

Department of Economic Security

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,533.8	4,611.8	4,727.8
Personal Services	174,342,300	161,484,600	171,052,000
Employee Related Expenditures	72,488,200	67,337,500	74,061,600
Professional and Outside Services	61,791,400	50,886,300	54,416,100
Travel - In State	346,000	306,300	327,200
Travel - Out of State	116,400	101,800	101,900
Other Operating Expenditures	53,183,100	50,156,800	66,839,800
Equipment	3,501,100	2,271,100	2,312,200
OPERATING SUBTOTAL	365,768,500	332,544,400	369,110,800 ^{1/2/18/}
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	10,306,000	12,810,300	13,099,900
Aging and Adult Services			
Adult Services	15,731,900	12,731,900	12,731,900 ^{3/}
Area Agencies on Aging Housing Assistance	1,827,300	0	5,000,000 ^{4/}
Civil Legal Aid	0	0	3,000,000 ^{5/}
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	2,522,600	19,022,600 ^{6/}
Coordinated Hunger Services	2,254,600	2,254,600	2,254,600
Homeless Veterans' Services	0	0	1,500,000 ^{7/8/}
Homeless Veterans Strategic Plan	0	0	500,000 ^{9/}
Navajo Nation Women's Services	0	500,000	0 ^{10/}
Pascua Yaqui Tribe Social Services Programs	0	1,000,000	0
Produce Incentive Program	804,500	0	2,000,000 ^{11/}
Globe-Miami Area Food Bank	250,000	0	0
Low-Income Food Services for Tribal Reservations	0	250,000	0
Cochise County Food Distribution	0	1,000,000	0
Pinal County Nutrition, Housing, and Rental Assistance	0	500,000	0
Domestic Violence Prevention	11,867,400	14,004,000	14,004,000 ^{12/13/}
Long-Term Care Ombudsman	1,000,000	1,000,000	1,000,000
Benefits and Medical Eligibility			
Summer Food Benefits	0	1,879,600	200,000
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	82,000	0	0
Navajo Nation Youth Programs	0	500,000	0 ^{14/}
Child Support Enforcement			
Child Support - Clerk of the Court and Family Law Services	8,539,700	8,539,700	8,539,700
Developmental Disabilities ^{15/-17}			
<i>Federal Match Funding</i>			
DDD Premium Tax Payment	67,178,100	64,871,600	77,751,400
Case Management - Medicaid	109,578,300	142,110,000	143,682,600 ^{18/}
Home and Community Based Services - Medicaid	2,331,075,900	2,686,218,300	3,274,567,600
Institutional Services - Medicaid	61,721,200	51,584,800	54,984,500 ^{19/}
Physical and Behavioral Health Services - Medicaid	571,345,500	655,475,100	852,480,000
Medicare Clawback Payments	6,055,500	7,132,700	7,940,400
Targeted Case Management - Medicaid	21,757,600	19,487,800	22,823,200
State Match Transfer from AHCCCS	0 ^{20/}	1,232,188,900	1,555,157,300
<i>State Only Funding</i>			
Case Management - State-Only	6,335,600	6,383,200	6,446,100 ^{18/}

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 APPROVED
Cost Effectiveness Study - Client Services	9,530,900	21,520,000	23,220,000 ^{21/}
Home and Community Based Services - State-Only	14,089,000	14,089,000	14,089,000
Arizona Early Intervention Program	14,119,000	16,119,000	16,119,000
State-Funded Long Term Care Services	43,534,700	44,389,800	45,230,700
Group Home Monitoring Program	1,200,000	1,200,000	1,200,000 ^{22/}
Graham County Rehabilitation Center	830,000	0	0
DD Job Training and Life Skills Services	0	1,000,000	0
DD Reconciliation Payment	0	0	32,300,000 ^{23/}
Employment and Rehabilitation Services			
Child Care Subsidy	179,080,200	320,580,200	297,787,900 ^{24/25/}
Education Workforce Innovation Initiative	0	0	500,000 ^{26/}
Independent Living Rehabilitation Services	806,200	1,289,400	1,289,400
JOBS	9,894,700	11,005,600	11,005,600
Out-of-School Time Grant Program Fund Deposit	0	0	3,000,000 ^{27/}
Rehabilitation Services	6,962,300	7,249,100	7,249,100
Workforce Innovation and Opportunity Act Services	85,537,400	85,824,200	85,824,200 ^{28/}
AGENCY TOTAL	3,992,727,300	5,812,896,500	7,017,752,200 ^{29/-32/}

FUND SOURCES

General Fund	1,202,667,000	1,337,210,700	1,888,688,200
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	21,331,800	17,678,400	17,615,600 ^{2/}
Domestic Violence Services Fund	1,863,700	4,000,300	4,000,300 ^{12/}
Federal CCDF Block Grant	200,029,200	331,027,900	281,075,400
Federal TANF Block Grant	66,591,300	66,588,900	66,561,100
Long Term Care System Fund (Non-Federal Matched)	33,864,200	34,429,200	34,971,300
Prescription Drug Rebate Fund - State	0	122,300,300	0
Public Assistance Collections Fund	0	441,800	441,800
Special Administration Fund	4,637,900	4,654,600	4,645,400
Spinal and Head Injuries Trust Fund	1,615,500	2,390,200	2,385,400
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	92,644,100	87,116,200	87,109,200 ^{28/}
SUBTOTAL - Other Appropriated Funds	422,577,700	671,627,800	499,805,500
SUBTOTAL - Appropriated Funds	1,625,244,700	2,008,838,500	2,388,493,700
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	59,627,800	44,401,200	45,547,500
Health Care Investment Fund	0	43,247,300	36,148,000
Long Term Care System Fund (Federal Match)	2,307,854,800	3,716,409,500	4,547,563,000
SUBTOTAL - Expenditure Authority Funds	2,367,482,600	3,804,058,000	4,629,258,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	3,992,727,300	5,812,896,500	7,017,752,200
Other Non-Appropriated Funds	320,445,300	327,919,800	348,856,800
Federal Funds	3,138,359,400	3,290,513,600	3,240,791,600
TOTAL - ALL SOURCES	7,451,532,000	9,431,329,900	10,607,400,600

AGENCY DESCRIPTION — The department provides an array of services for low-income households and others in need. Some of these services include: long-term care for individuals with developmental disabilities, support services for older adults, nutrition and cash assistance for families, and unemployment insurance benefits.

FOOTNOTES

^{1/} 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 Appropriations Act footnote)

- 2/ All state shares of retained earnings, fees and federal incentives in excess of \$17,615,600 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 Appropriations Act footnote, as adjusted for statewide allocations)
- 3/ Of the amount appropriated for the adult services line item, \$2,000,000 is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations (General Appropriations Act footnote) These monies are for Area Agencies on Aging Home and Community Based Services.
- 4/ The amount appropriated for the Area Agencies on Aging Housing Assistance line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriations Act footnote)
- 5/ Monies in the civil legal aid line item shall be distributed to nonprofit organizations for the provision of statewide general civil legal aid services consistent with the terms and restrictions of the legal services corporation as of federal fiscal year 2025. (General Appropriations Act footnote)
- 6/ Of the amount appropriated to the coordinated homeless services line item, the department of economic security shall allocate \$9,000,000 as follows:
 1. At least \$4,000,000 for eviction prevention services and assistance to provide a portion of monthly housing and utility expenses or legal aid and resources for Arizonans facing eviction.
 2. At least \$4,000,000 for homeless response and operations to rehouse homeless youth and families.
 3. At least \$1,000,000 for referral network operations to connect homeless individuals and individuals experiencing other crises with available state resources. (General Appropriations Act footnote)
- 7/ The department of economic security shall use monies from the homeless veterans services line item in collaboration with the department of veterans' services to create a strategic plan to address veteran homelessness. (General Appropriations Act footnote)
- 8/ The department of economic security shall allocate the monies in the homeless veterans services line item as follows:
 1. \$750,000 to veterans treatment court to provide services to veterans who have substance use disorders or mental health conditions.
 2. \$750,000 for homeless prevention services to provide immediate assistance to homeless veterans through shelter connection and utility, rental and employment assistance. (General Appropriations Act footnote)
- 9/ The department of economic security shall use monies from the homeless veterans strategic plan line item in collaboration with the department of veterans' services to create a strategic plan to address veteran homelessness. (General Appropriations Act footnote)
- 10/ Monies appropriated by Laws 2024, chapter 209, section 130 to the department of economic security for distribution to the Navajo Nation for women's shelter and social services are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2026. (General Appropriations Act footnote)
- 11/ The amount appropriated for the Produce Incentive Program line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriations Act footnote)
- 12/ 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 Appropriations Act footnote)
- 13/ On or before December 15, 2025, 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 Appropriations Act footnote)
- 14/ Monies appropriated in Laws 2024, chapter 209, section 130 to the department of economic security for distribution to the Navajo Nation for youth programs are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2026. (General Appropriations Act footnote)
- 15/ The department of economic security 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 Appropriations Act footnote)

- 16/ 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 of economic security 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 Appropriations Act footnote)
- 17/ On or before March 1, 2026, the department of economic security shall provide to the governor, 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 report on the utilization of covered services under the developmental disabilities program by disability classification. The report shall include the total expenditures for each covered service by primary diagnosis in fiscal year 2024-2025. (General Appropriations Act footnote)
- 18/ 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 of economic security 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 Appropriations Act footnote)
- 19/ On or before September 1, 2026, 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 2025-2026 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, 2026, 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 2025-2026. (General Appropriations Act footnote)
- 20/ The department actually spent \$982,064,500 in FY 2024 in the State Match Transfer from AHCCCS line item, but this spending is not displayed for technical reasons.
- 21/ On or before January 31, 2026, 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 Appropriations Act footnote)
- 22/ The amount appropriated for the group home monitoring program line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until December 31, 2027. (General Appropriations Act footnote)
- 23/ The amount appropriated for the DD reconciliation payment line item shall be used to process the reconciliation payment associated with an operating costs shortfall for the contract year ending on September 30, 2024. (General Appropriations Act footnote)
- 24/ On or before December 31, 2025 and June 30, 2026, the department of economic security shall submit a report to the joint legislative budget committee regarding federal child care monies. The report must include, at a minimum, the actual revenues delineated by fund source, the actual year to date expenditures by purpose and fund source and the beginning and ending balances for all fund sources for the preceding six months. The report shall also include projected annual revenues, expenditures and balances for the current year and the budget year. (General Appropriations Act footnote)
- 25/ 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 Appropriations Act footnote)
- 26/ The department of economic security shall distribute the monies in the education workforce innovation initiative line item to qualifying programs led by Arizona based organizations with supporting partnerships from a public university and a local education agency. A request for proposal shall be made public not later than September 1, 2025, and monies shall be distributed to grantees not later than October 15, 2025. Grantees that receive monies shall have a

demonstrated record of developing the leadership capacity of parents and caregivers in this state and shall have been in operation for at least four years. Qualifying programs shall meet the following requirements:

1. Focus on developing parents and caregivers as education professionals whose income falls at or below the federal poverty levels across urban and rural Arizona.
2. Provide participants with knowledge in the science of reading and the skill development to enter the education profession as literacy classroom aides or in paraprofessional roles.
3. Support the job placement of program participants with the partnered local education agency.
4. Provide continuing education and ongoing professional development to the parent educators once placed in professional education roles. (General Appropriations Act footnote)

- 27/ The amount appropriated for the out-of-school time program fund deposit line item is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2027. (General Appropriations Act footnote)
- 28/ All workforce investment act grant monies that are received by this state in excess of \$87,109,200 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 \$87,109,200 to the joint legislative budget committee. (General Appropriations Act footnote, as adjusted for statewide allocations)
- 29/ On or after April 1, 2026, 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, 2026 and must be reimbursed in full as part of the closing process for fiscal year 2025-2026. The department shall notify the joint legislative budget committee of the reimbursement on or before September 1, 2026. The appropriation may not be used for additional programmatic expenditures. (General Appropriations Act footnote)
- 30/ 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 Appropriations Act footnote)
- 31/ 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 Appropriations Act footnote)
- 32/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

The Department of Economic Security's (DES) FY 2026 General Fund spending increases by \$551,477,500 or 41.2% above the FY 2025 appropriation. This amount includes:

- \$433,956,900 for Division of Developmental Disabilities (DDD) formula adjustments, which includes an FY 2025 ex-appropriation backfill.
- \$1,170,000 for one-time benefit services digital portal implementation funding.
- \$4,010,000 for one-time information technology (IT) mainframe operating costs funding.
- \$990,000 for a one-time income verification data charge backfill.
- \$3,700,000 for a one-time Adult Protective Services (APS) federal backfill.
- \$2,000,000 for one-time Area Agencies on Aging (AAA) funding.
- \$5,000,000 for one-time AAA housing assistance.
- \$3,000,000 for one-time civil legal aid.
- \$15,500,000 one-time for the coordinated homeless services program.
- \$1,000,000 for homeless youth assistance.
- \$1,500,000 one-time for homeless veterans' services.
- \$500,000 one-time for a homeless veterans' services strategic plan.
- \$2,000,000 one-time for the produce incentive program.
- \$200,000 for one-time summer food benefits administration funding.
- \$14,800,000 one-time for home and community-based services for high-cost DD clients.
- \$1,200,000 one-time for the group home monitoring program.

- \$32,300,000 for a one-time DD reconciliation payment.
- \$44,900,000 for one-time child care subsidy funding.
- \$500,000 one-time for an education workforce initiative.
- \$3,000,000 of one-time funding for an out-of-school time grant program.
- \$(22,529,600) to remove FY 2025 one-time funding, which includes the removal of FY 2025 supplemental funding.
- \$2,780,200 for statewide adjustments.

Operating Budget

The budget includes \$369,110,800 and 2,454.4 FTE Positions in FY 2026 for the operating budget. These amounts consist of:

	FY 2026
General Fund	\$173,928,600
Child Support Enforcement Administration Fund	14,024,000
Child Support Enforcement Administration Fund (EA)	29,027,100
Federal Temporary Assistance for Needy Families (TANF) Block Grant	21,629,800
Federal Child Care and Development Fund (CCDF) Block Grant	28,167,000
Long Term Care System Fund (EA)	96,907,500
Public Assistance Collections Fund	339,100
Spacial Administration Fund	2,208,600
Spinal and Head Injuries Trust Fund	605,200
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	1,273,900

Adjustments are as follows:

DDD Formula Adjustments

The budget includes an increase of \$18,454,600 in FY 2026 for standard formula adjustments within the DDD program. This amount consists of:

General Fund	7,522,300
Long Term Care System Fund (EA)	10,932,300

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

Adult Protective Services ARPA Backfill

The budget includes a one-time increase of \$3,700,000 and 44 FTE positions from the General Fund in FY 2026 to backfill federal funding in the Adult Protective Services (APS) program, which investigates complaints of abuse, neglect, and exploitation of vulnerable adults.

Benefit Services Digital Portal Implementation

The budget includes a one-time increase of \$1,170,000 from the General Fund in FY 2026 for benefit services digital portal implementation. The funding is for the software licensing and data management costs of a digital portal that will help DES authenticate individuals applying for health and human service programs. The development costs of the project were funded in the FY 2025 budget.

Increased IT Mainframe Operating Costs

The budget includes a one-time increase of \$4,010,000 from the General Fund in FY 2026 for increased IT mainframe operating costs. The department reports that as it has updated and migrated certain IT systems off its cloud-based platform for legacy systems, the systems that remain lack the necessary funding to support the fixed subscription costs of the platform. This increase backfills the lost funding in FY 2026.

Income Verification Data Charge Federal Backfill

The budget includes a one-time increase of \$990,000 from the General Fund in FY 2026 for an income verification data charge backfill. Beginning in FY 2025, the federal government began charging states for income verification services that it previously provided for free. Instead of paying for the federal service, the department amended an existing contract with a private vendor to perform these checks. The funding within the DES budget represents the added cost of the additional verifications for the Supplemental Nutrition Assistance Program (SNAP). *(See the DES Eligibility line item within the AHCCCS budget for funding associated with the Medicaid and CHIP programs.)*

Remove FY 2025 Data Charge Supplemental

The budget includes a decrease of \$(700,000) from the General Fund in FY 2026 for the removal of one-time supplemental funding for income verification data charges. *(See FY 2025 Adjustments in Other Issues for additional information.)*

Child Care Operating Cost Increase

The budget includes a one-time increase of \$15,272,800 from the Federal CCDF Block Grant in FY 2026 to align the budget's allocation of the Federal CCDF Block Grant with the department's planned expenditures. The funding represents administrative costs of operating the child care program including staffing, background checks, and other operating expenditures.

Remove Child Care Operating Shortfall Reallocation

The budget includes a decrease of \$(9,500,000) from the Federal CCDF Block Grant in FY 2026 to remove one-time funding 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.

Statewide Adjustments

The budget includes an increase of \$3,169,000 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	1,788,700
Child Support Enforcement Administration Fund	(29,300)
Child Support Enforcement Administration Fund (EA)	836,900
Federal TANF Block Grant	(27,600)
Federal CCDF Block Grant	(33,000)
Long Term Care System Fund (EA)	654,200
Special Administration Fund	(9,200)
Spinal and Head Injuries Trust Fund	(4,800)
Workforce Investment Act Grant	(6,900)

(Please see the Agency Detail and Allocations section.)

Administration

Attorney General Legal Services

The budget includes \$13,099,900 and 157.9 FTE Positions in FY 2026 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,279,100
Child Support Enforcement Administration Fund	2,537,300
Child Support Enforcement Administration Fund (EA)	9,035,000
Federal TANF Block Grant	106,200
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	11,100

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$289,600 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	14,000
Child Support Enforcement Administration Fund	(33,500)
Child Support Enforcement Administration Fund (EA)	309,400
Federal TANF Block Grant	(200)
Workforce Investment Act Grant	(100)

Aging and Adult Services

Adult Services

The budget includes \$12,731,900 from the General Fund in FY 2026 for Adult Services. Adjustments are as follows:

FY 2026 Area Agencies on Aging Increase

The budget includes an increase of \$2,000,000 from the General Fund in FY 2026 for the Area Agencies on Aging (AAAs) for Home and Community Based Services. This amount is exempt from lapsing.

Remove FY 2025 Area Agencies on Aging Increase

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2026 to remove one-time AAA funding.

This line item provides an array of support services to elderly persons via the Area Agencies on Aging (AAA), as shown in *Table 1*. In addition to appropriated monies in this line item, the department is also allocating an estimated \$49,402,700 in federal grant monies to the AAAs in FY 2026, primarily from federal Older Americans Act and Social Services Block Grant (SSBG) monies for support services, congregate meals, and home-delivered meals. Including federal resources and prior-year carryforward, the department estimated that total allocations to the AAAs will reach \$60,839,500 in FY 2026 as of March 2025. This estimate does not include the \$2,000,000 increase included in the FY 2026 General Appropriations Act. Federal budget reductions may affect these estimates.

Table 1

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

Area Agency on Aging Housing Assistance

The budget includes \$5,000,000 from the General Fund in FY 2026 for Area Agencies on Aging (AAA Housing Assistance). Adjustments are as follows:

Housing Assistance

The budget includes a one-time increase of \$5,000,000 from the General Fund in FY 2026 for AAA housing assistance. These monies are non-lapsing.

DES distributes these monies to the AAAs for housing services to persons aged 60 and older, including rental, mortgage, HOA and utility assistance, property tax, and home repair costs up to a cap of \$4,000 per household. The FY 2024 General Appropriations Act previously appropriated \$5,000,000 to this line item. As of July 2025, DES has expended \$4,180,500 of the FY 2024 appropriation.

Civil Legal Aid

The budget includes \$3,000,000 from the General Fund in FY 2026 for Civil Legal Aid. Adjustments are as follows:

Civil Legal Aid

The budget includes a one-time increase of 3,000,000 from the General Fund in FY 2026 for Civil Legal Aid. Civil Legal Aid provides legal services to assist low-income individuals with various legal issues.

A FY 2026 General Appropriations Act footnote requires these monies to be distributed to nonprofit organizations for the provision of statewide general civil legal aid services consistent with the terms and restrictions of the legal services corporation as of FY 2025.

Community and Emergency Services

The budget includes \$3,724,000 from the Federal TANF Block Grant in FY 2026 for Community and Emergency Services. This amount is unchanged from FY 2025.

The department distributes the monies in this line item to 12 contracted community action agencies to implement the Short-Term Crisis Services program established by A.R.S. § 46-241.01. The program provides emergency shelter, rent or mortgage assistance, utility assistance, and special needs to maintain or secure employment for individuals experiencing a short-term crisis that will cause homelessness or the interruption of heating or cooling at the individual's residence. Eligibility is limited to individuals with incomes at or below 125% of the Federal Poverty Level (FPL) (150% if a person residing in the household has a disability).

In September 2024, the department also estimates it will allocate an additional \$47,406,600 in federal grants through this line item in FY 2026 for services administered fully or partly by the Community Action Agencies, including the federal Low-Income Home Energy Assistance Program (LIHEAP) and the Community Services Block Grant. Federal budget reductions may affect these estimates.

Coordinated Homeless Services

The budget includes \$19,022,600 in FY 2026 for Coordinated Homeless Services programs. This amount consists of:

General Fund	17,373,100
Federal TANF Block Grant	1,649,500

Adjustments are as follows:

Coordinated Homeless Additional Funding

The budget includes a one-time increase of \$15,500,000 for the coordinated homeless services program. A FY 2026 General Appropriations Act footnote requires DES to use at least \$4,000,000 for eviction prevention services and assistance, \$4,000,000 for homeless response and operations to rehouse homeless youth and families, and \$1,000,000 for referral network operations to connect homeless individuals and individuals experiencing other crises with available state resources.

Homeless Youth General Fund Backfill

The budget includes an increase of \$1,000,000 from the General Fund in FY 2026 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 more federal funds being available than expected, the FY 2024 and FY 2025 budgets each delayed the General Fund increase for 1 year until FY 2026.

This line item funds contracted emergency shelter services, rapid re-housing services, and prevention services for persons experiencing or at risk of experiencing homelessness.

Coordinated Hunger Services

The budget includes \$2,254,600 in FY 2026 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 2025.

State and federal dollars are used to contract with regional food banks for the storage and distribution of

commodity foods purchased by the United States Department of Agriculture (USDA) via the Emergency Food Assistance Program (TEFAP) and the Commodity Senior Food Program. Income-eligible recipients receive food via monthly food packages or congregate meals prepared by food pantries or soup kitchens.

Homeless Veterans' Services

The budget includes \$1,500,000 from the General Fund in FY 2026 for Homeless Veterans' Services. Adjustments are as follows:

Homeless Veterans' Services Funding

The budget includes a one-time increase of \$1,500,000 from the General Fund in FY 2026 for Homeless Veterans' Services. A FY 2026 General Appropriations Act footnote requires DES, in collaboration with the Department of Veterans' Services, to allocate \$750,000 to veterans' treatment court to provide services to veterans who have substance use disorders or mental health conditions and \$750,000 to provide immediate assistance to homeless veterans through shelter connection and utility, rental and employment assistance.

Homeless Veterans' Strategic Plan

The budget includes \$500,000 from the General Fund in FY 2026 for a Homeless Veterans' Strategic Plan. Adjustments are as follows:

Homeless Veterans' Strategic Plan

The budget includes a one-time increase of \$500,000 from the General Fund in FY 2026 for a Homeless Veterans' Strategic plan. A FY 2026 General Appropriations Act footnote requires DES to use the monies in collaboration with the Department of Veterans' Services to create a strategic plan to address veteran homelessness.

Navajo Nation Women's Services

The budget includes no funding from the General Fund in FY 2026 for Navajo Nation Women's Services. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2026 to remove one-time funding for the Navajo Nation for women's shelter and social services.

A FY 2026 General Appropriations Act makes the FY 2025 appropriation non-lapsing until June 30, 2026.

Pascua Yaqui Tribe Social Services Programs

The budget includes no funding from the General Fund in FY 2026 for Pascua Yaqui Tribe Social Services Programs. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2026 to remove one-time funding for the Pascua Yaqui tribal government for social services programs.

Produce Incentive Program

The budget includes \$2,000,000 from the General Fund in FY 2026 for the Produce Incentive Program. Adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$2,000,000 from the General Fund in FY 2024 for additional program 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. These monies are non-lapsing.

Low-Income Food Services for Tribal Reservations

The budget includes no funding from the General Fund in FY 2026 for low-income food services for tribal reservations. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2026 to remove one-time funding for the distribution of food to low-income individuals living on tribal reservations.

Cochise County Food Distribution

The budget includes no funding from the General Fund in FY 2026 for Cochise County Food Distribution. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2026 to remove one-time funding for nonprofit organizations located in Cochise County that provide food distribution services to low-income individuals.

Pinal County Nutrition, Housing, and Rental Assistance

The budget includes no funding from the General Fund in FY 2026 for Pinal County nutrition, housing, and rental assistance. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2026 to remove one-time funding 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 2026 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 2025.

In FY 2024, this line item, along with non-appropriated funds, served approximately 5,588 adults and children in emergency shelters, 344 adults and children in transitional housing, and 14,942 victims with mobile and community-based advocacy.

Long-Term Care Ombudsman

The budget includes \$1,000,000 from the General Fund in FY 2026 for Long-Term Care Ombudsman services. This amount is unchanged from FY 2025.

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

Summer Food Benefits

The budget includes \$200,000 from the General Fund in FY 2026 for summer food benefits. Adjustments are as follows:

New Funding

The budget includes a one-time increase of \$200,000 from the General Fund in FY 2026 for summer food benefits. This funding is for a new federal program, also referred to as "SUN Bucks," which is a \$120 benefit for families with school-aged children during the summer months when children lose access to free or reduced-price meals. While the benefit is 100% federally funded, the state is required to pay for 50% of the administrative costs of the program. This funding represents the FY 2026 costs of administering Summer 2025 benefits.

Remove FY 2025 Supplemental

The budget includes a decrease of \$(1,879,600) from the General Fund in FY 2026 for the removal of one-time supplemental funding for summer food benefits. This funding represents the FY 2025 costs of administering Summer 2024 and Summer 2025 benefits. (See FY 2025 Adjustments in Other Issues for additional information.)

TANF Cash Benefits

The budget includes \$22,736,400 from the Federal TANF Block Grant in FY 2026 for TANF Cash Benefits. This amount is unchanged from FY 2025.

The budgeted amount would be able to fund an average of 15,750 individuals at \$100 per month. As of May 2025, the program serves 7,919 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 May 2025, the TANF Diversion program served 181 clients.

At May 2025 levels, the total cost would be \$11,277,300, or \$(11,459,100) 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 budget continues a provision requiring 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 2026 for Tribal Pass-Through Funding. This amount is unchanged from FY 2025.

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

Navajo Nation Youth Programs

The budget includes no funding in FY 2026 for Navajo Nation youth programs. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2026 to remove one-time funding for Navajo Nation youth programs.

A FY 2026 General Appropriations Act footnote makes the FY 2025 appropriation non-lapsing until June 30, 2026.

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. Most of this funding, including the General Fund appropriation, is located within the agency's overall operating budget.

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 ^{1/}	5,268,700
Administration (Non-Appropriated)	<u>3,115,600</u>
Total	\$20,423,900
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,680,300
Attorney General Legal Services	2,573,700
Clerk of the Court and Family Law Services	1,054,300
Administration (Non-Appropriated)	<u>3,115,600</u>
Total	\$20,423,900
^{1/} This line is the difference between appropriation authority and expected revenues.	

Child Support - Clerk of the Court and Family Law Services

The budget includes \$8,539,700 in FY 2026 for County Participation. This amount consists of:

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

These amounts are unchanged from FY 2025.

DES 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 56,509 clients, which includes 43,364 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*.

Disability	Number	Percentage
Autism	20,437	36.2%
Intellectual Disability	15,981	28.3%
At Risk	13,924	24.6%
Cerebral Palsy	3,623	6.4%
Epilepsy	2,143	3.8%
Not Indicated	<u>401</u>	0.7%
Total	56,509	

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

Overall DDD Adjustments

The budget includes an increase of \$433,956,900 from the General Fund in FY 2026 for DDD formula changes, which includes an FY 2025 ex-appropriation backfill. These adjustments are based on the following standard formula assumptions (changes are described in further detail below):

- 7.3% caseload growth in FY 2025 (above the 4.5% that was originally budgeted),
- 5.0% caseload growth in FY 2026,
- An 11.2% capitation rate increase in FY 2025 (above the 4.0% that was originally budgeted),
- A 12.9% mid-year capitation rate increase in FY 2025,
- A 3.0% capitation rate increase in FY 2026,
- And a reduction in Parents as Paid Caregivers (PPCG) utilization in FY 2026 due to enacted policy changes.

FY 2025 Supplemental/Parents as Paid Caregivers

Laws 2025, Chapter 93 included a supplemental appropriation of \$109,200,300 from the Prescription Drug Rebate Fund - State and \$403,000,000 from Long Term Care System Fund Expenditure Authority in FY 2025 for higher-than-budgeted DDD formula costs.

The projected full-year General Fund cost of the supplemental is \$139,500,300 but has been reduced by \$(30,300,000) to reflect the availability of ARPA funds through March 2025. The \$139,500,300 is based on the following formula adjustments:

- FY 2025 enrollment growth of 7.3%. The enacted budget assumed growth of only 4.5%. The upward revision is based on higher-than-anticipated enrollment growth at the conclusion of FY 2024 and in the first half of FY 2025.
- FY 2025 capitation adjustment of 11.2%. The enacted budget assumed only a 4.0% increase above the original FY 2024 capitation rates.

A significant share of the capitation rate increase appears to be attributable to the Parents as Paid Caregivers (PPCG) program, a pandemic-era initiative to compensate parents of DD members who are age 17 or less for attendant care and habilitation services they provide to their own children. The program was designed to address the shortage of contracted providers during the pandemic.

The program was initially funded entirely by one-time federal monies for home and community-based services provided by the American Rescue Plan Act (ARPA). These monies were available to the state through March 31, 2025. Because the Federal Funds would soon expire, AHCCCS/DES applied for a federal waiver to continue PPCG as part of the standard LTC package. As such, the program would begin to operate under the regular federal/state match rate. On February 16, 2024, the federal government approved the request for ongoing operation of the program.

Prior to FY 2026, AHCCCS/DES could not separate PPCG spending from non-PPCG spending for habilitation and attendant care. However, Laws 2025, Chapter 93 requires the agencies to modify their billing systems to delineate when these services are provided by a parent or non-parent, enabling them to accurately track the total cost of PPCG. Laws 2025, Chapter 93 also requires the agencies to report to the Legislature on PPCG utilization at the end of each calendar quarter.

Base Adjustment

The budget includes an increase of \$309,500,300 from the General Fund in FY 2026 for a base adjustment. The base adjustment annualizes the higher-than-anticipated enrollment growth discussed above, as well as what was effectively a 25.5% capitation rate increase compared to the original FY 2025 budget assumption of 4.0%. The 25.5% increase reflects the 11.2% discussed above, as well as an additional mid-year capitation rate adjustment of 12.9% discussed in more detail below.

In May 2025, AHCCCS/DES implemented a mid-year DDD capitation rate increase of 12.9% that was retroactive to April 1, 2025. Like the original 11.2% increase, this mid-year adjustment appears to be primarily due to higher participation in PPCG. For instance, the actuaries originally

projected that utilization of attendant care and habilitation services would increase in FY 2025 by 11.0% and 19.0%, respectively, above FY 2024. For the mid-year adjustment, the actuaries now project that both services will increase by 34.6% based on an additional year's worth of encounter and financial data.

In addition to providing supplemental funding, Laws 2025, Chapter 93 also required AHCCCS and DES to implement the following changes to PPCG that could potentially impact utilization of attendant care and habilitation services:

- Implement the federally required 40-hour weekly limit on PPCG service hours starting July 1, 2025.
- Require parents to reside in Arizona for at least 6 months before enrolling in PPCG.
- Prohibit parents from billing for attendant care services while the minor child is not present, e.g. when the child is at school or receiving care in a clinical setting.
- Prohibit parents from billing for housekeeping, laundry, or meal preparation tasks that would ordinarily be performed by a parent of a minor child without a disability.
- Limit parents to claiming expenses for services provided between 6 a.m. and 10 p.m. unless there is an exception in the minor child's plan of care.
- Prohibit parents from being employed by multiple provider agencies.

Because the 12.9% mid-year adjustment is primarily associated with projected utilization increases, the budget assumes the rate adjustment is ongoing in nature and will continue in the FY 2026 rates but will be partially offset by reductions in utilization from the policy changes required by Laws 2025, Chapter 93.

Caseload Growth

The budget includes an increase of \$53,119,500 from the General Fund in FY 2026 for DD caseload changes. Compared to June 2024, the budget assumes LTC caseloads will grow by 6.8% to 46,308 members in June 2025, by 5.0% to 48,623 members by June 2026, and by 5.0% in future years (these amounts include children receiving PPCG services). Although year-over-year growth within the LTC program was as high as 6.7% in June 2024, it was below 4.0% as recently as June 2022. As a result, the 5.0% assumption is based on an average of caseload growth throughout FY 2022, FY 2023, and FY 2024.

Table 4 shows the number of clients by placement setting for DDD enrollees in June 2024 and June 2025 and the estimated growth in FY 2026.

<u>Placement</u>	<u>FY 24</u>	<u>FY 25 Est</u>	<u>FY 26 Est</u>
Home	37,952	40,528	42,555
Group Home	3,648	3,896	4,090
Developmental Home	1,664	1,777	1,866
Institution	<u>100</u>	<u>107</u>	<u>112</u>
Total	43,364	46,308	48,623

^{1/} 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 \$40,797,800 from the General Fund in FY 2026 for a 3.0% capitation rate increase beginning October 1, 2025, as well as to annualize the original FY 2025 capitation rate adjustment of 11.2%. The 3.0% growth assumption is based on several factors, including the medical care consumer price index. However, given that the final FY 2025 capitation rate increases significantly outpaced projections, the 3.0% growth assumption will need to be reevaluated as we receive information on actual FY 2026 costs.

Table 5 shows how the capitation payment is allocated by service category in FY 2025 after the 12.9% mid-year adjustment described above, as well as the budget's estimate of the FY 2026 allocation after a 3.0% adjustment.

	<u>FY 2025</u> <u>Rate ^{1/}</u>	<u>FY 2025</u> <u>Rate ^{2/}</u>	<u>FY 2026</u> <u>Rate Est ^{3/}</u>
Administration ^{4/}	255.8	255.8	263.5
Premium Tax	133.2	133.2	137.2
Case Management	244.0	244.0	251.3
HCBS ^{5/}	4,722.2	5,481.4	5,645.8
Institutional Care ^{6/}	93.7	93.7	96.5
Integrated Care ^{7/}	<u>1,212.9</u>	<u>1,313.4</u>	<u>1,352.8</u>
Total	6,661.8	7,521.5	7,747.1

^{1/} Rate effective October 1, 2024, through March 31, 2025.
^{2/} Rate effective April 1, 2025, through September 30, 2025.
^{3/} These figures assume 3.0% growth across all service lines.
^{4/} The Administration line is allocated to the overall DES operating budget.
^{5/} HCBS line includes PMPM rates for HCBS and Risk Contingency.
^{6/} Institutional Care rate is net of client's share of cost.
^{7/} Integrated care funding is allocated to the Physical and Behavioral Health Services line item.

FMAP Adjustment

The budget includes an increase of \$27,932,800 from the General Fund in FY 2026 associated with adjustments to the state's Federal Medical Assistance Percentage (FMAP). The FMAP is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2026, the blended Medicaid FMAP for Arizona will decrease to 64.48%, down from 65.24% in FY 2025.

Disaster Recovery FMAP Adjustments

The budget includes an FY 2025 General Fund ex-appropriation of \$(9,900,000) and a one-time decrease of \$(8,400,000) from the General Fund in FY 2026 due to revisions to the state's FMAP.

In certain circumstances, the federal government can provide one-time upward adjustments in a state's FMAP if the state would otherwise experience a rapid decline in the match rate due to personal income growth. In December 2024, the federal government determined that Arizona qualified for such one-time adjustments for FY 2024 due to a (3.27)% decline in the state's regular match rate between FY 2023 and FY 2024. Arizona's one-time increase is approximately 1.2% for FY 2024 and FY 2025.

This results in the following match rates:

- 66.29% to 67.93% in FFY 2024.
- 64.89% to 65.65% in FFY 2025.

The budget assumes this adjustment generates \$(262,550,000) of General Fund savings across the AHCCCS, DES, and DCS budgets. Of this amount, \$(84,800,000) is within the DES budget. The \$(84,800,000) consists of the adjustments described above, as well as approximately \$(66,500,000) that would be realized through General Fund revenue via reconciliation payments associated with both FY 2025 and FY 2026.

Medicare Clawback

The budget includes an increase of \$807,700 from the General Fund in FY 2026 for adjustments associated with Medicare Clawback Payments.

Room and Board

The budget includes an increase of \$298,800 from the General Fund in FY 2026 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 \$77,751,400 in FY 2026 for the DDD Premium Tax Payment. This amount consists of:

General Fund	27,619,200
Long Term Care System Fund (EA)	50,132,200

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$12,879,800 in FY 2026 for standard formula adjustments. This amount consists of:

General Fund	5,069,800
Long Term Care System Fund (EA)	7,810,000

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 \$143,682,600 and 1,217.9 FTE Positions in FY 2026 for Case Management - Medicaid. These amounts consist of:

General Fund	51,124,300
Long Term Care System Fund (EA)	92,558,300

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$268,800 and 65 FTE Positions in FY 2026 for standard formula adjustments. These amounts consist of:

General Fund	1,191,200
Long Term Care System Fund (EA)	(922,400)

Statewide Adjustments

The budget includes an increase of \$1,303,800 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	547,800
Long Term Care System Fund (EA)	756,000

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 65 FTE Position increase in FY 2026 is based on the 1:43 ratio. The budget also includes an adjustment to prior year increases that were calculated based on the 1:35 ratio but now retroactively fall under the 1:43 ratio.

Home and Community Based Services - Medicaid

The budget includes \$3,274,567,600 and 221.2 FTE Positions in FY 2026 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	1,147,629,800
Long Term Care System Fund (EA)	2,120,469,700
Health Care Investment Fund	6,468,100

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$981,208,800 in FY 2026 for standard formula adjustments. This amount consists of:

General Fund	359,249,100
Long Term Care System Fund (EA)	624,279,500
Health Care Investment Fund	(2,319,800)

Remove FY 2025 Supplemental

The budget includes a decrease of \$(403,000,000) in FY 2026 for the removal of one-time supplemental formula funding in FY 2025. *(See FY 2025 Supplemental in Other Issues for additional information.)* This amount includes:

Prescription Drug Rebate Fund - State	(109,200,300)
Long Term Care System Fund (EA)	(293,799,700)

Backfill FY 2025 Ex-Appropriation

The budget includes an increase of \$9,900,000 from the General Fund in FY 2026 to backfill funding that was ex-appropriated in FY 2025. *(See FY 2025 Ex-Appropriation in Other Issues for additional information.)*

Statewide Adjustments

The budget includes an increase of \$240,500 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	96,100
Long Term Care System Fund (EA)	144,400

Additionally, the FY 2026 enacted budget adds a footnote requiring DES to submit to the Governor, the President of

the Senate, the Speaker of the House, the chairpersons of the Senate and House Appropriations Committees, and the Director of the JLBC a report on the utilization of DD services in FY 2025 by disability classification by March 1, 2026.

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. Funding for the Parents as Paid Caregivers (PPCG) program is included within this line item. This line item also funds staff in state-operated group homes.

Institutional Services - Medicaid

The budget includes \$54,984,500 and 383 FTE Positions in FY 2026 for Medicaid Institutional Services. These amounts consist of:

General Fund	19,554,100
Long Term Care System Fund (EA)	35,430,400

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$3,093,200 in FY 2026 for standard formula adjustments. This amount consists of:

General Fund	1,502,200
Long Term Care System Fund (EA)	1,591,000

Statewide Adjustments

The budget includes an increase of \$306,500 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	131,100
Long Term Care System Fund (EA)	175,400

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 \$852,480,000 and 77 FTE Positions in FY 2026 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	240,595,100
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Long Term Care System Fund (EA)	582,205,000
Health Care Investment Fund	29,679,900

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$105,353,400 in FY 2026 for standard formula adjustments. This amount consists of:

General Fund	47,153,000
Long Term Care System Fund (EA)	62,979,900
Health Care Investment Fund	(4,779,500)

Directed Payments Expenditure Authority

The budget includes an increase of \$91,500,000 in FY 2026 from the Long Term Care System Fund (EA) for directed payments expenditure authority.

The department has historically used excess expenditure authority within its budget to fund various directed payments initiatives. These initiatives include: hospital directed payments, the Access to Professional Services Initiative (APSI), the Pediatric Services Initiative (PSI), and the recently created Safety Net Services Initiative (SNSI). *(Please see the Valleywise Directed Payments discussion within the AHCCCS section for additional details on the SNSI program.)* However, the department is now requesting additional expenditure authority to fund these initiatives. The budget incorporates these increases.

Statewide Adjustments

The budget includes an increase of \$151,500 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	54,600
Long Term Care System Fund (EA)	96,900

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 \$7,940,400 from the General Fund in FY 2026 for Medicare Clawback Payments. Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$807,700 from the General Fund in FY 2026 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 \$22,823,200 and 153.6 FTE Positions in FY 2026 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	8,120,600
Long Term Care System Fund (EA)	14,702,600

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$3,133,500 and 7 FTE Positions in FY 2026 for standard formula adjustments. These amounts consist of:

General Fund	1,262,800
Long Term Care System Fund (EA)	1,870,700

Statewide Adjustments

The budget includes an increase of \$201,900 in FY 2026 for statewide adjustments. This amount consists of:

General Fund	85,000
Long Term Care System Fund (EA)	116,900

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 \$1,555,157,300 from the Long Term Care System Fund Expenditure Authority in FY 2026 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 \$432,168,700 from the Long Term Care System Fund Expenditure Authority in FY 2026 for a state match transfer from AHCCCS. The adjustment is to bring the total amount in line with the department's FY 2026 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 2026 statewide adjustments within DDD. This factor will be adjusted as part of the FY 2027 January Baseline.

Remove FY 2025 Supplemental

The budget includes a decrease of \$(109,200,300) from the Long Term Care System Fund Expenditure Authority in FY 2026 for the removal of one-time supplemental formula funding in FY 2025. (See FY 2025 Supplemental in Other Issues for additional information.)

Background – 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 \$6,446,100 and 60.8 FTE Positions from the General Fund in FY 2026 for Case Management - State-Only. These amounts are unchanged from FY 2025.

Statewide Adjustments

The budget includes an increase of \$62,900 from the General Fund in FY 2026 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 \$23,220,000 in FY 2026 for Cost-Effectiveness Study (CES) - Client Services. This amount consists of:

General Fund	22,000,000
Special Administration Fund	1,220,000

Adjustments are as follows:

Increased Costs

The budget includes a one-time increase of \$14,800,000 from the General Fund in FY 2026 for increased CES costs. This increase is to address growth in the number of DD members whose costs exceed the institutional threshold.

Remove FY 2025 Supplemental

The budget includes a decrease of \$(13,100,000) from the Prescription Drug Rebate Fund - State in FY 2026 for the removal of one-time supplemental CES funding in FY 2025. (See FY 2025 Adjustments in Other Issues for additional information.)

Additionally, the FY 2026 enacted budget modifies a footnote to state that on or before January 31, 2026 (previously November 30, 2025), the department is required to submit a report to the JLBC regarding expenditures from the CES line item in the previous fiscal year.

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 2024, an average of 263 individuals per month had costs of care that exceeded CES thresholds. The aggregate amount above the thresholds covered with state-only funds was \$20,826,100, resulting in a \$(12,406,100) shortfall. The department reports that it transferred \$1,110,900 from the Special Administration Fund within the JOBS line item to partially cover the higher-than-budgeted CES costs but that there is \$(11,295,200) of shortfall still outstanding.

Home and Community Based Services - State-Only

The budget includes \$14,089,000 from the General Fund in FY 2026 for State-Only Home and Community Based Services. This amount is unchanged from FY 2025.

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 2026 for the Arizona Early Intervention Program (AzEIP). This amount is unchanged from FY 2025.

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 \$12,535,400 for AzEIP services in FY 2026. As a result, the total AzEIP funding available is \$28,654,400 in FY 2026.

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.

State-Funded Long Term Care Services

The budget includes \$45,230,700 and 2 FTE Positions in FY 2026 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	10,259,400
Long Term Care System Fund	34,971,300

Adjustments are as follows:

Formula Adjustments

The budget includes an increase of \$841,200 in FY 2026 for standard caseload growth in ALTCs-eligible DD clients receiving residential services with room and board expenses. This amount consists of:

General Fund	298,800
Long Term Care System Fund	542,400

Statewide Adjustments

The budget includes a decrease of \$(300) from the Long Term Care System Fund in FY 2026 for statewide adjustments.

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

Group Home Monitoring Program

The budget includes \$1,200,000 from the General Fund in FY 2026 for the Group Home Monitoring Program. Adjustments are as follows:

Remove FY 2025 One-Time Funding

The budget includes a decrease of \$(1,200,000) from the General Fund in FY 2026 to remove funding for the Group Home Monitoring Program. The 3-year spending plan associated with FY 2023 enacted budget included \$1,200,000 of one-time funding for the program in FY

2023, FY 2024, and FY 2025. Prior to the FY 2026 enacted budget, this program was scheduled to no longer receive new appropriation authority after FY 2025. The FY 2025 enacted budget added a footnote that made the FY 2024 and FY 2025 appropriations for the Group Home Monitoring Program non-lapsing through FY 2026.

FY 2026 One-Time Funding

The budget includes a one-time increase of \$1,200,000 from the General Fund in FY 2026 for the Group Home Monitoring Program. The FY 2026 enacted budget adds a footnote that makes the FY 2026 appropriation non-lapsing through December 31, 2027.

The FY 2026 Human Services BRB also makes various changes to the Group Home Monitoring Program such as requiring the use of a monitoring tool to assess whether DD clients with complex needs received the physical and behavioral health services specified in the client's person-centered service plan. The Human Services BRB makes the program subject to available appropriations and extends the program from December 31, 2026, to December 31, 2027.

Background – The DD Group Home Monitoring Program, originally authorized by Laws 2022, Chapter 316 and modified by Laws 2025, Chapter 241, is administered by the entity contracted by the department to operate the Protection and Advocacy System for Persons with Developmental Disabilities. The entity monitors group homes for those with complex needs, determining whether clients' needs from their person-centered service plans are being met and whether a behavior treatment plan is in place and has had a positive impact on the client. The entity is required to make monthly reports to the department that identify systemic issues and recommendations for improvement. The entity is also required to report to the Governor, the President of the Senate, and the Speaker of the House by January 15th each year on systemic issues and recommendations.

DD Job Training and Life Skills Services

The budget includes no funding in FY 2026 for DD Job Training and Life Skills Services. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2026 to remove one-time funding for job training and life skills services for developmentally disabled individuals in areas outside Maricopa and Pima counties.

DD Reconciliation Payment

The budget includes \$32,300,000 from the General Fund in FY 2026 for a DD Reconciliation Payment. Adjustments are as follows:

Operating Shortfall Funding

The budget includes a one-time increase of \$32,300,000 from the General Fund in FY 2026 for operating shortfall funding. The budget adds a footnote specifying that the funding is for processing the reconciliation payment associated with the DD operating costs shortfall for the contract year ending on September 30, 2024.

According to a report from the state Auditor General, the DD shortfall at the end of the contract year totaled \$(94,058,400), mostly reflecting expenditures that exceeded capitation payments from AHCCCS. However, under the terms of the contract between AHCCCS and DES, DES is only required to cover the first 1% of its losses in a particular year. Any losses above 1% are covered by future monthly capitation payments. Because DD revenue from capitation payments totaled \$3,222,141,200 in the most recent contract year, the budget includes a one-time increase of \$32,300,000 to cover approximately 1% of this amount.

Employment and Rehabilitation Services

Child Care Subsidy

The budget includes \$297,787,900 FY 2026 for child care subsidies. This amount consists of:

General Fund	44,900,000
Federal CCDF Block Grant	252,887,900

Adjustments are as follows:

Child Care Subsidy Funding

The budget includes an increase of \$110,707,700 in FY 2026 for child care subsidies. This amount consists of:

General Fund	44,900,000
Federal CCDF Block Grant	65,807,700

Of these amounts, \$44,900,000 from the General Fund and \$35,807,700 from the Federal CCDF Block Grant is one-time.

Remove One-Time Funding

The budget includes a decrease of (\$133,500,000) in FY 2026 to remove one-time funding for child care subsidies. This amount consists of:

General Fund	(12,000,000)
Federal CCDF Block Grant	(121,500,000)

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.)

Subsidy Rates – As of August 2024, the department has established rates that are at the 75th percentile of the department's 2022 market rate survey for children under age 1, and the 50th percentile of the 2022 market rate survey for ages 1 through 12. The department estimates that the average monthly reimbursement per child in FY 2025 was \$752 at the current daily rates. Additionally, high quality providers that are rated with a 3-, 4-, or 5-star rating by First Things First's Quality First program are given a 50% increased rate. Including these quality incentives, the average monthly cost rises to \$1,027 per child. These rates do not include changes resulting from the FY 2026 increase, which are described below.

Caseloads –According to the department, the estimated number of children receiving child care services in June 2025 was 23,456 (see Table 6) excluding ECDHB- and DCS-related child care. A.R.S. § 46-803K stipulates that the department shall establish a waiting list for prospective enrollees if necessary, in order to manage within appropriated resources. Effective August 2024, the department implemented a waiting list for new applicants, excluding children in families on TANF or transitioning from TANF or children in DCS custody. As of July 2025, there are 6,644 children on the waiting list.

<u>Category</u>	<u>FY 25</u>
TANF	517
Low-Income Working	21,547
Transitional Child Care	<u>1,392</u>
Total Served	23,456

The one-time funding increase assumes DES would implement the following adjustments to child care subsidies for FY 2026:

- Reduce the child care subsidy waitlist by (50)%. The Executive estimated this reduction would result in an average monthly population served of 25,400 for FY 2026. By comparison, as of June 2025, the total number of subsidy recipients was 23,456. In July

2025, the Executive estimated that the FY 2026 appropriation would provide child care for 900 children currently on the waitlist.

- Increase base provider rates to reflect the results of DES’ 2024 child care provider market rate survey. The Executive intends to increase base rates to reach at least the 50th percentile from the survey for all age categories served, and estimates the adjustments would result in average base reimbursement rates of \$806. We estimate the \$806 represents a 7.2% increase above the average FY 2025 base reimbursement rate of \$752.
- Reduce the quality bonus for child care facilities with a quality rating of 3 stars or higher from First Things First from 50% in FY 2025 to 20% in FY 2026. The Executive estimates approximately 71% of providers will be eligible for the quality bonus. Based on the Executive’s reported figures, we estimate the total average monthly child care subsidy (combined base rate and quality bonus) would decline from an average of \$1,027 in FY 2025 to \$920 in FY 2026.

The FY 2026 General Appropriations Act includes a footnote requiring DES to report on all federal child care monies.

Education Workforce Innovation Initiative

The budget includes \$500,000 in FY 2026 for the Education Workforce Innovation Initiative. Adjustments are as follows:

Education Workforce Innovation Initiative

The budget includes a one-time increase of \$500,000 from the General Fund in FY 2026 for the education workforce innovation initiative. A FY 2026 General Appropriations Act footnote requires the department to distribute these monies to qualifying programs led by Arizona-based organizations with supporting partnerships from a public university and a local education agency. Qualifying programs are programs that focus on developing parents and caregivers whose income falls at or below the federal poverty levels as education professionals, including providing participants with knowledge and skills to enter the education profession, supporting job placement of program participants, and providing continuing education to the parent educators.

Grantees must have a demonstrated record of developing the leadership capacity of parents and caregivers in Arizona and have been operational for at least 4 years. DES is required to make a request for proposal public by September 1, 2025, and monies must be distributed to grantees no later than October 15, 2025.

Independent Living Rehabilitation Services

The budget includes \$1,289,400 in FY 2026 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 2025.

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.

JOBS

The budget includes \$11,005,600 in FY 2026 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 2025.

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.

Out-of-School Time Grant Program Fund Deposit

The budget includes \$3,000,000 in FY 2026 for an Out-of-School Time Grant Program Fund Deposit. Adjustments are as follows:

Out-of-School Time Grant Fund Deposit

The budget includes a one-time increase of \$3,000,000 from the General Fund in FY 2026 for deposit into the out-of-school time grant fund. These monies are non-lapsing until June 30, 2027.

The FY 2026 Human Services BRB establishes the out-of-school time grant program and fund to expand child care for children between the ages of 5 and 12 who require child care during periods of time when school instruction is not being conducted, and who come from households earning \$150,000 or less a year.

Rehabilitation Services

The budget includes \$7,249,100 in FY 2026 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 2025.

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.

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 2026 for the Workforce Innovation and Opportunity Act Services line item.

This amount is unchanged from FY 2025.

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.

Other Issues

This section includes information on the following topics:

- FY 2025 Supplemental
- FY 2025 Ex-Appropriation
- Statutory Changes
- Long-Term Budget Impacts
- Auditor General Report
- Federal TANF Block Grant

FY 2025 Supplemental

The FY 2026 budget includes the following FY 2025 supplementals:

- \$109,200,300 from the Prescription Drug Rebate Fund - State and \$403,000,000 from the Long Term System Fund (EA) for higher-than-budgeted DDD formula costs. *(Please see the Developmental Disabilities section for further details.)*
- \$13,100,000 from the Prescription Drug Rebate Fund - State for increased CES costs. *(Please see the Cost-Effectiveness Study - Client Services line item for further details.)*
- \$700,000 from the General Fund for income verification data charges. *(Please see the Operating Budget section for further details.)*
- \$1,879,600 from the General Fund for summer food benefits. *(Please see the Summer Food Benefits line item for further details.)*

FY 2025 Ex-Appropriation

The budget includes a \$(9,900,000) General Fund ex-appropriation in FY 2025 to account for a retroactive adjustment to the state's match rate. *(Please see the Developmental Disabilities section for further details.)*

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.
- As permanent law, establishes the Out-Of-School Time Program Fund and grant to provide child care for children who are five to twelve years of age, who require child care during periods of time when school instruction is not being conducted, and who come from households earning \$150,000 or less a year. Requires DES to administer the grant, allocating at least 30% of grant monies to grantees in rural communities, and report various aspects of the program to the Governor, the President of the Senate and the Speaker of the House of Representatives on or before August 1 each year.
- As permanent law, makes various changes to the Developmental Disabilities Group Home Monitoring Program such as requiring the use of a monitoring tool to assess whether DD clients with complex needs received the physical and behavioral health services specified in the client’s person-centered service plan. Makes the program subject to available appropriations and extends the program from December 31, 2026, to December 31, 2027.

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 \$3,149,000 in FY 2027 above FY 2026 and \$129,505,600 in FY 2028 above FY 2027.

The FY 2027 estimate is based on:

- 5.0% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 64.11% FMAP.
- \$(127,870,000) to remove FY 2026 one-time funding.

The FY 2028 estimate is based on:

- 5.0% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 64.03% FMAP.

Federal TANF Block Grant

The budget appropriates \$227,546,600 of the state's Federal TANF Block Grant monies in FY 2026. *Table 7* shows expected yearly revenues, expenditures, and fund balances across the 2 agencies that administer TANF funding.

Table 7			
TANF Block Grant Spending			
	FY 2024	FY 2025	FY 2026
	Actual	Estimated	Estimated
Revenues			
Beginning Balance	\$ 19,108,900	\$ 16,111,900	\$ 11,603,100
TANF Base Revenues	<u>224,676,400</u>	<u>223,156,400</u>	<u>223,156,400</u>
Total TANF Available	\$243,785,300	\$239,268,300	\$234,759,500
Expenditures			
Department of Child Safety	\$161,082,200	\$161,076,300	\$160,985,500
Department of Economic Security			
TANF Cash Benefits	\$ 22,736,400	\$ 22,736,400	\$ 22,736,400
All Other TANF Expenditures	<u>43,854,800</u>	<u>43,852,500</u>	<u>43,824,700</u>
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 66,591,200	\$ 66,588,900	\$ 66,561,100
TOTAL - STATEWIDE	\$ 227,673,400	\$ 227,665,200	\$ 227,546,600
Ending Balance	\$ 16,111,900	\$ 11,603,100	\$ 7,212,900