

## Department of Economic Security

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	4,476.8	4,533.8	4,611.8 <sup>1/</sup>
Personal Services	126,768,000	124,825,700	132,118,300
Employee Related Expenditures	55,002,300	56,307,300	60,946,400
Professional and Outside Services	50,710,300	25,467,500	26,308,400
Travel - In State	154,900	126,200	131,400
Travel - Out of State	80,300	110,200	110,200
Other Operating Expenditures	188,524,600	122,450,900	114,054,500
Equipment	3,108,800	2,482,800	1,201,400
<b>OPERATING SUBTOTAL</b>	<b>424,349,200</b>	<b>331,770,600</b>	<b>334,870,600</b> <sup>2/3/</sup>
<b>SPECIAL LINE ITEMS</b>			
Operating Budget Lump Sum Reduction	0	0	(3,026,200)
<b>Administration</b>			
Attorney General Legal Services	10,057,600	12,755,600	12,810,300
<b>Aging and Adult Services</b>			
Adult Services	12,731,900	15,731,900	12,731,900
Area Agencies on Aging Housing Assistance	0	5,000,000	0
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
Navajo Nation Women's Services	0	0	500,000
Pascua Yaqui Tribe Social Services Programs	0	0	1,000,000
Coordinated Hunger Services	2,254,600	2,254,600	2,254,600
Produce Incentive Program	0	5,462,600	0
Globe-Miami Area Food Bank	0	250,000	0
Low-Income Food Services for Tribal Reservations	0	0	250,000
Cochise County Food Distribution	0	0	1,000,000
Pinal County Nutrition, Housing, and Rental Assistance	0	0	500,000
Domestic Violence Prevention	12,436,500	14,004,000	14,004,000 <sup>4/5/</sup>
Long-Term Care Ombudsman	1,000,000	1,000,000	1,000,000
<b>Benefits and Medical Eligibility</b>			
TANF Cash Benefits	22,736,400	22,736,400	22,736,400
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Diaper and Incontinence Products Assistance	0	1,000,000	0
Navajo Nation Youth Programs	0	0	500,000
<b>Child Support Enforcement</b>			
County Participation	8,539,700	8,539,700	8,539,700
<b>Developmental Disabilities</b> <sup>6/-9/</sup>			
<i>Federal Match Funding</i>			
DDD Premium Tax Payment	56,755,000	61,199,900	64,871,600
Case Management - Medicaid	87,513,700	104,257,900	142,110,000 <sup>8/</sup>
Home and Community Based Services - Medicaid	2,171,088,400	2,349,599,400	2,293,118,300
Institutional Services - Medicaid	43,369,800	47,090,000	51,584,800 <sup>10/</sup>
Physical and Behavioral Health Services - Medicaid	543,483,000	541,297,400	655,475,100
Medicare Clawback Payments	5,710,300	6,055,500	7,132,700
Targeted Case Management - Medicaid	15,109,000	15,283,000	19,487,800
State Match Transfer from AHCCCS	0	982,330,300	1,122,988,600
<i>State-Only Funding</i>			
Case Management - State-Only	7,354,000	6,335,600	6,383,200 <sup>8/</sup>
Cost Effectiveness Study - Client Services	8,420,000	8,420,000	8,420,000 <sup>11/</sup>
Home and Community Based Services - State-Only	13,089,000	14,089,000	14,089,000
Arizona Early Intervention Program	9,719,000	14,119,000	16,119,000
State-Funded Long Term Care Services	36,755,100	43,534,700	44,389,800

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
Group Home Monitoring Program	1,200,000	1,200,000 <sup>12/</sup>	1,200,000 <sup>12/</sup>
Graham County Rehabilitation Center	0	830,000 <sup>13/</sup>	0
DD Job Training and Life Skills Services	0	0	1,000,000
<b>Employment and Rehabilitation Services</b>			
Child Care Subsidy	179,380,200	187,080,200	320,580,200 <sup>14/-16/</sup>
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
JOBS	11,005,600	11,005,600	11,005,600
Rehabilitation Services	7,249,100	7,249,100	7,249,100
Workforce Innovation and Opportunity Act Services	80,779,800	85,824,200	85,824,200 <sup>17/</sup>
<b>AGENCY TOTAL</b>	<b>3,784,303,200</b>	<b>4,919,522,500</b>	<b>5,294,916,600 <sup>18/-21/</sup></b>

#### FUND SOURCES

General Fund	898,690,400	1,211,415,700	1,344,531,100
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	23,537,700	17,683,300	17,678,400 <sup>3/</sup>
Domestic Violence Services Fund	2,432,800	4,000,300	4,000,300 <sup>4/</sup>
Federal CCDF Block Grant	200,010,100	200,029,300	331,027,900
Federal TANF Block Grant	66,591,200	66,591,200	66,588,900
Long Term Care System Fund (Non-Federal Matched)	27,366,300	33,864,200	34,429,200
Public Assistance Collections Fund	0	441,800	441,800
Special Administration Fund	4,643,200	4,637,900	4,654,600
Spinal and Head Injuries Trust Fund	2,388,400	2,385,500	2,390,200
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	85,778,900	87,116,600	87,116,200 <sup>17/</sup>
SUBTOTAL - Other Appropriated Funds	412,748,600	417,750,100	549,327,500
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,311,439,000</b>	<b>1,629,165,800</b>	<b>1,893,858,600</b>
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	59,449,000	44,195,500	44,401,200
Health Care Investment Fund	54,370,500	54,412,300	43,247,300
Long Term Care System Fund (Federal Match)	2,359,044,700	3,191,748,900	3,313,409,500
SUBTOTAL - Expenditure Authority Funds	2,472,864,200	3,290,356,700	3,401,058,000
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>3,784,303,200</b>	<b>4,919,522,500</b>	<b>5,294,916,600</b>
Other Non-Appropriated Funds	251,246,100	335,510,000	335,510,000
Federal Funds	3,306,648,100	3,125,977,900	3,125,977,900
<b>TOTAL - ALL SOURCES</b>	<b>7,342,197,400</b>	<b>8,381,010,400</b>	<b>8,756,404,500</b>

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

#### FOOTNOTES

- 1/ Includes 320.2 GF, 144.6 OF, and 1,736.6 EA FTE Positions funded from Special Line Items in FY 2025.
- 2/ The operating lump sum appropriation may be spent on Arizona health care cost containment system eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- 3/ All state shares of retained earnings, fees and federal incentives in excess of \$17,678,400 received by the division of child support enforcement are appropriated for operating expenditures. New FTE positions are authorized with the increased funding. Before spending these increased monies, the department of economic security shall report the intended use of the monies to the joint legislative budget committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 4/ All domestic violence services fund monies in excess of \$4,000,300 received by the department of economic security are appropriated for the domestic violence prevention line item. Before spending these increased monies, the department

shall report the intended use of monies in excess of \$4,000,300 to the joint legislative budget committee. (General Appropriation Act footnote)

- 5/ On or before December 15, 2024, the department of economic security shall report to the joint legislative budget committee the amount of state and federal monies available statewide for domestic violence prevention funding. 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 two percent. 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 impact 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/ Before transferring any monies in or out of the case management - medicaid and case management - state-only and developmental disabilities administration line items and before transferring any monies in or out of the operating lump sum item related to the developmental disabilities program and its administration, the department shall submit a report for review by the joint legislative budget committee, except that transfers from the state match transfer from AHCCCS line item into those line items do not require a report for review. (General Appropriation Act footnote)
- 9/ The department of economic security may not transfer any excess appropriation from the DDD premium tax payment, case management - medicaid, home and community based services - medicaid, institutional services - medicaid, physical and behavioral health services - medicaid, medicare clawback payments or targeted case management - medicaid line items to any line item outside of the developmental disabilities section in fiscal year 2023-2024. (General Appropriation Act footnote)
- 10/ On or before September 1, 2025, the department of economic security 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 fiscal year 2024-2025 and the reason for 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. On or before September 1, 2025, 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 fiscal year 2024-2025. (General Appropriation Act footnote)
- 11/ On or before November 30, 2024, the department of economic security shall submit a report to the joint legislative budget committee regarding expenditures from the cost effectiveness study - client services line item in the previous fiscal year. The report shall include the number of clients and total amounts spent from the line item in each setting type along with expenditures for those clients in other line items. The report shall also include cost effectiveness spending in other line items. (General Appropriation Act footnote)
- 12/ The amounts appropriated for the group home monitoring program in fiscal year 2023-2024 pursuant to Laws 2023, chapter 133, section 29 and in fiscal year 2024-2025 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2026. (General Appropriation Act footnote)
- 13/ The amount appropriated for the Graham county rehabilitation center in fiscal year 2023-2024 pursuant to Laws 2023, chapter 133, section 29 is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2025. Of the amount appropriated, \$800,000 shall be used to remodel the Graham county rehabilitation facilities in Safford and Willcox. (General Appropriation Act footnote)
- 14/ On or before September 15, 2024 and March 15, 2025, the department of economic security shall submit a 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 joint legislative budget committee on child care development block grant monies provided from the coronavirus aid, relief, and economic security act, the consolidated appropriations act, 2021 and the American rescue plan act of 2021 (P.L. 117-2). The report must include, at a minimum, the actual

expenditures made to date by purpose and, separately, by federal legislation, the expenditure plan for all remaining monies by purpose and, separately, by federal legislation, the number of children served with the monies on average each month, the average child care reimbursement rates for the entire program, including these monies, and the number of child care settings with a quality rating. (General Appropriation Act footnote)

- 15/ The department of economic security shall forward to the joint legislative budget committee a monthly report listing data on the child care population served. The report must include, at a minimum, in each program the number of unduplicated children enrolled in child care within the department of economic security and the department of child safety by program and the average amount paid per child plus quality-related spending. (General Appropriation Act footnote)
- 16/ Of the state general fund share of the amount appropriated in the child care subsidy line item, at least ten percent shall be distributed in counties other than Maricopa, Pima and Pinal counties. (General Appropriation Act footnote)
- 17/ All workforce investment act grant monies that are received by this state in excess of \$87,116,200 are appropriated to the workforce innovation and opportunity act services line item. Before spending these increased monies, the department shall report the intended use of monies in excess of \$87,116,200 to the joint legislative budget committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 18/ On or after April 1, 2025, the department of economic security may use up to \$25,000,000 from the budget stabilization fund established by section 35-144, Arizona Revised Statutes, for the purpose of providing funding for reimbursement grants. Before using the monies from the budget stabilization fund, the department shall notify the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting. This appropriation must be fully reimbursed on or before September 1, 2025 and must be reimbursed in full as part of the closing process for fiscal year 2024-2025. The department shall notify the joint legislative budget committee of the reimbursement on or before September 1, 2025. The appropriation may not be used for additional programmatic expenditures. (General Appropriation Act footnote)
- 19/ The above appropriations are in addition to monies granted to this 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 section 42-5029, Arizona Revised Statutes. (General Appropriation Act footnote)
- 20/ 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 thirtieth 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)
- 21/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

**Summary**

The Department of Economic Security's (DES) FY 2025 General Fund spending increases by \$133,115,400 or 11.0% above the FY 2024 appropriation. This amount includes:

- \$142,289,900 for Division of Developmental Disabilities (DDD) formula adjustments.
- \$(3,026,200) for an operating budget lump sum reduction.
- \$2,000,000 for the Area Agencies on Aging (AAA).
- \$500,000 for Navajo Nation women's services.
- \$1,000,000 for Pascua Yaqui Tribe social services programs.
- \$250,000 for low-income food services for tribal reservations.
- \$500,000 for nutrition, housing, and rental assistance programs in Pinal County.

- \$1,000,000 for food distribution to low-income individuals in Cochise County.
- \$500,000 for Navajo Nation youth programs.
- \$2,000,000 for Arizona Early Intervention Program (AzEIP) provider rate increases.
- \$1,000,000 for Developmental Disability (DD) job training and life skills services.
- \$12,000,000 for child care network funding.
- \$(28,160,800) to remove FY 2024 one-time funding.
- \$1,262,500 for statewide adjustments.

**Operating Budget**

The budget includes \$334,870,600 and 2,410.4 FTE Positions in FY 2025 for the operating budget. These amounts consist of:

	<b>FY 2025</b>
General Fund	\$157,773,800

Child Support Enforcement Administration Fund	14,053,300
Child Support Enforcement Administration Fund (EA)	28,190,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	21,657,400
Federal Child Care and Development Fund (CCDF) Block Grant	22,427,200
Long Term Care System Fund (EA)	85,321,000
Public Assistance Collections Fund	339,100
Special Administration Fund	2,217,800
Spinal and Head Injuries Trust Fund	610,000
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	1,280,800

Adjustments are as follows:

**DDD Formula Adjustments**

The budget includes an increase of \$3,304,700 in FY 2025 for standard formula adjustments within the DDD program. This amount consists of:

General Fund	4,764,000
Long Term Care System Fund (EA)	(1,459,300)

*(Please see the Developmental Disabilities section for more information.)*

**Child Care Operating Shortfall Reallocation**

The budget includes a one-time increase of \$9,500,000 from the Federal CCDF Block Grant in FY 2025 for a child care operating shortfall reallocation. Since FY 2017, the department has transferred funds from the Child Care Subsidy line item to the operating budget each year to address a shortfall in funding for the administrative expenses of the child care assistance program. The one-time increase is to align the budget's allocation of the Federal CCDF Block Grant with the department's planned expenditures in FY 2025.

**Remove One-Time IT Security Project Funding**

The budget includes a decrease of \$(1,518,200) from the General Fund in FY 2025 to remove the one-time portion of funding for an IT security project. The project's purpose is to protect the department from ransomware attacks. The enacted FY 2024 budget appropriated \$1,587,900 from the General Fund for this project, which represents 20% of its total cost, with the remaining 80% covered via Federal Funds.

**Remove Adult Protective Services General Fund Backfill**

The budget includes a decrease of \$(9,100,000) from the General Fund in FY 2025 to remove one-time funding that was used to backfill federal funding in the Adult Protective Services (APS) program. As a subrecipient of federal Victims of Crime Act (VOCA) grant funding, DES uses these

monies to provide victim services within its APS program. The Department of Public Safety (DPS) is the primary recipient of the state's VOCA grant funding. DPS has notified DES and other subrecipients that it projects significant cuts to the state's award and that subrecipients may not receive their typical allotment in FY 2024.

**Statewide Adjustments**

The budget includes an increase of \$913,500 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	538,500
Child Support Enforcement Administration Fund	(2,000)
Child Support Enforcement Administration Fund (EA)	159,900
Federal TANF Block Grant	(2,300)
Federal CCDF Block Grant	(1,400)
Long Term Care System Fund (EA)	199,800
Special Administration Fund	16,700
Spinal and Head Injuries Trust Fund	4,700
Workforce Investment Act Grant	(400)

*(Please see the Agency Detail and Allocations section.)*

**Operating Budget Lump Sum Reduction**

The budget includes a decrease of \$(3,026,200) from the General Fund in FY 2025 for a lump sum reduction. Agencies receiving a lump sum reduction will apply the reduction to the operating lump sum appropriation in the FY 2026 budget request submittal. Agencies have discretion in how the reduction in spending is achieved. The FY 2026 Baseline Book will incorporate the agency's planned reduction into the operating budget display.

**Administration**

**Attorney General Legal Services**

The budget includes \$12,810,300 and 157.9 FTE Positions in FY 2025 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,265,100
Child Support Enforcement Administration Fund	2,570,800
Child Support Enforcement Administration Fund (EA)	8,725,600
Federal TANF Block Grant	106,400
Federal CCDF Block Grant	20,500
Public Assistance Collections Fund	102,700
Special Administration Fund	5,900
Spinal and Head Injuries Trust Fund	2,100
Workforce Investment Act Grant	11,200

Adjustments are as follows:

**Statewide Adjustments**

The budget includes an increase of \$54,700 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	11,800
Child Support Enforcement Administration Fund	(2,900)
Child Support Enforcement Administration Fund (EA)	45,800

**Aging and Adult Services**

**Adult Services**

The budget includes \$12,731,900 from the General Fund in FY 2025 for Adult Services. Adjustments are as follows:

**Remove FY 2024 Area Agencies on Aging Increase**

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2025 to remove one-time funding for provider rate increases.

**FY 2025 Area Agencies on Aging Increase**

The budget includes a one-time increase of \$2,000,000 from the General Fund in FY 2025 for AAA funding.

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

**Table 1**

<b>Adult Services</b>	
<u>Services</u>	<u>FY 2025</u>
Adult Protective Contracted Services	\$ 295,100
Independent Living Services	4,559,400
Older Americans Act	2,601,300
State Ombudsman	814,100
Respite Care	462,000
FY 2025 Direct Care Worker Incentives	2,000,000 <sup>1/</sup>
FY 2025 One-Time Provider Rate Increase	<u>2,000,000</u>
<b>Total</b>	<b>\$12,731,900</b>

<sup>1/</sup> This line is funded via \$2,000,000 from the General Fund for ongoing provider rate increases appropriated across both FY 2022 and FY 2023.

**Area Agencies on Aging Housing Assistance**

The budget includes no funding in FY 2025 for AAA Housing Assistance. Adjustments are as follows:

**Remove Area Agencies on Aging Housing Assistance**

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2025 to remove one-time funding for AAA housing assistance. The FY 2024 enacted budget

included a footnote specifying that the department will distribute the monies to AAAs for housing assistance for individuals who are at least 60 years old. The monies are non-lapsing.

**Community and Emergency Services**

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2025 for Community and Emergency Services. This amount is unchanged from FY 2024.

Monies in this line item provide funding to 18 community action agencies to deliver a wide range of services related to the needs of low-income families and individuals. In FY 2023, this line item provided short-term crisis services to 961 households and energy assistance to 267 households.

**Coordinated Homeless Services**

The budget includes \$2,522,600 in FY 2025 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 2024.

The budget includes no net change from the General Fund in FY 2025 for a homeless youth assistance General Fund backfill. In FY 2022 and FY 2023, DES distributed one-time Federal Funds to organizations that provide assistance to unaccompanied youth aged 18-24 experiencing homelessness. The 3-year spending plan associated with the enacted FY 2022 budget originally included an increase of \$1,000,000 from the General Fund in FY 2024 to fund the program with state monies instead of Federal Funds. However, due to slower-than-anticipated expenditure of the Federal Funds, the FY 2024 and FY 2025 budgets each delayed the General Fund increase for 1 year. The 3-year spending plan associated with the enacted FY 2025 budget now includes the \$1,000,000 increase in FY 2026.

In FY 2023, this line item provided emergency shelter services to 9,832 individuals, rapid re-housing services to 1,030 individuals, and homeless prevention services to 363 individuals.

**Navajo Nation Women's Services**

The budget includes \$500,000 from the General Fund in FY 2025 for Navajo Nation Women's Services. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$500,000 from the General Fund in FY 2025 for DES to distribute to the Navajo Nation for women's shelter and social services.

**Pascua Yaqui Tribe Social Services Programs**

The budget includes \$1,000,000 from the General Fund in FY 2025 for Pascua Yaqui Tribe Social Services Programs. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$1,000,000 from the General Fund in FY 2025 for DES to distribute to the Pascua Yaqui tribal government for social services programs.

**Coordinated Hunger Services**

The budget includes \$2,254,600 in FY 2025 for Coordinated Hunger Services programs. This amount consists of:

General Fund	1,754,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2024.

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 2023, this funding assisted in the distribution of 169 million pounds of produce.

**Produce Incentive Program**

The budget includes no funding in FY 2025 for the Produce Incentive Program. Adjustments are as follows:

**Remove One-Time Additional Funding**

The budget includes a decrease of \$(5,462,600) from the General Fund in FY 2025 to remove one-time funding. The Produce Incentive Program, also referred to as "Double Up Food Bucks," is part of Arizona's Supplemental Nutrition Assistance Program (SNAP) and provides a dollar-for-dollar match for SNAP enrollees when they purchase Arizona-grown fruits and vegetables. The additional funding will be for DES to continue to administer the program and provide matching monies. The appropriation is non-lapsing.

**Globe-Miami Area Food Bank**

The budget includes no funding in FY 2025 for the Globe-Miami Area Food Bank. Adjustments are as follows:

**Remove One-Time Food Bank Assistance**

The budget includes a decrease of \$(250,000) from the General Fund in FY 2025 to remove one-time funding for a transfer to a food bank. The enacted FY 2024 budget included a footnote requiring the department to transfer the monies to a food bank headquartered in the Globe-Miami area.

**Low-Income Food Services for Tribal Reservations**

The budget includes \$250,000 from the General Fund in FY 2025 for low-income food services for tribal reservations. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$250,000 from the General Fund in FY 2025 for the distribution of food to low-income individuals living on tribal reservations.

**Cochise County Food Distribution**

The budget includes \$1,000,000 from the General Fund in FY 2025 for Cochise County Food Distribution. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$1,000,000 from the General Fund in FY 2025 for DES to distribute to nonprofit organizations located in Cochise County that provide food distribution services for low-income individuals.

**Pinal County Nutrition, Housing, and Rental Assistance**

The budget includes \$500,000 from the General Fund in FY 2025 for Pinal County nutrition, housing, and rental assistance. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$500,000 from the General Fund in FY 2025 to distribute to a nonprofit organization in Pinal County that provides nutrition, housing, and rental assistance programs.

**Domestic Violence Prevention**

The budget includes \$14,004,000 in FY 2025 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,200
Federal TANF Block Grant	6,620,500
Domestic Violence Services Fund	4,000,300
Special Administration Fund	100,000

These amounts are unchanged from FY 2024.

In FY 2023, this line item, along with non-appropriated funds, served approximately 4,246 adults and children in emergency shelters, 304 adults and children in transitional housing, and 13,324 victims with mobile and community-based advocacy.

**Long-Term Care Ombudsman**

The budget includes \$1,000,000 from the General Fund in FY 2025 for Long-Term Care Ombudsman services. This amount is unchanged from FY 2024.

A.R.S. § 46-452.02 requires that the Office of the State Long-Term Care Ombudsman visit each long-term care facility at least twice per calendar year to speak with residents of the facility or their representatives, investigate and resolve complaints, refer cases to Adult Protective Services or the appropriate agency, and change complaint communication requirements for DD service providers.

**Benefits and Medical Eligibility**

**TANF Cash Benefits**

The budget includes \$22,736,400 from the Federal TANF Block Grant in FY 2025 for TANF Cash Benefits. This amount is unchanged from FY 2024.

The budgeted amount would be able to fund an average of 15,750 individuals at \$100 per month. As of June 2024, the program serves 10,605 individuals.

Additionally, 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 budgeted amount would be able to fund an average of 390 Diversion clients at \$817 per month. In June 2024, the TANF Diversion program served 303 clients.

At June 2024 levels, the total cost would be \$15,696,600, or \$(7,039,800) below the budgeted amount.

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 if the following conditions are met:

- The family includes at least 1 adult required to participate in the JOBS program.
- All adults who are required to participate in the JOBS program are in full compliance in the twelfth month of cash assistance and remain in compliance.
- All children required by state law to attend school maintain at least a 90% attendance record.

If any of these conditions are not met, the limit is 12 months.

The FY 2025 Human Services Budget Reconciliation Bill (BRB) continues to require DES to drug test TANF recipients if there is a reasonable suspicion that they are using illegal drugs.

*(Please see Federal TANF Block Grant in Other Issues for more information on TANF expenditures.)*

**Tribal Pass-Through Funding**

The budget includes \$4,680,300 from the General Fund in FY 2025 for Tribal Pass-Through Funding. This amount is unchanged from FY 2024.

Monies in this line item are passed through to Native American tribes operating their own TANF programs.

**Diaper and Incontinence Products Assistance**

The budget includes no funding in FY 2025 for Diaper and Incontinence Products Assistance. Adjustments are as follows:

**Remove One-Time Assistance**

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2025 to remove one-time funding for transfer to an organization that provides diaper and incontinence products assistance within the state.

**Navajo Nation Youth Programs**

The budget includes \$500,000 from the General Fund in FY 2025 for Navajo Nation youth programs. Adjustments are as follows:



**One-Time Funding**

The budget includes a one-time increase of \$500,000 from the General Fund in FY 2025 for distribution to the Navajo Nation for youth programs.

**Child Support Enforcement**

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

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund. In addition to the General Fund and CSEA Fund appropriations, the displayed amounts also include Federal Expenditure Authority for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state. *Table 2* details the sources and uses of the CSEA Fund.

<u>Sources</u>	<u>FY 2025</u>
State Share of Retained Earnings	\$ 3,483,300
Federal Incentive Payments	6,153,600
Fees	2,402,700
Excess Appropriation Authority <sup>1/</sup>	5,268,700
Administration (Non-Appropriated)	<u>3,115,600</u>
<b>Total</b>	<b>\$20,423,900</b>
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,680,300
Attorney General Legal Services	2,573,700
County Participation	1,054,300
Administration (Non-Appropriated)	<u>3,115,600</u>
<b>Total</b>	<b>\$20,423,900</b>

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

**County Participation**

The budget includes \$8,539,700 in FY 2025 for County Participation. This amount consists of:

CSEA Fund	1,054,300
CSEA Fund (EA)	7,485,400

These amounts are unchanged from FY 2024.

Arizona counties have the option of either implementing their own child support enforcement program or electing to have DES implement the program on their behalf. If counties decide to run their own programs, these funds are distributed to counties for that purpose. However, because no counties currently run their own program, DES instead distributes these monies to counties for clerk of the court and family law services that coordinate and mediate between custodial and non-custodial parents.

**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 primarily 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 (DDD) but does not appropriate any specific non-appropriated fund.

As of June 2024, the Division of Developmental Disabilities served 56,177 clients, which includes 43,032 clients in the LTC program, 6,918 in Targeted Case Management, and 6,227 clients in the state-only program. The primary disabilities as reported by DES are shown in *Table 3*.

**Overall DDD Adjustments**

The budget includes an increase of \$142,289,900 from the General Fund in FY 2025 for DDD formula changes. These adjustments are based on standard formula assumptions of 4.5% caseload growth and a 4.0% capitation rate increase. Changes are described in further detail below.

**Table 3**

**Primary Disability of Clients Served <sup>1/</sup>**

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	17,573	31.3%
At Risk	14,345	25.5%
Autism	18,200	32.4%
Cerebral Palsy	3,782	6.7%
Epilepsy	2,213	3.9%
Not Indicated	64	0.1%
<b>Total</b>	<b>56,177</b>	

<sup>1/</sup> Numbers are based on the department's estimates of primary disabilities of DD clients, proportionally adjusted for the budget's overall caseload estimates.

**Caseload Growth**

The budget includes an increase of \$41,508,300 from the General Fund in FY 2025 for DD caseload changes. Compared to June 2023, LTC caseloads grew by 5.9% to 43,032 members in June 2024 (this amount excludes state-only clients). The budget assumes caseloads will grow by 3.8% to 44,674 members by June 2025 and by 4.5% in future years. The 4.5% rate is based on recent growth within the program; average annual growth since January 2022 was 4.5%.

Table 4 shows the number of clients by placement setting for DDD enrollees in June 2023 and 2024 and the estimated growth in FY 2025.

**Table 4**

**DDD June Caseloads and Placement Settings**

<u>Placement</u>	<u>FY 23</u>	<u>FY 24</u>	<u>FY 25 Est <sup>1/</sup></u>
Home	35,305	37,662	39,099
Group Home	3,594	3,620	3,758
Developmental Home	1,630	1,651	1,714
Institution	113	99	103
<b>Total</b>	<b>40,642</b>	<b>43,032</b>	<b>44,674</b>

<sup>1/</sup> Numbers are based on the department's estimates of placement settings, proportionally adjusted for the budget's overall caseload estimates.

**Capitation Rate Adjustments**

The budget includes an increase of \$17,792,200 from the General Fund in FY 2025 for a 4.0% capitation rate increase beginning October 1, 2024, as well as to annualize the FY 2024 capitation rate adjustment. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. The 4.0% growth assumption is based on several factors, including the medical care consumer price index and the 4.0% growth the LTC program within AHCCCS experienced in the FY 2024 capitation rate adjustment.

Table 5 shows how the capitation adjustment is allocated by service category in FY 2024.

**Table 5**

**DDD ALTCS Capitation Growth**

	<u>FY 2024 Capitation Rate <sup>1/</sup></u>	<u>Assumed Growth Rate</u>	<u>FY 2025 Capitation Rate Est</u>
Administration <sup>2/</sup>	241.1	4.0%	250.7
Premium Tax	119.9	4.0%	124.6
Case Management	260.2	4.0%	270.6
HCBS <sup>3/</sup>	4,177.3	4.0%	4,344.4
Institutional Care <sup>4/</sup>	94.8	4.0%	98.6
Integrated Care <sup>5/</sup>	1,099.0	4.0%	1,143.0
<b>Total</b>	<b>5,992.3</b>	<b>4.0%</b>	<b>6,231.9</b>

<sup>1/</sup> Rate effective October 1, 2023.

<sup>2/</sup> The Administration line is allocated to the overall DES operating budget.

<sup>3/</sup> HCBS line includes PMPM rates for HCBS and Risk Contingency.

<sup>4/</sup> Institutional Care rate is net of client's share of cost.

<sup>5/</sup> Integrated care funding is allocated to the Physical and Behavioral Health Services line item.

**FMAP Adjustment**

The budget includes an increase of \$81,622,100 to the General Fund in FY 2025 associated with adjustments to the state's 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 2025, the blended Medicaid FMAP for Arizona will decrease to 65.24%, down from 67.11% in FY 2024. The FY 2024 figure does not include the enhanced match rates from the 2023 Consolidated Appropriations Act.

DDD received a 2.5% enhanced match in July 2023 through September 2023 and a 1.5% enhanced match in October 2023 through December 2023 due to the federal 2023 Consolidated Appropriations Act. This federal legislation phased down an enhanced match rate that was available to states during the COVID-19 pandemic. The enhanced match was eliminated starting January 2024 and will therefore not be available in FY 2025. The budget annualizes the loss of this enhanced match, which increases General Fund costs. (Please see Overall DDD Adjustments in the FY 2024 Appropriations Report for more information on enhanced match rates during the pandemic.)

**Medicare Clawback**

The budget includes an increase of \$1,077,200 from the General Fund in FY 2025 for adjustments associated with Medicare Clawback Payments.

Room and Board

The budget includes an increase of \$290,100 from the General Fund in FY 2025 for adjustments associated with caseload growth in ALTCS-eligible DD clients receiving residential services with room and board expenses.

**Developmental Disabilities – Federal Match Funding**

**DDD Premium Tax Payment**

The budget includes \$64,871,600 in FY 2025 for the DDD Premium Tax Payment. This amount consists of:

General Fund	22,549,400
Long Term Care System Fund (EA)	42,322,200

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$3,671,700 in FY 2025 for standard formula adjustments. This amount consists of:

General Fund	3,016,800
Long Term Care System Fund (EA)	654,900

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

**Case Management - Medicaid**

The budget includes \$142,110,000 and 1,152.9 FTE Positions in FY 2025 for Case Management - Medicaid. These amounts consist of:

General Fund	49,385,300
Long Term Care System Fund (EA)	92,724,700

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$36,597,700 and 72 FTE Positions in FY 2025 for standard formula adjustments. These amounts consist of:

General Fund	15,681,200
Long Term Care System Fund (EA)	20,916,500

**Statewide Adjustments**

The budget includes an increase of \$1,254,400 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	423,900
Long Term Care System Fund (EA)	830,500

*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. Beginning in Contract Year Ending 2024, the ALTCS program requires DES to have at least 1 case manager for every 43 DD clients added since June 2022. For DD clients added between June 2006 and June 2022, the requirement continues to be 1 case manager for every 35 clients. The 72 FTE Position increase included in the FY 2025 budget was calculated based solely on the 1:35 ratio.

**Home and Community Based Services - Medicaid**

The budget includes \$2,293,118,300 and 221.2 FTE Positions in FY 2025 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	788,284,600
Long Term Care System Fund (EA)	1,496,045,800
Health Care Investment Fund	8,787,900

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$59,045,300 in FY 2025 for standard formula adjustments. This amount consists of:

General Fund	78,483,800
Long Term Care System Fund (EA)	(17,481,200)
Health Care Investment Fund	(1,957,300)

**Remove American Rescue Plan HCBS Funding**

The budget includes a decrease of \$(115,793,900) from the Long Term Care System Fund Expenditure Authority in FY 2025 to remove one-time funding for home- and community-based services (HCBS). FY 2024 is the final year of funding for the ARPA HCBS program.

On March 11, 2021, the American Rescue Plan Act (ARPA) gave state Medicaid agencies the ability to spend on HCBS with an enhanced match percentage. The FY 2024 enacted budget included a footnote requiring the department to provide quarterly reports to the JLBC reflecting changes to the HCBS Spending Plan. In its April 2024 report, the department indicated it has primarily allocated the monies to one-time provider payments and to continue to fund parents as paid caregivers of their minor children.

In February 2024, AHCCCS received approval from federal regulators to make the parents as paid caregivers initiative a permanent feature of the ALTCS program. The Executive has stated it will use ARPA HCBS and other COVID-19 pandemic funding sources to cover the state's share of the program's costs in FY 2024 and FY 2025.

The FY 2024 budget also specified the appropriation may not be used for marketing purposes, directs the department to include notification that monies are one-time, and exempts the appropriation from lapsing.

**Statewide Adjustments**

The budget includes an increase of \$267,500 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	77,600
Long Term Care System Fund (EA)	189,900

*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. This line item also funds staff in state-operated group homes.

**Institutional Services - Medicaid**

The budget includes \$51,584,800 and 383 FTE Positions in FY 2025 for Medicaid Institutional Services. These amounts consist of:

General Fund	17,920,800
Long Term Care System Fund (EA)	33,664,000

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$4,244,400 in FY 2025 for standard formula adjustments. This amount consists of:

General Fund	2,811,900
Long Term Care System Fund (EA)	1,432,500

**Statewide Adjustments**

The budget includes an increase of \$250,400 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	77,000
Long Term Care System Fund (EA)	173,400

*Background* – This line item funds Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IIDs) or other nursing facilities, both private and state-operated, including ATP-Coolidge (ATP-C). Including

residents of the state-operated group homes (SOGHs), DES reports that ATP-C had an enrollment of 51 in FY 2024, a decrease of (4) from FY 2023.

**Physical and Behavioral Health Services - Medicaid**

The budget includes \$655,475,100 and 77 FTE Positions in FY 2025 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	193,387,500
Long Term Care System Fund (EA)	427,628,200
Health Care Investment Fund	34,459,400

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$101,042,300 in FY 2025 for standard formula adjustments. This amount consists of:

General Fund	34,226,700
Long Term Care System Fund (EA)	80,554,700
Health Care Investment Fund	(13,739,100)

**Hospital Directed Payments Increase**

The budget includes an increase of \$13,030,200 in FY 2025 for a hospital directed payments increase. This amount consists of:

Long Term Care System Fund (EA)	8,498,800
Health Care Investment Fund	4,531,400

The budget includes a series of changes related to the AHCCCS hospital assessment. As part of these changes, the budget assumes that AHCCCS, through its contractors, will make \$3,106,700,000 in total directed payments to hospitals in FY 2025. The budget includes an increase of \$13,030,200 in expenditure authority within DES, in addition to a \$727,011,500 increase within the AHCCCS budget, to give each agency the authority necessary to make the \$3,106,700,000 in total payments. *(Please see the Hospital Assessment discussion within the AHCCCS section for additional details.)*

**Statewide Adjustments**

The budget includes an increase of \$105,200 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	30,600
Long Term Care System Fund (EA)	74,600

*Background* – This line item funds DES' subcontracts with AHCCCS health plans to obtain medical services, Children's

Rehabilitative Services, and behavioral health services for DD clients in the ALTCS program.

**Medicare Clawback Payments**

The budget includes \$7,132,700 from the General Fund in FY 2025 for Medicare Clawback Payments. Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$1,077,200 from the General Fund in FY 2025 for standard 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 budget includes \$19,487,800 and 146.6 FTE Positions in FY 2025 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	6,772,800
Long Term Care System Fund (EA)	12,715,000

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$4,041,900 and 6 FTE Positions in FY 2025 for standard formula adjustments. These amounts consist of:

General Fund	1,938,200
Long Term Care System Fund (EA)	2,103,700

**Statewide Adjustments**

The budget includes an increase of \$162,900 in FY 2025 for statewide adjustments. This amount consists of:

General Fund	55,500
Long Term Care System Fund (EA)	107,400

*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. In June 2024, 6,918 clients received TCM services.

**State Match Transfer from AHCCCS**

The budget includes \$1,122,988,600 from the Long Term Care System Fund Expenditure Authority in FY 2025 for a state match transfer from the Arizona Health Care Cost Containment System (AHCCCS). Adjustments are as follows:

**Administrative Pass-Through Adjustment**

The budget includes an increase of \$140,658,300 from the Long Term Care System Fund Expenditure Authority in FY 2025 for a state match transfer from AHCCCS. The adjustment is to bring the total amount in line with the department's FY 2025 General Fund appropriation for Medicaid line items within DDD and General Fund monies for DDD in the operating budget. This increase does not account for FY 2025 statewide adjustments within DDD. This factor will be adjusted as part of the FY 2026 January Baseline.

Because DES needs to send its General Fund match to AHCCCS to fund DDD, this expenditure authority is to clarify the department is not spending beyond its budget load when it spends those monies returned from AHCCCS with Federal Funds.

**Developmental Disabilities – State-Only Funding**

**Case Management - State-Only**

The budget includes \$6,383,200 and 60.8 FTE Positions from the General Fund in FY 2025 for Case Management - State-Only. Adjustments are as follows:

**Statewide Adjustments**

The budget includes an increase of \$47,600 from the General Fund in FY 2025 for statewide adjustments.

*Background* – This line item funds case management services to clients in the state-only DD program who meet the functional disability requirements but are not financially eligible for the Targeted Case Management program. In June 2024, 6,227 DDD state-only clients received case management state-only services.

**Cost-Effectiveness Study - Client Services**

The budget includes \$8,420,000 in FY 2025 for Cost-Effectiveness Study (CES) - Client Services. This amount consists of:

General Fund	7,200,000
Special Administration Fund	1,220,000

These amounts are unchanged from FY 2024.

*Background* – 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. This program funds the cost above this CES rate, thereby allowing clients to remain in a home and community-based setting. (See the FY 2020 Appropriations Report for more information.)

In FY 2023, an average of 191 individuals per month had costs of care that exceeded CES thresholds. The aggregate amount above the thresholds covered with state-only funds was \$11,594,000. The department reports that it transferred \$2,063,100 from the General Fund within the Home and Community Based Services - State-Only line item and \$1,110,900 from the Special Administration Fund within the JOBS line item to resolve the \$(3,174,000) CES shortfall in FY 2023.

**Home and Community Based Services - State-Only**

The budget includes \$14,089,000 from the General Fund in FY 2025 for State-Only Home and Community Based Services. This amount is unchanged from FY 2024.

*Background* – This line item funds residential programs, day programs, and support services for DD clients that do not financially qualify for ALTCS.

**Arizona Early Intervention Program**

The budget includes \$16,119,000 from the General Fund in FY 2025 for the Arizona Early Intervention Program (AzEIP). Adjustments are as follows:

**Provider Rate Increases**

The budget includes an increase of \$2,000,000 from the General Fund in FY 2025 for a provider rate increase. The 3-year spending plan associated with the FY 2023 enacted budget originally included an increase of \$4,400,000 from the General Fund in FY 2024 and another \$4,400,000 from the General Fund in FY 2025 for a total of \$8,800,000 in ongoing provider rate increases that were covered via one-time Federal Funds in FY 2023. However, the FY 2025 enacted budget reduces the planned FY 2025 increase by \$(2,400,000). This results in a FY 2025 increase of \$2,000,000 for a total of \$6,400,000 in additional ongoing funding across both years.

*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 \$8,922,100 for AzEIP services in FY 2025. As a result, the total AzEIP funding available is \$25,041,100 in FY 2025.

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 3,131 DDD-eligible children enrolled in the AzEIP program in FY 2023. DES reports there were 16,642 new referrals to AzEIP in FY 2023 and 12,933 referred children were determined eligible.

**State-Funded Long Term Care Services**

The budget includes \$44,389,800 and 2 FTE Positions in FY 2025 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	9,960,600
Long Term Care System Fund	34,429,200

Adjustments are as follows:

**Formula Adjustments**

The budget includes an increase of \$855,100 in FY 2025 for standard caseload growth in ALTCS-eligible DD clients receiving residential services with room and board expenses. This amount consists of:

General Fund	290,100
Long Term Care System Fund	565,000

*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.

**Group Home Monitoring Program**

The budget includes \$1,200,000 from the General Fund in FY 2025 for the Group Home Monitoring Program. This amount is unchanged from FY 2024.

FY 2025 is the final year of funding for the program. The budget adds a footnote that makes the FY 2024 and FY 2025 appropriations for the Group Home Monitoring Program non-lapsing through FY 2026.

*Background* – Laws 2022, Chapter 316 authorizes the pilot program to last for 3 years and be contracted to the entity designated to operate the Protection and Advocacy System for Persons with Developmental Disabilities. The entity will monitor group homes for those with complex needs, determining whether clients' needs from their person-centered service plans are being met, services are reducing negative behaviors, and all physical interventions used by group home staff are appropriate. The entity will also investigate complaints and report on all observations and outcomes each year. The entity will report to the Governor, the President of the Senate, and the Speaker of the House by December 31, 2025, on systemic issues and recommendations.

**Graham County Rehabilitation Center**

The budget includes no funding in FY 2025 for the Graham County Rehabilitation Center. Adjustments are as follows:

**Remove One-Time Rehabilitation Center Assistance**

The budget includes a decrease of \$(830,000) from the General Fund in FY 2025 to remove one-time funding for transfer to rehabilitation center facilities in Safford and Willcox. The center serves DDD clients as part of its day treatment and training programs. The enacted FY 2024 budget included a footnote specifying that of the \$830,000, \$800,000 is for the remodeling costs of the center's facilities in Safford and \$30,000 is for an afterschool program. The enacted FY 2025 budget adds a footnote that makes the \$830,000 appropriation in FY 2024 non-lapsing through FY 2025 and specifies that \$800,000 of the appropriation is for the remodeling costs of rehabilitation facilities in Willcox in addition to rehabilitation facilities in Safford.

**DD Job Training and Life Skills Services**

The budget includes \$1,000,000 from the General Fund in FY 2025 for DD Job Training and Life Skills Services. Adjustments are as follows:

**One-Time Funding**

The budget includes a one-time increase of \$1,000,000 from the General Fund in FY 2025 for job training and life skills services for developmentally disabled individuals in areas outside Maricopa and Pima counties.

**Employment and Rehabilitation Services**

**Child Care Subsidy**

The budget includes \$320,580,200 in FY 2025 for child care subsidies. This amount consists of:

General Fund	12,000,000
Federal CCDF Block Grant	308,580,200

Adjustments are as follows:

**New General Fund Child Care Funding**

The budget includes a one-time increase of \$12,000,000 from the General Fund in FY 2025 for child care network stabilization. At the end of FY 2019, DES suspended the child care waitlist instituted in cases where demand for child care subsidies exceeded the available funding. The General Fund increase reestablishes the waitlist, capping the caseload to 22,700. The budget also includes a footnote requiring DES to distribute at least ten percent of the General Fund share of the Child Care Subsidy line item to counties other than Maricopa, Pima, and Pinal counties.

**Child Care and Development Fund Increase**

The budget includes a one-time increase of \$121,500,000 from the Federal CCDF Block Grant in FY 2025 to maintain child care provider rates. In FY 2025, Arizona's federal CCDF allocation increased, resulting in the increased appropriation.

*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. *(For more information on state funded child care, please refer to the Child Care Program Summary on the JLBC website.)*

In addition to the \$320,580,200 in this line item, DES was also appropriated \$1,086,612,800 on a one-time basis in FY 2022 to provide the department with spending authority for child care monies provided to Arizona as part of federal COVID legislation. The appropriation was non-lapsing. As of March 2024, the department reports that the one-time funding is fully spent.

*Subsidy Rates* – As of April 2023, the department has established rates that are at the 75<sup>th</sup> percentile of the department's 2022 market rate survey for children under age 1, and the 75<sup>th</sup> percentile of the 2018 market rate survey for ages 1 through 12. We estimate that the average monthly reimbursement per child is \$886 at the current rate.

*Caseloads* – According to the department, the estimated number of children receiving child care services in June 2023 was 20,391 (see Table 6) excluding ECDHB- and DCS-related child care.

<u>Category</u>	<u>FY 23</u>	<u>FY 24 est</u>	<u>FY 25 est</u>
TANF	562	507	480
Low-Income Working	18,479	22,111	18,428
Transitional Child Care	<u>1,350</u>	<u>1,313</u>	<u>1,181</u>
<b>Total Served</b>	<b>20,391</b>	<b>23,931</b>	<b>20,089</b>

### **Independent Living Rehabilitation Services**

The budget includes \$1,289,400 in FY 2025 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 2024.

*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 510 clients in FY 2025 at an average Total Funds cost per client of \$2,900. In addition to these clients, the division is also expected to serve 190 Independent Living clients at an average annual cost of \$2,230 per client using federal Social Services Block Grant monies.

### **JOBS**

The budget includes \$11,005,600 in FY 2025 for JOBS. This amount consists of:

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

These amounts are unchanged from FY 2024.

*Background* – 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.

<u>Expenditures</u>	<u>Amount</u>
Case Management	\$ 9,244,900
Job Training	687,500
Supplemental Payments	2,100
Work-Related Transportation	771,000
Job Search Stipends	<u>300,000</u>
<b>Total</b>	<b>\$11,005,600</b>

### **Rehabilitation Services**

The budget includes \$7,249,100 in FY 2025 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 2024.

*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 8,175 clients in FY 2024 at an average Total Funds cost of \$6,640 per client.

Third-party partnerships with government and non-governmental agencies provide portions of the state match.

### **Workforce Innovation and Opportunity Act Services**

The budget includes \$85,824,200 from the Workforce Investment Act Grant in FY 2025 for the Workforce Innovation and Opportunity Act Services line item.

This amount is unchanged from FY 2024.

*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 2025 is shown in *Table 8*.

<b>Category</b>	<b>Amount</b>
WIOA Line Item	\$85,824,200
Operating Budget	1,280,800
AG Legal Services	11,200
<b>Total</b>	<b>\$87,116,200</b>

### ***Other Issues***

This section includes information on the following topics:

- FY 2024 Adjustments
- Statutory Changes
- Long-Term Budget Impacts
- Fund Transfers
- Auditor General Report
- Unemployment Insurance Benefits Replacement
- Federal TANF Block Grant

### ***FY 2024 Adjustments***

The budget assumes that DES General Fund formula expenses for FY 2024 will be \$(24,790,300) lower than the original FY 2024 General Fund appropriation. The \$(24,790,300) surplus is primarily associated with a lower-than-budgeted capitation rate adjustment within the DDD program. The enacted FY 2024 budget included funding for a 3.1% capitation rate increase. However, the FY 2024 rates instead declined by (0.8)%, largely to account for lower utilization of services among DDD clients in previous years.

The FY 2025 enacted budget does not, however, include an FY 2024 supplemental reduction to account for the savings. Instead, the surplus would be realized through General Fund revertments. The budget adds a footnote prohibiting the department from transferring any surplus monies from Developmental Disabilities - Medicaid line items to any line items outside DDD in FY 2024.

### ***Statutory Changes***

The Human Services BRB makes the following statutory changes:

- As session law, continues to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if the Department of Economic Security (DES)

has reasonable suspicion the recipient uses illegal drugs.

### ***Long-Term Budget Impacts***

As part of the budget's 3-year spending plan, DES' General Fund costs, including Developmental Disabilities formula costs, are projected to increase by \$104,130,400 in FY 2026 above FY 2025 and \$102,078,100 in FY 2027 above FY 2026.

The FY 2026 estimate is based on:

- 4.5% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 64.55% FMAP.
- \$1,000,000 for homeless youth assistance.
- \$(1,200,000) to remove funding for the group home monitoring pilot program.
- \$(18,750,000) to remove FY 2025 one-time funding.

The FY 2027 estimate is based on:

- 4.5% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 64.44% FMAP.

### ***Fund Transfers***

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

	<b>FY 2024</b>
Economic Security Capital Investments Fund	\$500,000
Family Caregiver Grant Program Fund	700,000
Long Term Care System Fund	9,314,000
Special Administration Fund	4,000,000

### ***Auditor General Report***

In September 2023, the Auditor General published an audit of DES as part of Laws 2022, Chapter 313. The audit examined DES's current APS system and ways to improve the delivery of services in the state. At the request of the Legislature, the Auditor General addressed developing a strategy direction to ensure the safety of vulnerable adults after an investigation, creating accountability mechanisms to produce accurate and relevant data on performance measures, strategies for community engagement, and determining the need for periodic performance evaluations for future reviews. The audit found that the average length of time to complete an investigation increased from 81 days in FY 2020 to 101 days in FY 2022.

The Auditor General recommends DES establish a working group with the Governor, President of Arizona Senate, and Speaker of the Arizona House of Representatives to develop a strategic direction for APS, develop roles and responsibilities in conjunction with the working group to identify authority and resources needed to ensure ongoing success for strategic direction, implement a strategic direction for APS and system-wide performance reporting process, and to obtain input from vulnerable adults in APS.

**Unemployment Insurance Benefits Replacement**

The 3-year spending plan associated with the FY 2023 enacted budget assumed the Executive would spend \$18,600,000 in FY 2024 and \$24,500,000 in FY 2025 from federal American Rescue Plan Act (ARPA) monies for a UI Benefits System Replacement. These monies do not appear in the General Appropriation Act because they are non-appropriated Federal Funds. Including other non-

appropriated UI funds committed to the project, the Executive previously estimated the total project cost would be \$73,500,000. As of March 31, 2024, DES has spent \$10,775,000 of the \$43,100,000 in total ARPA allocations for the UI project.

The project is intended to ensure timely benefit delivery and provide more flexibility in adapting to changes in federal standards. The UI legacy system has been in place for over 30 years. The project investment justification (PIJ) received approval from the Information Technology Authorization Committee (ITAC) in November 2022.

**Federal TANF Block Grant**

The budget appropriates \$227,665,200 of the state’s Federal TANF Block Grant monies in FY 2025. *Table 9* shows expected yearly revenues, expenditures, and fund balances across the 2 agencies that administer TANF funding.

Table 9			
TANF Block Grant Spending			
	FY 2023 <u>Actual</u>	FY 2024 <u>Estimated</u>	FY 2025 <u>Estimated</u>
<b>Revenues</b>			
Beginning Balance	\$ 21,287,300	\$ 26,317,000	\$ 24,138,600
TANF Base Revenues	<u>225,495,000</u>	<u>225,495,000</u>	<u>225,495,000</u>
<b>Total TANF Available</b>	<b>\$246,782,300</b>	<b>\$251,812,000</b>	<b>\$249,633,600</b>
<b>Expenditures</b>			
Department of Child Safety	\$161,082,200	\$161,082,200	\$161,076,300
<b>Department of Economic Security</b>			
TANF Cash Benefits	\$ 15,528,300	\$ 22,736,400	\$ 22,736,400
All Other TANF Expenditures	<u>43,854,800</u>	<u>43,854,800</u>	<u>43,852,500</u>
<b>TOTAL - DEPARTMENT OF ECONOMIC SECURITY</b>	<b>\$ 59,383,100</b>	<b>\$ 66,591,200</b>	<b>\$ 66,588,900</b>
<b>TOTAL - STATEWIDE</b>	<b>\$220,465,300</b>	<b>\$227,673,400</b>	<b>\$227,665,200</b>
Ending Balance	\$ 26,317,000	\$ 24,138,600	\$ 21,968,400