

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

JLBC: Eric Jorgensen  
 OSPB: Chris Hall

DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	478.3	474.0	474.0
Personal Services	13,971,000	16,370,500	16,370,500
Employee Related Expenditures	4,717,000	5,433,300	5,433,300
Professional and Outside Services	655,500	262,700	262,700
Travel - In State	297,200	442,900	442,900
Travel - Out of State	100	200	200
Other Operating Expenditures	1,494,900	2,474,500	2,440,900
Equipment	933,500	0	0
<b>OPERATING SUBTOTAL</b>	<b>22,069,200</b>	<b>24,984,100</b>	<b>24,950,500</b>
<b>SPECIAL LINE ITEMS</b>			
<b>JOBS Administration</b>			
JOBS	17,094,200	22,942,300	22,942,300
<b>Child Care Administration</b>			
Day Care Subsidy	123,079,600	148,720,100	148,720,100
Transitional Child Care	33,920,200	32,911,900	32,911,900
<b>Rehabilitation Services</b>			
Vocational Rehabilitation Services	2,216,000	3,489,800	3,489,800
Independent Living Rehabilitation Services	2,266,700	2,491,900	2,491,900
<b>Workforce Development</b>			
Summer Youth Employment and Training	1,000,000	0	0
Workforce Investment Act - Discretionary	2,035,900	3,614,000	3,614,000
Workforce Investment Act - Local Governments	40,753,000	48,040,600	48,040,600
<b>PROGRAM TOTAL</b>	<b>244,434,800</b>	<b>287,194,700</b>	<b>287,161,100</b>
<b>FUND SOURCES</b>			
General Fund	75,464,000	81,548,500	81,514,900
<b>Other Appropriated Funds</b>			
Federal CCDF Block Grant	98,520,100	115,082,100	115,082,100
Federal TANF Block Grant	19,512,900	30,851,400	30,851,400
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	2,421,400	2,421,400
Workforce Investment Act Grant	44,954,900	55,706,300	55,706,300
SUBTOTAL - Other Appropriated Funds	168,970,800	205,646,200	205,646,200
<b>SUBTOTAL - Appropriated Funds</b>	<b>244,434,800</b>	<b>287,194,700</b>	<b>287,161,100</b>
Other Non-Appropriated Funds	260,165,200	293,863,800	293,863,800
Federal Funds	89,802,500	103,763,000	103,763,000
<b>TOTAL - ALL SOURCES</b>	<b>594,402,500</b>	<b>684,821,500</b>	<b>684,787,900</b>

**CHANGE IN FUNDING SUMMARY**

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
General Fund	(33,600)	0.0%
Other Appropriated Funds	0	0.0%
Total Appropriated Funds	(33,600)	0.0%
Non Appropriated Funds	0	0.0%
Total - All Sources	(33,600)	0.0%



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 45,350 children have received subsidies per month through the first 2 months of FY 2006, an increase of 5% above FY 2005 levels. The largest increase is in families referred by CPS. This category has experienced an increase of over 14% over FY 2005 levels. Caseloads for the TANF population have declined (6)% through the first 2 months 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 3.8%.

<b>Children Served</b>			
<b>Category</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006<sup>1/</sup></b>
TANF	6,441	6,040	6,200
CPS	4,026	4,922	5,700
Low Income Working	18,594	22,346	25,000
<b>Day Care Subsidy SLI Subtotal</b>	<b>29,061</b>	<b>33,308</b>	<b>36,900</b>
Transitional Child Care SLI	8,811	9,826	10,700
<b>Total Served</b>	<b>37,872</b>	<b>43,135</b>	<b>47,600</b>

<sup>1/</sup> Represents funded caseload growth. Actual caseloads may be less.

For FY 2007, TANF caseloads are expected to continue to decline (7%), while the CPS (22% growth) and the Transitional Child Care (12%) categories are all expected to experience caseload growth. 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 49,800 children being served at an expected average cost of \$307 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.

With no change in funding and a higher average cost per child, the JLBC budget would serve 46,700 children in FY 2007, 900 less than in FY 2006. With an expected caseload of 49,800, this would result in a waiting list of 3,100 children.

In FY 2006, some of the increased funding in the Child Care Administration was possible because of one-time balances in the Federal CCDF Block Grant. As these balances will not be available for FY 2007, some shortfall is expected, and will be addressed during the legislative session. The actual amount of the shortfall depends on actual expenditures in FY 2006 and final reversions from FY 2005, but could be as high as \$13.6 million. DES has indicated that they plan to resolve most of this potential shortfall without additional appropriation in FY 2007.

Additionally, 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.

The impact of these reforms will be one consideration in determining the size of the potential CCDF shortfall.

*Day Care Subsidy*

The JLBC recommends \$148,720,100 for Day Care Subsidy in FY 2007. This amount consists of:

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

These amounts are unchanged from FY 2006. (Please see the Child Care Administration Summary for more information.)

*Transitional Child Care*

The JLBC recommends \$32,911,900 from the Federal CCDF Block Grant for Transitional Child Care in FY 2007. This amount is unchanged from FY 2006.

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 JLBC recommends \$3,489,800 for Vocational Rehabilitation Services in FY 2007. This amount consists of:

General Fund	3,285,100
Spinal and Head Injuries Trust Fund	204,700

These amounts are unchanged from FY 2006.

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 JLBC recommends \$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 JLBC recommends no funding for Summer Youth Employment and Training in FY 2007. This line item was eliminated in FY 2006. This line item provided funds for summer youth employment and training programs for at-risk youth.

***Workforce Investment Act - Discretionary***

The JLBC recommends \$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 JLBC recommends \$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.

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

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**JLBC RECOMMENDED FORMAT** — Operating Lump Sum with Special Line Items by Program

**JLBC RECOMMENDED FOOTNOTES**

*Standard Footnotes*

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.

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.

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.

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~~ **APPROVED** 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~~ **APPROVED** by the Joint Legislative Budget Committee. *(To enhance legislative oversight, transfers would require Committee approval.)*

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.

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.

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.

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.

**JLBC RECOMMENDED STATUTORY CHANGES**

The JLBC recommends continuing a FY 2006 Health Budget Reconciliation Bill (Laws 2005, Chapter 328) provision that permits DES to reduce income eligibility levels for all child care programs if the program has insufficient resources. DES would be required to report to JLBC within 15 days of any such change in levels.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**Auditor General Recommendation**

The Auditor General reported 2 findings with potential budgetary impacts. Both findings are in the Unemployment Insurance program and would require additional staff. The first finding included a recommendation that DES convert some temporary staff to full-time unemployment eligibility workers to reduce the turnover rate. The Auditor General felt this would improve the workforce and thereby reduce error rates. The second finding included a recommendation to fill vacant supervisor and management positions in the division’s Tax Determination Section. DES has failed to meet federal timeliness standards, and the finding indicates that, along with other actions, increased training and oversight would help the division improve timeliness. DES did not include funding related to either finding in its budget request.

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**

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