Department of Economic Security

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
OPERATING BUDGET			
Full Time Equivalent Positions	4,218.0	4,289.4	4,323.8
Personal Services	68,445,700	75,777,300	74,522,700
Employee Related Expenditures	30,557,300	33,669,600	32,154,200
Professional and Outside Services	15,202,600	18,764,700	18,761,300
Travel - In State	494,400	538,600	535,600
Travel - Out of State	77,200	1,600	1,600
Other Operating Expenditures	24,797,000	28,140,700	27,907,500
Equipment	3,653,900	3,194,000	3,193,300
OPERATING SUBTOTAL	**143,228,100**	**160,086,500**	**157,076,200**
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	9,632,100	11,004,000	10,996,600
Adult Services			
Adult Services	8,624,100	9,431,900	8,731,900
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	14,003,700	14,003,700	14,003,700
Benefits and Medical Eligibility			
TANF Cash Benefits	27,736,400	27,736,400	24,763,800
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	4,177,300	8,740,200	8,740,200
Developmental Disabilities			
DDD Administration	55,933,100	79,835,500	83,262,700
DDD Premium Tax Payment	0	28,972,900	30,461,200
Case Management - Medicaid	61,205,300	67,078,100	69,767,300
Home and Community Based Services - Medicaid	855,589,000	1,100,064,500	1,160,480,300
Institutional Services - Medicaid	22,557,300	42,693,800	44,485,700
Physical and Behavioral Health Services	167,472,400	172,588,400	253,600,600
Arizona Training Program at Coolidge - Medicaid	15,288,600	0	0
Medicare Clawback Payments	3,370,600	4,043,000	4,185,100
Targeted Case Management	0	0	9,741,500
Case Management - State Only	3,893,700	3,913,000	3,893,700
Home and Community Based Services - State Only	17,340,400	20,028,000	13,709,000
Arizona Early Intervention Program	0	0	6,319,000
State-Funded Long Term Care Services	27,159,600	28,561,500	32,959,600
Employment and Rehabilitation Services			
JOBS	9,816,700	11,005,600	11,005,600
Child Care Subsidy	79,166,300	98,396,600	98,396,600
Rehabilitation Services	7,249,100	7,249,100	7,249,100
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
Workforce Investment Act Services	42,854,000	53,654,600	53,654,600
AGENCY TOTAL	**1,590,268,700**	**1,963,058,200**	**2,121,454,900**

FUND SOURCES			
General Fund	538,032,200	586,110,300	637,935,500
Other Appropriated Funds			
Child Support Enforcement Administration Fund	8,019,000	17,267,400	16,632,600
Domestic Violence Services Fund	4,000,000	4,000,000	4,000,000

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 BASELINE
Federal CCDF Block Grant	87,910,200	107,773,600	107,773,600
Federal TANF Block Grant	70,316,700	72,964,700	69,992,100
Health Services Lottery Monies Fund	700,000	2,800,000	100,000
Long Term Care System Fund (Non-Federal Matched)	26,559,600	26,561,500	26,559,600
Public Assistance Collections Fund	6,600	422,100	421,900
Special Administration Fund	5,528,700	2,951,800	2,928,700
Spinal and Head Injuries Trust Fund	2,308,500	2,326,400	2,323,700
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	44,878,300	56,040,200	56,040,200
SUBTOTAL - Other Appropriated Funds	250,227,600	294,107,700	287,772,400
SUBTOTAL - Appropriated Funds	**788,259,800**	**880,218,000**	**925,707,900**
Expenditure Authority Funds			
Child Support Enforcement Administration Fund (EA)	32,837,000	42,299,500	42,299,500
Long Term Care System Fund (Federal Match)	769,171,900	1,040,540,700	1,153,447,500
SUBTOTAL - Expenditure Authority Funds	802,008,900	1,082,840,200	1,195,747,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	**1,590,268,700**	**1,963,058,200**	**2,121,454,900**
Other Non-Appropriated Funds	283,379,900	280,916,800	297,867,200
Federal Funds	1,862,208,000	1,849,986,700	1,849,986,700
TOTAL - ALL SOURCES	3,735,856,600	4,093,961,700	4,269,308,800

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 2019 General Fund spending increases by $51,825,200, or 8.8% above the FY 2018 appropriation. This amount includes:

- $34,066,200 for DDD formula adjustments.
- $17,095,500 to transfer funding for DDD behavioral health services from AHCCCS to DES to reflect AHCCCS' plans to integrate physical and behavioral health services for DD members.
- $3,883,400 for Proposition 206 rate increases to annualize the January 2018 minimum wage increase and to provide 6-month funding for the January 2019 adjustment.
- $6,400,000 for state-only room and board costs for ALTCS DDD clients in residential settings.
- $2,939,000 for capitation costs associated with the Medicaid Targeted Case Management program.
- $(12,000,000) to remove one-time funding for DDD Proposition 206 costs and room and board expenses.
- $(558,900) to remove funding for a one-time increase in health insurance costs.

Operating Budget

The Baseline includes $157,076,200 and 1,874.4 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	FY 2019
General Fund	$78,091,700
Child Support Enforcement Administration Fund	13,106,600
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
Public Assistance Collections Fund	331,100
Special Administration Fund	1,692,800
Spinal and Head Injuries Trust Fund	543,600
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,375,600

FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of $(2,000,000) from the Health Services Lottery Monies Fund in FY 2019 to remove one-time funding for Adult Protective Services caseworkers. The enacted FY 2018 budget's 3-year spending plan designated this spending as one-time.

In FY 2018, $2,950,000 in one-time Health Services Lottery Fund monies were appropriated for 3 separate programs in 2 different accounts, including $2,000,000 for Adult Protective Services caseworkers. The fund is only expected to have a one-time balance of $1,244,200 in FY 2019, assuming there is no continuation of the one-time funding.

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(1,010,300) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(349,500)
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 Technical Budget Assumptions section.)

Administration

Attorney General Legal Services

The Baseline includes $10,996,600 and 156.9 FTE Positions in FY 2019 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,221,900
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

FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(7,400) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

Aging and Adult Services

Adult Services

The Baseline includes $8,731,900 from the General Fund in FY 2019 for Adult Services. FY 2019 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of $(700,000) from the Health Services Lottery Monies Fund in FY 2019 to remove one-time funding for in-home services for the elderly provided by the Area Agencies on Aging (AAA). The enacted FY 2018 budget's 3-year spending plan designated this spending as one-time.

In FY 2018, $2,950,000 in one-time Health Services Lottery Fund monies were appropriated for 3 separate programs in 2 different accounts, including $700,000 for Adult Services. The fund is only expected to have a one-time balance of $1,244,200 in FY 2019, assuming there is no continuation of the one-time funding.

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 2019** 1/
Adult Protective Contracted Services	$ 322,700
Supplemental Payments	94,800
Home Care	4,181,500
Older Americans Act	1,905,700
Assessments and Case Management	1,721,800
Respite Care	505,300
Total	**$8,731,900**

1/ Numbers do not add due to rounding.

Community and Emergency Services

The Baseline includes $3,724,000 from the Federal TANF Block Grant in FY 2019 for Community and Emergency Services. This amount is unchanged from FY 2018.

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 2017, this line item provided short-term crisis services to 1,264 households and energy assistance to 30,970 households.

Coordinated Homeless Services

The Baseline includes $2,522,600 in FY 2019 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 2018.

In FY 2017, this line item provided emergency shelter services to 8,233 individuals, rapid re-housing services to 2,496 individuals, and homeless prevention services to 24 individuals.

Domestic Violence Prevention

The Baseline includes $14,003,700 in FY 2019 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 are unchanged from FY 2018.

In FY 2017, this line item, along with non-appropriated funds, served approximately 7,691 women and children in emergency shelters, 249 adults and children in transitional housing, and 13,079 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The Baseline includes $24,763,800 from the Federal TANF Block Grant in FY 2019 for TANF Cash Benefits. FY 2019 adjustments are as follows:

TANF Transfer to DCS

The Baseline includes a decrease of $(2,972,600) from the Federal TANF Block Grant in FY 2019 to transfer funding for TANF Cash Assistance paid by DES to unlicensed kinship families from the DES budget to the DCS budget. Transferring the money will permit a more accurate reflection of total resources available to DCS foster families. While this funding will now be reflected in the DCS budget, this money will be passed through to DES, as DES continues to administer the state's TANF Cash Assistance program.

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 October 2017, DES served a regular TANF Cash Benefits caseload of 17,242 individual recipients. The Baseline 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 October 2017 Diversion caseload was 726. The Baseline assumes a Diversion caseload of 740 per month. 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.

The current cumulative lifetime limit on regular TANF Cash Benefits is 24 months. 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, a recipient can accumulate only 2 penalties before being removed from the program.

Although changes to the lifetime limit implies larger caseloads, FY 2018 monthly caseloads reported by DES have so far shown a decline in cases as compared to FY 2017. Although it is too early to determine what, if any, impact of the transition to 24 months will have, the JLBC Staff will continue to monitor caseloads for possible modifications during the 2018 Legislative Session.

Coordinated Hunger Services

The Baseline includes $1,754,600 in FY 2019 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 2018.

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 2017, this funding assisted in the distribution of 8,142,157 congregate meals and 1,753,989 emergency food boxes.

Tribal Pass-Through Funding

The Baseline includes $4,680,300 from the General Fund in FY 2019 for Tribal Pass-Through Funding. This amount is unchanged from FY 2018.

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) Baseline 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 2019
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)	2,901,800
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)	2,901,800
Total	**$19,534,400**

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

County Participation

The Baseline includes $8,740,200 in FY 2019 for County Participation. This amount consists of:

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

These amounts are unchanged from FY 2018.

The division currently contracts with Gila and La Paz Counties to have the counties operate their own child support programs. 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 June 2017, the Division of Developmental Disabilities served 39,160 clients, which includes 30,803 clients in the LTC program and 8,357 clients in the state-only program. The primary disabilities are shown in *Table 3*.

Table 3

Primary Disability of Clients Served

Disability	Number	Percentage
Intellectual Disability	15,782	40.3%
Autism	9,524	24.3%
At Risk	8,819	22.5%
Cerebral Palsy	3,392	8.7%
Epilepsy	1,643	4.2%
Total	**39,160**	

Overall DDD Formula Adjustments
The Baseline includes an increase of $34,066,200 from the General Fund in FY 2019 for DDD formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2020 and FY 2021 formula changes.)*

FMAP Adjustments
The Baseline includes a decrease of $(1,474,400) from the General Fund in FY 2019 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 2019, the Medicaid FMAP is projected to increase to 69.83% (0.1% increase).

FY 2019 Capitation Rate Adjustments
The Baseline includes an increase of $13,958,200 from the General Fund in FY 2019 for a 3.5% net capitation rate increase beginning July 1, 2018. Capitation rates include adjustments for medical inflation, utilization of services, and other factors.

To better align DDD's appropriations with program expenses budgeted by AHCCCS actuaries, the Baseline includes a rebase of DDD's FY 2018 appropriations to match with the actual capitation rate by service category for FY 2018. *Table 4* shows the rebase of each line item. Because the actuaries use spending categories that differ from the prior budget structure, some expenses have shifted to different line items. For example, all DDD administration is included in a single line item, whereas administrative costs were previously funded within several line items. In addition, expenses for the Arizona Training Program at Coolidge have been merged into a single Institutional Services line item. The rebased FY 2018 capitation expenditures are then grown by 3.5% in each category to estimate the FY 2019 Baseline spending by line item. *Table 5* shows how the capitation adjustment is allocated by service category.

Table 4

DDD FY 2018 Capitation Rebase

	FY 2018 Appropriation	Capitation Rebase	Revised Appropriation
Administration	$ 23,819,600	$56,015,900	$ 79,835,500
Premium Tax	27,628,800	1,344,200	28,973,000
Case Management	59,316,300	7,761,700	67,078,000
HCBS 1/	1,130,951,200	(63,922,700)	1,067,028,500
Institutional Services	24,133,300	18,560,500	42,693,800
Medical Services	176,526,600	(3,938,200)	172,588,400
ATPC 2/	15,821,400	(15,821,400)	0
	$1,458,197,200	**$ 0**	**$1,458,197,200**

1/ Excludes 1-Time Proposition 206 Assistance of $33.0 million Total Funds, which DES is funding outside of the capitation rate.
2/ The actuaries do not provide a capitation rate that is specific to ATPC. As a result, ATPC expenses are funded in the Institutional Services line in the revised appropriation.

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.)*

Table 5

DDD ALTCS Capitation Growth

	FY 2018 Capitation Rate 1/	Assumed Growth Rate	FY 2019 Capitation Rate
Administration	203.21	3.5%	210.32
Premium Tax	73.75	3.5%	76.33
Case Management	170.74	3.5%	176.72
HCBS 2/	2,809.96	3.5%	2,908.31
Institutional Care 3/	108.67	3.5%	112.48
Acute Care 4/	414.90	3.5%	429.42
	3,781.23	**3.5%**	**3,913.57**

1/ Represents blend of revised rates effective July 1, 2017, October 1, 2017, and January 1, 2018.
2/ HCBS line includes PMPM rates for HCBS and Risk Contingency. Also includes $10,000,000 from the General Fund and $33,145,500 in Total Funds of January 1, 2018 adjustments that may be distributed to other rate categories at a later date.
3/ Institutional Care rate is net of client's share of cost.
4/ Acute care rate is net of reinsurance reimbursements from AHCCCS, and does not include Health Insurer Fee paid by DDD's subcontracted health plans. It also excludes behavioral health capitation payments for DD members.

FY 2019 Caseload Growth
The Baseline includes a net increase of $20,487,700 from the General Fund in FY 2019 for DD caseload changes. Compared to June 2017, LTC caseloads are expected to grow by 4.5% to 33,705 members by June 2019 (this amount excludes state-only clients).

Table 6 shows the number of clients by placement setting for DDD enrollees in June 2017, and the estimated growth in FY 2018 and FY 2019. Approximately 84.9% of clients are currently at home, and 14.5% receive services in a community-based residential setting, such as a group home or developmental home. The remaining 0.6% of clients receive services in an institution, including an intermediate care facility or a skilled nursing facility.

FY 2018 Ex-Appropriation
The Baseline includes a decrease of $(3,000,000) from the General Fund in FY 2018 to ex-appropriate General Fund monies from DES due to lower-than-anticipated

Table 6

DDD June Caseloads and Placement Settings

Placement	FY 17	FY 18 Est	FY 19 est
Home	26,143	27,373	28,606
Group Home 1/	2,906	3,044	3,182
Developmental Home	1,531	1,603	1,675
Institution 2/	128	137	146
ATPC	83	83	83
Other 3/	12	13	13
Total	**30,803**	**32,253**	**33,705**

1/ Excludes 20 clients residing in group homes at ATPC.
2/ Excludes 63 clients residing in intermediate care facilities at ATPC.
3/ Includes behavioral health residential facilities and assisted living facilities.

capitation growth in FY 2018. *(Please see Other Issues for additional information.)*

Health Insurer Fee Restoration

The Baseline includes a General Fund increase of $952,600 in FY 2019 associated with the end of the one-time moratorium on the ACA Health Insurer Fee from FY 2018. *(Please see the AHCCCS narrative for additional information.)*

Medicare Clawback

The Baseline includes an increase of $142,100 from the General Fund in FY 2019 for adjustments associated with Medicare Clawback Payments.

Other Adjustments

In addition to formula adjustments, the Baseline includes the following other General Fund adjustments for DDD:

- $17,095,500 to transfer DDD behavioral health services from AHCCCS to DES. Beginning in FY 2020, DES will subcontract with a single AHCCCS health plan to deliver physical and behavioral health services to DD members.
- $3,883,400 for Proposition 206 provider rate adjustments to annualize the January 2018 minimum wage increase and to provide 6-month funding for the January 2019 adjustment.
- $2,939,000 for capitation payments associated with the Medicaid Targeted Case Management program for clients in the state-only program.
- $6,400,000 to replace one-time DDD equity monies used for room and board expenses of ALTCS clients in FY 2018. Beginning in FY 2019, DES must transfer all unexpended and unencumbered equity monies to the General Fund.
- $(12,000,000) to eliminate one-time increases for Proposition 206 rate adjustments and DDD Room and Board
- $(202,000) to remove a one-time health insurance adjustment from FY 2018.

DDD Administration

The Baseline includes $83,262,700 and 294.3 FTE Positions in FY 2019 for DDD Administration. These amounts consist of:

General Fund	25,121,600
Long Term Care System Fund	58,141,100

FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of $3,553,800 in FY 2019. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	1,030,900
Long Term Care System Fund	2,522,900

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(126,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(37,000)
Long Term Care System Fund	(89,600)

Background – This line item includes funding for direct and indirect DDD administrative costs. Monies in this line item were previously included in the DDD Operating Lump Sum, the DES Operating Budget, Case-Management - Medicaid, and Physical and Behavioral Health Services - Medicaid.

DDD Premium Tax Payment

The Baseline includes $30,461,200 in FY 2019 for the DDD Premium Tax Payment. This amount consists of:

General Fund	9,190,100
Long Term Care System Fund	21,271,100

FY 2019 adjustments are as follows:

Premium Tax Growth

The Baseline includes an increase of $1,488,300 in FY 2019 for growth in the premium tax. This amount consists of:

General Fund	434,000
Long Term Care System Fund	1,054,300

Background – DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS for ALTCS and Targeted Case Management.

Case Management - Medicaid

The Baseline includes $69,767,300 and 1,183 FTE Positions in FY 2019 for Medicaid Case Management. These amounts consist of:

General Fund	21,051,600
Long Term Care System Fund	48,715,700

FY 2019 adjustments are as follows:

Formula Adjustments
The Baseline includes an increase of $2,985,800 and 34.4 FTE Positions in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. These amounts consist of:

General Fund	866,100
Long Term Care System Fund	2,119,700

Remove Health Insurance Adjustment
The Baseline includes a decrease of $(296,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(86,700)
Long Term Care System Fund	(209,900)

Background – This line item provides case managers, case aides, case management unit supervisors, and case management area program managers that serve DDD clients enrolled in the ALTCS program. The ALTCS program requires DES to have at least 1 case manager for every 35 DD clients for each client added since 2006.

Home and Community Based Services - Medicaid

The Baseline includes $1,160,480,300 and 94.5 FTE Positions in FY 2019 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	350,117,400
Long Term Care System Fund	810,362,900

FY 2019 adjustments are as follows:

Formula Adjustments
The Baseline includes an increase of $80,642,100 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. The adjustments also include $10,000,000 from the General Fund and $33,145,500 from Total Funds of January 1, 2018 adjustments that may be distributed to other rate categories at a later date. This amount consists of:

General Fund	23,777,700
Long Term Care System Fund	56,864,400

Proposition 206 Provider Rate Adjustments
The Baseline includes an increase of $12,871,800 in FY 2019 for developmental disabilities provider rate adjustments to address cost increases associated with Proposition 206 minimum wage requirements. These adjustments were funded as part of the FY 2018 budget's 3-year spending plan. This amount consists of:

General Fund	3,883,400
Long Term Care System Fund	8,988,400

(Please see Other Issues for additional information.)

Remove One-Time Proposition 206 Assistance
The Baseline includes a decrease of $(33,036,000) in FY 2019 to remove one-time assistance to address developmental disability provider costs associated with Proposition 206. This amount consists of:

General Fund	(10,000,000)
Long Term Care System Fund	(23,036,000)

Remove Health Insurance Adjustment
The Baseline includes a decrease of $(62,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(18,200)
Long Term Care System Fund	(43,900)

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. *Table 7* shows the distribution of home and community-based services by service category for the top 10 most used services in FY 2017. These service categories represent approximately 80% of expenditures for Home and Community-Based Services. This line item also funds staff in state-operated group homes, excluding the Arizona Training Program at Coolidge (ATP-C).

Table 7	
FY 2017 Developmental Disabilities Home and Community-Based Services Expenditures for Top 10 Most Used Services	
Service	**Expenditures ($ in M)**
Group Home	$248.7
Respite	89.3
Habilitation	88.0
Attendant Care	84.9
Day Treatment & Training	73.8
Nursing	46.3
Adult Developmental Home	44.3
Day Treatment & Training, Intense	32.7
Group Supported Employment	24.2
Independently Designated Living Arrangement	22.8
Total	**$754.9**

Institutional Services - Medicaid

The Baseline includes $44,485,700 and 457.7 FTE Positions in FY 2019 for Medicaid Institutional Services. These amounts consist of:

General Fund	13,422,400
Long Term Care System Fund	31,063,300

FY 2019 adjustments are as follows:

Formula Adjustments
The Baseline includes an increase of $1,900,500 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	551,300
Long Term Care System Fund	1,349,200

Remove Health Insurance Adjustment
The Baseline includes a decrease of $(108,600) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(31,700)
Long Term Care System Fund	(76,900)

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) or other nursing facilities, both privately and state-operated.

This line item includes funding for the ICF-IIDs and the state-operated group homes (SOGHs) at ATP-C. As of September 2017, the caseload at ATP-C was 83. Statute requires DES to provide their plans for ATP-C to the JLBC for review by November 1 of each year. DES had made a preliminary assessment in 2016 that the SOGHs would not be able to attain compliance with recent federal rule changes that no longer allow group homes to be co-located with an intermediate care facility.

After further review, however, the department believes that it may be able to obtain a waiver from the federal government to continue operation of the SOGHs as long as ATP-C clients choose to continue to reside at ATP-C as part of a person-centered care plan. As a result, DES no longer has immediate plans to close the facility.

Physical and Behavioral Health Services - Medicaid

The Baseline includes $253,600,600 and 35.4 FTE Positions in FY 2019 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	76,509,700
Long Term Care System Fund	177,090,900

FY 2019 adjustments are as follows:

Transfer Behavioral Health Services
The Baseline includes an increase of $56,472,000 in FY 2019 to transfer funding for DD behavioral health services from AHCCCS to DES. Beginning in FY 2020, physical and behavioral health services will be provided under a single subcontract between DES and an integrated health plan. This amount consists of:

General Fund	17,095,500
Long Term Care System Fund	39,376,500

Formula Adjustments
The Baseline includes an increase of $21,407,600 in FY 2019 for formula adjustments. The formula adjustments include the federal match rate change, a 4.5% increase for caseload growth and a 3.5% capitation rate increase. This amount consists of:

General Fund	6,311,500
Long Term Care System Fund	15,096,100

Restore Health Insurer Fee
The Baseline includes an increase of $3,163,700 in FY 2019 for the Affordable Care Act Health Insurer Fee. There was a one-time moratorium on the fee for FY 2018. This amount consists of:

General Fund	952,600
Long Term Care System Fund	2,211,100

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(31,100) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment. This amount consists of:

General Fund	(9,100)
Long Term Care System Fund	(22,000)

Background – DES subcontracts with AHCCCS health plans to obtain physical health services for DD clients in the ALTCS program, while behavioral health services for such clients are covered by the RBHAs through FY 2019 and financed by AHCCCS directly. Beginning in FY 2020, DES will subcontract with a health plan that will cover physical and behavioral health services to ALTCS clients.

Medicare Clawback Payments

The Baseline includes $4,185,100 from the General Fund in FY 2019 for Medicare Clawback Payments. FY 2019 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of $142,100 from the General Fund in FY 2019 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 of the estimated drug costs.

Targeted Case Management - Medicaid

The Baseline includes $9,741,500 and 76.8 FTE Positions in FY 2019 for Targeted Case Management (TCM) - Medicaid. These amounts consists of:

General Fund	2,939,000
Long Term Care System Fund	6,802,500

FY 2019 adjustments are as follows:

New Line Item

The Baseline includes an increase of $9,741,500 in FY 2019 to create a new line item for the Targeted Case Management program. This program was previously funded in the Case Management State-Only line item. This amount consists of:

General Fund	2,939,000
Long Term Care System Fund	6,802,500

Background – The TCM program 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. A monthly average of 4,577 clients received TCM services in FY 2017.

TCM has historically been classified as a state-only program since its enrollees are not eligible for ALTCS. The program is still funded with Medicaid dollars, however, because TCM clients are financially eligible for AHCCCS acute care services. As a result, the Baseline includes the costs of the TCM program as federally-required Medicaid formula adjustments.

Case Management - State-Only

The Baseline includes $3,893,700 and 55.8 FTE Positions from the General Fund in FY 2019 for state-only case management. FY 2019 adjustments are as follows:

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(19,300) from the General Fund in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

Background – This line item funds case management services to clients in the state-only DD program who are not eligible for the Targeted Case Management program. A monthly average of 3,512 DD state-only clients received case management state-only services in FY 2017.

Home and Community Based Services - State-Only

The Baseline includes $13,709,000 in FY 2019 for state-only Home and Community Based Services. These amounts consist of:

General Fund	13,589,000
Special Administration Fund	120,000

FY 2019 adjustments are as follows:

Shift to New Line Item

The Baseline includes a decrease of $(6,319,000) from the General Fund in FY 2019 to transfer funding to a new line item for the Arizona Early Intervention Program (AzEIP). *(See Arizona Early Intervention Program below.)*

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. A monthly average of 8,089 clients were enrolled in the DD state-only program in FY 2017.

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

Arizona Early Intervention Program

The Baseline includes $6,319,000 from the General Fund in FY 2019 for the Arizona Early Intervention Program (AzEIP). FY 2019 adjustments are as follows:

New Line Item

The Baseline includes an increase of $6,319,000 from the General Fund in FY 2019 to transfer funding for AzEIP-Only clients from the Home and Community-Based Services State-Only line item to the AzEIP line item.

Background – AzEIP provides screening and intervention services for children age 0 to 3 with developmental delays or disabilities. DES receives a capped allotment of Federal Funds for the program through Part C of the Individuals with Disabilities Education Act (IDEA). IDEA Part C provided $9.3 million for AzEIP in FY 2017. As a result, the total AzEIP funding available in this line is $15.6 million in FY 2019. DES reports that there were 16,257 new referrals to AzEIP in FY 2017 and 4,833 referred children were determined eligible.

The funds in this line item represent costs incurred by DES for "AzEIP-Only" children, which include children that are AzEIP-eligible but do not have a qualifying DD diagnosis. AzEIP children with a DD diagnosis continue to be funded within the HCBS State-Only line item. DES reports that it expended another $6.6 million in the HCBS State-Only line item in FY 2017 on AzEIP services for DD-eligible children. There were 3,306 DD-eligible children enrolled in the AzEIP program as of June 30, 2017.

State-Funded Long Term Care Services

The Baseline includes $32,959,600 and 2 FTE Positions in FY 2019 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	6,400,000
Long Term Care System Fund	26,559,600

FY 2019 adjustments are as follows:

Medicaid Room and Board

The Baseline includes an increase of $6,400,000 from the General Fund in FY 2019 for residential room and board expenses of ALTCS-eligible DDD clients. These expenses are 100% state funded but are required to ensure access to Medicaid residential services. These monies will backfill an ongoing room and board shortfall that was funded using DDD equity monies on a one-time basis in FY 2018. The equity monies will no longer be available in FY 2019. *(Please see Other Issues for additional information.)*

Remove One-Time Room and Board Funding

The Baseline includes a decrease of $(2,000,000) from the General Fund in FY 2019 for a one-time provider rate increase for residential providers with room and board expenses. DES used these monies to provide a room and board provider rate increase of 6.5% in FY 2018. The 3-year spending plan associated with the enacted FY 2018 budget designated this funding as one-time. *(Please see Proposition 206 Section of Other Issues for additional information.)*

Remove Health Insurance Adjustment

The Baseline includes a decrease of $(1,900) from the Long Term Care System Fund (Non-Federal Matched) in FY 2019 for the removal of a one-time FY 2018 health insurance adjustment.

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.

Employment and Rehabilitation Services

JOBS

The Baseline includes $11,005,600 and 93 FTE Positions in FY 2019 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 are unchanged from FY 2018.

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

Table 8

Estimated JOBS Expenditures

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

contracted out to third-party vendors. *Table 8* highlights total estimated expenditures for the JOBS line item.

Child Care Subsidy

The Baseline includes $98,396,600 in FY 2019 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 2018.

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.

Subsidy Rates – The average subsidy paid to providers per child for the DES population is projected to be $356 per month in FY 2018 and the average subsidy for the DCS population is projected to be $415 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.

Caseloads – The estimated average number of children receiving child care services in FY 2019 is projected to be 19,067 (see *Table 9*) excluding DCS-related child care. As of October 2017, approximately 5,767 children are on the waiting list. It is unknown how many of those children remain eligible.

Table 9

June Child Care Caseloads

Category	FY 17	FY 18 est	FY 19 est 1/
TANF	1,973	1,700	2,275
Low-Income Working	12,374	10,550	11,791
Transitional Child Care	4,990	4,600	5,001
Total Served	**19,337**	**16,850**	**19,067**

1/ FY 2019 numbers are DES estimates.

Rehabilitation Services

The Baseline includes $7,249,100 in FY 2019 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 2018.

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 11,151 clients at an average Total Funds cost of $15,422 per client.

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 Baseline includes $1,289,400 in FY 2019 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 2018.

The Independent Living Rehabilitation Services program is expected to serve up to 556 clients in FY 2019 at an average Total Funds cost per client of $3,470. In addition to these clients, the division is also expected to serve 90 Independent Living 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 Baseline includes $53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2019 for the Workforce Investment Act Services line item. This amount is unchanged from FY 2018.

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 2019 is shown in *Table 10*.

Table 10

FY 2019 WIA Grant Allocations

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.

* * *

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Aging and Adult Services

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.

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, 2018. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies.

Benefits and Medical Eligibility

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.

Child Support Enforcement

All state shares of retained earnings, fees and federal incentives in excess of $16,632,600 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.

Developmental Disabilities

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 2019 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 SEPTEMBER 1, 2019. THE DEPARTMENT SHALL ALSO REPORT TO THE DIRECTOR OF THE JOINT LEGISLATIVE BUDGET COMMITTEE ON OR BEFORE SEPTEMBER 1, 2019 ON THE TOTAL COSTS ASSOCIATED WITH THE ARIZONA TRAINING PROGRAM AT COOLIDGE IN FY 2019. *(ATP-C will no longer have its own line item* *under the new budget structure. This footnote will ensure that the costs of the facility remain transparent.)*

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.

Before transferring any monies in or out of the Case Management - Medicaid, Case Management - State-Only, and DDD ADMINISTRATION line items, the Department of Economic Security shall submit a report for review by the Joint Legislative Budget Committee. *(The Baseline revises this footnote to reflect line item name changes.)*

The department shall report to the Joint Legislative Budget Committee on or before August 1, 2018 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2018. 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, 2018 report.

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.

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.

<u>Employment and Rehabilitation Services</u>
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.

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.

<u>Budget Stabilization Fund</u>
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, 2018 and must be reimbursed in full as part of the closing process for FY 2019. The appropriation may not be used for additional programmatic expenditures.

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.

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.

Deletion of Prior Year Footnotes
The Baseline deletes a footnote that specified the amount of DDD equity monies to be transferred to the General Fund at the end of FY 2017. The FY 2018 Health BRB allowed DES to expend equity monies on a one-time basis in FY 2018 for Developmental Disabilities state-only programs, so the amount of equity available for the General Fund in FY 2018 cannot be specified in advance. As a result, this footnote does not apply in FY 2019.

STATUTORY CHANGES

The Baseline would:
- As session law, continue 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.
- As session law, continue 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.

Other Issues

This section includes information on the following topics:

- FY 2018 Ex-Appropriation
- Long-Term Budget Impacts
- Proposition 206
- State-Funded Long Term Care Services
- HCBS Provider Rates
- DDD Appropriation Transfers
- Federal TANF Block Grant

FY 2018 Ex-Appropriation

The Baseline includes an ex-appropriation of $(3,000,000) from the General Fund in FY 2018 for lower-than-anticipated capitation growth in the DD program. Including Proposition 206 rate adjustments, the enacted FY 2018 budget presumed capitation adjustment of 7.8% compared to the original FY 2017 capitation rates. By comparison, the actual capitation adjustment is 6.5%, primarily due to lower-than-anticipated utilization growth.

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 $46.2 million in FY 2020 above FY 2019 and $47.2 million in FY 2021 above FY 2020 based on:

- 4.5% caseload growth in FY 2020 and FY 2021, resulting in caseloads of 35,221 and 36,806 in June 2020 and June 2021, respectively.
- FMAPs of 69.81% in FY 2020 and FY 2021, respectively.
- 3.5% capitation growth for utilization and medical inflation in FY 2020 and FY 2021.
- An increase of $5.8 million in FY 2020 above FY 2019 and $3.9 million in FY 2021 above FY 2020 for additional Proposition 206 minimum wage costs.

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 and 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.

The FY 2018 General Appropriation Act includes $35.3 million from the General Fund and $107.6 million in Total Funds in FY 2018 for the DES budget to assist providers affected by Proposition 206 *(see Table 11).* To date, DES has used this funding for the following adjustments:

- Annualize the HCBS rate increases of up to 8.2% from January 2017.
- A 1.7% increase in July of 2017 to address costs associated with Proposition 206 paid sick leave requirements. Providers in the Flagstaff area received an increase of 3.3% to address the

Proposition 414 minimum wage increase to $10.50 per hour.
- A 6.5% increase of room and board rates for group homes and adult developmental homes.

The department plans to implement further provider rate adjustments in January 2018 when the statewide minimum wage increases to $10.50.

DES also plans to use $10.0 million from the General Fund for additional Proposition 206 assistance. Subject to federal approval, DES will make quarterly distributions to DD providers in proportion to their reported compliance costs with Proposition 206 through the end of FY 2018. If approved, the $10.0 million General Fund appropriation would generate an additional $23.0 million in federal matching funds, for a Total Funds allotment of $33.0 million in FY 2018.

The 3-year spending plan associated with the enacted FY 2018 budget designated appropriations for DD room and board and Proposition 206 assistance as one-time. As a result, the Baseline includes a reduction of $(12.0) million from the General Fund and $(35.0) million in Total Funds to remove these appropriations in FY 2019.

In accordance with the 3-year spending plan, the Baseline partly offsets these reductions with an increase of $3.9 million from the General Fund and $12.9 million Total Funds in FY 2019 for further Proposition 206 rate adjustments in FY 2019. This funding will annualize the cost of rate increases from January 2018, and funds additional rate adjustments when the minimum wage increases to $11.00 in January 2019.

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.

Table 11

FY 2018 Proposition 206 Funding for DES

	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.

Table 12 shows the structural shortfall in SFLTC in FY 2017, and estimated shortfalls in FY 2018 and FY 2019. 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.

After accounting for the $14.5 million in reviewed expenditures, the Auditor General reported that DES had an ending balance of $17.6 million in the Long Term Care System Fund as of the end of FY 2017. Because DES has the authority to expend that balance to address state-only shortfalls in FY 2018, the actual amount available for transfer to the General Fund will likely be lower than $17.6 million.

The Baseline assumes that, beginning in FY 2019, the General Fund will replace equity expenditures for state-only costs associated with Medicaid-eligible DD clients. This includes $6.4 million for room and board costs of ALTCS clients in residential placements and $2.9 million for Targeted Case Management expenses of state-only clients.

Table 12

State-Funded Long Term Care (SFLTC) Services Line Item Sources and Uses 1/

	FY 2017 Actual	FY 2018 Estimate	FY 2019 Estimate
Sources			
Client Billing	$22,719,300	$23,928,000	$24,155,200
Interest	1,372,800	1,372,800	1,372,800
One-Time Appropriations 2/	600,000	2,000,000	0
Other	69,600	0	0
Equity Transfer 3/	4,263,400	0	0
Baseline Adjustment 4/	0	0	6,400,000
Total	**$29,025,100**	**$27,300,800**	**$31,928,000**
Uses			
SFLTC Services 1/	29,918,500	32,834,400	31,942,600
Total	**$29,918,500**	**$32,834,400**	**$31,942,600**
Structural Balance 1/	$ (893,400)	$(5,533,600)	$ (14,600)

1/ Estimates produced by DES and are not directly comparable to the appropriation in the SFLTC line. Ending balance will not be negative.
2/ The $2,000,000 appropriation in FY 2018 was used for a one-time 6.5% room and board provider rate increase for DD residential service providers. The increase is assumed to be removed in FY 2019.
3/ The JLBC favorably reviewed DES' plans to expend $4,263,400 on the SFLTC shortfall in FY 2017. In FY 2019, these monies will no longer be available.
4/ The Baseline includes an increase of $6,400,000 from the General Fund in FY 2019 to eliminate the structural shortfall in SFLTC in FY 2019. This amount is equivalent to what the department requested in its FY 2019 budget submittal.

HCBS Provider Rates

Statute requires DES to conduct an annual analysis of the adequacy and appropriateness of its provider rates for contracted services rendered to DDD clients. In an October 2017 report, DES' provider rate consultant concluded that DDD provider rates are adequate based on measures of access to care. From FY 2009 to FY 2017, the number of units of service per user has increased by 8.6%, despite enrollment growth of 32.9%, indicating that the "provider network continues to respond positively to the demands placed upon it." Over the same time period, the number of DDD providers has decreased from 1,081 to 624, or (42.3)%, but the consultant believes that the change is partly explained by provider contract changes rather than a net decrease in service providers. For example, DDD now contracts with agencies that recruit, train, and oversee adult developmental homes instead of contracting directly with such homes, which has decreased the number of providers by 95 without materially changing the number of individual homes.

The analysis also found that all rates for the top 10 most used services are at least 80% of the benchmark rates. The benchmark rates were established in the division's rate rebase study from 2014. The consultant considers rates that exceed 80% of the benchmark rates to be adequate, but acknowledges that the benchmark rates may be less relevant in evaluating the provider rates given that the rate rebase was conducted prior to implementation of Proposition 206 minimum wage and paid sick leave requirements. The report also notes that most DDD provider rates are still below the rates that were in place in FY 2009.

DDD 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. As a result of large transfers of funding across DDD line items from prior years, a footnote in the FY 2018 General Appropriation Act requires DES to submit a report for review to the JLBC before transferring any money in or out of select line items in the DDD budget.

The Baseline includes a rebase of DDD's line items in FY 2018 to correspond with the expenditures by service category estimated by AHCCCS actuaries. The resources allocated by line item should closely mirror DDD's actual costs for each service because capitation rates are required by federal regulation to be actuarially sound. As a result, the rebase should minimize DES' need to transfer resources across line items in future years.

Federal TANF Block Grant

The Baseline appropriates $222.4 million of the state's Federal TANF Block Grant allocation in FY 2019. *Table 13* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

Table 13

TANF Block Grant Spending

Revenues	Actual FY 2017	Estimate FY 2018	Estimate FY 2019
Beginning Balance	$ 1,104,700	$ (742,200)	$ -
TANF Base Revenues	200,934,900	200,934,900	200,934,900
TANF Contingency Fund Revenues	19,655,600	19,655,600	19,655,600
Total TANF Available	**$ 221,695,200**	**$ 219,848,300**	**$ 220,590,500**

Expenditures

Department of Child Safety			
DCS Operating	$ 16,928,000	$ 16,928,000	$ 17,477,700
Line Items			
Caseworkers	30,000,000	30,000,000	33,859,500
Attorney General Legal Services	99,400	99,400	99,400
Inspections Bureau	549,700	549,700	0
Overtime	3,859,500	3,859,500	0
Adoption Services	20,445,700	20,445,700	20,445,700
Allowances	0	0	4,919,400
Congregate Group Care	16,423,000	16,423,000	16,423,000
Foster Home Placement	6,973,100	6,973,100	6,973,100
Kinship Care 1/	0	0	2,972,600
Permanent Guardianship Subsidy	1,943,000	1,943,000	1,943,000
In-Home Mitigation	5,911,200	5,911,200	0
Parent Aide	0	0	13,009,600
Substance Abuse and Mental Health Services	0	0	24,869,200
Supervised Visitation	0	0	6,804,100
Other Support Services	0	0	2,649,000
Out-of-Home Support Services	46,340,100	46,340,100	0
TOTAL - DEPARTMENT OF CHILD SAFETY	**$ 149,472,700**	**$ 149,472,700**	**$ 152,445,300**
Department of Economic Security			
DES Operating	$ 18,856,400	$ 20,315,500	$ 20,315,500
Line Items			
Attorney General Legal Services	106,100	106,100	106,100
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
TANF Cash Benefits 1/	27,736,400	27,736,400	24,763,800
Coordinated Hunger Program	500,000	500,000	500,000
JOBS	8,405,800	9,594,700	9,594,700
Child Care Subsidy	2,717,800	2,717,800	2,717,800
TOTAL - DEPARTMENT OF ECONOMIC SECURITY 2/	**$ 70,316,700**	**$ 72,964,700**	**$ 69,992,100**
FY 2017 Administrative Adjustments 3/	$ 2,648,000		
TOTAL - STATEWIDE	**$ 222,437,400**	**$ 222,437,400**	**$ 222,437,400**
Ending Balance 4/	**$ (742,200)**	**$ (2,589,100)**	**$ (1,846,900)**

1/ The Kinship Care line item includes an increase of $2,972,600 in FY 2019 (and a corresponding decrease from the TANF Cash Benefits line item in DES) to reflect TANF Cash Benefits paid on behalf of foster children in unlicensed kinship placements.

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.

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate

Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406) **Partially-Appropriated**

Source of Revenue: State Share of Retained Earnings from child support collections, federal incentives, and fees.

Purpose of Fund: To fund the statewide Child Support Enforcement program.

Funds Expended	8,019,000	17,267,400
Expenditure Authority Expended	32,837,000	42,299,500
Year-End Fund Balance	3,056,600	2,652,800

Client Trust Fund (DEA3152/A.R.S. § 41-1954) **Non-Appropriated**

Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.

Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.

Funds Expended	367,900	721,600
Year-End Fund Balance	1,140,900	985,600

Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954) **Non-Appropriated**

Source of Revenue: Consists of client monies, such as Social Security, earnings, etc.

Purpose of Fund: If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.

Funds Expended	15,600	15,600
Year-End Fund Balance	1,532,000	1,533,300

Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572) **Non-Appropriated**

Source of Revenue: Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.

Purpose of Fund: To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.

Funds Expended	35,700	35,500
Year-End Fund Balance	104,900	70,200

Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002) **Appropriated**

Source of Revenue: A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a $50 fee for aggravated harassment, stalking, and other violent family offenses. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.

Purpose of Fund: To fund grants to qualified shelters for victims of domestic violence.

Funds Expended	4,000,000	4,000,000
Year-End Fund Balance	2,226,800	971,900

Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954) **Non-Appropriated**

Source of Revenue: Grants, gifts, or bequests.

Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.

Funds Expended	2,800	21,400
Year-End Fund Balance	112,400	136,600

Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116) **Non-Appropriated**

Source of Revenue: Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.

Purpose of Fund: To be used by the department for buildings, equipment, and other capital investments.

Funds Expended	32,300	242,700
Year-End Fund Balance	393,400	405,500

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate

Employee Recognition Fund (DEA2449/A.R.S. §38-613) **Non-Appropriated**

Source of Revenue: Gifts and donations from public and private entities.

Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.

Funds Expended	8,500	8,500
Year-End Fund Balance	0	0

Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193) **Appropriated**

Source of Revenue: Federal formula grant.

Purpose of Fund: To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. The Department of Child Safety has a separate allocation of CCDF funding.

Funds Expended	87,910,200	107,773,600
Year-End Fund Balance	9,580,600	7,310,800

Federal Grants (DEA2000/A.R.S. § 41-101.01) **Non-Appropriated**

Source of Revenue: Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.

Purpose of Fund: To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Food Stamp administration and the Social Services Block Grant, and Medicaid.

Funds Expended	1,862,208,000	1,849,986,700
Year-End Fund Balance	26,365,000	14,048,300

Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193) **Appropriated**

Source of Revenue: Federal formula grant.

Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families. The Department of Child Safety has a separate allocation of TANF funding.

Funds Expended	70,316,700	72,964,700
Year-End Fund Balance*	1,104,700	(742,200)

Health Services Lottery Monies Fund (DEA4250/A.R.S. § 36-108.01) **Appropriated**

Source of Revenue: State Lottery monies.

Purpose of Fund: To fund teenage pregnancy prevention programs, the Health Start program, and the federal Women, Infants and Children (WIC) food program. In FY 2018, $2,800,000 was appropriated to DES for Aging Services and Domestic Violence Prevention.

Funds Expended	700,000	2,800,000
Year-End Fund Balance	0	0

Arizona Industries for the Blind Fund (DEA4003/A.R.S. § 41-1975) **Non-Appropriated**

Source of Revenue: Proceeds from sales of products of Arizona Industries for the Blind, as well as interest earned on the fund balance. Laws 2016, Chapter 341 privatized the Arizona Industries for the Blind and the fund will be operated by a private, non-profit entity, effectively phasing out the state fund.

Purpose of Fund: To provide funds for the wages and salaries of production workers, inspectors, and other employees necessary for the operation of the training centers, workshops, or home industries; supplies, equipment or other incidental costs.

Funds Expended	16,937,800	250,000
Year-End Fund Balance	1,879,300	250,000

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate

IGA and ISA Fund (DEA2500/A.R.S. § 41-1954) **Non-Appropriated**

Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.
Purpose of Fund: To be used as specified in the grant or agreement.

Funds Expended	80,400	2,099,600
Year-End Fund Balance	2,180,000	2,099,600

Arizona Job Training Fund (DEA1237/A.R.S. § 41-1544) **Non-Appropriated**

Source of Revenue: Through December 31, 2015, DES collected one-tenth of 1% of taxable wages for job training grants administered by the Arizona Commerce Authority. DES received a portion of the revenue for the purpose of collecting the job training tax.
Purpose of Fund: To collect the job training tax.

Funds Expended	0	0
Year-End Fund Balance*	(43,700)	120,400

Long Term Care System Fund (Federal Match) (DEA2225/A.R.S. § 36-2953) **Expenditure Authority**

Source of Revenue: Federal Medicaid Authority monies.
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system.

Funds Expended	769,171,900	1,040,540,700
Year-End Fund Balance	87,701,600	111,717,800

Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953) **Appropriated**

Source of Revenue: Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.

Funds Expended	26,559,600	26,561,500
Year-End Fund Balance	0	0

Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741) **Non-Appropriated**

Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.
Purpose of Fund: To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.

Funds Expended	35,300	35,000
Year-End Fund Balance	19,800	36,800

Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295) **Appropriated**

Source of Revenue: A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.
Purpose of Fund: To improve public assistance collection activities.

Funds Expended	6,600	422,100
Year-End Fund Balance	259,700	315,900

Special Administration Fund (DEA2066/A.R.S. § 23-705) **Appropriated**

Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.

Funds Expended	5,528,700	2,951,800
Year-End Fund Balance	3,774,100	893,300

SUMMARY OF FUNDS	FY 2017 Actual	FY 2018 Estimate

Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173) **Non-Appropriated**

Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.

Purpose of Fund: To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.

Funds Expended	86,900	86,900
Year-End Fund Balance	68,100	68,100

Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203) **Appropriated**

Source of Revenue: The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.

Purpose of Fund: For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.

Funds Expended	2,308,500	2,326,400
Year-End Fund Balance	3,012,100	2,734,700

Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954) **Appropriated**

Source of Revenue: Federal reimbursement.

Purpose of Fund: General operations.

Funds Expended	0	1,000,000
Year-End Fund Balance	0	0

Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701) **Non-Appropriated**

Source of Revenue: Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.

Purpose of Fund: To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.

Funds Expended	264,909,100	277,400,000
Year-End Fund Balance	319,282,800	569,078,400

Unemployment Special Assessment Fund (DEA2558/A.R.S. § 23-730.01) **Non-Appropriated**

Source of Revenue: A Special Assessment (SA) on taxable wages paid in calendar years 2011 and 2012 only. In 2011 and 2012, the assessment was 0.4% and 0.5% respectively.

Purpose of Fund: The Director of DES had the discretion to set a SA in order to pay interest owed to the U.S. Department of the Treasury due to borrowing to continue to pay Unemployment Insurance (UI) benefits as well as to return the UI Trust Fund to solvency and avoid the loss of employer federal UI tax credits. Revenue in this fund was transferred to the UI Special Assessment Proceeds Fund.

Funds Expended	867,600	0
Year-End Fund Balance	2,402,700	1,802,200

Workforce Investment Act Grant (DEA2001/U.S. P.L. 105-220) **Appropriated**

Source of Revenue: Federal formula grant.

Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.

Funds Expended	44,878,300	56,040,200
Year-End Fund Balance	32,193,800	25,564,600

* As reported by the agency. Actual ending balance will not be negative.