,900 ^{7/}
Workforce Development			
Summer Youth Employment and Training	1,000,000	0	1,000,000 ^{8/}
Workforce Investment Act - Discretionary	2,035,900	3,614,000	3,614,000 ^{9/}
Workforce Investment Act - Local Governments	40,753,000	48,040,600	48,040,600 ^{10/}
PROGRAM TOTAL	244,434,800	287,623,800	301,168,800^{11/}
FUND SOURCES			
General Fund	75,464,000	81,681,300	93,901,500
<u>Other Appropriated Funds</u>			
Federal CCDF Block Grant	98,520,100	115,243,100	115,973,400
Federal TANF Block Grant	19,512,900	30,949,200	31,373,800
Job Training Fund	3,311,700	0	0
Special Administration Fund	410,900	1,585,000	1,585,000
Spinal and Head Injuries Trust Fund	2,260,300	2,429,100	2,463,700
Workforce Investment Act Grant	44,954,900	55,736,100	55,871,400
SUBTOTAL - Other Appropriated Funds	168,970,800	205,942,500	207,267,300
SUBTOTAL - Appropriated Funds	244,434,800	287,623,800	301,168,800
Other Non-Appropriated Funds	260,165,200	293,863,800	293,863,800
Federal Funds	89,802,500	103,763,000	114,239,700
TOTAL - ALL SOURCES	594,402,500	685,250,600	709,272,300

^{1/} 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)

^{2/} 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)

^{3/} Of the \$155,000,100 appropriated for Day Care Subsidy, \$120,087,700 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 \$120,087,700 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.

PERFORMANCE MEASURES	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 Approved
• Number of TANF recipients who obtained employment	15,879	20,185	16,560	20,000
• % of customer satisfaction with child care Comments: Lower customer satisfaction in FY 2005 may reflect the waiting list in the first half of the fiscal year.	94.0	95.6	93.5	95.6
• Vocational Rehabilitation individuals successfully rehabilitated	1,546	1,650	1,865	1,900

Operating Budget

The budget provides \$28,178,900 for the operating budget in FY 2007. This amount consists of:

	FY 2007
General Fund	\$9,596,500
Federal Child Care and Development Fund (CCDF) Block Grant	9,994,600
Federal Temporary Assistance for Needy Families (TANF) Block Grant	5,734,700
Workforce Investment Act (WIA) Grant	2,216,800
Special Administration Fund	85,000
Spinal and Head Injuries Trust Fund	551,300

These amounts include an increase of \$1,869,800 for statewide adjustments. This amount consists of:

General Fund	545,000
Federal Child Care and Development Fund (CCDF) Block Grant	730,300
Federal Temporary Assistance for Needy Families (TANF) Block Grant	424,600
Workforce Investment Act (WIA) Grant	135,300
Spinal and Head Injuries Trust Fund	34,600

Additional Vocational Rehabilitation Caseworkers

The budget provides \$929,500 and 14.9 FTE Positions from the General Fund in FY 2007 for increased services in the Vocational Rehabilitation Services program. Monies were added to the program to maximize the amount of federal matching monies. The additional resources in the program are expected to draw additional clients. This increased caseload necessitates these additional caseworkers. This amount includes \$182,000 in one-time equipment costs.

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/ Monies in the Child Care Subsidy and Transitional Child Care Special Line Items shall be used to provide services only to residents of the state of Arizona who are citizens or legal residents of the United States or who are otherwise lawfully present in the United States. (General Appropriation Act footnote)

6/ The department shall report by October 1, 2006 to the Joint Legislative Budget Committee the number of child care programs receiving reimbursements that are operated out of public school facilities, the square footage used, the number of children enrolled and the total rent costs for each of those programs. (General Appropriation Act footnote)

7/ All Spinal and Head Injuries Trust Fund receipts received by the Department of Economic Security in excess of \$2,463,700 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 \$2,463,700, 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)

8/ Laws 2006, Chapter 350 appropriation of \$1,000,000.

9/ 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)

10/ 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)

11/ 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)

12/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

Rent Funding Shift

The budget provides a decrease of \$(33,600) from the General Fund in FY 2007 to shift rent funding from this division to the Administration Division. Rent payments for the department are paid out of the Administration Division. (See *Rent Funding Shift discussion in the Administration Division for further detail.*)

Special Line Items

JOBS Administration

JOBS

The budget provides \$22,942,300 for JOBS in FY 2007. 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

These amounts are unchanged from FY 2006. This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well to former TANF recipients. The line item also includes expenditures formerly included in Work-Related Transportation and Job Search Stipends. 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>
Total	\$22,942,300

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 waiting list.

Subsidy Rates

The average subsidy paid to providers per child is projected to be approximately \$325 per month in FY 2007. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day, using the 2000 Market Rate Survey, which is the intent of the FY 2007 provider rate increase.

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 7.5% of the total cost of care (with the state paying the other 92.5%).

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 37.6% 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 \$26.60). In that case, a family at 165% FPL would pay the \$10.00 co-payment as well as an additional \$3.40, which represents the difference between what the provider charges (\$30.00) and what the state reimburses (\$26.60). Under this scenario, the family is paying for 44.7% 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. An average of 44,700 children have received subsidies per month through March of FY 2006, an increase of just under 4% above FY 2005 levels. The largest increase is in families referred by CPS. This category has experienced an increase of over 13% over FY 2005 levels. Caseloads for the TANF population have declined (12%) through April of FY 2006 compared to the FY 2005 monthly average. Since the end of the waitlist in February 2005, the annualized caseload growth for all categories has been 3.5%.

<u>Category</u>	<u>Children Served</u>		
	<u>FY 2005</u>	<u>FY 2006^{1/}</u>	<u>FY 2007^{2/}</u>
TANF	6,040	5,300	4,700
CPS	4,922	5,700	6,600
Low Income Working	<u>22,346</u>	<u>24,600</u>	<u>25,000</u>
Day Care Subsidy SLI			
Subtotal	33,308	35,600	36,300
Transitional Child Care SLI	<u>9,826</u>	<u>9,700</u>	<u>9,700</u>
Total Served	43,134	45,300	46,000

^{1/} Estimated based on data through April 2006.
^{2/} Represents funded caseload growth. Actual caseloads may differ.

For FY 2007, TANF caseloads are expected to continue to decline (12%), while the CPS related caseload is expected to grow 16% and the Transitional Child Care is expected to stay near current levels. 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. Historically, the Low Income Working category has grown approximately 6% per year.

These caseload growth rates would imply an average of 47,600 children being served at an expected average cost of \$325 per child per month, higher than the FY 2006 rate of \$301. This increase is due to a shift in the caseload to more expensive populations, such as families in the CPS program, as well as moving maximum reimbursement rates from the 75th percentile of the 1998 Market Rate Survey to the 75th percentile of the 2000 Market Rate Survey.

The budget does not include an adjustment for caseload growth. With a higher average cost per child, the approved budget would serve 46,000 children in FY 2007, 1,600 less than what was funded in FY 2006 (actual FY 2006 caseloads were lower than expected). With an expected caseload of 47,600 in FY 2007, this would result in a waiting list of 1,600 children.

In the 2005 legislative session, the Legislature passed several reforms that could affect caseloads. These reforms 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.

In the 2006 legislative session, the Legislature also granted DES an exemption from the rulemaking process with the intent that these reforms be implemented by January 1, 2007. The Health and Welfare Budget Reconciliation Bill (BRB) (Laws 2006, Chapter 331) also reverts \$800,000 from the division's operating budget if the reforms are not fully implemented by the January 1 deadline.

Day Care Subsidy

The budget provides \$155,000,100 for Day Care Subsidy in FY 2007. This amount consists of:

General Fund	75,482,900
Federal CCDF Block Grant	71,496,900
Federal TANF Block Grant	8,020,300

Provider Rate Increase

The budget provides an increase of \$6,280,000 in FY 2007 for a provider rate increase. This amount consists of:

General Fund	7,850,000
Federal CCDF Block Grant	(1,570,000)

This provider rate increase will raise the maximum reimbursement rate from the 75th percentile of the 1998 Market Rate Survey to the 75th percentile of the 2000 Market Rate Survey. This is expected to raise average month reimbursements by about 4% or \$13.70 per child.

(Please see the Child Care Administration Summary for more information.)

Transitional Child Care

The budget provides \$34,481,900 from the Federal CCDF Block Grant for Transitional Child Care in FY 2007.

Provider Rate Increase

The budget provides an increase of \$1,570,000 from the Federal CCDF Block Grant in FY 2007 for a provider rate increase. This provider rate increase will raise the maximum reimbursement rate from the 75th percentile of the 1998 Market Rate Survey to the 75th percentile of the 2000 Market Rate Survey. This is expected to raise average month reimbursements by about 4% or \$13.70 per child.

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 \$5,419,100 for Vocational Rehabilitation Services in FY 2007. This amount consists of:

General Fund	5,214,400
Spinal and Head Injuries Trust Fund	204,700

Federal Match Maximization

The budget provides an increase of \$1,929,300 from the General Fund in FY 2007 to maximize the federal matching monies for this program and eliminate a 500 client waitlist. This fund is expected to allow the department to provide services to an additional 3,800 clients, include individuals who were not previously considered for services due to the lower funding level.

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 up to 5,450 clients, an increase of 3,800 clients over FY 2006, at an average annual TF cost of \$4,665 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 2007. This amount consists of:

General Fund	784,200
Spinal and Head Injuries Trust Fund	1,707,700

These amounts are unchanged from FY 2006.

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 State Government BRB (Laws 2006, Chapter 350) provides \$1,000,000 from the General Fund in FY 2007 to re-establish the state funding for Summer Youth Employment and Training in FY 2007. State funding for this program was eliminated in FY 2006; however, the statutory authority and funding formula for the program was not repealed.

This line item provides funds for summer youth employment and training programs for at-risk youth. The division will distribute the \$1,000,000 directly to local governments, pursuant to the formula described in A.R.S. § 11-1042.

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 2007. This amount is unchanged from FY 2006.

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 2007. This amount is unchanged from FY 2006.

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 2007 are shown in *Table 3* below.

Table 3**FY 2007 WIA Grant Allocations**

<u>Category</u>	<u>Amount</u>
Local Governments	\$48,040,600
Discretionary	3,614,000
Administration	2,216,800 ^{1/}
JOBS	2,000,000 ^{2/}
Total	\$55,871,400

^{1/} This funding is included in the operating budget.

^{2/} This funding is included in the JOBS line item.

Additional Legislation***Job Training SPAR***

In FY 2006, JLBC Staff and OSPB conducted a Strategic Program Area Review (SPAR) of Workforce Development programs in the state. That process produced a JLBC Staff recommendation that the Governor's Council on Workforce Development coordinate and publish an annual report that includes statewide budget information and performance measures related to Workforce Development programs. The Health and Welfare BRB included such a provision.