

**Department of Economic Security**  
**Summary**

A.R.S. § 41-1954

Director: Neal Young

JLBC Analyst: Jay Chilton

	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
<b>PROGRAM BUDGET</b>			
Administration	42,023,000	35,686,400	35,474,900
Aging and Community Services	47,380,200	52,325,900	52,062,000
Benefits and Medical Eligibility	163,615,700	167,263,100	167,925,200
Child Support Enforcement	67,417,800	66,620,300	68,691,200
Children, Youth and Families	296,211,700	331,643,000	327,208,100
Developmental Disabilities	861,498,800	956,814,200	992,161,600
Employment and Rehabilitation Services	277,948,200	327,911,400	327,368,800
Agencywide Lump Sum Reduction	0	(94,869,000)	25,000,000
<b>AGENCY TOTAL</b>	<b>1,756,095,400</b>	<b>1,843,395,300</b>	<b>1,995,891,800</b> <sup>1/</sup>
<b>OPERATING BUDGET</b>			
Full Time Equivalent Positions	5,808.5	5,948.4	5,948.4
Personal Services	144,856,800	157,847,300	157,847,300
Employee Related Expenditures	58,466,300	60,700,400	61,875,700
Professional and Outside Services	13,084,900	11,595,300	11,595,300
Travel - In State	3,192,900	3,805,000	3,805,000
Travel - Out of State	49,700	49,900	49,900
Other Operating Expenditures	57,194,200	70,793,600	72,685,100
Equipment	7,627,400	6,858,300	6,858,300
<b>OPERATING SUBTOTAL</b>	<b>284,472,200</b>	<b>311,649,800</b>	<b>314,716,600</b>
Special Line Items (SLI)	1,471,623,200	1,513,745,500	1,681,175,200
<b>AGENCY TOTAL</b>	<b>1,756,095,400</b>	<b>1,843,395,300</b>	<b>1,995,891,800</b> <sup>2/3/4/5/6/</sup>
<b>FUND SOURCES</b>			
General Fund	754,632,300	642,700,800	727,224,700
<u>Other Appropriated Funds</u>			
Child Abuse Prevention Fund	39,400	1,576,900	1,577,400
Child Support Enforcement Administration Fund	14,679,400	15,695,900	16,149,600
Children and Family Services Training Program Fund	123,100	209,600	209,600
Domestic Violence Shelter Fund	1,699,900	2,280,000	2,400,000
Federal CCDF Block Grant	116,030,200	130,359,000	130,448,600
Federal TANF Block Grant	239,378,000	279,743,100	273,516,000
Long Term Care System Fund (Non-Federal Matched)	21,943,000	25,034,500	26,469,400
Public Assistance Collections Fund	314,700	473,800	519,800
Reed Act Grant	516,500	3,495,700	3,524,200
Risk Management Fund	271,500	271,500	271,500
Special Administration Fund	1,725,900	1,495,700	1,574,400
Spinal and Head Injuries Trust Fund	2,424,300	2,399,300	2,569,700
Statewide Cost Allocation Plan Fund	1,000,000	1,000,000	1,000,000
TTHCF Health Research Account	103,300	200,000	200,000
Utility Assistance Fund	500,000	0	0
Workforce Investment Act Grant	38,804,900	55,938,300	55,954,800
SUBTOTAL - Other Appropriated Funds	439,554,100	520,173,300	516,385,000
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,194,186,400</b>	<b>1,162,874,100</b>	<b>1,243,609,700</b>
<u>Expenditure Authority Funds</u>			
Federal Funds	43,753,000	41,621,200	43,546,300
Long Term Care System Fund (Federal Match)	518,156,000	638,900,000	708,735,800
SUBTOTAL - Expenditure Authority Funds	561,909,000	680,521,200	752,282,100
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>1,756,095,400</b>	<b>1,843,395,300</b>	<b>1,995,891,800</b>

	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 APPROVED
Other Non-Appropriated Funds	380,904,700	450,960,700	450,960,700
Federal Funds	610,258,000	608,510,100	626,100,400
<b>TOTAL - ALL SOURCES</b>	<b>2,747,258,100</b>	<b>2,902,866,100</b>	<b>3,072,952,900</b>

**AGENCY DESCRIPTION** — The department provides an array of services for low-income households and others in need. These services are provided through the following divisions: Administration; Developmental Disabilities; Benefits and Medical Eligibility; Child Support Enforcement; Aging and Community Services; Children, Youth and Families; and Employment and Rehabilitation Services.

<b>PERFORMANCE MEASURES</b>	FY 2006	FY 2007	FY 2008	FY 2010
	Actual	Actual	Actual	Approved
• Agencywide customer satisfaction rating (Scale 1 to 5)	3.6	3.6	3.8	3.8

### **General Appropriation Act**

The Department of Economic Security (DES) budget is contained in Laws 2009, Chapter 12 (HB 2643). The Governor line-item vetoed certain sections of the legislation concerning the lump sum reduction and intent statements on the use of the federal American Recovery and Reinvestment Act of 2009 (ARRA) funds (*see sections below*). In the 3<sup>rd</sup> Special Session, the Legislature attempted, as part of HB 2006, to restore the original HB 2643 language without the line-item vetoes. Rather than include a single agencywide lump sum reduction line, the DES budget structure was revised to an agencywide operating budget. The Special Line Items continued to be displayed by cost center. The agencywide lump sum reduction was then netted against the operating budget. While the funding level remained the same as HB 2643, HB 2006 no longer contained a lump sum reduction line.

The Governor line-item vetoed the DES section of HB 2006, thereby returning the DES budget to the 1<sup>st</sup> Regular Session, Chapter 12 version, including its traditional budget format. The net impact of the veto was to increase FY 2010 DES spending by \$164,198,300, including \$172,040,000 from the General Fund, above the originally transmitted budget. The General Fund increase includes

\$130,040,000 from the foregone lump sum reduction and \$42,000,000 from the foregone payment deferral.

### **Agencywide Lump Sum Reduction**

The budget includes an agencywide lump sum reduction of \$(69,869,000) for the midyear FY 2009 revisions, including \$(77,327,100) from the General Fund spending as transmitted to the Governor. HB 2643 (Chapter 12) increased the lump sum to \$(107,198,300) in FY 2010, including \$(115,040,000) from the General Fund. The Governor vetoed the FY 2010 agencywide lump sum reduction.

	<u>FY 2009</u>	<u>FY 2010</u>
<b>Lump Sum Reduction</b>		
General Fund	\$(72,205,400)	<del>(109,918,300)</del>
Federal TANF Block Grant	9,634,700	<del>9,634,700</del>
<b>Personnel Expense Reduction</b>		
General Fund	(5,121,700)	0
Child Support Enforcement	(334,700)	<del>(796,900)</del>
Administration		
Public Assistance Collections	(17,000)	<del>(40,500)</del>
Spinal and Head Injuries Trust	(18,400)	<del>(43,700)</del>

- 1/ Includes 760.9 GF, 142.2 OF, and 1,120.6 EA FTE Positions funded from Special Line Items in FY 2010 prior to the lump sum reductions.
- 2/ The above appropriations are in addition to funds granted to the state by the federal government for the same purposes but shall be deemed to include the sums deposited in the State Treasury to the credit of the Department of Economic Security, pursuant to A.R.S. § 42-5029. (General Appropriation Act footnote)
- 3/ A monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals shall be forwarded to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees and the Director of the Joint Legislative Budget Committee by the 30th of the following month. The report shall include an estimate of (1) potential shortfalls in entitlement programs, (2) potential federal and other funds, such as the statewide assessment for indirect costs, and any projected surplus in state supported programs that may be available to offset these shortfalls, and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation, (3) shortfalls resulting from new leases or renegotiations of current leases and associated costs, and (4) total expenditure authority of the Child Support Enforcement program for the month and year-to-date as compared to prior year totals. (General Appropriation Act footnote)
- 4/ The Department of Economic Security shall not operate more welfare offices than it operated in FY 2006. (General Appropriation Act footnote)
- 5/ It is the intent of the Legislature that the Department of Economic Security make the reductions associated with the agencywide lump sum reduction against administrative functions and, to the extent possible, not against programmatic functions. (General Appropriation Act footnote)
- 6/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program. As appropriated by Laws 2009, 1<sup>st</sup> Regular Session, Chapter 12.

**Fund Reduction and Transfer**

Domestic Violence Shelter	(120,000)	0
Long Term Care System	(1,434,000)	0
Public Assistance Collections	(25,800)	<del>(51,700)</del>
Special Administration	(78,700)	<del>(347,000)</del>
Spinal and Head Injuries Trust	(148,000)	<del>(513,200)</del>

The veto has the result that the Fund Reductions and Transfers applied to several funds do not decrease the agency’s spending authority, but the actual transfers to the General Fund, contained in a separate section of the bill, still occur as detailed below.

The increase from the TANF Block Grant was included to achieve General Fund savings by eliminating the Eligibility System Upgrade (*see DBME for more information*) and reducing funding for the JOBS Program (*see DERS for more information*). Both of those items are funded primarily with the Federal TANF Block Grant, and the Legislature’s intent was that the agency would be able to move the Federal TANF Block Grant funding from those line items to other areas, and to achieve the General Fund savings in those programs. This appropriation allows DES to move the TANF funding to other areas.

A separate section of Chapter 12 included an additional \$(15,000,000) General Fund decrease in FY 2010 to take place beginning January 1, 2010. This section was line-item vetoed by the Governor.

**Lump Sum Reduction Deferral**

The budget includes a decrease of \$(25,000,000) from the General Fund in FY 2009 and an increase of \$25,000,000 from the General Fund in FY 2010 to allow DES to pay bills incurred in June of FY 2009 out of the FY 2010 appropriation.

	<u>FY 2009</u>	<u>FY 2010</u>
<b>FY 2009 Deferral</b>		
General Fund	(25,000,000)	25,000,000
<b>FY 2010 Deferral</b>		
General Fund	0	<del>(42,000,000)</del>

Ordinarily, bills incurred in June are paid in July, but out of the previous year’s appropriation. This allows DES to pay the bills out of the following year’s appropriation, and results in \$25,000,000 of General Fund savings in FY 2009. The General Appropriation Act increased the amount of the payment deferral to \$42,000,000 to achieve an additional \$17,000,000 of savings in FY 2010, but the entire \$(42,000,000) funding decrease in FY 2010 was line-item vetoed by the Governor.

**FTE Position Reduction**

The budget includes a decrease of (352) FTE Positions for a lump sum FTE Position reduction. This reduction was included in the Agencywide Lump Sum Reduction, which was line-item vetoed by the Governor. (*Please see the General Provisions section.*)

Laws 2009, 3<sup>rd</sup> Special Session, Chapter 11, Section 17 requires every General Fund supported agency, board, commission, or other state entity to reduce its number of FTE Positions by 5% on or before February 1, 2010. This reduction has not been recorded in the summary table above. The actual impact of this provision is to be determined.

**Fund Transfers**

The budget includes the following midyear FY 2009 revisions and FY 2010 transfers to the General Fund from the funds listed below:

	<u>FY 2009</u>	<u>FY 2010</u>
Child Support Enforcement Administration	(334,700)	(796,900)
Children and Family Services Training – EBT	(182,100)	0
Community Based Marriage and Communication Skills - EBT* <sup>1/</sup>	(450,000)	0
Domestic Violence Shelter - FRAT	(120,000)	0
Domestic Violence Shelter - EBT	(667,500)	(963,800)
Long Term Care System – FRAT	(1,434,000)	0
Long Term Care System – EBT <sup>1/</sup>	(5,222,100)	0
Public Assistance Collections - FRAT	(25,800)	(51,700)
Public Assistance Collections - Salary	(17,000)	(40,500)
Special Administration - FRAT	(78,700)	(347,000)
Special Administration - EBT	0	(704,200)
Spinal and Head Injuries Trust – FRAT	(148,000)	(513,200)
Spinal and Head Injuries Trust - EBT <sup>1/</sup>	(856,900)	(590,600)
Spinal and Head Injuries Trust - Salary	(18,400)	(43,700)
ATP - Phoenix Closure - EBT* <sup>1/</sup>	(2,650,400)	0

\* These transfers are from non-appropriated funds.

<sup>1/</sup> Laws 2009, 1<sup>st</sup> Special Session, Section 29 allows agencies to shift the amounts between their fund transfers upon JLBC review. This revised transfer amount was favorably reviewed by JLBC at its June 23, 2009 meeting.

## Federal Assistance

The budget includes a decrease of \$(100,644,600) from the General Fund and a corresponding increase of \$100,644,600 from the Long Term Care System Fund in FY 2010 for an increase in Federal Title XIX Expenditure Authority. The midyear FY 2009 revisions included a similar shift in the amount of \$59,623,900. (Please see the *ARRA Summary section at the front of the Appropriations Report for further information.*)

The 2009 American Recovery and Reinvestment Act (ARRA) increased the Federal Medical Assistance percentage (FMAP) for Title XIX populations from October 1, 2008 until December 31, 2010. Typically, Arizona receives approximately a 2:1 match for most Title XIX services, but ARRA increases this amount to approximately a 3:1 match from October 1, 2008 to December 31, 2010. In FY 2010, the blended rate would have been 65.76%, but due to the enhanced FMAP, the federal government will pay 75.93% of Title XIX costs. In FY 2009, the federal government paid 66.2% of most Title XIX services from July 2008 through September 2008, 75.01% from October 2008 through March 2009, and 75.93% from April 2009 through June 2009. The increase from 75.01% to 75.93% was due to a formula specified in ARRA based on the state's unemployment rate.

In order to qualify for the enhanced FMAP, states:

- cannot lower existing eligibility limits for Title XIX populations;
- cannot increase county percent of state match;
- cannot increase monthly premiums for Title XIX enrollees; and
- cannot change redetermination periods.

States are allowed to reduce benefit levels, however, as long as they comply with other federal regulations. These limitations are applicable only during the time in which a state receives the enhanced FMAP and do not apply to Title XXI populations (KidsCare and KidsCare Parents), administrative services (typically funded at 50%), disproportionate share hospital payments, nor any program which already receives an enhanced FMAP.

Due to the temporary nature of the enhanced FMAP, the General Appropriation Act includes the enhanced FMAP in a separate section of the General Appropriation Act. While the costs shown in the individual cost center narratives reflect the regular FMAP, the DES summary table includes the enhanced FMAP savings.

In addition to the enhanced FMAP, DES will receive other additional funding associated with ARRA. Of the state's approximately \$1,000,000,000 allocation, \$185,000,000 may be expended for any broad purpose not subject to legislative appropriation. In a series of footnotes in

Chapter 12, the Legislature expressed its intent that \$43.3 million of the \$185,000,000 be expended in DES, as displayed below. The Governor, however, vetoed these intent footnotes.

	<b>FY 2010</b>
State-Only Home and Community-Based Services	15,000,000
Children's Autism Services	2,300,000
Child Protective Services	5,500,000
Children Services	18,000,000
Adoption Services	2,500,000

## Federal Block Grants

The budget includes \$273,516,000 of the state's federal Temporary Assistance for Needy Families (TANF) Block Grant allocation. *Table 1* summarizes expected yearly revenues, expenditures, and fund balances.

The table compares ongoing revenues and expenditures from the TANF Block Grant. Beginning in FY 2008, DES has received additional funding from the federal TANF Contingency Fund, which is a reserve fund set aside for states with rising costs in TANF-related programs. Because of rising Food Stamps cases, DES received \$30,000,000 in FY 2008 and \$40,000,000 in FY 2009. In FY 2010, DES is eligible to continue to receive the TANF Contingency Fund money, but as the economy has worsened, additional states have become eligible, which may have the effect of reducing the amount that the state receives in FY 2010. The budget assumes \$40,000,000 is available to the state in FY 2010.

Additionally, the American Recovery and Reinvestment Act of 2009 (ARRA) made additional TANF Funding available for increased assistance caseloads. It is anticipated that DES will qualify for some additional funding under this provision.

Although the table shows a negative ending balance for FY 2010, the actual ending balance cannot be negative. The agency has the option to roll forward 10% of the total TANF Block Grant from FY 2011 into FY 2010. A roll forward of about 0.5% of the TANF Block Grant would enable DES to balance this appropriation in FY 2010. For FY 2010, the TANF Block Grant permanent revenues are projected to be \$(48,858,500) less than permanent spending. The Contingency Fund revenues are not included in the permanent revenue calculation.

*Table 2* provides detailed information on TANF expenditures and appropriations.

**Table 1****TANF Block Grant Summary**

	<b>Revised FY 2009</b>	<b>JLBC FY 2010</b>
Beginning Balance	\$ 22,728,400	\$ 7,642,800
TANF Base Revenues	224,657,500	224,657,500
TANF Contingency Fund	<u>40,000,000</u>	<u>40,000,000</u>
Revenues		
Total – Available TANF	\$287,385,900	\$272,300,300
Total TANF Expenditures	<u>\$279,743,100</u>	<u>\$273,516,000</u>
Ending Balance	\$ 7,642,800	\$ (1,215,700)
Permanent Revenues vs. Expenditures <sup>2/</sup>	\$(55,085,600)	\$(48,858,500)

1/ Actual ending balance cannot be negative; the agency will employ funding options to balance the appropriation for FY 2010.

2/ Difference between Base Revenues and Total Expenditures. Contingency Fund Revenues are not included in Permanent Revenues.

Table 2

## TANF Block Grant Spending

<u>Cost Center/Special Line Item</u>	<u>Revised FY 2009</u>	<u>Change from FY 2009</u>	<u>JLBC FY 2010</u>
<b>Administration</b>			
Operating	\$4,271,400	\$1,400	\$4,272,800
Finger Imaging	277,500	300	277,800
Attorney General Legal Services	<u>168,000</u>	<u>900</u>	<u>168,900</u>
Total – Administration	\$4,716,900	\$2,600	\$4,719,500
<b>Benefits and Medical Eligibility</b>			
Operating	\$14,940,200	\$ 80,800	\$15,021,000
TANF Cash Benefits	<u>77,540,000</u>	<u>3,090,700</u>	<u>80,630,700</u>
Total – Benefits and Medical Eligibility	\$92,480,200	\$3,171,500	\$95,651,700
<b>Aging and Community Services</b>			
Operating	\$247,600	\$1,200	\$ 248,800
Community and Emergency Services	5,424,900		5,424,900
Coordinated Hunger Program	500,000		500,000
Coordinated Homeless Programs	1,649,500		1,649,500
Domestic Violence Prevention	<u>6,620,700</u>		<u>6,620,700</u>
Total – Aging and Community Services	\$14,442,700	\$1,200	\$14,443,900
<b>Children, Youth and Families</b>			
Operating	\$38,112,300	\$189,000	\$38,301,300
Adoption Services	19,302,400		19,302,400
Adoption – Family Preservation Projects	700,000		700,000
Children Support Services	29,929,100		29,929,100
CPS Emergency Placement	3,006,400		3,006,400
CPS Residential Placement	11,166,600		11,166,600
Foster Care Placement	6,223,100		6,223,100
Healthy Families	5,034,200		5,034,200
Family Builders Program	5,200,000		5,200,000
Attorney General Legal Services	52,200	100	52,300
Joint Substance Abuse Treatment (Families FIRST)	2,000,000		2,000,000
Homeless Youth Intervention	400,000		400,000
Permanent Guardianship Subsidy	<u>1,743,000</u>		<u>1,743,000</u>
Total – Children, Youth and Families	\$122,869,300	\$189,100	\$123,058,400
<b>Employment and Rehabilitation Services</b>			
Operating	\$ 6,650,200	\$ 6,400	\$ 6,656,600
JOBS	13,866,000	36,800	13,902,800
Day Care Subsidy	<u>15,083,100</u>		<u>15,083,100</u>
Total – Employment and Rehabilitation Services	\$35,599,300	\$43,200	\$35,642,500
Agencywide TANF Block Grant Appropriation	\$9,634,700		\$9,634,700
<b>TOTAL - DEPARTMENT OF ECONOMIC SECURITY</b>	<b>\$279,743,100</b>	<b>\$3,405,000</b>	<b>\$273,516,000</b>
<b>Beginning Balance</b>	\$ 22,728,400		\$ 7,642,800
<b>TANF Base Revenues</b>	224,657,500		224,657,500
<b>TANF Contingency Fund Revenues</b>	<u>40,000,000</u>		<u>40,000,000</u>
<b>Total TANF Revenues</b>	\$287,385,900		\$272,300,300
<b>TANF Expenditures</b>	<u>279,743,100</u>		<u>273,516,000</u>
<b>Ending Balance</b>	\$ 7,642,800		\$(1,215,700)

1/ Actual ending balance cannot be negative; the agency will employ funding options to balance the appropriation for FY2010.