

## Department of Economic Security

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 BASELINE
<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	127,049,900
Employee Related Expenditures	55,002,300	56,307,300	57,265,700
Professional and Outside Services	50,710,300	25,467,500	25,427,400
Travel - In State	154,900	126,200	123,200
Travel - Out of State	80,300	110,200	110,200
Other Operating Expenditures	188,524,600	122,450,900	113,350,900
Equipment	3,108,800	2,482,800	1,129,800
<b>OPERATING SUBTOTAL</b>	<b>424,349,200</b>	<b>331,770,600</b>	<b>324,457,100 <sup>2/3/</sup></b>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
Attorney General Legal Services	10,057,600	12,755,600	12,755,600
<b>Aging and Adult Services</b>			
Adult Services	12,731,900	15,731,900	10,731,900
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	3,522,600
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
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
<b>Child Support Enforcement</b>			
Child Support - Clerk of the Court and Family Law Services	8,539,700	8,539,700	8,539,700
<b>Developmental Disabilities <sup>6/-8/</sup></b>			
<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	140,855,600 <sup>8/</sup>
Home and Community Based Services - Medicaid	2,171,088,400	2,349,599,400	2,292,850,800
Institutional Services - Medicaid	43,369,800	47,090,000	51,334,400 <sup>9/</sup>
Physical and Behavioral Health Services - Medicaid	543,483,000	541,297,400	642,339,700
Medicare Clawback Payments	5,710,300	6,055,500	7,132,700
Targeted Case Management - Medicaid	15,109,000	15,283,000	19,324,900
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	6,335,600 <sup>8/</sup>
Cost Effectiveness Study - Client Services	8,420,000	8,420,000	8,420,000 <sup>10/</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	18,519,000
State-Funded Long Term Care Services	36,755,100	43,534,700	44,389,800
Group Home Monitoring Program	1,200,000	1,200,000	1,200,000
Graham County Rehabilitation Center	0	830,000	0
<b>Employment and Rehabilitation Services</b>			
Child Care Subsidy	179,380,200	187,080,200	187,080,200 <sup>11/12/</sup>
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
JOBS	11,005,600	11,005,600	11,005,600

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 BASELINE
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>13/</sup>
<b>AGENCY TOTAL</b>	<b>3,784,303,200</b>	<b>4,919,522,500</b>	<b>5,135,506,400 <sup>14/-17/</sup></b>
<b>FUND SOURCES</b>			
General Fund	898,690,400	1,211,415,700	1,330,944,800
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	23,537,700	17,683,300	17,683,300
Domestic Violence Services Fund	2,432,800	4,000,300	4,000,300
Federal CCDF Block Grant	200,010,100	200,029,300	200,029,300
Federal TANF Block Grant	66,591,200	66,591,200	66,591,200
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	4,637,900
Spinal and Head Injuries Trust Fund	2,388,400	2,385,500	2,385,500
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	85,778,900	87,116,600	87,116,600 <sup>13/</sup>
SUBTOTAL - Other Appropriated Funds	412,748,600	417,750,100	418,315,100
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,311,439,000</b>	<b>1,629,165,800</b>	<b>1,749,259,900</b>
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	59,449,000	44,195,500	44,195,500
Health Care Investment Fund	54,370,500	54,412,300	38,715,900
Long Term Care System Fund (Federal Match)	2,359,044,700	3,191,748,900	3,303,335,100
SUBTOTAL - Expenditure Authority Funds	2,472,864,200	3,290,356,700	3,386,246,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>3,784,303,200</b>	<b>4,919,522,500</b>	<b>5,135,506,400</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>8,596,994,300</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 \$17,683,300 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)
- 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 DDD administration~~ line items AND THE DEVELOPMENTAL DISABILITIES OPERATING LUMP SUM, 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 OR THE DEVELOPMENTAL DISABILITIES OPERATING LUMP SUM do not require a report for review. (General Appropriation Act footnote)
- 9/ 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 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)
- 10/ 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)
- 11/ 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)
- 12/ 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)
- 13/ All workforce investment act grant monies that are received by this state in excess of \$87,116,600 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 \$87,116,600 to the joint legislative budget committee. (General Appropriation Act footnote)
- 14/ 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)

15/ 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)

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 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)

17/ 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 \$119,529,100 or 9.9% above the FY 2024 appropriation. This amount includes:

- \$142,289,900 for DDD formula adjustments.
- \$1,000,000 for homeless youth assistance.
- \$4,400,000 for Arizona Early Intervention Program (AzEIP) provider rate increases.
- \$(28,160,800) to remove one-time funding.

**Operating Budget**

The Baseline includes \$324,457,100 and 2,410.4 FTE Positions in FY 2025 for the operating budget. These amounts consist of:

	<u>FY 2025</u>
General Fund	\$157,235,300
Child Support Enforcement Administration Fund	14,055,300
Child Support Enforcement Administration Fund (EA)	28,030,300
Federal Temporary Assistance for Needy Families (TANF) Block Grant	21,659,700
Federal Child Care and Development Fund (CCDF) Block Grant	12,928,600
Long Term Care System Fund (EA)	85,121,200
Public Assistance Collections Fund	339,100
Special Administration Fund	2,201,100
Spinal and Head Injuries Trust Fund	605,300
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	1,281,200

Adjustments are as follows:

**DDD Formula Adjustments**

The Baseline 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.)*

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

The Baseline 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 Baseline includes a decrease of \$(9,100,000) from the General Fund in FY 2025 to remove one-time funding that was used 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.

**Administration**

**Attorney General Legal Services**

The Baseline includes \$12,755,600 and 157.9 FTE Positions in FY 2025 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,253,300
Child Support Enforcement Administration Fund	2,573,700
Child Support Enforcement Administration Fund (EA)	8,679,800
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

These amounts are unchanged from FY 2024.

**Aging and Adult Services**

**Adult Services**

The Baseline includes \$10,731,900 from the General Fund in FY 2025 for Adult Services. Adjustments are as follows:

**Remove Area Agencies on Aging Increase**

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

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

**Table 1**

<b>Services</b>	<b>Adult Services</b>	<b>FY 2024</b>
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 2024 Direct Care Worker Incentives		2,000,000 <sup>1/</sup>
FY 2024 One-Time Provider Rate Increase		<u>5,000,000</u>
<b>Total</b>		<b>\$15,731,900</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 Baseline includes no funding in FY 2025 for Area Agencies on Aging (AAA) Housing Assistance. Adjustments are as follows:

**Remove Area Agencies on Aging Housing Assistance**

The Baseline 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 Baseline 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 Baseline includes \$3,522,600 in FY 2025 for Coordinated Homeless Services programs. This amount consists of:

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

Adjustments are as follows:

**Homeless Youth General Fund Backfill**

The Baseline includes an increase of \$1,000,000 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 3-year spending plan associated with the enacted FY 2024 budget delayed the General Fund increase until FY 2025.

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.

**Coordinated Hunger Services**

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

**Remove One-Time Additional Funding**

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

**Remove One-Time Food Bank Assistance**

The Baseline 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.

**Domestic Violence Prevention**

The Baseline 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 Baseline 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 Baseline 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 October 2023, the program serves 11,065 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 October 2023, the TANF Diversion program served 256 clients.

At October 2023 levels, the total cost would be \$15,787,900, or \$(6,948,500) 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 Baseline continues a provision allowing 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 Baseline 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 Baseline includes no funding in FY 2025 for Diaper and Incontinence Products Assistance. Adjustments are as follows:

**Remove One-Time Assistance**

The Baseline 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.

**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 2024</u>
State Share of Retained Earnings	\$ 4,162,100
Federal Incentive Payments	6,702,500
Fees	2,871,000
Excess Appropriation Authority <sup>1/</sup>	3,572,700
Administration (Non-Appropriated)	<u>3,115,600</u>
<b>Total</b>	<b>\$20,423,900</b>
<b>Uses</b>	
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.

**Child Support - Clerk of the Court and Family Law Services**

The Baseline 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 2023, the Division of Developmental Disabilities served 51,967 clients, which includes 40,642 clients in the LTC program, 6,184 in Targeted Case Management, and 5,141 clients in the state-only program. The primary disabilities as reported by DES are shown in *Table 3*.

<b>Disability</b>	<b>Number</b>	<b>Percentage</b>
Intellectual Disability	16,256	31.3%
At Risk	13,270	25.5%
Autism	16,836	32.4%
Cerebral Palsy	3,499	6.7%
Epilepsy	2,047	3.9%
Not Indicated	59	0.1%
<b>Total</b>	<b>51,967</b>	

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

**Overall DDD Adjustments**

The Baseline 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.

**Caseload Growth**

The Baseline includes an increase of \$41,508,300 from the General Fund in FY 2025 for DD caseload changes. Compared to June 2023, LTC caseloads are expected to grow by 5.2% to 42,750 members in June 2024 (this amount excludes state-only clients). This estimate is based on caseload growth reported by the department in the first several months of FY 2024, as well as the assumption that growth will continue at a 4.5% annual rate for the remainder of the year and in future years. The 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 the estimated growth in FY 2024 and FY 2025.

<b>Placement</b>	<b>FY 23</b>	<b>FY 24 Est</b>	<b>FY 25 Est</b>
Home	35,305	37,136	38,809
Group Home	3,594	3,780	3,950
Developmental Home	1,630	1,715	1,791
Institution	113	119	124
<b>Total</b>	<b>40,642</b>	<b>42,750</b>	<b>44,674</b>

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

**Capitation Rate Adjustments**

The Baseline 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.

**FMAP Adjustment**

The Baseline 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 is projected to 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.



Table 5

**DDD ALTCs Capitation Growth**

	<b>FY 2024 Capitation Rate <sup>1/</sup></b>	<b>Assumed Growth Rate</b>	<b>FY 2025 Capitation Rate Est</b>
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.

DDD received a 2.5% enhanced match is 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 will be eliminated starting January 2024 and will therefore not be available in FY 2025. The Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline 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 Baseline includes \$140,855,600 and 1,152.9 FTE Positions in FY 2025 for Case Management - Medicaid. These amounts consist of:

General Fund	48,961,400
Long Term Care System Fund (EA)	91,894,200

Adjustments are as follows:

**Formula Adjustments**

The Baseline 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

*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 \$2,292,850,800 and 221.2 FTE Positions in FY 2025 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	788,207,000
Long Term Care System Fund (EA)	1,495,855,900
Health Care Investment Fund	8,787,900

Adjustments are as follows:

**Formula Adjustments**

The Baseline 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 Baseline 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 October 2023 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 (AHCCCS reports it intends to make the parents as paid caregivers initiative a permanent feature of the ALTCS program). 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.

*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 Baseline includes \$51,334,400 and 383 FTE Positions in FY 2025 for Medicaid Institutional Services. These amounts consist of:

General Fund	17,843,800
Long Term Care System Fund (EA)	33,490,600

Adjustments are as follows:

**Formula Adjustments**

The Baseline 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

*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 55 in FY 2023, a decrease of (3) from FY 2022.

**Physical and Behavioral Health Services - Medicaid**

The Baseline includes \$642,339,700 and 77 FTE Positions in FY 2025 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	193,356,900
Long Term Care System Fund (EA)	419,054,800
Health Care Investment Fund	29,928,000

Adjustments are as follows:

**Formula Adjustments**

The Baseline 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)

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

**Formula Adjustments**

The Baseline 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 Baseline includes \$19,324,900 and 146.6 FTE Positions in FY 2025 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	6,717,300
Long Term Care System Fund (EA)	12,607,600

Adjustments are as follows:

**Formula Adjustments**

The Baseline 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

*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 2023, 6,184 clients received TCM services.

**State Match Transfer from AHCCCS**

The Baseline 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 Baseline 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.

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 Baseline includes \$6,335,600 and 60.8 FTE Positions from the General Fund in FY 2025 for Case Management - State-Only. These amounts are unchanged from FY 2024.

*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 2023, 5,141 DDD state-only clients received case management state-only services.

**Cost-Effectiveness Study - Client Services**

The Baseline 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 2022, an average of 134 individuals per month had costs of care that exceeded CES thresholds. The aggregate amount above the thresholds covered with state-only funds was \$8,909,000. As of this writing, the department has not yet submitted a report for CES expenditures in FY 2023.

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

The Baseline 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 Baseline includes \$18,519,000 from the General Fund in FY 2025 for the Arizona Early Intervention Program (AzEIP). Adjustments are as follows:

**Provider Rate Increases**

The Baseline includes an increase of \$4,400,000 from the General Fund in FY 2025 for a provider rate increase. This increase was included in the 3-year spending plan associated with the enacted FY 2023 budget. The FY 2023 spending plan assumed some of the provider rate increases would be covered via one-time Federal Funds in FY 2023, and the budget would then add \$4,400,000 from the General Fund in FY 2024 and \$4,400,000 from the General Fund in FY 2025 for a total of \$8,800,000 in ongoing funding.

*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 \$27,441,100 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 Baseline 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 Baseline 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 Baseline 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.

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

**Remove One-Time Rehabilitation Center Assistance**

The Baseline includes a decrease of \$(830,000) from the General Fund in FY 2025 to remove one-time funding for transfer to a rehabilitation center in Safford, Arizona. 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 and \$30,000 is for an afterschool program.

**Employment and Rehabilitation Services**

**Child Care Subsidy**

The Baseline includes \$187,080,200 from the Federal CCDF Block Grant in FY 2025 for child care subsidies. This amount is unchanged from FY 2024.

*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 \$187,020,200 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 September 2023, the department reports spending approximately \$887,900,000 of the one-time funding. This funding will be available through September 30, 2024.

*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 19,938 (see Table 6) excluding ECDHB- and DCS-related child care.

Category	FY 23	FY 24 est	FY 25 est
TANF	523	610	580
Low-Income Working	18,049	20,410	19,380
Transitional Child Care	<u>1,366</u>	<u>1,460</u>	<u>1,380</u>
<b>Total Served</b>	<b>19,938</b>	<b>22,480</b>	<b>21,340</b>

**Independent Living Rehabilitation Services**

The Baseline 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 Baseline 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.

Expenditures	Amount
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 Baseline 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 Baseline 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>Table 8</b>	
<b>FY 2025 WIA Grant Allocations</b>	
<b>Category</b>	<b>Amount</b>
WIOA Line Item	\$85,824,200
Operating Budget	1,281,200
AG Legal Services	<u>11,200</u>
<b>Total</b>	<b>\$87,116,600</b>

**Other Issues**

This section includes information on the following topics:

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

**FY 2024 Adjustments**

The Baseline 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 Baseline includes an FY 2024 ex-appropriation of \$(24,790,300) from the General Fund to account for the surplus. The 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 final estimated surplus could be higher or lower than \$(24,790,300) as additional caseload and spending data become available during FY 2024.

*(Please note that the summary table has not been updated to reflect the recommended ex-appropriation.)*

**Statutory Changes**

As session law, the Baseline would continue 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 Baseline's 3-year spending plan, DES' General Fund Developmental Disabilities formula costs are projected to increase by \$96,709,300 in FY 2026 above FY 2025 and \$93,151,200 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 65.06% FMAP.

- \$(1,200,000) to remove funding for the group home monitoring pilot program.

The FY 2027 estimate is based on:

- 4.5% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 65.13% FMAP.

**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.

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 Baseline appropriates \$227,673,400 of the state’s Federal TANF Block Grant monies in FY 2025. *Table 9* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

<b>Table 9</b>			
<b>TANF Block Grant Spending</b>			
	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
	<b>Actual</b>	<b>Estimated</b>	<b>Estimated</b>
<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	\$161,082,200
<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>43,854,800</u>
<b>TOTAL - DEPARTMENT OF ECONOMIC SECURITY</b>	<b>\$ 59,383,100</b>	<b>\$ 66,591,200</b>	<b>\$ 66,591,200</b>
<b>TOTAL - STATEWIDE</b>	<b>\$220,465,300</b>	<b>\$227,673,400</b>	<b>\$227,673,400</b>
Ending Balance	\$ 26,317,000	\$ 24,138,600	\$ 21,960,200

SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
<b>Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> State Share of Retained Earnings from child support collections, federal incentives, and fees. In addition, this fund includes Title IV-D funds received from the U.S. Department of Health and Human Services.		
<b>Purpose of Fund:</b> To fund the statewide Child Support Enforcement program. Please see the Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	59,449,000	44,195,500
<b>Year-End Fund Balance</b>	14,942,200	11,007,300
<b>Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> State Share of Retained Earnings from child support collections, federal incentives, and fees.		
<b>Purpose of Fund:</b> To fund the statewide Child Support Enforcement program. Please see the Non-Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	23,537,700	17,683,300
<b>Year-End Fund Balance</b>	0	0
<b>Client Trust Fund (DEA3152/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
<b>Purpose of Fund:</b> To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Coronavirus Relief Fund (DEA2975/A.R.S. § 35-142)</b>		<b>Federal Funds</b>
<b>Source of Revenue:</b> Monies received by the state from the federal COVID-19 response legislation. Arizona received \$1.86 billion from the Coronavirus Relief Fund established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act based on the state's share of the population.		
<b>Purpose of Fund:</b> Monies are allocated by the Governor to supplement costs of the state's COVID-19 response, including necessary expenditures incurred by the state due to the public health emergency from March 1, 2020 to December 30, 2021.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Coronavirus State and Local Fiscal Recovery Fund (DEA2985/U.S. P.L. 117-2)</b>		<b>Federal Funds</b>
<b>Source of Revenue:</b> Federal monies appropriated in the American Rescue Plan Act (P.L. 117-2).		
<b>Purpose of Fund:</b> To provide emergency support to households, small businesses, nonprofits, workers performing essential work, and certain industries negatively impacted by the COVID-19 pandemic. To extend government services that received a reduction in revenue as a result of the COVID-19 pandemic. To make investments in water, sewer, and broadband infrastructure.		
<b>Funds Expended</b>	41,889,000	164,950,600
<b>Year-End Fund Balance</b>	(351,500)	0
<b>Crisis Contingency and Safety Net Fund (DEA3240/A.R.S. § 41-110)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, public or private gifts, grants and donations.		
<b>Purpose of Fund:</b> Monies in the fund may only be distributed by the Governor for the following forms of economic assistance during a state of emergency: 1) housing assistance; 2) services for homeless persons; 3) economic assistance to small businesses with less than 50 employees, non-profit organizations, and health care providers; and 4) monies for food bank operations. Expenditures are not displayed to avoid double counting the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0



SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
<b>Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Consists of client monies, such as Social Security, earnings, etc.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	1,624,000	1,649,800
<b>Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	32,000	32,800
<b>Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> To fund grants to qualified shelters for victims of domestic violence.		
<b>Funds Expended</b>	2,432,800	4,000,300
<b>Year-End Fund Balance</b>	2,544,800	1,244,500
<b>Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants, gifts, or bequests.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	66,700	66,700
<b>Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
<b>Purpose of Fund:</b> To be used by the department for buildings, equipment, and other capital investments.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	634,100	682,900
<b>Employee Recognition Fund (DEA2449/A.R.S. § 38-613)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Gifts and donations from public and private entities.		
<b>Purpose of Fund:</b> Employee recognition programs or for the specified purpose for which they were donated.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	2,200	2,200
<b>Family Caregiver Grant Program Fund (DEA2347/A.R.S. § 46-343)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, gifts, grants, and donations.		
<b>Purpose of Fund:</b> Grants provided to individuals who are caring for and supporting a qualifying family member.		
<b>Funds Expended</b>	42,400	787,600
<b>Year-End Fund Balance</b>	787,600	0

SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
<b>Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	200,010,100	200,029,300
<b>Year-End Fund Balance</b>	297,098,500	61,286,500
<b>Federal Grants (DEA2000/A.R.S. § 41-101.01)</b>		<b>Federal Funds</b>
<b>Source of Revenue:</b> Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
<b>Purpose of Fund:</b> To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Supplemental Nutrition Assistance Program (SNAP) administration, the Social Services Block Grant, and DCYF Expenditure Authority.		
<b>Funds Expended</b>	3,264,759,100	2,961,027,300
<b>Year-End Fund Balance</b>	12,625,000	34,618,500
<b>Federal Pandemic Emergency Assistance Fund (DEA2955/A.R.S. § 35-152)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies received from the federal American Rescue Plan Act of 2021 to states administering a TANF program.		
<b>Purpose of Fund:</b> To be used for administrative costs and non-recurrent short-term benefits.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	66,591,200	66,591,200
<b>Year-End Fund Balance</b>	19,108,900	16,930,500
<b>Health Care Investment Fund (DEA2588/A.R.S. § 36-2999.73)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> An assessment on hospital revenues, discharges, or beds days in addition to the Hospital Assessment established by A.R.S. § 36-2901.09, interest earnings, and legislative appropriations.		
<b>Purpose of Fund:</b> To increase the base reimbursement level for hospital services, to increase dental and physician fee schedules, and to cover related administrative expenses incurred by DES.		
<b>Funds Expended</b>	54,370,500	54,412,300
<b>Year-End Fund Balance</b>	0	0
<b>IGA and ISA Fund (DEA2500/§ 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants and intergovernmental agreements between state agencies and local governments.		
<b>Purpose of Fund:</b> To be used as specified in the grant or agreement.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Long Term Care System Fund (Federal Match) (DEA2225/A.R.S. § 36-2953)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Federal Medicaid Authority monies.		
<b>Purpose of Fund:</b> To fund administrative and program costs associated with the Long Term Care system.		
<b>Funds Expended</b>	2,359,044,700	3,191,748,900
<b>Year-End Fund Balance</b>	224,595,200	0

SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
<b>Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	27,366,300	33,864,200
<b>Year-End Fund Balance</b>	0	0
<b>Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Includes contributions from income tax refunds and other donations and interest earnings.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	22,900	28,500
<b>Year-End Fund Balance</b>	120,900	147,400
<b>Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> To improve public assistance collection activities.		
<b>Funds Expended</b>	0	441,800
<b>Year-End Fund Balance</b>	158,600	(247,300)
<b>Revenue From State or Local Agency Fund (DEA3193/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Dollars received through the collection efforts of the Department's Office of Accounts Receivable and Collections and dollars without sufficient identifying documentation may be temporarily deposited in this fund.		
<b>Purpose of Fund:</b> When the benefiting program is identified, funds are transferred out of the fund into the benefiting program's fund. Funds are utilized by the benefiting DES programs per state and federal requirements.		
<b>Funds Expended</b>	2,595,500	2,725,300
<b>Year-End Fund Balance</b>	2,261,500	3,367,400
<b>Sexual Violence Service Fund (DEA2190/A.R.S. § 36-3102)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, grants, and contributions.		
<b>Purpose of Fund:</b> Grants provided to service providers for victims of sexual violence.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	5,522,500	0
<b>Special Administration Fund (DEA2066/A.R.S. § 23-705)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
<b>Purpose of Fund:</b> To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
<b>Funds Expended</b>	4,643,200	4,637,900
<b>Year-End Fund Balance</b>	5,556,700	5,753,700
<b>Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Includes contributions from income tax refunds and other donations and interest earnings.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	97,400	100,600
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2023 Actual	FY 2024 Estimate
<b>Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	2,388,400	2,385,500
<b>Year-End Fund Balance</b>	(471,800)	(1,366,800)
<b>Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal reimbursement.		
<b>Purpose of Fund:</b> General operations.		
<b>Funds Expended</b>	0	1,000,000
<b>Year-End Fund Balance</b>	0	0
<b>Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> 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.		
<b>Purpose of Fund:</b> 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.		
<b>Funds Expended</b>	248,487,900	331,868,000
<b>Year-End Fund Balance</b>	1,645,771,900	1,747,787,000
<b>Workforce Investment Act Grant (DEA2010/U.S. P.L. 113-128)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
<b>Funds Expended</b>	85,778,900	87,116,600
<b>Year-End Fund Balance</b>	99,377,200	92,439,600