

Department of Economic Security

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	3,924.6	3,882.6	4,147.7 ^{1/}
Personal Services	67,636,300	81,834,400	69,109,900
Employee Related Expenditures	34,053,500	38,430,600	32,338,500
Professional and Outside Services	23,968,000	24,310,200	19,017,800
Travel - In State	1,129,800	1,133,300	883,200
Travel - Out of State	70,200	62,900	62,900
Other Operating Expenditures	50,747,300	53,033,300	29,041,400
Equipment	3,349,200	3,879,700	3,498,400
OPERATING SUBTOTAL	180,954,300	202,684,400 ^{2/}	153,952,100 ^{3/4/}
SPECIAL LINE ITEMS			
Agencywide			
Contingency Funding	10,500,000	0	0
Administration			
Attorney General Legal Services	9,096,700	11,141,400 ^{2/}	11,067,600
Aging and Adult Services			
Adult Services	7,924,100	7,924,100	7,924,100
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless	2,522,600	2,522,600	2,522,600
Domestic Violence Prevention	12,123,700	12,123,700	12,123,700 ^{5/6/}
Homeless Capital Grant	0	500,000	0
Rural Long Term Care Assisted Living	0	0	0
Benefits and Medical Eligibility			
TANF Cash Benefits	40,499,400	44,999,400	44,999,400
Coordinated Hunger	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	5,347,900	6,740,200 ^{2/}	6,740,200
Developmental Disabilities ^{7/8/9/}			
DDD Operating Lump Sum	0	0	47,835,800 ^{10/}
Case Management - Medicaid	47,329,200	47,761,700 ^{2/}	50,968,300 ^{10/}
Home and Community Based Services - Medicaid	691,114,300	848,520,300 ^{2/}	900,717,100
Institutional Services - Medicaid	20,545,400	19,545,600 ^{2/}	20,737,300
Medical Services - Medicaid	126,960,500	142,653,300 ^{2/}	151,677,700
Arizona Training Program at Coolidge - Medicaid	15,977,800	15,912,300 ^{2/}	15,822,100
Medicare Clawback Payments	3,072,000	2,902,400	2,928,700
Case Management - State Only	3,926,600	3,928,600	3,912,700 ^{10/}
Home and Community Based Services - State Only	19,343,200	21,296,700	21,443,200 ^{11/}
State-Funded Long Term Care Services	28,328,100	26,554,800	26,554,000
Autism Parenting Skills - Rural Areas	0	0	0
Employment and Rehabilitation Services			
JOBS	11,035,600	11,005,600	13,005,600
Child Care Subsidy	72,722,200	98,396,600	98,396,600 ^{12/}
Rehabilitation Services	2,799,100	4,799,100	4,799,100
Independent Living Rehabilitation Services	1,239,400	1,289,400	1,289,400
Workforce Investment Act Services	39,130,400	53,654,600	51,654,600 ^{13/}
AGENCY TOTAL	1,362,651,400	1,597,015,700	1,661,230,800 ^{14/15/}
FUND SOURCES			
General Fund	418,202,500	482,542,300	496,181,900 ^{17/18/}
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	9,032,200	16,802,200	16,719,600 ^{4/}

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
Domestic Violence Shelter Fund	2,220,000	2,220,000	2,220,000 ^{5/6/}
Federal CCDF Block Grant	81,065,900	107,773,600	107,773,600
Federal TANF Block Grant	86,705,000	86,727,700	86,727,700 ^{18/}
Long Term Care System Fund (Non-Federal Matched)	56,424,300	31,225,400	31,251,300
Public Assistance Collections Fund	103,600	427,200	424,600
Special Administration Fund	2,829,900	2,830,600	2,939,700
Spinal and Head Injuries Trust Fund	1,865,500	1,874,900	1,874,800
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	41,535,800	56,060,800	56,050,500 ^{13/}
SUBTOTAL - Other Appropriated Funds	281,782,200	306,942,400	306,981,800
SUBTOTAL - Appropriated Funds	699,984,700	789,484,700	803,163,700
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	34,555,900	40,409,800	40,230,200
Long Term Care System Fund (Federal Match)	628,110,800	767,121,200	817,836,900 ^{19/}
SUBTOTAL - Expenditure Authority Funds	662,666,700	807,531,000	858,067,100
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,362,651,400	1,597,015,700	1,661,230,800
Other Non-Appropriated Funds	597,849,400	349,869,700	307,996,200
Federal Funds	517,234,700	494,413,200	494,413,200
TOTAL - ALL SOURCES	2,477,735,500	2,441,298,600	2,463,640,200

^{1/} Includes 625.4 GF, 247.2 OF, and 1,403.7 EA FTE Positions funded from Special Line Items in FY 2016.

^{2/} In April 2015, DES transferred \$1,048,000 from the Attorney General Legal Services line item in FY 2015 to the operating budget (\$200,000) and the County Participation line item (\$848,000). DES also transferred \$20,542,000 from the Home and Community Based Services - Medicaid line item in FY 2015 to the operating budget (\$8,287,000), Case Management - Medicaid (\$3,174,000), Institutional Services - Medicaid (\$3,418,000), Medical Services - Medicaid (\$4,476,000), and Arizona Training Program at Coolidge - Medicaid (\$1,187,000) line items. The current display does not reflect these transfers.

^{3/} The Operating Lump Sum Appropriation may be expended on Arizona Health Care Cost Containment System eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)

^{4/} All state shares of retained earnings, fees and federal incentives above \$16,719,600 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New full-time equivalent positions may be authorized with the increased funding. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of the monies to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)

^{5/} All Domestic Violence Shelter Fund monies above \$2,220,000 received by the Department of Economic Security are appropriated for the Domestic Violence Prevention line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies above \$2,220,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{6/} The Department of Economic Security shall report to the Joint Legislative Budget Committee on the amount of state and federal monies available statewide for domestic violence funding on or before December 15, 2015. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)

^{7/} The department shall report to the Joint Legislative Budget Committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than 2%. Before implementation of any changes in capitation rates for the Long-Term Care program, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any changes in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal analysis demonstrates that these changes will result in additional state costs of \$500,000 or more for a given fiscal year, the department shall submit the policy changes for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{8/} Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments not already specifically authorized by the Legislature, court mandates or changes to federal law, the department shall submit a report for review by the Joint Legislative Budget Committee. The report shall include, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)

^{9/} The Department of Economic Security shall report all new placements into a state-owned ICF-MR or the Arizona Training Program at Coolidge Campus in FY 2016 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 and the reason why this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. The department shall make this report available on or before July 15, 2016. (General Appropriation Act footnote)

^{10/} Before transferring any money in or out of the Case Management - Medicaid, Case Management - State-only, and DDD Operating Lump Sum line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

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; and Employment and Rehabilitation Services.

Summary

The Department of Economic Security's (DES) FY 2016 General Fund spending increased by \$13,639,600, or 2.8% above the FY 2015 appropriation. These changes include:

- \$1,177,200 for 11 Adult Protective Services staff.
- \$14,976,000 for new FY 2016 Developmentally Disabled (DD) Medicaid formula changes. This also funds a 3% DD capitation rate increase in FY 2016.
- \$(2,000,000) for a DES operating lump sum reduction.
- \$(500,000) to remove one-time funding for a Homeless Capital Grant.
- \$(13,600) for statewide adjustments.

As part of the budget's 3-year spending plan, DES General Fund costs are projected to increase by \$17.6 million in FY 2017 above FY 2016 and \$30.6 million in FY 2018 above FY 2017. (See *Other issues for more information.*)

Operating Budget

The budget includes \$153,952,100 and 1,871.4 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	FY 2016
General Fund	\$78,488,700
Child Support Enforcement Administration Fund	13,177,900
Child Support Enforcement Administration Fund (EA)	27,424,800
Federal Temporary Assistance for Needy Families (TANF) Block Grant	16,798,500
Federal Child Care and Development Fund (CCDF) Block Grant	12,077,100
Public Assistance Collections Fund	333,700
Special Administration Fund	1,708,800
Spinal and Head Injuries Trust Fund	546,700
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,395,900

- 11/ Laws 2015, Chapter 169 appropriated \$120,000 from the Special Administration Fund to restore services for certain members.
- 12/ It is the intent of the Legislature that the combined number of children in child care assistance authorized pursuant to A.R.S. § 46-803D and F be maintained throughout the year at a minimum of 8,500 children. The department shall prioritize child care assistance for families who qualify for assistance pursuant to A.R.S. § 46-803F on the waiting lists established pursuant to A.R.S. § 46-803I. (General Appropriation Act footnote)
- 13/ All Federal Workforce Investment Act monies that are received by this state in excess of \$56,050,500 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies above \$56,050,500 to the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 14/ The above appropriations are in addition to monies granted to the state by the federal government for the same purposes but are 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)
- 15/ The Department of Economic Security shall forward a monthly report comparing total expenditures for the month and year-to-date as compared to prior year totals 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 on or before the 30th of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and 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. (General Appropriation Act footnote)
- 16/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 17/ Laws 2014, 2nd Special Session, Chapter 2 appropriated \$35,000,000 from the General Fund in FY 2016 to account for the deferral of FY 2015 payments into FY 2016 so that \$35,000,000 does not appear in the FY 2016 General Appropriation Act. A total of \$21,000,000 was appropriated to DES and \$14,000,000 to line items that are now part of the new Department of Child Safety. The FY 2016 General Appropriation Act appropriates \$21,000,000 in FY 2017 to reflect the deferral of FY 2016 payments to FY 2017.
- 18/ Any Federal Temporary Assistance for Needy Families Block Grant monies received in FY 2016, including the beginning balance, by the Department of Economic Security in excess of \$218,728,100 is appropriated to the department in FY 2016. For every dollar the Department of Economic Security receives in Federal Temporary Assistance for Needy Families Block Grant monies in FY 2016 in excess of the \$218,728,100 appropriated to the Department of Economic Security and the Department of Child Safety, minus any FY 2015 revertsments expected to be spent as administrative adjustments in FY 2016, the state General Fund appropriations for the Department of Economic Security and the Department of Child Safety are proportionally reduced by a corresponding dollar amount. The Department of Economic Security shall report to the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting on or before September 1, 2015 its estimate of how much of the FY 2015 revertsments of the Department of Economic Security and the Department of Child Safety will be spent as administrative adjustments in FY 2016 and excluded from the total amount of Federal Temporary Assistance for Needy Families Block Grant monies. On or before June 30, 2016, the Department of Economic Security shall notify the Joint Legislative Budget Committee and the Governor's Office of Strategic Planning and Budgeting of the amount of state General Fund monies, if any, that will not be expended under this provision. (General Appropriation Act footnote)
- 19/ Any FY 2015 balance in the department Long Term Care System Fund established pursuant to A.R.S. § 36-2913, Arizona Revised Statutes, that is unexpended and unencumbered on June 30, 2016 after administrative adjustments reverts to the state General Fund subject to approval by the Arizona Health Care Cost Containment System Administration. (General Appropriation Act footnote)

These amounts fund the following adjustments:

Adult Protective Services Staff

The budget includes an increase of \$1,177,200 and 11 FTE Positions from the General Fund in FY 2016 for additional Adult Protective Services (APS) staff. APS staff respond to reports of abuse, neglect and exploitation of vulnerable and incapacitated adults and offer appropriate services. The current caseload per APS investigator is 103. The additional staff is expected to allow the agency to start closing more cases than are being added.

Operating Lump Sum Reduction

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2016 for a lump sum reduction to the DES Administration operating budget.

New DDD Operating Line Item

The budget includes a decrease of \$(47,894,300) and (294.3) FTE Positions in FY 2016 to move funds from the operating budget to the new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	(14,362,000)
Long Term Care System Fund (EA)	(33,532,300)

This transfer will increase transparency regarding total DDD spending. *(Please see the new DDD Operating Lump Sum line item for more information.)*

Statewide Adjustments

The budget includes a decrease of \$(15,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	205,500
Child Support Enforcement Administration Fund	(66,000)
Child Support Enforcement Administration Fund (EA)	(131,500)
Public Assistance Collections Fund	(1,900)
Special Administration Fund	(10,900)
Spinal and Head Injuries Trust Fund	(100)
Workforce Investment Act Grant	(10,300)

(Please see the Agency Detail and Allocations section.)

Administration

Attorney General Legal Services

The budget includes \$11,067,600 and 156.9 FTE Positions in FY 2016 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,229,000
Child Support Enforcement Administration Fund	2,462,600
Federal TANF Block Grant	123,100
Federal CCDF Block Grant	17,700
Federal Expenditure Authority	7,144,300
Public Assistance Collections Fund	90,900

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(73,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(8,400)
Child Support Enforcement Administration Fund	(16,600)
Federal Expenditure Authority	(48,100)
Public Assistance Collections Fund	(700)

Monies in this line item fund all AG legal services for the department. In FY 2014, this line item did not include child welfare related AG costs.

Aging and Adult Services

Adult Services

The budget includes \$7,924,100 from the General Fund in FY 2016 for Adult Services. This amount is unchanged from FY 2015.

This line item provides an array of independent living support to elderly persons, distributed as shown in *Table 1*.

Table 1	
Independent Living Support	
Services	FY 2016
Adult Protective Contracted Services	\$ 295,100
Supplemental Payments	95,500
Home Care	3,754,900
Older Americans Act	1,749,400
Assessments and Case Management	1,567,300
Respite Care	462,000
Total	\$7,924,100^{1/}

^{1/} Numbers do not add due to rounding

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2016 for Community and Emergency Services. This amount is unchanged from FY 2015.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related

to the needs of low-income families and individuals. In FY 2014, this line item provided short-term crisis services to 1,801 households, energy assistance to 34,544 households, and 9,398 households participated in telephone discount programs.

Coordinated Homeless

The budget includes \$2,522,600 in FY 2016 for Coordinated Homeless programs. This amount consists of:

General Fund	873,100
Federal TANF Block Grant	1,649,500

These amounts are unchanged from FY 2015.

In FY 2014, this line item provided emergency shelter services to 9,702 individuals, rapid re-housing services to 1,592 individuals, and homeless prevention services to 195 individuals.

Domestic Violence Prevention

The budget includes \$12,123,700 in FY 2016 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Shelter Fund	2,220,000

These amounts are unchanged from FY 2015.

In FY 2014, this line item, along with non-appropriated funds, served approximately 8,441 women and children in emergency shelters, 344 women and children in transitional housing, and 10,912 victims with legal and lay legal advocacy.

Homeless Capital Grant

The budget includes no funding in FY 2016 for the Homeless Capital Grant line item. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2016 to remove one-time funding for the Homeless Capital Grant program.

In FY 2015, monies in this line item funded a grant to a faith-based facility located in Phoenix that provides homelessness services, including substance abuse treatment, behavioral medicine treatment, and job training. The grant was awarded to the Phoenix Rescue Mission in October 2014.

Rural Long Term Care Assisted Living

The budget includes no funding in FY 2016 for Rural Long Term Care Assisted Living. This amount is unchanged from FY 2015. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

Monies in this line item were originally appropriated in FY 2015 to fund long term care assisted living services in a county with a population of less than 500,000 people. Section 117 of the FY 2016 General Appropriation Act repealed the \$300,000 FY 2015 appropriation.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$44,999,400 from the Federal TANF Block Grant in FY 2016 for TANF Cash Benefits. This amount is unchanged from FY 2015.

The enacted FY 2016 budget assumes a regular caseload level of 35,035. The average cost per person is projected to be \$90. In addition, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The enacted FY 2016 budget assumes a Diversion caseload of 770. The average Diversion payment per person is projected to be \$775.

As of February 2015, DES served a regular TANF Cash Benefit caseload of 24,382 individual recipients. Given the budgeted caseload of 35,035, the program is likely to generate a significant surplus in FY 2016.

As permanent law, the FY 2016 Human Services Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 18) reduces the cumulative lifetime limit on regular TANF Cash Benefits from 24 months to 12 months starting on July 1, 2016. The 3-year spending plan associated with the enacted FY 2016 budget would yield TANF savings of \$(9.0) million in FY 2017. These savings would then be used to pay existing General Fund costs, thereby freeing up a like amount of General Fund savings.

The FY 2016 Human Services BRB includes a session law provision continuing to require recipients of TANF Cash Benefits to pass a drug test in order to be eligible for benefits if DES has reasonable cause to believe that the recipient uses illegal drugs.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives.

There is currently a 24-month cumulative lifetime limit on regular TANF Cash Benefits. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

Coordinated Hunger

The budget includes \$1,754,600 in FY 2016 for Coordinated Hunger programs. This amount consists of:

General Fund	1,254,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2015.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2014, the USDA Commodities Food Program served 377,282 households quarterly.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2016 for Tribal Pass-Through Funding. This amount is unchanged from FY 2015.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the case assistance program for any particular tribe.

Child Support Enforcement

The Division of Child Support Enforcement (DCSE) budget includes direct appropriations from the following 4 fund sources: 1) General Fund; 2) State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received TANF Cash Benefits; 3) Federal incentives and 4) Fees from non-custodial parents.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 2 details the sources and uses of the CSEA Fund.

Table 2	
CSEA Fund Sources and Uses	
Sources	
	FY 2016
Balance Forward	\$ 1,705,000
State Share of Retained Earnings	4,100,000
Federal Incentive Payments	6,500,000
Fees	2,010,000
Excess Appropriation Authority ^{1/}	<u>4,814,800</u>
Total	\$19,129,800
Uses	
DCSE Administration (DES Operating)	\$13,243,900
Attorney General Legal Services	2,479,200
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,327,600</u>
Total	\$19,129,800
^{1/} This line is the difference between appropriation authority and expected revenues.	

County Participation

The budget includes \$6,740,200 in FY 2016 for County Participation. This amount consists of:

CSEA Fund	1,079,100
Federal Expenditure Authority	5,661,100

These amounts are unchanged from FY 2015.

The division contracts with Gila, La Paz, and Navajo Counties to operate child support programs in those counties. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Developmental Disabilities

DES provides services to individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Clients eligible for federal Medicaid program services are funded through the Long Term Care (LTC) program. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the FPL, and have certain functional needs. The division also provides 100% state-funded services for clients who are not eligible for federal Medicaid services.

The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities but does not appropriate any specific non-appropriated fund.

As of March 2015, the Division of Developmental Disabilities serves 34,918 clients, which includes 27,845 clients in the LTC program and 7,073 clients in the state-only portion. The primary disabilities are shown in *Table 3*.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Cognitive Disability	14,964	43%
At Risk	7,545	21%
Autism	7,599	22%
Cerebral Palsy	3,191	9%
Epilepsy	1,512	4%
Not Indicated	<u>107</u>	1%
Total	34,918	

The LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund.

Overall DES Formula Adjustments

The budget includes an increase of \$14,976,000 from the General Fund in FY 2016 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for a discussion of FY 2017 and 2018 formula changes.)*

As the AHCCCS-authorized provider of DD services, DES receives federal monies through prepaid monthly capitation payments based on rates for types of clients.

FMAP Adjustments

The Federal Medical Assistance Percentage (FMAP) is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2016, the Medicaid FMAP will increase to 68.81% (0.7% increase). The increased FMAP results in additional General Fund savings of \$(6,821,600).

FY 2016 Caseload Growth

The budget includes a net increase of \$10,705,500 from the General Fund in FY 2016 for DD caseload changes. From FY 2015 to FY 2016, caseloads are expected to grow by 4.5% to a level of 29,325 by June 2016.

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to Home and Community Based Services (HCBS) and Case Management/Medical Services Only, while caseloads for Institutional Services and the Arizona Training Program at Coolidge were held flat. All clients are eligible for Medical Services and Case Management as necessary, but not all clients access other services in any particular month.

<u>Line Item</u>	<u>FY 14</u>	<u>FY 15 Est</u>	<u>FY 16 Est</u>
Home and Community Based Services	23,087	24,295	25,558
Institutional Services	100	100	100
AZ Training Program at Coolidge	81	81	81
Subtotal	<u>23,268</u>	<u>24,476</u>	<u>25,739</u>
Case Management and Medical Services only	<u>3,586</u>	<u>3,586</u>	<u>3,586</u>
Total	26,854	28,062	29,325

FY 2016 Capitation Rate Adjustments

The budget includes a 3% net capitation rate increase beginning July 1, 2015. The increased capitation rate results in an additional General Fund cost of \$11,065,800 in FY 2016. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. *(Please see Capitation and Provider Rates section in Other Issues for further discussion.)*

Medicare Clawback

The budget includes an increase of \$26,300 from the General Fund for adjustments associated with Medicare Clawback Payments.

FY 2015 Supplemental

The budget includes an FY 2015 supplemental appropriation for DES to address a shortfall in the DD program. This amount consists of \$7,852,000 from the General Fund and \$21,082,900 from the Long Term Care System Fund Expenditure Authority. *(Please see FY 2015 Supplemental section in Other Issues for further discussion.)*

DDD Operating Lump Sum

The budget includes \$47,835,800 and 294.3 FTE Positions in FY 2016 for a new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	14,322,300
Long Term Care System Fund	33,513,500

These amounts fund the following adjustments:

New DDD Operating Line Item

The budget includes an increase of \$47,894,300 and 294.3 FTE Positions in FY 2016 to move funds from the operating budget to a new DDD Operating Lump Sum line item. These amounts consist of:

General Fund	14,362,000
Long Term Care System Fund	33,532,300

Statewide Adjustments

The budget includes a decrease of \$(58,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(39,700)
Long Term Care System Fund	(18,800)

Background – Monies in this line item fund direct DD operating and administrative costs. This line item does not include departmentwide administration and indirect costs. It has been added to create better transparency of total DD resources. A total of \$11.8 million of central administration funding associated with the DD program remains in the DES operating budget. A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Case Management - Medicaid

The budget includes \$50,968,300 and 1,009.6 FTE Positions in FY 2016 for Medicaid Case Management. These amounts consist of:

General Fund	16,210,700
Long Term Care System Fund	34,757,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$3,488,400 and 47.1 FTE Positions in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	1,088,200
Long Term Care System Fund	2,400,200

FTE Authority

The budget includes an increase of 207 FTE Positions for historical growth funded without FTE Position authority.

Statewide Adjustments

The budget includes a decrease of \$(281,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(88,400)
Long Term Care System Fund	(193,400)

Background – In addition to providing case management services to an estimated 25,739 clients receiving direct

services, this line item also funds “case management only” services to another 3,586 clients (*see Table 4*).

A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Home and Community Based Services - Medicaid

The budget includes \$900,717,100 and 94.5 FTE Positions in FY 2016 for Medicaid Home and Community Based Services (HCBS). These amounts consist of:

General Fund	280,668,200
Long Term Care System Fund	620,048,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$52,272,600 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	11,603,200
Long Term Care System Fund	40,669,400

Statewide Adjustments

The budget includes a decrease of \$(75,800) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(22,500)
Long Term Care System Fund	(53,300)

Background – Monies in this line item fund residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C). Approximately 25,558 individuals are expected to receive Medicaid home and community based services in FY 2016 (*see Table 4*).

Of the \$900,717,100 in this line item, \$888,408,400 funds HCBS services to clients enrolled in the LTC program; the other \$12,308,700 funds program staff.

The budget also includes \$20,000,000 in deferred FY 2015 General Fund payments appropriated in FY 2016 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$280,668,200 consists of

\$20,000,000 from Chapter 2 and \$260,668,200 from the FY 2016 General Appropriation Act.

Institutional Services - Medicaid

The budget includes \$20,737,300 and 74 FTE Positions in FY 2016 for Medicaid Institutional Services. These amounts consist of:

General Fund	6,468,900
Long Term Care System Fund	14,268,400

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,214,300 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	278,500
Long Term Care System Fund	935,800

Statewide Adjustments

The budget includes a decrease of \$(22,600) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(7,100)
Long Term Care System Fund	(15,500)

Background – Monies in this line item fund residential and day programs to clients with more severe developmental disabilities. These clients reside in Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IDs) (formerly referred to as ICF-MRs) or other nursing facilities, both privately and state-operated, excluding the ATP-C. Approximately 100 individuals are expected to receive Medicaid institutional services in FY 2016 (see Table 4).

Of the \$20,737,300 in this line item, \$15,171,800 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

As permanent law, the FY 2016 Human Services BRB allows DES to contract with new private state licensed facilities to provide intermediate care facility services for members with developmental disabilities. Prior to the change, DES could only utilize institutional services through private facilities that contracted with the department before July 1, 1988; there is only 1 such institution.

Medical Services

The budget includes \$151,677,700 and 35.4 FTE Positions in FY 2016 for Medical Services. These amounts consist of:

General Fund	47,315,800
Long Term Care System Fund	104,361,900

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$9,051,900 in FY 2016 for formula adjustments. The formula adjustments include the federal match rate change and a 4.5% increase for caseload growth. These amounts consist of:

General Fund	2,083,700
Long Term Care System Fund	6,968,200

Statewide Adjustments

The budget includes a decrease of \$(27,500) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(8,600)
Long Term Care System Fund	(18,900)

Background – Of the \$151,677,700 in this line item, \$147,199,700 funds Acute Care services to clients enrolled in the LTC program; the other \$4,478,000 funds the staff of the division’s Managed Care unit.

Arizona Training Program at Coolidge - Medicaid

The budget includes \$15,822,100 and 383.7 FTE Positions in FY 2016 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

General Fund	4,935,500
Long Term Care System Fund	10,886,600

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$103,900 from the General Fund and a corresponding increase of \$(103,900) from the Long Term Care System Fund in FY 2016 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes a decrease of \$(90,200) in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(28,300)
Long Term Care System Fund	(61,900)

Home and Community Based Services - State-Only

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-ID's or state-operated group homes (SOGHs). As of June 2014 the current caseload at ATP-C is 81. The FY 2016 caseload is estimated at 81 (see Table 4). At that caseload, the blended cost per DD client at ATP-C will be \$195,300.

The budget includes \$21,443,200 and 53.6 FTE Positions in FY 2016 for state-only Home and Community Based Services. These amounts consist of:

General Fund	16,625,900
Long Term Care System Fund	4,697,300
Special Administration Fund	120,000

Medicare Clawback Payments

The budget includes \$2,928,700 from the General Fund in FY 2016 for Medicare Clawback Payments. This amount funds the following adjustment:

Formula Adjustments

The budget includes an increase of \$26,300 from the General Fund in FY 2016 for formula adjustments associated with Medicare Clawback Payments.

Background – DES is not required to pay for prescription drug costs for members who are also eligible for Medicare. Instead, DES is required to make "Clawback" payments to Medicare based on a certain percent (75% in 2016) of the estimated drug costs.

These amounts fund the following adjustments:

Cost Effectiveness Study Rate Adjustment

Laws 2015, Chapter 169 appropriates \$120,000 from the Special Administration Fund in FY 2016 to provide HCBS services for persons whose services were reduced under the current Cost Effective Study (CES) rate as a result of the FY 2015 provider rate increase.

The CES rate is based on the cost to provide DD services for members in an institutional setting. Medicaid does not cover the cost of HCBS services if a member goes above the CES rate as it is more cost effective at that point for the member to receive services in an institutional setting. The FY 2015 budget included a 2% increase to HCBS provider rates, which increased the cost of HCBS services and required some members to reduce services to keep from going over the CES rate.

Case Management - State-Only

The budget includes \$3,912,700 and 79.3 FTE Positions from the General Fund in FY 2016 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(15,900) from the General Fund in FY 2016 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. In FY 2016, this line is expected to fund services for 3,586 clients.

A new footnote requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items so as to provide oversight if the department proposes to increase or decrease administrative resources.

Laws 2015, Chapter 169 appropriates \$120,000 from the Special Administration Fund in FY 2016 to restore services for members who had them reduced due to the 2% provider rate increase. Laws 2015, Chapter 169 also requires DES to annually determine the CES rate for persons receiving DD services and to report that rate on or before June 16 of each year to the JLBC.

Statewide Adjustments

The budget includes an increase of \$26,500 in FY 2016 for statewide adjustments. This amount consists of:

General Fund	(200)
Long Term Care System Fund	26,700

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. It also includes funding for state-operated facilities, excluding ATP-C. As of October 2014, there are approximately 7,070 clients in the state-only program.

Of the \$21,443,200 in this line item, \$15,426,100 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$4,319,000 funds the Arizona Early Intervention Program.

In previous years, the Long Term Care System Fund appropriation in this line consisted of capitation payment equity. These monies are now required to be transferred to the General Fund, so there is no equity available for HCBS State-Only services. *(Please see Other Issues for further discussion on the Long Term Care System Fund.)*

State-Funded Long Term Care Services

The budget includes \$26,554,000 and 2 FTE Positions from the Long Term Care System Fund in FY 2016 for State-Funded Long Term Care Services. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(800) from the Long Term Care System Fund in FY 2016 for statewide adjustments.

Background – This line item funds a variety of services ineligible for Federal Funds reimbursement from AHCCCS. The most common service provided in this line item is room and board. The program also funds residential and day programs to clients with more severe developmental disabilities. These clients reside in Large Group Living Facilities or other nursing facilities.

Of the \$26,554,000 in this line item, \$26,492,200 funds State-Funded Long Term Care Services to clients enrolled in the DD program; the other \$61,800 funds program staff. *(Please see the SFLTC section in Other Issues for further discussion.)*

Autism Parenting Skills - Rural Areas

The budget includes no funding in FY 2016 for Autism Parenting Skills - Rural Areas. This amount is unchanged from FY 2015. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

Monies in this line item were originally appropriated in FY 2015 to train parents in counties with populations less than 500,000 to provide intensive behavioral treatment to children with autism who are younger than 5 years of age. Section 117 of the FY 2016 General Appropriation Act repealed the \$300,000 FY 2015 appropriation.

Employment and Rehabilitation Services

JOBS

The budget includes \$13,005,600 and 93 FTE Positions in FY 2016 for JOBS. These amounts consist of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Workforce Investment Act Grant	2,000,000
Special Administration Fund	1,110,900

These amounts fund the following adjustments:

Fund Shift

The budget includes an increase of \$2,000,000 from the Workforce Investment Act Grant in FY 2016 to shift funding from the Workforce Investment Act Services line item to the JOBS line item. A federal policy change once again allows states to use a portion of the Workforce Investment Act Grant for the JOBS program.

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 5* highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Case Management	\$ 9,810,000
Job Training	1,325,300
FLSA Supplement	150,000
Work-Related Transportation	1,420,300
Job Search Stipends	300,000
Total	\$13,005,600

Child Care Subsidy

The budget includes \$98,396,600 in FY 2016 for the Child Care Subsidy. This amount consists of:

Federal CCDF Block Grant	95,678,800
Federal TANF Block Grant	2,717,800

These amounts fund the following adjustments:

Fund Shift

The budget continues a FY 2015 ex-appropriation of \$(4,000,000) from the General Fund and a corresponding increase of \$4,000,000 from the CCDF Block Grant in FY 2016. Additional CCDF Block Grant monies were granted to the state in FY 2015 and are being appropriated in FY 2015 and FY 2016 to backfill General Fund dollars that were first appropriated for child care in FY 2014. *(Please see the FY 2015 Supplemental section in Other Issues for more information.)*

The FY 2016 Health and Welfare BRB includes a session law provision continuing to allow DES to reduce the maximum income eligibility levels for child care assistance to manage within appropriated and available monies.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 165% of the FPL, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment.

Depending on the population group to which they belong, the length of time for which families are eligible to receive child care subsidies is restricted by statute. For the low-income working population, there is a 60-month cumulative time limit per child. The Transitional Child Care benefit is available for 24 months. The TANF Child Care benefit is available to families as long as they are receiving TANF Cash Benefits, which has a 24-month cumulative lifetime time limit. As permanent law, the FY 2016 Human Services BRB reduces the TANF Cash Benefits lifetime limit to 12 months beginning July 1, 2016.

Subsidy Rates – The average subsidy paid to providers per child is projected to be approximately \$326 per month in FY 2016. This average includes children in DCS. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$26.60 per day.

Families in non-mandatory categories are required to make co-payments to defray the state’s share of the cost of care. For families with an income level at or below 100% of the FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$26.60 Maricopa rate, this \$2.00 co-payment would account 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 child care costs.

Caseloads – The enacted FY 2016 budget assumes that the average number of children receiving child care services in FY 2016 will be 17,900 (see Table 6). Child care is also provided to children in the DCS system; these children’s care is funded in the DCS budget.

The FY 2016 General Appropriation Act continues a footnote stating it is the intent of the Legislature that the combined number of children authorized for the low-income working population be maintained throughout the year at a minimum of 8,500 children. DES projects that they will have the resources to exceed the minimum requirement and serve 10,500 in the low-income category in FY 2016 (see Table 6).

DES initiated a waiting list for the Low-Income Working category of child care services on February 18, 2009. Children must be determined eligible for child care

services to be placed on the waitlist. In January 2015, DES released all 5,239 children on the waitlist and notified the families to re-apply for child care. DES then re-established the waitlist for any new applications received after the full release. As of May 2015, approximately 770 children are on the waiting list. It is unknown how many of those children remain eligible.

June Child Care Caseloads			
Category	FY 14	FY 15 est	FY 16 est
TANF	2,689	2,600	2,600
Low-Income Working	7,503	8,750	10,500
Transitional Child Care	<u>5,156</u>	<u>4,900</u>	<u>4,800</u>
Total Served	15,348	16,250	17,900

Rehabilitation Services

The budget includes \$4,799,100 in FY 2016 for Rehabilitation Services. This amount consists of:

General Fund	4,594,400
Spinal and Head Injuries Trust Fund	204,700

These amounts are unchanged from FY 2015.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 9,369 clients at an average Total Funds cost of \$15,055 per client. Administrative expenditures and local match draw down additional federal match.

The budget also includes \$1,000,000 in deferred FY 2015 General Fund payments appropriated in FY 2015 by Laws 2014, 2nd Special Session, Chapter 2 and it defers the same amount for FY 2016 to FY 2017. As a result, the FY 2016 General Fund amount of \$4,594,400 consists of \$1,000,000 from Chapter 2 and \$3,594,400 from the FY 2016 General Appropriation Act.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2016 for Independent Living Rehabilitation Services. This amount consists of:

General Fund	166,000
Spinal and Head Injuries Trust Fund	1,123,400

These amounts are unchanged from FY 2015.

The Independent Living Rehabilitation Services program is expected to serve up to 722 clients at an average Total Funds cost of \$3,486.

In addition to these clients, the division is also expected to serve 300 clients at an average annual cost of \$3,307 per client, using federal Social Services Block Grant monies.

The 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.

Workforce Investment Act Services

The budget includes \$51,654,600 from the Workforce Investment Act (WIA) Grant in FY 2016 for the Workforce Investment Act Services line item. These amounts fund the following adjustments:

Fund Shift

The budget includes a decrease of \$(2,000,000) from the Workforce Investment Act Grant in FY 2016 to shift funding from the Workforce Investment Act Services line item to the JOBS line item. A federal policy change once again allows states to use a portion of the Workforce Investment Act Grant for the JOBS program.

Background – These monies are the state’s allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 95% is allocated to local governments and 5% is retained at the state level.

The allocation of the WIA Grant for workforce related programs in FY 2016 is shown in *Table 7*.

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$51,654,600
Administration	2,406,200 ^{1/}
JOBS	<u>2,000,000</u> ^{2/}
Total	\$56,060,800

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

Additional Legislation

Long Term Care System Fund Transfer

Laws 2015, Chapter 169 requires the first \$100,000 in the LTCSF that is unexpended and unencumbered at the end of FY 2015 to be transferred to the Client Developmental Disability Services Trust Fund, subject to approval by the Arizona Health Care Cost Containment System Administration (AHCCCS). Monies from the Client Developmental Disability Services Trust Fund are used to enhance services presently available to the developmentally

disabled and to extend services to developmentally disabled persons not presently served.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts
- Payment Deferral
- FY 2015 Supplemental
- Fund Transfers
- Capitation and Provider Rates
- Long Term Care System Fund
- TANF Block Grant

Long-Term Budget Impacts

As part of the budget’s 3-year spending plan, DES General Fund costs are projected to increase by \$17.6 million in FY 2017 above FY 2016 and \$30.6 million in FY 2018 above FY 2017. These estimates are based on:

- \$26.6 million in FY 2017 and \$30.6 million in FY 2018 for DD formula costs.
- \$(9.0) million in savings as a result of a new 12-month TANF time cap limit in FY 2017.

The DD estimates are based on:

- 4.5% caseload growth in FY 2017 and FY 2018, resulting in caseloads of 30,190 and 31,549 in June 2017 and June 2018, respectively.
- FMAPs of 68.92% in FY 2017 and FY 2018.
- 3% capitation growth for utilization and medical inflation in FY 2017 and FY 2018.

Payment Deferral

The budget continues the \$21.0 million payment deferral from FY 2016 to FY 2017. DES plans to defer a total of \$21.0 million in payments from the Special Line Items specified below:

Home and Community Based Services - Medicaid	20,000,000
Rehabilitation Services	1,000,000

Laws 2014, 2nd Special Session, Chapter 2 appropriated \$35.0 million in FY 2016 to pay the amount deferred from FY 2015 to FY 2016. A total of \$21.0 million was appropriated to DES and \$14.0 million was appropriated to line items now transferred to the newly formed DCS. These amounts do not appear in the General

Appropriation Act; however, the amounts are included in the agency General Fund totals in this report. As a result, the FY 2016 DES General Fund amount of \$496.2 million consists of \$21.0 million from the deferral appropriation and \$475.2 million from the General Appropriation Act.

The FY 2016 General Appropriation Act appropriates \$21,000,000 in FY 2017 to reflect the deferral of FY 2016 payments to FY 2017.

FY 2015 Supplemental

DDD Shortfall

As part of the FY 2016 budget, the Division of Developmental Disabilities received a supplemental appropriation in FY 2015 of \$7.9 million from the General Fund and \$21.1 million in LTCSF Expenditure Authority to address a program shortfall. These monies were allocated as follows:

	<u>GF</u>	<u>EA</u>
Home and Community Based Services - Medicaid	6,595,700	17,709,600
Institutional Services Medicaid	157,000	421,700
Medical Services - Medicaid	1,099,300	2,951,600

The FY 2015 budget assumed a 2% increase to the capitation rate, which included a 2% increase to HCBS provider rates. The actual FY 2015 blended capitation rate increased 5.1% over FY 2014. The higher rate was due to increases to provider compensation, along with increases in utilization, which produced higher costs. The capitation rate was adjusted to account for the higher costs, but as a result the FY 2015 budget did not have enough General Fund appropriation to fully fund the higher capitation rate.

General Fund Reductions

The FY 2016 budget included the following FY 2015 General Fund reductions:

- \$(300,000) for Rural Long-Term Care Assisted Living
- \$(300,000) for Autism Parenting Skills - Rural Areas
- \$(4,000,000) for Child Care Subsidy, offset by a corresponding \$4,000,000 CCDF increase

Fund Transfers

The budget includes the following FY 2016 transfers from this agency's funds to the General Fund:

Special Administration Fund	\$4,000,000
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The budget includes FY 2016 transfers from department funds associated with implementing information technology projects that will put DES in compliance with state and federal security information technology standards. *(Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.)*

Capitation and Provider Rates

The Division of Developmental Disabilities receives funding through capitated payments at a per member per month rate. The capitation rate represents the total cost to operate the ALTCS portion of the DD program and to provide services for its members. The capitation rate is renegotiated annually by DES, AHCCCS and the federal government to adjust for changes in medical inflation, utilization of services, and provider costs.

Provider rates are a component of the overall capitation rate. A capitation rate increase, however, does not mean that provider rates will experience the same increase. The capitation rate funds provider rate, inflation, and utilization adjustments so a capitation rate increase of a certain percent does not guarantee a like provider rate increase.

DES has different contracted rates with various types of providers. The divisions recently completed a rate rebase study that compared currently adopted provider rates with market "benchmark" rates. Current rates range from 48% (music therapy) to 116% (rural transition to employment) of the benchmarks.

Long Term Care System Fund

The LTCSF consists of 2 main revenue components: State-Funded Long Term Care (SFLTC) monies and LTCSF equity.

SFLTC Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, as seen in *Table 8*, include client billing revenue from room and board charges, one-time monies, and interest. SFLTC revenues primarily fund the SFLTC Services line item.

DES requires clients using residential programs to contribute a percentage of their income to help cover the cost of their room and board. Laws 2014, Chapter 167 decreased the amount of income DES is allowed to collect from clients for room and board from 88% to 70%, which is estimated to reduce client billing revenue by \$(2.0) million in FY 2015. Additionally, the SFLTC line item has been operating with an ongoing structural shortfall that DES has mitigated with transfers from LTCSF "equity,"

which is no longer available. LTCSF equity is made up of the funds remaining if DES is able to operate the DD program at a cost less than the capitation rate (see *LTCSF Equity section for further discussion*). Any equity accrued to the LTCSF is now required to be transferred to the General Fund so it will no longer be available for the SFLTC line item. DES estimates a FY 2016 shortfall of \$(3.6) million and an ongoing shortfall of \$(6.0) million in the SFLTC line item.

DES has the option of utilizing a portion of the surplus from the TANF Cash Benefit program in FY 2016 as a solution for the FY 2016 shortfall. In that circumstance, DES would need to allocate the surplus to offset General Fund spending in other non-DD areas of DES, and use those freed-up General Fund dollars to support the SFLTC line.

incurred but unreported claims”, subject to approval by AHCCCS.

The FY 2015 budget had assumed a \$35.0 million equity transfer in FY 2015; however, the only LTCSF equity balance available for transfer in FY 2015 is \$7.9 million from FY 2014. According to DES, it is not possible to transfer FY 2015 equity in the same year because bills and administrative adjustments are still being paid in FY 2016. Audited financials for the LTCSF that show the estimated balance from FY 2015 will not be released until November 2015.

Laws 2015, Chapter 169 requires the first \$100,000 of LTCSF equity that is unexpended and unencumbered at the end of FY 2015 to be transferred to the Client Developmental Disability Services Trust Fund (see *Additional Legislation section for further discussion*).

Theoretically, the capitated system of payments should not generate significant amounts of equity in the long run. Capitation rates are renegotiated annually, and the federal government should be adjusting their rates accordingly.

Table 8

State-Funded Long Term Care Revenues (SFLTC)
Sources and Uses

	FY 2014	FY 2015	FY 2016
	Actual	Estimate	Estimate
Sources			
Carry-Forward	\$ 6,042,400	\$ 8,210,300	\$ 2,419,000
Client Billing Revenue	21,911,200	19,868,500	20,424,800
LTCSF Equity	5,000,000	0	0
Interest	1,197,300	1,095,000	1,075,000
Other	<u>1,315,000</u>	<u>1,330,000</u>	<u>1,330,000</u>
Total	\$35,465,900	\$30,503,800	\$25,248,800
Uses			
SFLTC Services	<u>27,255,600</u>	<u>28,084,800</u>	<u>28,807,100</u>
Total	\$27,255,600	\$28,084,800	\$28,807,100
Ending Balance	\$ 8,210,300	\$ 2,419,000	\$ (3,558,300)

TANF Block Grant

The budget appropriates \$218.7 million of the state’s federal TANF Block Grant allocation in FY 2016. *Table 9* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

The FY 2014 budget allocated Long Term Care System Fund (LTCSF) equity funds to offset the loss of the TANF Population Supplemental revenues and other federal monies, while also picking up the cost of some caseload growth. The FY 2015 budget backfilled \$56.4 million of one-time LTCSF with General Fund. The FY 2015 budget also backfilled \$2.3 million in TANF Block Grant with General Fund in the Out-of-Home Support Services line item.

In the event that DES receives more TANF monies than anticipated, a General Appropriation Act footnote requires DES to revert General Fund monies dollar for dollar for TANF Block Grant monies received above \$218.7 million, including the beginning balance.

LTCSF Equity

Prior to FY 2015, the vast majority of the LTCSF consisted of federal payments made for the Developmental Disabilities (DD) program through a capitated system of payments. According to the terms of the federal agreement, the state assumes all liability for cost overages above the agreed capitation. Conversely, if DES is able to operate the program at a cost less than the federal capitation rate, then DES is able to retain the equity, which is essentially “profit.”

The FY 2016 Human Services BRB requires any equity accrued to the LTCSF from capitation payments that are unexpended and unencumbered at the end of the fiscal year to be deposited into the General Fund by June 30 of the following fiscal year. The transfer amount may be adjusted for “reported but unpaid claims” and “estimated

Table 9

TANF Block Grant Spending

Revenues	Actual FY 2014	Estimate FY 2015	Estimate FY 2016
Beginning Balance	\$ 170,800	\$ 383,500	\$ -
Adjustment for Obligated Funds	-	(383,500) ^{1/}	-
TANF Base Revenues	200,141,300	200,141,300	200,141,300
TANF Contingency Fund Revenues ^{2/}	21,078,500	20,014,100	18,564,100
Total TANF Available	\$ 221,390,600	\$ 220,155,400	\$ 218,705,400
Expenditures			
Department of Child Safety			
DCS Operating	\$ 50,072,900	\$ 46,928,000	\$ 46,928,000
Line Items			
Attorney General Legal Services	52,600	99,400	99,400
Inspections Bureau	-	549,700	549,700
Overtime	-	3,859,500	3,859,500
Adoption Services	20,645,700	20,645,700	20,645,700
Emergency and Residential Placement	16,423,000	16,423,000	16,423,000
Foster Care Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,743,000	1,743,000	1,743,000
In-Home Preventive Support Services	0	5,911,200	5,911,200
Out-of-Home Support Services	34,880,700	28,867,800	28,867,800
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 130,791,000	\$ 132,000,400	\$ 132,000,400
Department of Economic Security			
DES Operating	\$ 24,740,400	\$ 16,798,500	\$ 16,798,500
Line Items			
Administration			
Attorney General Legal Services	\$ 169,600	\$ 123,100	\$ 123,100
Aging and Adult Services			
Community and Emergency Services	\$ 3,724,000	\$ 3,724,000	\$ 3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,620,700	6,620,700	6,620,700
Total - Aging and Community Services	\$ 11,994,200	\$ 11,994,200	\$ 11,994,200
Benefits and Medical Eligibility			
TANF Cash Benefits	\$ 40,499,400	\$ 44,999,400	\$ 44,999,400
Coordinated Hunger Program	500,000	500,000	500,000
Total - Benefits and Medical Eligibility	\$ 40,999,400	\$ 45,499,400	\$ 45,499,400
Developmental Disabilities			
State-Funded Long Term Care Services	\$ -	\$ -	\$ -
Employment and Rehabilitation Services			
JOBS	\$ 9,594,700	\$ 9,594,700	\$ 9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
Total - Employment and Rehabilitation Services	\$ 12,312,500	\$ 12,312,500	\$ 12,312,500
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 90,216,100	\$ 86,727,700	\$ 86,727,700
Administrative Adjustments	-	-	-
General Appropriation Act Footnote Additional Authority ^{2/}	-	1,427,300	-
TOTAL - STATEWIDE	\$ 221,007,100	\$ 220,155,400 ^{3/}	\$ 218,728,100
Ending Balance	\$ 383,500	\$ -	\$ (22,700)

^{1/} Per a General Appropriation Act footnote, the portion of the carry-forward balance that is used to pay administrative adjustments is deducted from the beginning balance.

^{2/} Per a General Appropriation Act footnote, all available TANF is appropriated to DES and DCS. Therefore, the difference of \$1,427,300 between the total TANF available in FY 2015 (\$220,155,400) and that fiscal year's TANF appropriation (\$218,728,100) is available for expenditure by the department. The department's FY 2015 General Fund appropriation is reduced by the corresponding amount of \$1,427,300. This increase and reduction is not displayed in the table at the front of the DES narrative.

^{3/} The original FY 2015 appropriation was \$218,728,100.