

Department of Economic Security

| | FY 2016 ACTUAL | FY 2017 ESTIMATE | FY 2018 APPROVED |
|--|----------------------|-------------------------------------|---|
| OPERATING BUDGET | | | |
| <i>Full Time Equivalent Positions</i> | 4,147.7 | 4,218.0 | 4,289.4 ^{1/} |
| Personal Services | 66,864,200 | 75,767,400 | 75,410,800 |
| Employee Related Expenditures | 30,113,600 | 34,537,200 | 35,414,800 |
| Professional and Outside Services | 21,656,400 | 17,240,500 | 17,240,500 |
| Travel - In State | 911,300 | 935,800 | 953,600 |
| Travel - Out of State | 43,200 | 83,200 | 83,200 |
| Other Operating Expenditures | 24,353,700 | 26,017,100 | 25,987,900 |
| Equipment | 3,465,500 | 4,679,600 | 4,995,700 |
| OPERATING SUBTOTAL | 147,407,900 | 159,260,800 | 160,086,500 ^{2/3/} |
| SPECIAL LINE ITEMS | | | |
| Administration | | | |
| ABLE Program | 0 | 240,000 | 0 |
| Attorney General Legal Services | 10,105,600 | 10,996,600 | 11,004,000 |
| Aging and Adult Services | | | |
| Adult Services | 7,924,100 | 8,624,100 | 9,431,900 |
| Community and Emergency Services | 3,724,000 | 3,724,000 | 3,724,000 |
| Coordinated Homeless Services | 2,522,600 | 2,522,600 | 2,522,600 |
| Domestic Violence Prevention | 12,371,200 | 14,003,700 | 14,003,700 ^{4/5/} |
| Benefits and Medical Eligibility | | | |
| TANF Cash Benefits | 28,299,100 | 27,736,400 | 27,736,400 |
| Coordinated Hunger Services | 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 | 4,030,600 | 8,740,200 | 8,740,200 |
| Developmental Disabilities ^{6/7/8/9/10/} | | | |
| DDD Operating Lump Sum | 54,176,700 | 49,477,100 | 23,819,600 ^{11/} |
| DDD Premium Tax Payment | 0 | 0 | 27,628,800 |
| Case Management - Medicaid | 56,468,300 | 55,347,700 | 59,316,300 ^{11/} |
| Home and Community Based Services - Medicaid | 811,270,700 | 1,019,737,300 | 1,163,987,200 |
| Institutional Services - Medicaid | 20,192,500 | 22,610,900 | 24,133,300 |
| Medical Services - Medicaid | 151,491,200 | 165,514,500 | 176,526,600 |
| Arizona Training Program at Coolidge - Medicaid | 15,209,500 | 15,735,100 | 15,821,400 ^{8/} |
| Medicare Clawback Payments | 2,928,700 | 3,370,600 | 4,043,000 |
| Case Management - State Only | 3,912,700 | 3,893,700 | 3,913,000 ^{11/} |
| Home and Community Based Services - State Only | 17,096,800 | 17,340,400 | 20,028,000 |
| State-Funded Long Term Care Services | 27,554,000 | 27,159,600 | 28,561,500 |
| Employment and Rehabilitation Services | | | |
| JOBS | 9,796,200 | 13,005,600 | 11,005,600 |
| Child Care Subsidy | 84,181,500 | 98,396,600 | 98,396,600 ^{12/} |
| Rehabilitation Services | 4,799,100 | 7,249,100 | 7,249,100 |
| Independent Living Rehabilitation Services | 1,289,400 | 1,289,400 | 1,289,400 |
| Workforce Investment Act Services | 32,591,200 | 51,654,600 | 53,654,600 ^{13/} |
| AGENCY TOTAL | 1,515,778,500 | 1,794,065,500 ^{14/} | 1,963,058,200 ^{15/-17/} |
| FUND SOURCES | | | |
| General Fund | 502,938,100 | 538,272,200 | 586,110,300 |
| Other Appropriated Funds | | | |
| Child Support Enforcement Administration Fund | 14,791,200 | 16,632,600 | 17,267,400 |
| Domestic Violence Services Fund | 2,500,000 | 4,000,000 | 4,000,000 ^{4/5/} |

| | FY 2016 ACTUAL | FY 2017 ESTIMATE | FY 2018 APPROVED |
|--|----------------------|----------------------|---------------------------|
| Federal CCDF Block Grant | 93,558,500 | 107,773,600 | 107,773,600 |
| Federal TANF Block Grant | 70,816,200 | 72,964,700 | 72,964,700 |
| Health Services Lottery Monies Fund | 0 | 700,000 | 2,800,000 |
| Long Term Care System Fund (Non-Federal Matched) | 27,901,000 | 26,559,600 | 26,561,500 |
| Public Assistance Collections Fund | 11,000 | 421,900 | 422,100 |
| Special Administration Fund | 2,939,700 | 5,528,700 | 2,951,800 |
| Spinal and Head Injuries Trust Fund | 1,870,000 | 2,323,700 | 2,326,400 |
| Statewide Cost Allocation Plan Fund | 1,000,000 | 1,000,000 | 1,000,000 |
| Workforce Investment Act Grant | 36,456,400 | 56,040,200 | 56,040,200 ^{13/} |
| SUBTOTAL - Other Appropriated Funds | 251,844,000 | 293,945,000 | 294,107,700 |
| SUBTOTAL - Appropriated Funds | 754,782,100 | 832,217,200 | 880,218,000 |
| Expenditure Authority Funds | | | |
| Child Support Enforcement Administration Fund (EA) | 28,821,200 | 42,299,500 | 42,299,500 |
| Long Term Care System Fund (Federal Match) | 732,175,200 | 919,548,800 | 1,040,540,700 |
| SUBTOTAL - Expenditure Authority Funds | 760,996,400 | 961,848,300 | 1,082,840,200 |
| SUBTOTAL - Appropriated/Expenditure Authority Funds | 1,515,778,500 | 1,794,065,500 | 1,963,058,200 |
| Other Non-Appropriated Funds | 306,744,000 | 323,045,700 | 311,964,900 |
| Federal Funds | 1,923,561,600 | 1,939,158,100 | 1,939,158,100 |
| TOTAL - ALL SOURCES | 3,746,084,100 | 4,056,269,300 | 4,214,181,200 |

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 Adult Services; and Employment and Rehabilitation Services.

- 1/ Includes 677.4 GF, 237.6 OF, and 1,500 EA FTE Positions funded from Special Line Items in FY 2018.
- 2/ 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)
- 3/ All state shares of retained earnings, fees and federal incentives in excess of \$17,267,400 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New FTE 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)
- 4/ All Domestic Violence Services Fund monies in excess of \$4,000,000 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 in excess of \$4,000,000 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 5/ 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, 2017. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 6/ 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 System, the department shall submit a report for review by the Joint Legislative Budget Committee. Before the department implements any change 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 this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 7/ Before implementation of any developmental disabilities or Long-Term Care statewide provider rate adjustments that are 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 that includes, 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)
- 8/ The department shall report 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 any new placement into a state-owned ICF-IID or the Arizona Training Program at the Coolidge campus in FY 2018 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, 2018. (General Appropriation Act footnote)
- 9/ The department shall submit an expenditure plan to the Joint Legislative Budget Committee for review of any new Division of Developmental Disabilities salary adjustments not previously reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

Summary

The Department of Economic Security's (DES) FY 2018 General Fund spending increased by \$47,838,100, or 8.9% above the FY 2017 appropriation. This amount includes:

- \$22,499,300 for ongoing DDD provider rate adjustments associated with minimum wage and paid sick leave requirements of Proposition 206.
- \$12,000,000 in one-time additional assistance to DDD providers for Proposition 206 costs and state-only room and board expenses.
- \$18,644,500 for DDD formula adjustments, including caseload growth, capitation rate adjustments, and changes in the federal match rate.
- \$2,000,000 for the Arizona Early Intervention Program.
- \$807,800 for Area Agencies on Aging in-home service provider rate adjustments associated with Proposition 206.
- \$(8,147,800) to remove a one-time supplemental appropriation from FY 2017.
- \$(340,000) to remove FY 2017 spending designated as one-time.
- \$374,300 for statewide adjustments.

Operating Budget

The budget includes \$160,086,500 and 1,874.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

- 10/ The department shall report to the Joint Legislative Budget Committee on or before August 1, 2017 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2017. The department shall submit an expenditure plan of its staffing levels for review by the Joint Legislative Budget Committee if the department plans on hiring staff for non-case manager, non-case aide, non-case unit supervisor and non-case section manager positions above the staffing level indicated in the August 1, 2017 report. (General Appropriation Act footnote)
- 11/ Before transferring any monies 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)
- 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 that 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 Workforce Investment Act Grant monies that are received by this state in excess of \$56,040,200 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 in excess of \$56,040,200 to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 14/ The Department of Economic Security may use up to \$25,000,000 from the Budget Stabilization Fund established by A.R.S. § 35-144 for the purpose of providing funding for reimbursement grants. Notwithstanding any other law, this appropriation must be fully reimbursed on or before September 1, 2017 and must be reimbursed in full as part of the closing process for FY 2017. The appropriation may not be used for additional programmatic expenditures. (General Appropriation Act footnote)
- 15/ 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)
- 16/ The department shall forward 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 a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals 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 monies, 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)
- 17/ General Appropriation Act fund are appropriated as an Operating Lump Sum with Special Line Items by Agency.

FY 2018

| | |
|--|--------------|
| General Fund | \$78,441,200 |
| Child Support Enforcement Administration Fund | 13,741,400 |
| Child Support Enforcement Administration Fund (EA) | 27,542,200 |
| Federal Temporary Assistance for Needy Families (TANF) Block Grant | 20,315,500 |
| Federal Child Care and Development Fund (CCDF) Block Grant | 12,077,100 |
| Health Services Lottery Monies Fund | 2,000,000 |
| Public Assistance Collections Fund | 331,300 |
| Special Administration Fund | 1,715,900 |
| Spinal and Head Injuries Trust Fund | 546,300 |
| Statewide Cost Allocation Plan Fund | 1,000,000 |
| Workforce Investment Act Grant | 2,375,600 |

These amounts fund the following adjustments:

Maintain One-Time Funding for APS

The budget continues to include \$2,000,000 for Adult Protective Services Caseworkers. The FY 2017 appropriation was funded out of the Special Administration Fund, while in FY 2018 it is funded with the Health Services Lottery Monies Fund. The enacted FY 2018 budget's 3-year spending plan designates this spending as one-time.

Statewide Adjustments

The budget includes an increase of \$825,700 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|---|---------|
| General Fund | 164,900 |
| Child Support Enforcement Administration Fund | 634,800 |
| Public Assistance Collections Fund | 200 |
| Special Administration Fund | 23,100 |
| Spinal and Head Injuries Trust Fund | 2,700 |

(Please see the Agency Detail and Allocations section.)

Administration

ABLE Program

The budget includes no funding in FY 2018 for the ABLE Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(240,000) from the General Fund in FY 2018 to remove one-time funding for the Achieving a Better Life Experience (ABLE) program.

Monies in this line item support the administration of ABLE 529A accounts, which allow individuals to deduct interest earned on monies deposited into accounts used for qualifying expenses of a physically or developmentally disabled beneficiary. The interest can be deducted on both federal and state income taxes. Individuals may contribute up to \$14,000 to an ABLE account annually.

Attorney General Legal Services

The budget includes \$11,004,000 and 156.9 FTE Positions in FY 2018 for Attorney General (AG) Legal Services. These amounts consist of:

| | |
|--|-----------|
| General Fund | 1,229,300 |
| Child Support Enforcement Administration Fund | 2,446,900 |
| Child Support Enforcement Administration Fund (EA) | 7,096,200 |
| Federal TANF Block Grant | 106,100 |
| Federal CCDF Block Grant | 17,700 |
| Public Assistance Collections Fund | 90,800 |
| Special Administration Fund | 5,000 |
| Spinal and Head Injuries Trust Fund | 2,000 |
| Workforce Investment Act Grant | 10,000 |

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,400 from the General Fund in FY 2018 for statewide adjustments.

Monies in this line item fund all AG legal services for the department.

Aging and Adult Services

Adult Services

The budget includes \$9,431,900 from the General Fund in FY 2018 for Adult Services. This amount funds the following adjustments:

Maintain One-Time Funding for Adult Services

The budget continues to include \$700,000 from the Health Services Lottery Monies Fund in FY 2018 for one-time funding of in-home services for the elderly provided by the Area Agencies on Aging. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time, but the budget continues to include this funding through FY 2018.

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$807,800 from the General Fund in FY 2018 for home and community-based services provider rate adjustments associated with Proposition 206 minimum wage and paid sick leave requirements. These services are funded by the Area Agencies on Aging. (Please see Other Issues for additional information.)

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

| Table 1 | |
|--------------------------------------|-----------------------|
| Independent Living Support | |
| Services | FY 2018 ^{1/} |
| Adult Protective Contracted Services | \$ 322,700 |
| Supplemental Payments | 85,300 |
| Home Care | 4,820,100 |
| Older Americans Act | 1,905,700 |
| Assessments and Case Management | 1,792,700 |
| Respite Care | 505,300 |
| Total | \$9,431,900 |

^{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 2018 for Community and Emergency Services. This amount is unchanged from FY 2017.

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 2016, this line item provided short-term crisis services to 1,477 households, energy assistance to 31,956 households.

Coordinated Homeless Services

The budget includes \$2,522,600 in FY 2018 for Coordinated Homeless Services programs. This amount consists of:

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

These amounts are unchanged from FY 2017.

In FY 2016, this line item provided emergency shelter services to 9,613 individuals, rapid re-housing services to 1,811 individuals, and homeless prevention services to 93 individuals.

Domestic Violence Prevention

The budget includes \$14,003,700 in FY 2018 for Domestic Violence Prevention. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 3,283,000 |
| Federal TANF Block Grant | 6,620,700 |
| Domestic Violence Services Fund | 4,000,000 |
| Health Services Lottery Monies Fund | 100,000 |

These amounts fund the following adjustments:

Maintain One-Time Funding

The budget includes no net funding change to continue one-time funding for domestic violence prevention. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | (100,000) |
| Health Services Lottery Monies Fund | 100,000 |

The budget also continues to fund \$1,500,000 from the Domestic Violence Services Fund. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

In FY 2016, this line item, along with non-appropriated funds, served approximately 7,121 women and children in emergency shelters, 307 women and children in transitional housing, and 13,979 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The budget includes \$27,736,400 from the Federal TANF Block Grant in FY 2018 for TANF Cash Benefits. This amount is unchanged from FY 2017.

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. As of May 2017, DES served a regular TANF Cash Benefits caseload of 17,572 individual recipients. The budget assumes a regular caseload level of 17,763 per month. The average cost per person is projected to be \$92. 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 budget assumes a Diversion caseload of 740 per month. The May 2017 Diversion caseload was 749. The average Diversion payment per person is projected to be \$765. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4.

Laws 2017 Chapter 330 expands the definition of a TANF "child-only" case to include foster children under the jurisdiction of a tribal court or tribal child welfare agency. Additionally, the bill expands eligibility to children in unlicensed non-relative caretakers. DES estimates this change will result in an annual \$375,000 increase of TANF expenditures. The budget does not include additional funding for this change.

As a result of Laws 2017, Chapter 323, the current 12-month cumulative lifetime limit on regular TANF Cash Benefits will increase to 24 months beginning in FY 2018. In order to qualify for the second year of eligibility a recipient must have received no penalties for violating the work and school attendance requirements. In addition, Chapter 323 lowers the number of penalties, from 3 to 2, that a recipient can accumulate before being removed from the program.

DES estimates that the bill will increase the caseload by an additional 2,300 individuals receiving benefits at a cost of \$2.8 million in annual TANF expenditures. The budget does not include additional funding for the expansion.

As a permanent law, Laws 2017, Chapter 317 eliminates the requirement that beneficiaries of TANF Cash Benefits and Supplemental Nutrition Assistance (SNAP) submit to fingerprint imaging.

The FY 2018 Health and Human Services Budget Reconciliation Bill (BRB) (Laws 2017, Chapter 311) continues a provision allowing DES to drug test TANF recipients if there is a reasonable suspicion that they are using illegal drugs.

Coordinated Hunger Services

The budget includes \$1,754,600 in FY 2018 for Coordinated Hunger Services programs. This amount consists of:

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

These amounts are unchanged from FY 2017.

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 2016, this funding assisted in the distribution of 4,840,050 congregate meals and 1,700,946 emergency food boxes.

Tribal Pass-Through Funding

The budget includes \$4,680,300 from the General Fund in FY 2018 for Tribal Pass-Through Funding. This amount is unchanged from FY 2017.

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 cash 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.

| <u>Sources</u> | <u>FY 2018</u> |
|--|---------------------|
| State Share of Retained Earnings | 2,751,500 |
| Federal Incentive Payments | 6,200,000 |
| Fees | 1,769,000 |
| Excess Appropriation Authority ^{1/} | 5,912,100 |
| Administration (Non-Appropriated) | <u>2,901,800</u> |
| Total | \$19,534,400 |
| Uses | |
| DCSE Administration (DES Operating) | \$13,106,600 |
| Attorney General Legal Services | 2,446,900 |
| County Participation | 1,079,100 |
| Administration (Non-Appropriated) | <u>2,901,800</u> |
| Total | \$19,534,400 |

^{1/} This line is the difference between appropriation authority and expected revenues.

County Participation

The budget includes \$8,740,200 in FY 2018 for County Participation. This amount consists of:

| | |
|----------------|-----------|
| CSEA Fund | 1,079,100 |
| CSEA Fund (EA) | 7,661,100 |

These amounts are unchanged from FY 2017.

The division currently contracts with Gila and La Paz Counties to have the counties operate their own child support programs. Beginning in July 2017, DES will take over operations of the Navajo County program from the county. 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 LTC program is funded from 2 sources: the General Fund and the Long Term Care System Fund. 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 April 2017, the Division of Developmental Disabilities served 38,957 clients, which includes 30,662 clients in the LTC program and 8,295 clients in the state-only portion. The primary disabilities are shown in *Table 3*.

| <u>Disability</u> | <u>Number</u> | <u>Percentage</u> |
|-------------------------|---------------|-------------------|
| Intellectual Disability | 15,750 | 40.4% |
| Autism | 9,459 | 24.3% |
| At Risk | 8,715 | 22.4% |
| Cerebral Palsy | 3,385 | 8.7% |
| Epilepsy | <u>1,648</u> | 4.2% |
| Total | 38,957 | |

Overall DES Formula Adjustments

The budget includes an increase of \$18,644,500 from the General Fund in FY 2018 for DES formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2019 and FY 2020 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 budget includes a decrease of \$(7,344,400) from the General Fund in FY 2018 for an increase in the Federal Medical Assistance Percentage (FMAP). The 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 2018, the Medicaid FMAP is projected to increase to 69.73% (0.57% increase).

FY 2018 Caseload Growth

The budget includes a net increase of \$16,522,900 from the General Fund in FY 2018 for DD caseload changes. Compared to June 2017, LTC caseloads are expected to grow by 4.5% to a level of 32,277 by June 2018 (this amount excludes state-only clients).

Table 4 summarizes the June caseload estimates for the program line items. The 4.5% caseload growth was applied to HCBS, Case Management, and Medical Services, 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 these services in any particular month.

| <u>Line Item</u> | <u>FY 16</u> | <u>FY 17 Est</u> | <u>FY 18 Est</u> |
|---|---------------|------------------|------------------|
| Home and Community Based Services | 26,211 | 27,586 | 28,841 |
| Institutional Services | 113 | 113 | 113 |
| AZ Training Program at Coolidge | 86 | 81 | 76 |
| Subtotal | <u>26,410</u> | <u>27,780</u> | <u>29,030</u> |
| Case Management and Medical Services only | <u>2,973</u> | <u>3,107</u> | <u>3,247</u> |
| Total | 29,383 | 30,887 | 32,277 |

FY 2018 Capitation Rate Adjustments

The budget includes an increase of \$9,730,300 from the General Fund in FY 2018 for a 2.5% net capitation rate increase beginning July 1, 2017. Capitation rates include adjustments for medical inflation, utilization of services, and other factors.

The capitation adjustment does not include a dedicated provider rate adjustment. Funding for provider rate adjustments associated with Proposition 206 is allocated separately from formula adjustments. *(Please see Other Issues for additional information.)*

Health Insurer Fee Moratorium

The budget includes a one-time General Fund decrease of \$(936,700) in FY 2018 associated with the moratorium on the ACA Health Insurer Fee in FY 2018. *(Please see the AHCCCS narrative for additional information.)*

Medicare Clawback

The budget includes an increase of \$672,400 from the General Fund in FY 2018 for adjustments associated with Medicare Clawback Payments.

DDD Operating Lump Sum

The budget includes \$23,819,600 and 294.3 FTE Positions in FY 2018 for the DDD Operating Lump Sum. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 7,208,900 |
| Long Term Care System Fund | 16,610,700 |

These amounts fund the following adjustments:

Move Premium Tax to Separate Line Item

The budget includes a decrease of \$(25,784,100) in FY 2018 to create a new line item for the DDD premium tax payment. This amount consists of:

| | |
|----------------------------|--------------|
| General Fund | (7,804,800) |
| Long Term Care System Fund | (17,979,300) |

Formula Adjustments

The budget includes a decrease of \$(280,200) from the General Fund and a corresponding increase of \$280,200 from the Long Term Care System Fund in FY 2018 for a decrease in the federal match rate.

Statewide Adjustments

The budget includes an increase of \$126,600 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|--------|
| General Fund | 37,000 |
| Long Term Care System Fund | 89,600 |

Background – Monies in this line item fund direct DD operating and administrative costs. This line item does not include departmentwide administration and indirect costs. The budget continues a footnote that requires JLBC review before DES transfers monies into or out of the DDD Operating Lump Sum or Case Management line items to provide oversight if the department proposes to increase or decrease administrative resources.

DDD Premium Tax Payment

The budget includes \$27,628,800 in FY 2018 for the DDD Premium Tax Payment. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 8,363,200 |
| Long Term Care System Fund | 19,265,600 |

These amounts fund the following adjustments:

New Line Item

The budget includes an increase of \$25,784,100 in FY 2018 to create a new line item for the DDD premium tax payment. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 7,804,800 |
| Long Term Care System Fund | 17,979,300 |

Premium Tax Growth

The budget includes an increase of \$1,844,700 in FY 2018 for growth in the premium tax. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 558,400 |
| Long Term Care System Fund | 1,286,300 |

Background – DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS. Funding for this line item was previously included in the DDD Operating Lump Sum.

Case Management - Medicaid

The budget includes \$59,316,300 and 1,148.3 FTE Positions in FY 2018 for Medicaid Case Management. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 17,920,800 |
| Long Term Care System Fund | 41,395,500 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$3,672,000 and 71.4 FTE Positions in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. These amounts consist of:

| | |
|----------------------------|-----------|
| General Fund | 795,900 |
| Long Term Care System Fund | 2,876,100 |

Statewide Adjustments

The budget includes an increase of \$296,600 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|---------|
| General Fund | 86,700 |
| Long Term Care System Fund | 209,900 |

Background – This line item provides case management services for DDD clients enrolled in ALTCS.

Home and Community Based Services - Medicaid

The budget includes \$1,163,987,200 and 94.5 FTE Positions in FY 2018 for Home and Community Based Services - Medicaid. These amounts consist of:

| | |
|----------------------------|-------------|
| General Fund | 351,778,200 |
| Long Term Care System Fund | 812,209,000 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$65,965,300 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 14,284,600 |
| Long Term Care System Fund | 51,680,700 |

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$70,646,500 in FY 2018 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage and paid sick leave requirements. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 21,384,700 |
| Long Term Care System Fund | 49,261,800 |

(Please see Other Issues for additional information.)

One-Time Proposition 206 Assistance

The budget includes an increase of \$33,036,000 in FY 2018 for one-time assistance to address developmental disability provider costs of Proposition 206. This amount consists of:

| | |
|----------------------------|------------|
| General Fund | 10,000,000 |
| Long Term Care System Fund | 23,036,000 |

Remove One-Time Supplemental Funding

The budget includes a decrease of \$(25,460,000) in FY 2018 to remove one-time supplemental funding from FY 2017. This amount consists of:

| | |
|----------------------------|--------------|
| General Fund | (7,720,800) |
| Long Term Care System Fund | (17,739,200) |

(Please see Other Issues for additional information.)

Statewide Adjustments

The budget includes an increase of \$62,100 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|--------|
| General Fund | 18,200 |
| Long Term Care System Fund | 43,900 |

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).

Of the \$1,163,987,200 in this line item, \$1,151,555,400 funds HCBS services to clients enrolled in the LTC program; the other \$12,431,800 funds program staff.

Institutional Services - Medicaid

The budget includes \$24,133,300 and 74 FTE Positions in FY 2018 for Medicaid Institutional Services. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 7,292,200 |
| Long Term Care System Fund | 16,841,100 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$1,500,100 in FY 2018 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 324,800 |
| Long Term Care System Fund | 1,175,300 |

Statewide Adjustments

The budget includes an increase of \$22,300 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|--------|
| General Fund | 6,500 |
| Long Term Care System Fund | 15,800 |

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 ATP-C. DES reports that 143 individuals received Medicaid institutional services in FY 2016.

Of the \$24,133,300 in this line item, \$18,567,800 funds Institutional Services to clients enrolled in the LTC program; the other \$5,565,500 funds program staff.

Medical Services - Medicaid

The budget includes \$176,526,600 and 35.4 FTE Positions in FY 2018 for Medical Services. These amounts consist of:

| | |
|----------------------------|-------------|
| General Fund | 53,341,000 |
| Long Term Care System Fund | 123,185,600 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes an increase of \$10,981,000 in FY 2018 for formula adjustments. The formula adjustments

include the federal match rate change, a 4.5% increase for caseload growth and a 2.5% capitation rate increase. This amount consists of:

| | |
|----------------------------|-----------|
| General Fund | 2,380,000 |
| Long Term Care System Fund | 8,601,000 |

Statewide Adjustments

The budget includes an increase of \$31,100 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|--------|
| General Fund | 9,100 |
| Long Term Care System Fund | 22,000 |

Background – Of the \$176,526,600 in this line item, \$172,048,600 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 \$15,821,400 and 383.7 FTE Positions in FY 2018 for the Arizona Training Program at Coolidge (ATP-C). These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 4,788,200 |
| Long Term Care System Fund | 11,033,200 |

These amounts fund the following adjustments:

Formula Adjustments

The budget includes a decrease of \$(91,400) from the General Fund and a corresponding increase of \$91,400 from the Long Term Care System Fund in FY 2018 for formula adjustments. The formula adjustment consists of the federal match rate change.

Statewide Adjustments

The budget includes an increase of \$86,300 in FY 2018 for statewide adjustments. This amount consists of:

| | |
|----------------------------|--------|
| General Fund | 25,200 |
| Long Term Care System Fund | 61,100 |

Background – Monies in this line item fund an entire range of services for DD clients residing at the ATP-C campus, either in ICF-IDs or state-operated group homes (SOGHs). As of June 2016 the caseload at ATP-C was 87. At that caseload, the cost per DD client at ATP-C will be roughly \$183,000.

DES is planning to close ATP-C within the next 5 years. In response, the Legislature sought additional information on their plans. As permanent law, the FY 2017 Human Services BRB (Laws 2016, Chapter 123) requires DES to

update their closure plans to the JLBC for review by November 1 of each year.

DES’ plan for closure is partly in response to federal rules changes that no longer allow group homes to be co-located with an intermediate care facility. As a result, AHCCCS and DES made a preliminary assessment that the group homes at ATP-C would not be able to attain compliance with the rules, which could require the relocation of 23 clients to alternative settings. The federal government subsequently delayed the effective date of the rules changes to 2022. The rules changes do not require the closure of the ICF-ID at ATP-C. DES is seeking to close that facility as well.

Currently, DES plans to close the SOGHs at ATP-C by June 30, 2019, and the ICF-ID would close in June 2021.

Medicare Clawback Payments

The budget includes \$4,043,000 from the General Fund in FY 2018 for Medicare Clawback Payments. This amount funds the following adjustments:

Formula Adjustments

The budget includes an increase of \$672,400 from the General Fund in FY 2018 for formula adjustments associated with Medicare Clawback Payments.

Background – The federal government pays for the prescription drug costs of DDD clients enrolled in Medicare. To partly offset those costs, the federal government requires each state to make “Clawback” payments to Medicare based on a certain percentage (75% in 2017) of the estimated drug costs.

Case Management - State-Only

The budget includes \$3,913,000 and 79.3 FTE Positions from the General Fund in FY 2018 for state-only case management. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,300 from the General Fund in FY 2018 for statewide adjustments.

Background – This line item funds case management services to clients in the state-only DD program. As of April 2017, this line provided services to 8,295 state-only clients, including 4,627 clients enrolled in the Medicaid Targeted Case Management (TCM) program. TCM provides case management services to DDD clients that are financially eligible for AHCCCS acute care services but do not meet the functional disability requirements to

qualify for ALTCS. DES receives additional capitation revenue from AHCCCS to operate the TCM program. These capitation payments generated additional federal Medicaid revenue of \$5.4 million for DDD state-only clients in FY 2016, resulting in Total Fund expenditures of \$9.3 million for state-only case management services in FY 2016. The appropriation in this line excludes the expenditure authority for the \$5.4 million in Medicaid revenue.

Home and Community Based Services - State-Only

The budget includes \$20,028,000 and 53.6 FTE Positions in FY 2018 for state-only Home and Community Based Services. These amounts consist of:

| | |
|-----------------------------|------------|
| General Fund | 19,908,000 |
| Special Administration Fund | 120,000 |

These amounts fund the following adjustments:

Proposition 206 Provider Rate Adjustments

The budget includes an increase of \$1,114,600 from the General Fund in FY 2018 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage and paid sick leave requirements. *(Please see Other Issues for additional information.)*

Remove One-Time Supplemental Funding

The budget includes a decrease of \$(427,000) from the General Fund in FY 2018 to remove one-time supplemental funding from FY 2017.

Early Intervention Program Referrals Increase

The budget includes an increase of \$2,000,000 from the General Fund in FY 2018 for an increase in referrals to the Arizona Early Intervention Program (AzEIP). The department is projecting a total of 17,868 referrals to the program in FY 2018, an increase of 6.0% compared to FY 2017. Of the 17,868 referrals, DES projects that 5,481, or 30.7%, will be determined eligible for services.

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 April 2017, there were 8,295 clients in the state-only program.

The budget continues to include \$120,000 from the Special Administration Fund to fund HCBS services for persons whose service costs go above the Cost Effective Study (CES) rate as a result of provider rate increases.

Of the \$20,028,000 in this line item, \$12,010,900 funds Home and Community Based Services to clients enrolled in the DD program, \$1,698,100 funds program staff, and \$6,319,000 funds the Arizona Early Intervention Program.

State-Funded Long Term Care Services

The budget includes \$28,561,500 and 2 FTE Positions in FY 2018 for State-Funded Long Term Care Services. These amounts consist of:

| | |
|----------------------------|------------|
| General Fund | 2,000,000 |
| Long Term Care System Fund | 26,561,500 |

These amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(600,000) from the Special Administration Fund in FY 2018 to remove one-time funding for room and board services for DD clients. The enacted FY 2017 budget's 3-year spending plan designated this spending as one-time.

One-Time Room and Board Funding

The budget includes an increase of \$2,000,000 from the General Fund in FY 2018 for one-time funding for state-only room and board expenses funded by the Division of Developmental Disabilities.

Statewide Adjustments

The budget includes an increase of \$1,900 from the Long Term Care System Fund (Non-Federal Matched) in FY 2018 for statewide adjustments.

Background – This line item primarily funds room and board expenses (e.g., rent and food) for DDD clients in residential settings. Room and board costs for home and community-based settings are ineligible for Federal Funds reimbursement from AHCCCS.

The FY 2018 Health BRB allows DES to use unexpended and unencumbered capitation payments for state-only programs administered by DDD through June 30, 2018. Before expending such monies, DES must submit an expenditure plan to JLBC for review. *(Please see Other Issues for further discussion of SFLTC services.)*

Of the \$28,561,500 in this line item, \$28,497,800 funds State-Funded Long Term Care (SFLTC) Services to clients enrolled in the DD program; the other \$63,700 funds program staff.

Employment and Rehabilitation Services

JOBS

The budget includes \$11,005,600 and 93 FTE Positions in FY 2018 for JOBS. These amounts consist of:

| | |
|-----------------------------|-----------|
| General Fund | 300,000 |
| Federal TANF Block Grant | 9,594,700 |
| Special Administration Fund | 1,110,900 |

These amounts fund the following adjustments:

Decreased Participation

The budget includes a decrease of \$(2,000,000) from the Workforce Investment Act Grant in FY 2018 to account for a decline in participants. *(Please see the Workforce Investment Act Services section for more information.)*

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.

Table 5

Estimated JOBS Expenditures

| <u>Expenditures</u> | <u>Amount</u> |
|-----------------------------|---------------------|
| Case Management | \$ 7,971,400 |
| Job Training | 1,439,100 |
| FLSA Supplement | 126,900 |
| Work-Related Transportation | 1,214,300 |
| Job Search Stipends | <u>253,900</u> |
| Total | \$11,005,600 |

Child Care Subsidy

The budget includes \$98,396,600 in FY 2018 for child care subsidies. This amount consists of:

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

These amounts are unchanged from FY 2017.

Background – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, 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. DES also processes DCS child care payments but those dollars are in DCS.

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 after Laws 2017, Chapter 323 takes effect.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be \$336 per month in FY 2017 and the average subsidy for the DCS population is projected to be \$405 per month. 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.

Table 6

June Child Care Caseloads

| <u>Category</u> | <u>FY 16</u> | <u>FY 17 est</u> | <u>FY 18 est 1/</u> |
|-------------------------|---------------|------------------|---------------------|
| TANF | 2,250 | 1,733 | 1,732 |
| Low-Income Working | 11,890 | 12,946 | 10,550 |
| Transitional Child Care | <u>4,736</u> | <u>5,797</u> | <u>5,745</u> |
| Total Served | 18,876 | 20,476 | 18,027 |

1/ FY 2018 numbers are DES estimates.

Caseloads – The estimated average number of children receiving child care services in FY 2018 is projected to be 18,027 (see *Table 6*) excluding DCS-related child care. As of April 2017, approximately 6,203 children are on the waiting list. It is unknown how many of those children remain eligible.

As session law, the FY 2018 Human Services BRB continues to permit 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.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2018 for Rehabilitation Services. This amount consists of:

| | |
|-------------------------------------|-----------|
| General Fund | 6,594,400 |
| Spinal and Head Injuries Trust Fund | 654,700 |

These amounts are unchanged from FY 2017.

DES categorizes Vocational Rehabilitation (VR) clients into 3 priority categories. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 and 2 clients.

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 11,799 clients at an average Total Funds cost of \$15,647 per client. Administrative expenditures and local match draw down additional federal match.

Third-party partnerships with government and non-governmental agencies provide portions of the state match. These partnerships include the Transition School to Work program, Behavioral Health Services operated out of AHCCCS, and DES' Blind Enterprise Program.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2018 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 2017.

The Independent Living Rehabilitation Services program is expected to serve up to 665 clients in FY 2018 at an average Total Funds cost of \$3,250. In addition to these clients, the division is also expected to serve 100 clients at an average annual cost of \$4,870 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 \$53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2018 for the Workforce Investment Act Services line item. This amount funds the following adjustments:

Additional Service Funding

The budget includes an increase of \$2,000,000 from the WIA Grant in FY 2018 for additional services. The increased funding will be distributed as grants to local governments to provide job training to additional eligible individuals.

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.

There is no income eligibility for the program. For eligible adults, priority is given to veterans and their spouses, individuals who are below the poverty line, individuals receiving public assistance, and those who were recently laid off.

Eligible youths must be between the ages of 14 and 24 and have at least one barrier to employment such as homelessness, pregnancy, incarceration, or a disability.

The allocation of the WIA Grant for workforce related programs in FY 2018 is shown in *Table 7*.

| Category | Amount |
|-------------------|-------------------------|
| WIA Line Item | \$53,654,600 |
| Administration | 2,375,600 ^{1/} |
| AG Legal Services | 10,000 |
| Total | \$56,040,200 |

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

Other Issues

This section includes information on the following topics:

- Long Term Budget Impacts
- FY 2017 Supplemental
- Proposition 206
- State Funded Long Term Care Services
- HCBS Provider Rates

- Appropriation Transfers
- Federal TANF Block Grant

Long Term Budget Impacts

As part of the budget's 3-year spending plan, DES' General Fund Developmental Disabilities costs are projected to increase by \$18.5 million in FY 2019 above FY 2018 and \$35.3 million in FY 2020 above FY 2019 based on:

- 4.5% caseload growth in FY 2019 and FY 2020, resulting in caseloads of 33,729 and 35,247 in June 2019 and June 2020, respectively.
- FMAPs of 70.04% and 70.20% in FY 2019 and FY 2020, respectively.
- 2.5% capitation growth for utilization and medical inflation in FY 2019 and FY 2020.
- An increase of \$3.9 million in FY 2019 and \$1.9 million in FY 2020 above FY 2019 for additional Proposition 206 minimum wage costs.
- A decrease of \$(12.0) million in FY 2019 to remove one-time funding for Proposition 206 and DDD Room and Board expenses.

FY 2017 Supplemental

The budget includes an FY 2017 supplemental increase of \$8,147,800 from the General Fund and \$17,739,200 from the Long Term Care System Fund for home and community-based service provider rate adjustments that were implemented by DES on January 1, 2017. The rate increases were in response to potential network adequacy concerns resulting from the impact of Proposition 206 minimum wage requirements on developmental disabilities providers and folded into the FY 2018 increase. (Please see Proposition 206 section below for additional information.)

Proposition 206

In November 2016, Arizona voters approved Proposition 206, or the Fair Wages and Healthy Families Act. The initiative raised Arizona's minimum wage from \$8.05 to \$10.00 on January 1, 2017, and will provide increases of between \$0.50-\$1.00 each year until the minimum wage reaches \$12.00 on January 1, 2020. Further annual increases will be tied to inflation. The initiative also requires most employers to provide paid sick leave to their employees beginning July 1, 2017.

Although state employees are exempt, Proposition 206 still applies to state contractors. As a result, costs for contracted DD providers could increase from the initiative due to required wage increases for direct care workers.

To address these concerns, in January 2017, DES implemented provider rate increases of up to 8.2% for certain home and community-based services providers. Among the most used services, group homes, respite care, attendant care, habilitation received the full 8.2% increase. Services received less than an 8.2% increase if the rates were already near 100% of the benchmark rates prior to Proposition 206 or if the services were provided by individuals (such as nurses or therapists) with wages significantly above the minimum wage. AHCCCS implemented similar adjustments of up to 7% in the fee-for-service rates for home and community based services for the ALTCS Elderly and Physically Disabled (EPD) population.

As shown in Table 8, the budget includes \$107,604,900 in Total Funds in FY 2018 for the DES budget to assist providers affected by Proposition 206. This amount consists of \$35,307,100 from the General Fund and \$72,297,800 from the Long Term Care System Fund. Except for \$807,800 from the General Fund for the Area Agencies on Aging funded within the Adult Services line item, all of the Proposition 206 funding is allocated to the Division of Developmental Disabilities. The budget designates \$35,036,000 in Total Funds Proposition 206 funding for DDD as one-time, including \$2,000,000 for DDD room and board expenses.

A footnote in the FY 2018 General Appropriation Act requires AHCCCS to complete a study on or before February 1, 2018 to determine what effect Proposition 206 has had on the adequacy of the provider network for the DD program as well as the EPD program, and make any recommendations as appropriate for further action by the Legislature.

| | General Fund | Long Term Care System Fund | Total Funds |
|--------------------------|----------------------|----------------------------------|-----------------------|
| Ongoing | | | |
| HCBS - Medicaid | \$ 21,384,700 | \$ 49,261,800 | \$ 70,646,500 |
| HCBS - State-Only | 1,114,600 | | 1,114,600 |
| Adult Services | 807,800 | | 807,800 |
| Subtotal Ongoing | \$ 23,307,100 | \$ 49,261,800 | \$ 72,568,900 |
| One-Time | | | |
| HCBS - Medicaid | \$ 10,000,000 | \$ 23,036,000 | \$ 33,036,000 |
| Room and Board | 2,000,000 | | 2,000,000 |
| Subtotal One-Time | \$ 12,000,000 | \$ 23,036,000 | \$ 35,036,000 |
| GRAND TOTAL | \$ 35,307,100 | \$ 72,297,800 | \$ 107,604,900 |

State-Funded Long Term Care Services

The state deposits SFLTC revenues in the LTCSF. SFLTC revenues, 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 was estimated to reduce client billing revenue by \$(2.7) million.

DES has mitigated the SFLTC shortfall in past years with transfers from LTCSF "equity." Equity represents DDD capitation revenues received in excess of DDD program expenditures. The FY 2015 Health BRB (Laws 2014, Chapter 11), however, required DES to transfer all equity to the General Fund at the end of the following fiscal year. A November 2016 Auditor General Financial Report showed that DES withheld \$2 million from the equity transfer to the General Fund to address the FY 2016 SFLTC shortfall.

To ensure that the General Fund receives all DDD equity revenues in future years, the FY 2018 Health BRB (Laws 2017, Chapter 309) includes, as permanent law, a provision that prohibits DES from adjusting the equity transfer to pay for any state-only program claims beginning in FY 2019. The bill permits DES to continue to use equity monies for DDD state-only programs through June 30, 2018, but before making such expenditures, DES must submit a plan of any proposed use of equity monies to JLBC for review.

At its June 2017 meeting, the JLBC favorably reviewed DES' proposal to spend \$14.5 million of DDD equity monies for FY 2017 shortfalls in DDD state-only programs. This amount included \$4.3 million to address the SFLTC shortfall in FY 2017, and an additional \$2.0 million for the SFLTC shortfall in FY 2016, for a total of \$6.3 million. DES' proposal did not include any use of equity monies to address the FY 2018 shortfall.

HCBS Provider Rates

DES has different contracted rates with various types of HCBS providers. The divisions completed a rate rebase study in 2014 that compared adopted provider rates with market "benchmark" rates. *Table 9* shows how the adopted rates compare to the benchmark rates for the top 10 most used DD services. Current rates range from 61% to 100% of the benchmarks. These adopted rates are

the result of a 1% increase for all HCBS providers effective July 1, 2016, as well as increases of up to 8.2% for select providers implemented on January 1, 2017 to address costs associated with Proposition 206.

In a September 2016 report, DES' provider rate consultant concluded that DDD provider rates are adequate and appropriate based on measures of access to services, but are "somewhat inadequate" as measured by how the adopted rates compare to the benchmark rates. The consultant therefore "strongly recommend(s) that any monies that may be available for rate increases be prioritized for those services with adopted to benchmark ratios of less than 80%."

Table 9

FY 2017 Adopted Rate to Benchmark Rate Ratio 10 Biggest DDD Services

| <u>Service</u> | <u>Ratio</u> | <u>FY 2016 Expenditures (\$ in M)</u> |
|----------------------------|--------------|---------------------------------------|
| Group Home | 94.9% | \$225.4 |
| Respite | 79.3% | 83.0 |
| Habilitation | 79.9% | 83.0 |
| Attendant Care | 82.5% | 72.4 |
| Day Programs | 100.0% | 70.0 |
| Adult Developmental Home | 94.1% | 41.7 |
| Nursing | 80.8%-91.4% | 41.1 |
| Intense Day Programs | 96.9% | 29.2 |
| Group Home Room & Board | 61.9%-75.9% | 21.7 |
| Group Supported Employment | 81.9%-100.0% | 21.6 |
| Total | | \$689.1 |

HCBS provider reimbursement is one component of the overall DDD capitation rate. The capitation payment also funds DDD administrative costs, case management, premium taxes, institutional services, and acute care services. Each year the capitation rate is updated to reflect actual use of services from prior years, projected trends in utilization in the next year, provider rate changes, and program changes (e.g. changes to the available benefits). As a result, the percentage change in the capitation rate does not typically reflect an equivalent percentage change in HCBS provider rates.

Appropriation Transfers

DES' appropriation delineates specific amounts for programs by line items. Agencies are generally permitted to shift funds among line items without further legislative review; however, the budget continues a footnote requiring DES to submit a report for review to the JLBC before transferring any money in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD Operating Lump Sum line items. The purpose of

the footnote is to provide oversight if the department proposes to increase or decrease administrative resources. *(Please see the FY 2018 Baseline for additional information.)*

Federal TANF Block Grant

The budget appropriates \$222.4 million of the state's Federal TANF Block Grant allocation in FY 2017. *Table 10* shows expected yearly revenues, expenditures, and fund balances across 2 agencies. The table does not address the impact of either Chapter 323, which changes the TANF Cash Benefit lifetime limit to 24 months from 12 months, or Chapter 330, which extends benefits to child-only cases in unlicensed foster homes.

Table 10

TANF Block Grant Spending

| Revenues | Actual FY 2016 | Estimate FY 2017 | Estimate FY 2018 |
|--|-----------------------|-----------------------|-----------------------------|
| Beginning Balance | \$ 3,709,300 | \$ 3,366,100 | - |
| TANF Base Revenues | 200,141,300 | 200,141,300 | 200,141,300 |
| TANF Contingency Fund Revenues | 19,655,600 | 19,655,600 | 19,655,600 |
| Total TANF Available | \$ 223,506,200 | \$ 223,163,000 | \$ 219,796,900 |
| Expenditures | | | |
| Department of Child Safety | | | |
| DCS Operating | \$ 46,928,100 | \$ 16,928,000 | \$ 16,928,000 |
| Line Items | | | |
| Caseworkers | - | 30,000,000 | 30,000,000 |
| Attorney General Legal Services | 99,400 | 99,400 | 99,400 |
| Inspections Bureau | 549,500 | 549,700 | 549,700 |
| Overtime | 3,859,500 | 3,859,500 | 3,859,500 |
| Adoption Services | 20,645,700 | 20,445,700 | 20,445,700 |
| 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 | 1,943,000 | 1,943,000 |
| In-Home Mitigation/In-Home Preventive Support Services | 5,911,200 | 5,911,200 | 5,911,200 |
| Out-of-Home Support Services | 46,191,400 | 46,340,100 | 46,340,100 |
| TOTAL - DEPARTMENT OF CHILD SAFETY | \$ 149,323,900 | \$ 149,472,700 | \$ 149,472,700 |
| Department of Economic Security | | | |
| DES Operating | \$ 20,315,500 | \$ 20,315,500 | \$ 20,315,500 |
| Line Items | | | |
| Administration | | | |
| Attorney General Legal Services | \$ 106,100 | \$ 106,100 | \$ 106,100 |
| 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 | 6,588,200 | 6,620,700 | 6,620,700 |
| Total - Aging and Adult Services | \$ 11,961,700 | \$ 11,994,200 | \$ 11,994,200 |
| Benefits and Medical Eligibility | | | |
| TANF Cash Benefits | \$ 28,299,100 | \$ 27,736,400 | \$ 27,736,400 ^{1/} |
| Coordinated Hunger Program | 500,000 | 500,000 | 500,000 |
| Total - Benefits and Medical Eligibility | \$ 28,799,100 | \$ 28,236,400 | \$ 28,236,400 |
| Employment and Rehabilitation Services | | | |
| JOBS | \$ 6,916,000 | \$ 9,594,700 | \$ 9,594,700 |
| Child Care Subsidy | 2,717,800 | 2,717,800 | 2,717,800 |
| Total - Employment and Rehabilitation Services | \$ 9,633,800 | \$ 12,312,500 | \$ 12,312,500 |
| TOTAL - DEPARTMENT OF ECONOMIC SECURITY ^{2/} | \$ 70,816,200 | \$ 72,964,700 | \$ 72,964,700 |
| FY 2017 Administrative Adjustments ^{3/} | | \$ 6,006,500 | |
| TOTAL - STATEWIDE | \$ 220,140,100 | \$ 228,443,900 | \$ 222,437,400 |
| Ending Balance ^{4/} | \$ 3,366,100 | \$ (5,280,900) | \$ (2,640,500) |

^{1/} Does not include funding for changes to the TANF lifetime limit from 12 months to 24 months as required by Laws 2017, Chapter 323.

^{2/} Totals do not reflect legislative changes unless enacted in the FY 2018 General Appropriation Act.

^{3/} As estimated by the agency.

^{4/} Actual Ending Balance will not be negative.