

Department of Economic Security

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,289.4	4,323.8	4,377.8 ^{1/}
Personal Services	69,563,500	73,791,600	73,791,600
Employee Related Expenditures	32,758,400	32,959,400	32,959,400
Professional and Outside Services	15,053,000	17,380,700	17,380,700
Travel - In State	375,500	391,700	391,700
Travel - Out of State	70,100	88,900	88,900
Other Operating Expenditures	24,525,100	30,934,500	30,938,500
Equipment	4,376,600	3,070,600	3,070,600
OPERATING SUBTOTAL	146,722,200	158,617,400	158,621,400 ^{2/3/}
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	9,913,700	11,002,700	10,998,700
SNAP Benefit Match Program	0	400,000	0
Aging and Adult Services			
Adult Services	9,431,900	9,902,900	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	11,269,000	14,003,700	14,003,700 ^{4/5/}
Benefits and Medical Eligibility			
TANF Cash Benefits	22,629,700	22,736,400	22,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
One-Time Food Bank Funding	0	1,000,000	0
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Child Support Enforcement			
County Participation	5,132,000	8,740,200	8,740,200
Developmental Disabilities ^{6/-10/}			
DDD Administration	36,419,600	83,504,800	104,623,200 ^{11/}
DDD Premium Tax Payment	26,829,000	30,461,200	35,598,700
Case Management - Medicaid	63,719,600	70,018,100	75,727,800 ^{11/}
Home and Community Based Services - Medicaid	1,081,506,800	1,196,993,000	1,267,515,700
Institutional Services - Medicaid	23,860,600	45,154,600	49,934,500
Arizona Training Program at Coolidge - Medicaid	18,922,900	0	0
Children's Rehabilitative Services - Medicaid	0	50,390,100	0
Medical Services - Medicaid	187,468,900	197,154,900	274,966,700
Medicare Clawback Payments	4,043,000	4,185,100	4,517,800
Targeted Case Management - Medicaid	0	6,614,500	10,673,600
Case Management - State Only	3,913,000	4,313,400	4,313,400 ^{11/}
Home and Community Based Services - State Only	20,028,000	13,709,000	13,589,000
Cost Effectiveness Study Client Services	0	1,100,000	1,220,000
Arizona Early Intervention Program	0	8,219,000	6,319,000 ^{12/}
State-Funded Long Term Care Services	28,561,500	34,959,600	33,151,600
Employment and Rehabilitation Services			
JOBS	11,005,600	11,005,600	11,005,600
Child Care Subsidy	94,396,300	98,396,600	98,396,600 ^{12/}
Independent Living Rehabilitation Services	1,233,100	1,289,400	1,289,400
Rehabilitation Services	7,305,400	7,249,100	7,249,100
Workforce Investment Act Services	65,654,600	53,654,600	53,654,600 ^{13/}
AGENCY TOTAL	1,892,647,900	2,157,457,400	2,290,260,100 ^{14/-17/}

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 BASELINE
FUND SOURCES			
General Fund	586,110,200	650,936,900	687,499,200
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	7,917,200	16,973,100	16,973,100
Domestic Violence Services Fund	1,265,300	4,000,000	4,000,000
Federal CCDF Block Grant	103,773,400	110,518,600	110,518,600
Federal TANF Block Grant	67,858,100	65,324,900	65,324,900
Health Services Lottery Monies Fund	2,800,000	0	0
Long Term Care System Fund (Non-Federal Matched)	26,561,500	26,559,600	26,559,600
Public Assistance Collections Fund	0	422,500	422,500
Special Administration Fund	2,951,800	5,677,300	4,506,300
Spinal and Head Injuries Trust Fund	2,310,900	4,254,400	2,354,400
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	68,040,300	56,044,500	56,044,500
SUBTOTAL - Other Appropriated Funds	283,478,500	290,774,900	287,703,900
SUBTOTAL - Appropriated Funds	869,588,700	941,711,800	975,203,100
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund (EA)	35,024,300	42,299,500	42,299,500
Long Term Care System Fund (Federal Match)	988,034,900	1,173,446,100	1,272,757,500
SUBTOTAL - Expenditure Authority Funds	1,023,059,200	1,215,745,600	1,315,057,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	1,892,647,900	2,157,457,400	2,290,260,100
Other Non-Appropriated Funds	246,524,900	241,858,400	241,375,000
Federal Funds	1,741,347,200	1,673,880,100	1,673,480,100
TOTAL - ALL SOURCES	3,880,520,000	4,073,195,900	4,205,115,200

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 Community Services; and Employment and Rehabilitation Services.

FOOTNOTES

- 1/ Includes 705.5 GF, 237.6 OF, and 1,560.3 EA FTE Positions funded from Special Line Items in FY 2020.
- 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 \$16,973,100 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)
- 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, 2019. 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 implementing 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 implementing 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 2020 and the reason 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, 2020. On or before September 1, 2020, the department shall also report to the Director of the Joint Legislative Budget Committee the total costs associated with the Arizona Training Program at Coolidge in FY 2020. (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)
- 10/ The department shall report to the Joint Legislative Budget Committee on or before August 1, 2019 the number of filled positions for case managers and non-case managers in the Division of Developmental Disabilities as of June 30, 2019. 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, 2019 report. (General Appropriation Act footnote)
- 11/ 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. (General Appropriation Act footnote)
- ~~D/ The department shall report to the Joint Legislative Budget Committee on or before December 1, 2018 its plans to reduce screening costs associated with the Arizona Early Intervention Program. (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 \$56,044,500 are appropriated to the Workforce Investment Act Services line item. Before the expenditure of these increased monies, the Department of Economic Security shall report the intended use of monies in excess of \$56,044,500 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, 2019 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. (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 of Economic Security 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.

Summary

The Department of Economic Security's (DES) FY 2020 General Fund spending increases by \$36,562,300, or 5.6% above the FY 2019 appropriation. This amount includes:

- \$42,032,800 for DDD formula adjustments.
- \$5,070,900 to annualize the FY 2019 transfer of funding for DDD Children's Rehabilitative Services from AHCCCS to DES.
- \$3,858,600 for Proposition 206 rate increases to provide 6-month funding for the minimum wage increase from \$11.00/hour to \$12.00/hour in January 2020.
- \$(13,000,000) to remove one-time funding for DDD Proposition 206 costs and room and board expenses from FY 2019.
- \$(1,400,000) to remove one-time funding for food banks and the SNAP Benefit Match Program.

Operating Budget

The Baseline includes \$158,621,400 and 1,874.4 FTE Positions in FY 2020 for the operating budget. These amounts consist of:

	FY 2020
General Fund	\$78,778,200
Child Support Enforcement Administration Fund	13,447,100
Child Support Enforcement Administration Fund (EA)	27,542,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,393,300
Federal Child Care and Development Fund (CCDF) Block Grant	12,104,300
Public Assistance Collections Fund	331,700
Special Administration Fund	2,070,400
Spinal and Head Injuries Trust Fund	574,300
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,379,900

FY 2020 adjustments are as follows:

Transfer from AG Legal Services

The Baseline includes an increase of \$4,000 from the General Fund in FY 2020 from AG Legal Services for IT overhead costs. The transfer results in no net change in resources.

Administration

Attorney General Legal Services

The Baseline includes \$10,998,700 and 156.9 FTE Positions in FY 2020 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,223,800
Child Support Enforcement Administration Fund	2,446,900
Child Support Enforcement Administration Fund (EA)	7,096,200
Federal TANF Block Grant	106,300
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 2020 adjustments are as follows:

Transfer to Operating Budget

The Baseline includes a decrease of \$(4,000) from the General Fund in FY 2020 to the Operating Budget for IT overhead costs. The transfer results in no net change in resources.

SNAP Benefits Match Program

The Baseline includes no funding in FY 2020 for the SNAP Benefits Match Program. FY 2020 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(400,000) from the General Fund in FY 2020 to remove one-time funding for a Supplemental Nutrition Assistance Program (SNAP) Benefit Match for Arizona-grown produce purchases. The enacted FY 2019 budget's 3-year spending plan designated this spending as one-time. The monies are non-lapsing through the end of FY 2020. FY 2019 was the first year of funding.

Aging and Adult Services

Adult Services

The Baseline includes \$8,731,900 from the General Fund in FY 2020 for Adult Services. FY 2020 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,171,000) from the Special Administration Fund in FY 2020 to remove one-time funding for in-home services for the elderly provided by the Area Agencies on Aging. The enacted FY 2019 budget's 3-year spending plan designated this spending as one-time.

DES believes that they can replace this funding with federal Victim of Crimes Act (VOCA) grant monies and does not request any new appropriated funds for this line item.

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 2020
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/}

^{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 2020 for Community and Emergency Services. This amount is unchanged from FY 2019.

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 2018, this line item provided short-term crisis services to 1,142 households and energy assistance to 29,859 households.

Coordinated Homeless Services

The Baseline includes \$2,522,600 in FY 2020 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 2019.

In FY 2018, this line item provided emergency shelter services to 9,589 individuals, rapid re-housing services to 1,659 individuals, and homeless prevention services to 58 individuals.

Domestic Violence Prevention

The Baseline includes \$14,003,700 in FY 2020 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
Special Administration Fund	100,000

These amounts are unchanged from FY 2019.

In FY 2018, this line item, along with non-appropriated funds, served approximately 6,138 women and children in emergency shelters, 308 adults and children in transitional housing, and 12,372 victims with legal and lay legal advocacy.

Benefits and Medical Eligibility

TANF Cash Benefits

The Baseline includes \$22,736,400 from the Federal TANF Block Grant in FY 2020 for TANF Cash Benefits. This amount is unchanged from FY 2019.

As of November 2018, DES served a regular TANF Cash Benefits caseload of 14,837 individual recipients. Compared to June 2018, caseloads have increased 2.1% but caseloads have declined (12.5)% compared to November 2017. The average cost per person is projected to be \$95. 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 November 2018 Diversion caseload was 617, a (5.8)% decline from June 2018 and a (4.8)% decline from October 2017.

The Baseline amount would be able to fund an average of 14,710 individuals at \$95 per month and 650 Diversion clients at \$765 per month.

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. 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. 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.

Coordinated Hunger Services

The Baseline includes \$1,754,600 in FY 2020 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 2019.

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 2018, this funding assisted in the distribution of 8,142,156 congregate meals and 1,652,364 emergency food boxes.

One-Time Food Bank Funding

The Baseline includes no funding in FY 2020 for One-Time Food Bank Funding. FY 2020 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2020 to remove one-time funding for various food banks across the state. The funding was distributed for capital needs. The enacted FY 2019 budget's 3-year spending plan designated this spending as one-time.

Tribal Pass-Through Funding

The Baseline includes \$4,680,300 from the General Fund in FY 2020 for Tribal Pass-Through Funding. This amount is unchanged from FY 2019.

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.

Table 2

CSEA Fund Sources and Uses

<u>Sources</u>	<u>FY 2020</u>
State Share of Retained Earnings	\$ 2,751,500
Federal Incentive Payments	6,200,000
Fees	1,769,000
Excess Appropriation Authority ^{1/}	6,252,600
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,874,900
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,447,100
Attorney General Legal Services	2,446,900
County Participation	1,079,100
Administration (Non-Appropriated)	<u>2,901,800</u>
Total	\$19,874,900

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

County Participation

The Baseline includes \$8,740,200 in FY 2020 for County Participation. This amount consists of:

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

These amounts are unchanged from FY 2019.

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 December 2018, the Division of Developmental Disabilities served 41,842 clients, which includes 32,688 clients in the LTC program and 9,154 clients in the state-only program. The primary disabilities are shown in *Table 3*.

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	15,881	38.0%
At Risk	10,806	25.8%
Autism	9,924	23.7%
Cerebral Palsy	3,475	8.3%
Epilepsy	1,756	4.2%
Total	41,842	

Overall DDD Formula Adjustments

The Baseline includes an increase of \$42,032,800 from the General Fund in FY 2020 for DDD formula changes. Changes are described in further detail below. *(Please see Other Issues for further details on FY 2021 and FY 2022 formula changes.)*

FY 2020 Caseload Growth

The Baseline includes an increase of \$27,809,700 from the General Fund in FY 2020 for DD caseload changes. Compared to June 2019, LTC caseloads are expected to grow by 4.7% to 35,547 members by June 2020 (this amount excludes state-only clients).

Table 4 shows the number of clients by placement setting for DDD enrollees in June 2018, and the estimated growth in FY 2019 and FY 2020. Approximately 85.9% of clients are currently at home, and 14.1% receive services in a community-based residential setting, such as a group home or developmental home. The remaining 0.3% of clients receive services in an institution, including an intermediate care facility or a skilled nursing facility.

Table 4

DDD June Caseloads and Placement Settings

<u>Placement</u>	<u>FY 18</u>	<u>FY 19 Est</u>	<u>FY 20 est</u>
Home	27,862	29,174	30,546
Group Home	2,981	3,122	3,268
Developmental Home	1,452	1,520	1,592
Institution	100	105	110
Other ^{1/}	29	30	32
Total	32,424	33,951	35,547

^{1/} Includes behavioral health residential facilities and assisted living facilities.

FY 2020 Capitation Rate Adjustments

The Baseline includes an increase of \$16,775,000 from the General Fund in FY 2020 for a 3.0% net capitation rate increase beginning July 1, 2019. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. *Table 5* shows how the capitation adjustment is allocated by service category.

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

	<u>FY 2019 Capitation Rate ^{1/}</u>	<u>Assumed Growth Rate</u>	<u>FY 2020 Capitation Rate</u>
Administration	243.17	3.0%	250.46
Premium Tax	82.74	3.0%	85.22
Case Management	176.01	3.0%	181.29
HCBS ^{2/}	2,916.10	3.0%	3,003.58
Institutional Care ^{3/}	116.06	3.0%	119.54
Acute Care ^{4/}	639.09	3.0%	658.26
Total	4,173.17	3.0%	4,298.35

^{1/} Represents original capitation rate effective January 1, 2019 plus reinsurance expenses. Excludes mid-year revision submitted on December 28, 2019, which the JLBC Staff is still evaluating.

^{2/} HCBS line includes PMPM rates for HCBS and Risk Contingency.

^{3/} Institutional Care rate is net of client's share of cost.

^{4/} Acute care rate includes reinsurance.

FMAP Adjustments

The Baseline includes a decrease of \$(2,884,600) from the General Fund in FY 2020 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 2020, the Medicaid FMAP is projected to increase to 69.97% (0.14% increase).

Medicare Clawback

The Baseline includes an increase of \$332,700 from the General Fund in FY 2020 for adjustments associated with Medicare Clawback Payments.

Other DD General Fund Adjustments

- \$5,070,900 to annualize the FY 2019 transfer of DD Children's Rehabilitative Services from AHCCCS to DES.
- \$3,858,600 for 6 months of funding for Proposition 206 provider rate increases associated with the increase in the minimum wage from \$11.00 to \$12.00 effective January 1, 2020.
- \$(13,000,000) to remove one-time funding for DD Proposition 206 costs and room and board funding from FY 2019.

DDD Administration

The Baseline includes \$104,623,200 and 294.3 FTE Positions in FY 2020 for DDD Administration. These amounts consist of:

General Fund	31,417,700
Long Term Care System Fund	73,205,500

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$21,118,400 in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	6,266,700
Long Term Care System Fund	14,851,700

Background – This line item includes funding for direct and indirect DDD administrative costs, as well as administrative funding for DES' subcontracted health plans for DD clients.

DDD Premium Tax Payment

The Baseline includes \$35,598,700 in FY 2020 for the DDD Premium Tax Payment. This amount consists of:

General Fund	10,690,000
Long Term Care System Fund	24,908,700

FY 2020 adjustments are as follows:

Premium Tax Growth

The Baseline includes an increase of \$5,137,500 in FY 2020 for growth in the premium tax. This amount consists of:

General Fund	1,499,900
Long Term Care System Fund	3,637,600

Background – DES pays a 2% premium tax to the Department of Insurance on capitation payments received from AHCCCS.

Case Management - Medicaid

The Baseline includes \$75,727,800 and 1,237 FTE Positions in FY 2020 for Case Management - Medicaid. These amounts consist of:

General Fund	22,740,600
Long Term Care System Fund	52,987,200

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$5,709,700 and 54 FTE Positions in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. These amounts consist of:

General Fund	1,620,100
Long Term Care System Fund	4,089,600

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 ALTCS client added since 2006.

Home and Community Based Services - Medicaid

The Baseline includes \$1,267,515,700 and 94.5 FTE Positions in FY 2020 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	380,619,900
Long Term Care System Fund	886,895,800

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$94,111,000 in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	26,629,400
Long Term Care System Fund	67,481,600

Proposition 206 Provider Rate Adjustment

The Baseline includes an increase of \$12,871,800 in FY 2020 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 2019 budget's 3-year spending plan. This amount consists of:

General Fund	3,858,600
Long Term Care System Fund	9,013,200

(Please see Other Issues for additional information.)

Remove One-Time Proposition 206 Assistance

The Baseline includes a decrease of \$(36,460,100) in FY 2020 to remove one-time assistance to address developmental disability provider costs associated with Proposition 206. This amount consists of:

General Fund	(11,000,000)
Long Term Care System Fund	(25,460,100)

These amounts were for one-time assistance to Developmental Disabilities providers for costs associated with Proposition 206 implementation. DES used the funding to make quarterly distributions to DD providers based on their proportionate share of Proposition 206 costs. This funding was labeled as one-time, and is therefore removed in accordance with the 3-year spending plan associated with the enacted FY 2019 budget. The Legislature also funded the one-time assistance at a level of \$10,000,000 from the General Fund and \$33,036,000 Total Funds in the FY 2018 budget. *(See Other Issues for additional information.)*

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 6* shows the distribution of home and community-based services by service category for the top 10 most used services in FY 2018. This line item also funds staff in state-operated group homes.

Table 6

FY 2018 Developmental Disabilities Home and Community-Based Services Expenditures for Top 10 Most Used Services

Service	Expenditures (\$ in M)
Group Homes	\$290.7
Day Programs	120.3
Attendant Care	112.5
Respite	102.8
Habilitation (In-Home)	73.8
Adult Developmental Homes	46.3
Nurses (In-Home)	42.8
Speech Therapy	27.4
Room and Board (Mostly Group Home)	25.7
Group Supported Employment	24.8

Institutional Services - Medicaid

The Baseline includes \$49,934,500 and 457.7 FTE Positions in FY 2020 for Medicaid Institutional Services. These amounts consist of:

General Fund	14,995,000
Long Term Care System Fund	34,939,500

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$4,779,900 in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	1,373,200
Long Term Care System Fund	3,406,700

Background – Monies in this line item fund Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IIDs) or other nursing facilities, both private and state-operated, including the Arizona Training Program at Coolidge (ATP-C). DES reports that ATP-C had December 2018 enrollment of 78. An FY 2019 General Appropriation Act footnote requires DES to report to JLBC by September 1, 2019 on the costs associated with the ATP-C facility. The Baseline would continue this footnote in FY 2020.

Statute requires DES to annually provide their plans for ATP-C to the JLBC for review. In November 2018, DES reported to JLBC that it plans to close the 5 state-operated group homes (SOGHs) on the ATP-C campus by May 2020, which would require the relocation of 19 residents at the facility. The department would offer those residents the choice to either move to an ICF-IID on the ATP-C campus or reside with a private provider.

At its December 2018 meeting, JLBC favorably reviewed DES' Coolidge plan, with the provision that the department provide an update to the Committee on the future use of the 5 SOGH buildings in next year's annual report.

Children's Rehabilitative Services - Medicaid

The Baseline includes no funding in FY 2020 for Children's Rehabilitative Services (CRS) - Medicaid. FY 2020 adjustments are as follows:

Transfer CRS to Medical Services Line

The Baseline includes a decrease of \$(50,390,100) in FY 2020 to incorporate CRS funding within the Medical Services line to align the budget structure with DDD capitation rates. This amount consists of:

General Fund	(15,212,700)
Long Term Care System Fund	(35,177,400)

The CRS program provides specialized physical and behavioral health services to children with certain disabilities.

Medical Services - Medicaid

The Baseline includes \$274,966,700 and 35.4 FTE Positions in FY 2020 for Medical Services - Medicaid. These amounts consist of:

General Fund	82,570,700
Long Term Care System Fund	192,396,000

FY 2020 adjustments are as follows:

Transfer CRS to Medical Services Line

The Baseline includes an increase of \$50,390,100 in FY 2020 to incorporate CRS funding within the Medical Services line to align the budget structure with DDD capitation rates. This amount consists of:

General Fund	15,212,700
Long Term Care System Fund	35,177,400

Annualize CRS Funding

The Baseline includes an increase of \$16,796,700 in FY 2020 to annualize the transfer of funding for Children's Rehabilitative Services for Developmental Disabilities clients from the Arizona Health Care Cost Containment System (AHCCCS) to DES. This amount consists of:

General Fund	5,070,900
Long Term Care System Fund	11,725,800

Formula Adjustments

The Baseline includes an increase of \$10,625,000 in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	2,865,700
Long Term Care System Fund	7,759,300

Background – DES subcontracts with AHCCCS health plans to obtain medical services and Children's Rehabilitative Services (CRS) for DD clients in the ALTCS program, while behavioral health services for such clients are covered by the RBHAs and financed by AHCCCS directly.

Medicare Clawback Payments

The Baseline includes \$4,517,800 from the General Fund in FY 2020 for Medicare Clawback Payments. FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$332,700 from the General Fund in FY 2020 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 \$10,673,600 and 76.8 FTE Positions in FY 2020 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	3,248,800
Long Term Care System Fund	7,424,800

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$4,059,100 in FY 2020 for formula adjustments. The formula adjustments include a 4.7% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	1,253,100
Long Term Care System Fund	2,806,000

Background – The TCM program provides case management services to DDD clients that are financially eligible for AHCCCS acute care services but do not yet meet the functional disability requirements to qualify for ALTCS. The program is funded via capitation from AHCCCS. A monthly average of 4,898 clients received TCM services in FY 2018.

Case Management - State-Only

The Baseline includes \$4,313,400 and 55.8 FTE Positions from the General Fund in FY 2020 for Case Management - State-Only. These amounts are unchanged from FY 2019.

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 3,849 DD state-only clients received case management state-only services in FY 2018.

Home and Community Based Services - State-Only

The Baseline includes \$13,589,000 from the General Fund in FY 2020 for state-only Home and Community Based Services. FY 2020 adjustments are as follows:

Transfer from State-Only Line Item

The Baseline includes a decrease of \$(120,000) from the Special Administration Fund in FY 2020 to consolidate CES Client services funding within the Cost-Effectiveness Study Client Services line item.

Background – This line item funds residential programs, day programs, and support services for DD clients that do not qualify for ALTCS. A monthly average of 8,747 clients were enrolled in the DD state-only program in FY 2018.

Cost-Effectiveness Study Client Services

The Baseline includes \$1,220,000 from the Special Administration Fund in FY 2020 for Cost-Effectiveness Study (CES) Client Services. FY 2020 adjustments are as follows:

Transfer from State-Only Line Item

The Baseline includes an increase of \$120,000 from the Special Administration Fund in FY 2020 to consolidate CES Client services funding within the Cost-Effectiveness Study Client Services line item.

Laws 2018, Chapter 346 appropriated \$1,100,000 in FY 2019 to provide additional services on a state-only basis to ALTCS DD clients who experienced service reductions as a result of the CES rate. This amount was in addition to the existing \$120,000 appropriation for CES client services from FY 2018.

The CES rate represents DES' estimate of the cost of an ALTCS DD client's care if the client were placed in an appropriate institutional setting. The federal waiver for the DD program requires a client's home and community-based services costs to be at or below the cost of an institutional setting to ensure that HCBS services are cost-neutral to the federal government. The current annual CES rate ranges from \$162,100 to \$401,400 depending on what the appropriate institutional placement would be for the client in the absence of home and community-based services.

If ALTCS clients have HCBS costs that are at or above the CES rate, DES must either reduce services or place the client in an institutional setting to comply with the waiver. DES projects that the \$1,220,000 is sufficient to fund a monthly average of 45 clients with an average of \$2,250 in monthly costs above the CES rate (\$27,000 annually). The \$27,000 is in addition to the \$162,100 to \$401,400 already funded through the ALTCS program for CES clients. The \$1,220,000 represents a state-only cost.

Chapter 346 requires the Legislature to annually inflate the appropriation for CES services based on the annual increase in the Phoenix-Mesa Consumer Price Index. The Baseline would, as session law, notwithstanding the annual inflation requirement, as the Special Administration Fund does not have sufficient revenues to cover the current appropriations of the fund. (*See Other Issues for Additional Information.*)

Arizona Early Intervention Program

The Baseline includes \$6,319,000 from the General Fund in FY 2020 for the Arizona Early Intervention Program (AzEIP). FY 2020 adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,900,000) from the Spinal and Head Injuries Trust Fund in FY 2020 to remove one-time funding associated with higher-than-budgeted screening costs in the AzEIP program. This funding was

labeled as one-time, and is therefore removed in accordance with the 3-year spending plan associated with the enacted FY 2019 budget. FY 2019 was the first year of this funding.

DES intends to make changes to AZEIP screening processes to reduce costs. An FY 2019 General Appropriation Act footnote required DES to report to JLBC by December 1, 2018 on its plans to address AzEIP screening costs. The department identified \$(600,000) in potential savings in FY 2020 associated with a re-bid of its contracts for the AzEIP program, or \$(1,300,000) less than the one-time funding for the program included in the FY 2019 budget.

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 is expected to provide \$9,376,600 for AzEIP services in FY 2020. As a result, the total AzEIP funding available in this line is \$16,289,600 in FY 2020. DES reports that there were 16,364 new referrals to AzEIP in FY 2018 and 5,468 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. There were 3,569 DD-eligible children enrolled in the AzEIP program as of December 1, 2018.

State-Funded Long Term Care Services

The Baseline includes \$33,151,600 and 2 FTE Positions in FY 2020 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	6,592,000
Long Term Care System Fund	26,559,600

FY 2020 adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$192,000 from the General Fund in FY 2020 for caseload growth in ALTCS-eligible DD clients receiving residential services with room and board expenses.

Remove One-Time Medicaid Room and Board

The Baseline includes a decrease of \$(2,000,000) from the General Fund in FY 2020 to remove funding for a one-time 6.5% rate increase for DD residential services providers

with room and board expenses. This funding was labeled as one-time, and is therefore removed in accordance with the 3-year spending plan associated with the enacted FY 2019 budget. The Legislature has funded the \$2,000,000 on a one-time basis in the FY 2018 and FY 2019 budgets.

Background – This line item primarily funds room and board expenses (e.g., rent and food) for DD 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 2020 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 2019.

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 7* highlights total estimated expenditures for the JOBS line item.

Table 7

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

Child Care Subsidy

The Baseline includes \$98,396,600 from the Federal CCDF Block Grant in FY 2020 for child care subsidies. These amounts are unchanged from FY 2019.

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 monies are appropriated in DCS' budget.

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 \$350 per month in FY 2018 and the average subsidy for the DCS population is projected to be \$406 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 19,100 (see *Table 8*) excluding DCS-related child care. (Please see the *Other Issues* for information on additional CCDF monies.)

Table 8 Child Care Caseloads			
Category	FY 18	FY 19 est	FY 20 est ^{1/}
TANF	1,973	2,200	2,300
Low-Income Working	12,374	12,100	11,800
Transitional Child Care	4,990	4,800	5,000
Total Served	19,337	19,100	19,100

^{1/} FY 2020 numbers are DES estimates.

Rehabilitation Services

The Baseline includes \$7,249,100 in FY 2020 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 2019.

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 in FY 2019 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 2020 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 2019.

Background – 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.

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.

Workforce Investment Act Services

The Baseline includes \$53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2020 for the Workforce Investment Act Services line item. This amount is unchanged from FY 2019.

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, 85% is allocated to local governments and 15% 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 projected allocation of the WIA Grant for workforce-related programs in FY 2020 is shown in *Table 9*.

Table 9

FY 2020 WIA Grant Allocations

<u>Category</u>	<u>Amount</u>
WIA Line Item	\$53,654,600
Operating Budget	2,379,900
AG Legal Services	10,000
Total	\$56,044,500

Other Issues

This section includes information on the following topics:

- Statutory Changes
- Long-Term Budget Impacts
- Proposition 206
- DD Rate Rebase
- CCDF Additional Funding
- Special Administration Fund Shortfall
- Federal TANF Block Grant

Statutory Changes

The Baseline would:

- As permanent law, continue to authorize the use of Special Administration Fund monies for purposes other than administration of unemployment benefits. This provision has been enacted as session law since FY 2016.

- As session law, continue to require DES to drug test TANF Cash Benefit recipients if there is a reasonable suspicion that they are using illegal drugs.
- As permanent 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. This provision has been enacted as session law since FY 2004.
- As session law, notwithstanding the requirement in A.R.S. § 36-2960B to provide an inflation adjustment to the appropriation for DD Cost Effectiveness Study Client Services. There are insufficient monies in the Special Administration Fund to support the adjustment.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, DES' General Fund Developmental Disabilities costs are projected to increase by \$46.9 million in FY 2021 above FY 2020 and \$50.0 million in FY 2022 above FY 2021 based on:

- 4.7% annual caseload growth, resulting in caseloads of 37,218 and 38,967 in June 2021 and June 2022.
- FMAPs of 69.93% in FY 2021 and 69.85% in FY 2022.
- 3.0% annual capitation growth for utilization and medical inflation.
- An increase of \$3.9 million in FY 2021 above FY 2020 to annualize provider rate increases associated with the minimum wage increase to \$12.00 in January 2020.

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 required most employers to begin providing paid sick leave to their employees on July 1, 2017.

As shown in *Table 10*, the FY 2019 budget included appropriations of \$40.2 million from the General Fund (\$123.9 million Total Funds) above the pre-Proposition 206 budget (FY 2016) to address provider cost increases associated with minimum wage increases and paid sick leave. These appropriations fund the following rate adjustments:

Table 10

DES Appropriations for Proposition 206 Costs

	FY 2019		FY 2020 Baseline Above FY 2019		FY 2020 Baseline Total	
	General Fund	Total Funds	General Fund	Total Fund	General Fund	Total Fund
Ongoing	27,190,500	85,440,700	5,798,100	19,307,700	32,988,600	104,748,400
One-Time	13,000,000	38,460,100	(13,000,000)	(38,460,100)	0	0
Total	40,190,500	123,900,800	(7,201,900)	(19,152,400)	32,988,600	104,748,400

- 8.2% increase in January 2017.
- 1.7% increase in July 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 local Proposition 414 minimum wage increase to \$10.50 per hour.
- 1.2% increase in January 2018 to address the minimum wage increase from \$10.00/hour to \$10.50/hour.
- 1.4% increase in January 2019 for the minimum wage increase from \$10.50 to \$11.00/hour.
- One-time distribution of \$11.0 million from the General Fund (\$36.5 million Total Funds) in FY 2019 to DD providers to address additional Proposition 206 impacts. This distribution was also funded at a level of \$10.0 million from the General Fund (\$33.0 million Total Funds) in FY 2018.
- One-time 6.5% increase in room and board reimbursement for DD residential services providers in both FY 2018 and FY 2019.

To meet the benchmark rates for the top 10 most used services, DES would need to increase DD provider rates by 9%-45% depending on the service category.

Table 11

FY 2019 Rates for Top 10 Most Used Services as a percentage of FY 2020 Benchmark Rates

Service	Adopted Rate as Percent of FY 2020 Benchmark
Group Homes	67%
Day Programs	78%-91%
Attendant Care	62%
Respite	61%
Habilitation	76%
Adult Developmental Homes	71%
Nursing Services	55%-75%
Speech Therapy	58%-61%
Room and Board	60%-75%
Group Supported Employment	59%-68%

The FY 2020 Baseline removes the \$(13.0) million in funding designated as one-time in FY 2019, annualizes the January 2019 rate increase (\$1.9 million General Fund included in base capitation adjustment), and adds \$3.9 million for a half-year of funding for an additional rate adjustment in January 2020 when the minimum wage increases to \$12.00/hour.

After these adjustments, the net new funding for Proposition 206 adjustments would be \$33.0 million from the General Fund (\$104.7 million Total Funds) in FY 2020 above FY 2016.

DD Rate Rebase

A.R.S. § 36-2959B requires DES to contract with a consultant to conduct a complete study of DD provider rates every 5 years. The department's consultant completed the required rate study in October 2018. Table 11 shows how the new proposed rates for FY 2020 compare to current rates adopted by DES for FY 2019 for the service categories with the highest spending.

CCDF Additional Funding

The federal Consolidated Appropriations Act of 2018 included an additional \$55.8 million for CCDF allocated in Federal Fiscal Year (FFY) 2018. Due to the requirements of CCDF, this money can only be used to 1) expand the number of children who receive a child care subsidy; 2) increase the rate for providers; or 3) increase the quality of child care programs in Arizona. During the 2018 Legislative Session, DES did not provide a specific plan for expending these funds.

The higher funding level was approved for a second consecutive year in the Departments of Labor, Health and Human Services, and Education, and Related Agencies Appropriations Act of 2019. While the funds may be allocated in FY 2020, the funding is available for use in FY 2019. Funding from the 2019 appropriation must be spent by September 30, 2021.

If the choice is made to use the additional federal funding to serve more households, the current households on the

child care waiting list would begin to qualify. DES operates the current child care program with a wait list to ensure that the program remains within its existing appropriation. Statute authorizes the use of the wait list. *(Please see the Child Care Subsidy section for additional information).* DES has released families off the wait list intermittently throughout FY 2018 and FY 2019 and the wait list has ranged from 400 to 2,200 children. At the current average monthly rate of \$365, eliminating the current child care wait list would cost between \$1.8 million and \$9.6 million.

DES could also be required to serve all eligible households by eliminating its authority for a wait list. In that circumstance, eliminating the wait list permanently would likely result in a higher cost. The JLBC Staff estimates that an additional 15,300 could potentially participate in a Low Income Working (LIW) program with no participation cap. This number is derived by assuming the same participation rate for LIW subsidies in FY 2009, the last year before a wait list was implemented, with the most recent Census population estimates of eligible children. At that level, the cost of the child care subsidy would increase by \$66.6 million annually. That amount includes up to \$9.6 million to fund up to 2,200 children on the wait list and \$57.0 million to fund 13,000 children currently not participating and not on a wait list.

This estimate does not attempt to address the child care program operated by the Early Childhood Health and Development Board (ECHDB).

If a household is put on a wait list at DES, they can then request ECHDB assistance. ECHDB serves households below 200% of FPL and, unlike LIW, provides the full cost of child care for participants through a scholarship. By law, if a child is offered a LIW subsidy, they must accept that in lieu of any scholarship provided by ECHDB. If DES is required to operate its child care program without a wait list, there will be a reduction in ECHDB program participation. The ECHDB program served an average of 5,900 children monthly in FY 2018.

Special Administration Fund Shortfall

DES estimates that the Special Administration Fund will have an FY 2019 ending balance shortfall of \$(77,800). The FY 2019 budget approved \$1.2 million in one-time funding that will be removed in FY 2020. Even at a reduced expenditure level, however, DES still anticipates the fund will have a deficit of \$(1.0) million in FY 2020. *Table 12* shows the allocation of the Special Administration Fund in FY 2018, FY 2019 and FY 2020.

Table 12

Special Administration Fund Revenue and Expenditures

	FY 2018 Actuals	FY 2019 Appropriation	FY 2020 Baseline
Beginning Balance ^{1/}	\$ 893,300	\$ 1,874,300	\$ 0
Revenue	3,932,800	3,736,100	3,549,300
Expenditures			
One Time Transfer to General Fund ^{2/}	0	11,000	0
Administration			
Operations	1,715,900	2,070,400	2,070,400
AG Legal Services	5,000	5,000	5,000
Aging and Adult Services			
Adult Services ^{2/}	0	1,171,000	0
Domestic Violence Prevention	0	100,000	100,000
Developmental Disabilities			
Home and Community Based Services ^{3/}	120,000	120,000	0
Cost-Effectiveness Client Study ^{3/}	0	1,100,000	1,220,000
Employment Related Services			
JOBS Program	<u>1,110,900</u>	<u>1,110,900</u>	<u>1,110,900</u>
Ending Balance ^{1/}	\$ 1,874,300	\$ (77,900)	\$ (957,000)

^{1/} Actual FY 2019 ending fund balance / FY 2020 beginning fund balance will not be negative.

^{2/} Designated as one-time spending in the FY 2019 budget.

^{3/} Items consolidated in the FY 2020 Baseline.

Federal TANF Block Grant

The budget appropriates \$222.6 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

	Actual FY 2018	Estimate FY 2019	Estimate FY 2020
Revenues			
Beginning Balance	\$ -	\$ 4,271,400	\$ 3,269,400
TANF Base Revenues	199,407,300	199,407,300	199,407,300
TANF Contingency Fund Revenues	22,194,900	22,194,900	22,194,900
Total TANF Available	\$ 221,602,200	\$ 225,873,600	\$ 224,871,600
Expenditures			
Department of Child Safety			
DCS Operating	\$ 16,928,000	\$ 16,958,500	\$ 16,958,500
<u>Line Items</u>			
Caseworkers	30,000,000	30,050,100	30,050,100
Attorney General Legal Services	99,400	99,700	99,700
Inspections Bureau	549,700	550,700	550,700
Overtime	3,859,500	3,866,400	3,866,400
Adoption Services	20,445,700	23,163,500	23,163,500
Congregate Group Care	16,423,000	21,423,000	21,423,000
Foster Home Placement	6,973,100	6,973,100	6,973,100
Permanent Guardianship Subsidy	1,943,000	1,943,000	1,943,000
In-Home Mitigation	5,911,200	5,911,200	5,911,200
Out-of-Home Support Services	46,340,100	46,340,100	46,340,100
TOTAL - DEPARTMENT OF CHILD SAFETY	\$ 149,472,700	\$ 157,279,300	\$ 157,279,300
Department of Economic Security			
DES Operating	\$ 20,315,600	\$ 20,393,300	\$ 20,393,300
<u>Line Items</u>			
Administration			
Attorney General Legal Services	106,100	106,300	106,300
Adult and Aging Services			
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Programs	1,649,500	1,649,500	1,649,500
Domestic Violence Prevention	6,620,700	6,620,700	6,620,700
Benefits and Medical Eligibility			
TANF Cash Benefits	22,629,700	22,736,400	22,736,400
Coordinated Hunger Program	500,000	500,000	500,000
Employment and Rehabilitative Services			
JOBS	9,594,700	9,594,700	9,594,700
Child Care Subsidy	2,717,800	-	-
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 67,858,100	\$ 65,324,900	\$ 65,324,900
TOTAL - STATEWIDE	\$ 217,330,800	\$ 222,604,200	\$ 222,604,200
Ending Balance	\$ 4,271,400	\$ 3,269,400	\$ 2,267,400

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 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.		
Appropriated Funds Expended	7,917,200	16,973,100
Expenditure Authority Expended	35,024,300	42,299,500
Year-End Fund Balance*	6,115,700	(6,056,400)
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	11,600	0
Year-End Fund Balance	981,500	981,500
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	17,400	17,400
Year-End Fund Balance	1,537,900	1,542,700
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	3,200	34,900
Year-End Fund Balance	68,000	34,000
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	1,265,300	4,000,000
Year-End Fund Balance	2,365,600	1,015,600
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	16,300	30,800
Year-End Fund Balance	125,500	99,900
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	64,700	64,700
Year-End Fund Balance	383,300	358,600

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 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	4,300	4,300
Year-End Fund Balance	300	300
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	103,773,400	110,518,600
Year-End Fund Balance	76,476,300	121,975,800
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	1,741,347,200	1,673,880,100
Year-End Fund Balance	17,858,000	4,584,800
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	67,858,100	65,324,900
Year-End Fund Balance	4,271,934	3,269,388
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	2,800,000	0
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	224,100	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 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	1,069,000	483,400
Year-End Fund Balance	1,030,600	547,200
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	0	0
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	988,034,900	1,173,446,100
Year-End Fund Balance	124,630,200	0
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	26,561,500	26,559,600
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	34,300	35,000
Year-End Fund Balance	36,800	33,800
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	0	422,500
Year-End Fund Balance	372,200	800
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. The FY 2019 Human Service Budget Reconciliation Bill allows this fund to be used for adult services and domestic violence prevention.		
Funds Expended	2,951,800	5,677,300
Year-End Fund Balance*	1,874,300	(77,900)

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 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	87,900	87,900
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. The FY 2019 Human Service Budget Reconciliation Bill allows this fund to be used for the Arizona Early Intervention Program.		
Funds Expended	2,310,900	4,254,400
Year-End Fund Balance	2,446,600	214,300
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	243,189,900	241,100,000
Year-End Fund Balance	855,634,800	1,097,366,200
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	1,802,200	0
Year-End Fund Balance	0	0
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	68,040,300	56,044,500
Year-End Fund Balance	6,083,200	14,608,900

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