

Department of Economic Security

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,611.8	4,727.8	5,091.8
Personal Services	127,860,200	150,254,200	173,140,300
Employee Related Expenditures	58,999,700	68,236,600	78,657,400
Professional and Outside Services	80,234,200	96,969,500	112,724,700
Travel - In State	248,400	307,100	331,200
Travel - Out of State	111,800	96,100	96,300
Other Operating Expenditures	45,961,100	51,095,100	34,583,900
Equipment	2,062,800	2,152,400	2,289,500
OPERATING SUBTOTAL	315,478,200	369,111,000	401,823,300 ^{1/2/8/}
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	10,309,300	13,099,900	13,099,900
Aging and Adult Services			
Adult Services	12,731,900	12,731,900	10,731,900
Area Agencies on Aging Housing Assistance	0	5,000,000	0
Civil Legal Aid	0	3,000,000	0
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	19,022,600	3,522,600
Coordinated Hunger Services	2,254,600	2,254,600	2,254,600
Homeless Veterans' Services	0	1,500,000	0
Homeless Veterans Strategic Plan	0	500,000	0
Navajo Nation Women's Services	500,000	0	0
Pascua Yaqui Tribe Social Services Programs	1,000,000	0	0
Produce Incentive Program	0	2,000,000	0
Low-Income Food Services for Tribal Reservations	250,000	0	0
Cochise County Food Distribution	1,000,000	0	0
Pinal County Nutrition, Housing, and Rental Assistance	500,000	0	0
Domestic Violence Prevention	13,003,700	14,004,000	14,004,000
Long-Term Care Ombudsman	1,000,000	1,000,000	1,000,000
Benefits and Medical Eligibility			
SNAP Benefits	0	0	1,957,041,500
Summer Food Benefits Administration	1,879,600	200,000	0
TANF Cash Benefits	17,736,400	22,736,400	22,736,400
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Navajo Nation Youth Programs	500,000	0	0
Child Support Enforcement			
Child Support - Clerk of the Court and Family Law Services	8,539,700	8,539,700	8,539,700
Developmental Disabilities ^{5/-7/}			
<i>Federal Match Funding</i>			
DDD Premium Tax Payment	69,871,600	77,751,400	102,012,200
Case Management - Medicaid	103,686,100	143,682,600	132,664,700
Home and Community Based Services - Medicaid	2,838,271,700	3,274,567,600	3,694,025,700
Institutional Services - Medicaid	50,507,800	54,984,500	53,584,900
Physical and Behavioral Health Services - Medicaid	641,099,100	852,480,000	1,098,810,200
Medicare Clawback Payments	7,132,700	7,940,400	8,888,400
Targeted Case Management - Medicaid	19,554,900	22,823,200	25,383,100
State Match Transfer from AHCCCS	0 ^{10/}	1,555,157,300	1,841,698,500
<i>State Only Funding</i>			
Arizona Early Intervention Program	16,119,000	16,119,000	16,119,000
Case Management - State-Only	8,788,200	6,446,100	6,446,100
DD Job Training and Life Skills Services	1,000,000	0	0

	FY 2025 ACTUAL	FY 2026 ESTIMATE	FY 2027 BASELINE
DD Reconciliation Payment	0	32,300,000	0
Group Home Monitoring Program	1,200,000	1,200,000	0
High-Need Client Supplement	21,520,000	23,220,000	8,420,000 ^{11/}
Home and Community Based Services - State-Only	16,742,800	14,089,000	14,089,000
State-Funded Long Term Care Services	44,389,800	45,230,700	46,084,300
Employment and Rehabilitation Services			
Child Care Subsidy	320,580,200	297,787,900	217,080,200 ^{12/13/}
Education Workforce Innovation Initiative	0	500,000	0
Independent Living Rehabilitation Services	927,500	1,289,400	1,289,400
JOBS	11,005,600	11,005,600	11,005,600
Out-of-School Time Grant Program Fund Deposit	0	3,000,000	0
Rehabilitation Services	7,069,000	7,249,100	7,249,100
Workforce Innovation and Opportunity Act Services	78,207,900	85,824,200	85,824,200 ^{14/}
AGENCY TOTAL	4,655,284,200	7,017,752,400	9,813,832,800 ^{15/-18/}

FUND SOURCES

General Fund	1,347,111,100	1,888,688,400	2,079,849,700
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	16,557,900	17,615,600	17,615,600 ^{2/}
Domestic Violence Services Fund	3,000,000	4,000,300	4,000,300 ^{3/}
Federal CCDF Block Grant	331,028,000	281,075,400	229,994,900
Federal TANF Block Grant	66,588,900	66,561,100	66,561,100
Long Term Care System Fund (Non-Federal Matched)	34,429,200	34,971,300	35,517,100
Prescription Drug Rebate Fund - State	122,300,300	0	0
Public Assistance Collections Fund	0	441,800	441,800
Special Administration Fund	4,654,700	4,645,400	4,645,400
Spinal and Head Injuries Trust Fund	1,848,000	2,385,400	2,385,400
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	83,410,000	87,109,200	87,109,200 ^{14/}
SUBTOTAL - Other Appropriated Funds	663,817,000	499,805,500	449,270,800
SUBTOTAL - Appropriated Funds	2,010,928,100	2,388,493,900	2,529,120,500
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	51,753,500	45,547,500	45,547,500
Health Care Investment Fund	0	36,148,000	0
Long Term Care System Fund (Federal Match)	2,592,602,600	4,547,563,000	5,244,823,300
Supplemental Nutrition Assistance Program Fund	0	0	1,994,341,500
SUBTOTAL - Expenditure Authority Funds	2,644,356,100	4,629,258,500	7,284,712,300
SUBTOTAL - Appropriated/Expenditure Authority Funds	4,655,284,200	7,017,752,400	9,813,832,800
Other Non-Appropriated Funds	365,397,400	393,515,300	393,515,300
Federal Funds	3,121,925,900	2,928,578,600	901,537,100
TOTAL - ALL SOURCES	8,142,607,500	10,339,846,300	11,108,885,200

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)

- 3/ 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)
- 4/ On or before December 15, 2026, 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)
- 5/ 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)
- 6/ 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)
- 7/ On or before March 1, 2027, 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 2025-2026. (General Appropriations Act footnote)
- 8/ Before transferring any monies in or out of the case management — medicaid and case management — state-only and developmental disabilities administration line items and before transferring any monies in or out of the operating lump sum item related to the developmental disabilities program and its administration, the department 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)
- 9/ On or before September 1, 2027, 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 2026-2027 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, 2027, 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 2026-2027. (General Appropriations Act footnote)
- 10/ The department actually spent \$1,123,806,900 in FY 2025 in the State Match Transfer from AHCCCS line item, but this spending is not displayed for technical reasons.
- 11/ On or before January 31, 2027, the department of economic security shall submit a report to the joint legislative budget committee regarding expenditures from the high need client supplement 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)
- 12/ On or before December 31, 2026 and June 30, 2027, 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)

- 13/ 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)
- 14/ 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)
- 15/ On or after April 1, 2027, 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, 2027 and must be reimbursed in full as part of the closing process for fiscal year 2026-2027. The department shall notify the joint legislative budget committee of the reimbursement on or before September 1, 2027. The appropriation may not be used for additional programmatic expenditures. (General Appropriations Act footnote)
- 16/ 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)
- 17/ 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)
- 18/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The Baseline includes \$401,823,300 and 2,797.4 FTE Positions in FY 2027 for the operating budget. These amounts consist of:

	FY 2027
General Fund	\$193,061,700
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	12,894,200
Long Term Care System Fund (EA)	88,459,700
Public Assistance Collections Fund	339,100
Special Administration Fund	2,208,600
Spinal and Head Injuries Trust Fund	605,200
Statewide Cost Allocation Plan Fund	1,000,000
Supplemental Nutrition Assistance Program (SNAP) Fund	37,300,000
Workforce Investment Act Grant	1,273,900

Adjustments are as follows:

DDD Formula Adjustments

The Baseline includes a decrease of \$(12,144,900) in FY 2027 for standard formula adjustments within the DDD program. This amount consists of:

General Fund	(3,697,100)
Long Term Care System Fund (EA)	(8,447,800)

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

Administrative Cost Shift

The Baseline includes an increase of \$70,000,000 and 387 FTE Positions in FY 2027 for an administrative cost shift. These amounts consist of:

General Fund	32,700,000
SNAP Fund	37,300,000

H.R. 1, the federal budget reconciliation bill that was signed into law on July 4, 2025, increases the state share of SNAP administrative costs from 50% to 75% starting

October 1, 2026. We project this provision will result in a \$32,700,000 increase in the General Fund share of SNAP administrative costs in FY 2027 and a corresponding decrease of \$(32,700,000) in federal SNAP administrative monies. As a result, this adjustment does not result in a net increase in total administrative resources for the SNAP program.

The \$(32,700,000) federal funds reduction does not result in a decrease in appropriated funds because currently all federal monies for the SNAP program are classified as non-appropriated within the DES budget. To better track federal funds for the SNAP program in relation to changes in the new federal SNAP match rate for administration and benefits under H.R. 1, the Baseline would convert federal SNAP dollars from non-appropriated to expenditure authority. This change would conform with budgeting for formula programs receiving federal matching funds, such as Medicaid.

At current administrative funding levels, we estimate that DES will continue to receive \$37,300,000 in federal matching administrative funds for SNAP in FY 2027 at the new 25% match rate. The Baseline includes the \$37,300,000 and establishes a SNAP expenditure authority fund to house the federal share of the administrative and benefit costs of the program. It also reclassifies 387 FTE Positions from non-appropriated Federal Funds to the General Fund/SNAP Fund.

Other H.R. 1 administrative provisions, such as the expansion of work requirements, may also increase administrative costs. Those costs are expected to be determined during the legislative session.

(Please see [H.R. 1 Federal Budget Reconciliation Bill Impact](#) on the JLBC website for a detailed analysis.)

Remove One-Time Adult Protective Services Backfill

The Baseline includes a decrease of \$(3,700,000) and (44.0) FTE positions from the General Fund in FY 2027 to remove one-time funding for the Adult Protective Services (APS) program, which investigates complaints of abuse, neglect, and exploitation of vulnerable adults.

Remove One-Time Benefit Services Digital Portal Funding

The Baseline includes a decrease of \$(1,170,000) from the General Fund in FY 2027 to remove one-time funding 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.

Remove One-Time IT Mainframe Funding

The Baseline includes a decrease of \$(4,010,000) from the General Fund in FY 2027 to remove one-time funding 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 backfilled the lost funding in FY 2026.

Remove One-Time Income Verification Data Charge Federal Backfill

The Baseline includes a decrease of \$(990,000) from the General Fund in FY 2027 to remove a one-time 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 SNAP. *(See the DES Eligibility line item within the AHCCCS budget for funding associated with the Medicaid and CHIP programs.)*

Remove Child Care Operating One-Time Funding

The Baseline includes a decrease of \$(15,272,800) from the Federal CCDF Block Grant in FY 2027 to remove one-time funding for child care operating costs.

Administration

Attorney General Legal Services

The Baseline includes \$13,099,900 and 157.9 FTE Positions in FY 2027 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

These amounts are unchanged from FY 2026.

Aging and Adult Services

Adult Services

The Baseline includes \$10,731,900 from the General Fund in FY 2027 for Adult Services. Adjustments are as follows:

Remove FY 2026 Area Agencies on Aging Increase

The Baseline includes a decrease of \$(2,000,000) from the General Fund in FY 2027 to remove one-time AAA funding for Home and Community Based Services. The FY 2026 increase for Home and Community Based Services is non-lapsing.

This line item provides an array of support services to elderly persons via the Area Agencies on Aging (AAA), as shown in *Table 1* for FY 2026. In addition to appropriated monies in this line item, the department is also allocating an estimated \$50,405,300 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 \$61,842,100 in FY 2026 as of October 2025.

Table 1

FY 2026 Adult Services	
Services	FY 2026
Adult Protective Contracted Services	\$ 295,100
Independent Living Services	4,537,100
Older Americans Act State Match	2,623,600
State Ombudsman	814,100
Respite Care	462,000
FY 2026 Direct Care Worker Incentives	2,000,000
AAA One-Time Increase	<u>2,000,000</u>
Total	\$12,731,900

Area Agency on Aging Housing Assistance

The Baseline includes no funding in FY 2027 for Area Agencies on Aging (AAA Housing Assistance). Adjustments are as follows:

Remove One-Time AAA Housing Assistance Funding

The Baseline includes a decrease of \$(5,000,000) from the General Fund in FY 2026 to remove one-time funding for AAA housing assistance. DES distributes monies in this line item 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. These monies are non-lapsing.

Civil Legal Aid

The Baseline includes no funding in FY 2027 for Civil Legal Aid. Adjustments are as follows:

Remove One-Time Civil Legal Aid Funding

The Baseline includes a decrease of \$(3,000,000) from the General Fund in FY 2027 for the elimination of one-time Civil Legal Aid funding. Civil Legal Aid provides legal services to assist low-income individuals with various legal issues.

A FY 2026 General Appropriations Act footnote required 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 Baseline includes \$3,724,000 from the Federal TANF Block Grant in FY 2027 for Community and Emergency Services. This amount is unchanged from FY 2026.

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 2025, the department also estimates it will allocate an additional \$43,736,500 in federal grants through this line item in FY 2027 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 Baseline includes \$3,522,600 in FY 2027 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:	

Remove One-Time Coordinated Homeless Funding

The Baseline includes a decrease of \$(15,500,000) from the General Fund in FY 2027 to remove one-time coordinated homeless services program funding. A General Appropriations Act footnote required DES to use at least \$4,000,000 of the FY 2026 increase 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.

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 Baseline includes \$2,254,600 in FY 2027 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 2026.

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 Baseline includes no funding in FY 2027 for Homeless Veterans' Services. Adjustments are as follows:

Remove Homeless Veterans' Services Funding

The Baseline includes a decrease of \$(1,500,000) from the General Fund in FY 2027 for the elimination of one-time Homeless Veterans' Services funding. A FY 2026 General Appropriations Act footnote required 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 Baseline includes no funding in FY 2027 for a Homeless Veterans' Strategic Plan. Adjustments are as follows:

Remove Homeless Veterans' Strategic Plan Funding

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2027 for the elimination of one-time Homeless Veterans' Strategic plan funding. A FY 2026 General Appropriations Act footnote required 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 Baseline includes no funding from the General Fund in FY 2027 for Navajo Nation Women's Services. This amount is unchanged from FY 2026.

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

Pascua Yaqui Tribe Social Services Programs

The Baseline includes no funding from the General Fund in FY 2027 for Pascua Yaqui Tribe Social Services Programs. This amount is unchanged from FY 2026.

Produce Incentive Program

The Baseline includes no funding in FY 2027 for the Produce Incentive Program. Adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(2,000,000) from the General Fund in FY 2027 for the removal of one-time produce incentive 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 Baseline includes no funding in FY 2027 for low-income food services for tribal reservations. This amount is unchanged from FY 2026.

Cochise County Food Distribution

The Baseline includes no funding from the General Fund in FY 2027 for Cochise County Food Distribution. This amount is unchanged from FY 2026.

Pinal County Nutrition, Housing, and Rental Assistance

The Baseline includes no funding from the General Fund in FY 2027 for Pinal County nutrition, housing, and rental assistance. This amount is unchanged from FY 2026.

Domestic Violence Prevention

The Baseline includes \$14,004,000 in FY 2027 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 2026.

In FY 2025, this line item, along with non-appropriated funds, served approximately 4,489 adults and children in emergency shelters, 361 adults and children in transitional housing, and 14,018 victims with mobile and community-based advocacy.

Long-Term Care Ombudsman

The Baseline includes \$1,000,000 from the General Fund in FY 2027 for Long-Term Care Ombudsman services. This amount is unchanged from FY 2026.

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 DDD service providers.

Benefits and Medical Eligibility

SNAP Benefits

The Baseline includes \$1,957,041,500 from the SNAP Fund in FY 2027 for SNAP Benefits. Adjustments are as follows:

New Expenditure Authority

The Baseline includes an increase of \$1,957,041,500 from the SNAP Fund in FY 2027 to convert federal SNAP benefit monies from non-appropriated to expenditure authority funds. This change would allow for tracking of federal SNAP monies in relation to new state match requirements for SNAP benefits established by H.R. 1.

Under H.R. 1, SNAP benefit expenses would continue to be 100% federally funded through FY 2027. As a result, the Baseline does not include any General Fund monies for SNAP benefits in FY 2027. The FY 2027 increase reflects the department's estimate of SNAP benefit spending that it included in its FY 2027 budget submission. Currently, SNAP benefits are paid for via the department's non-appropriated Federal Funds accounts. The budget summary table displays a corresponding decrease in estimated Federal Funds spending in FY 2027, resulting in no net change in department resources allocated to SNAP.

Beginning in FY 2028, however, H.R. 1 requires states to pay a percentage of benefit costs if the state's error rate in administering benefits exceeds 6%. The state's share gradually increases as the error rate increases. The state match requirements will begin on October 1, 2027.

In FY 2024, Arizona's error rate was 8.84%. The Baseline assumes the state will maintain this error rate. At this level, the Baseline assumes that the state cost will be \$185,000,000 on an annual basis, which reflects a 10% state match requirement. However, the cost would be \$138,700,000 in FY 2028 because the provision will only be in effect for 9 months of the state fiscal year. These amounts reflect estimated reductions in enrollment and benefit payments resulting from several other provisions of H.R. 1, such as an expansion of work requirements. The Baseline incorporates the net costs of these provisions in FY 2028 and FY 2029.

Background – The Supplemental Nutrition Assistance Program (SNAP), formerly referred to as "food stamps," is a federal low-income food assistance program administered by DES. A household's monthly benefit is based on a federal formula that considers the household's size and net income. In October 2025, the average Arizona household participating in SNAP received a \$359 benefit. The standard household income limit is 130% of the Federal Poverty Level (FPL), but Arizona has adopted a state option that enables households with incomes up to 185% FPL to potentially qualify as well.

Summer Food Benefits Administration

The Baseline includes no funding in FY 2027 for summer food benefits administration. Adjustments are as follows:

Remove One-Time Administrative Funding

The Baseline includes a decrease of \$(200,000) from the General Fund in FY 2027 to remove one-time funding for summer food benefits administration. 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.

TANF Cash Benefits

The Baseline includes \$22,736,400 from the Federal TANF Block Grant in FY 2027 for TANF Cash Benefits. This amount is unchanged from FY 2026.

The budgeted amount would be able to fund an average of 15,750 individuals at \$100 per month. As of October 2025, the program serves 6,056 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 2025, the TANF Diversion program served 49 clients.

At October 2025 levels, the total cost would be \$7,747,600, or \$(14,988,800) below the budgeted amount.

Monies in this line item provide financial assistance on a temporary basis to dependent children in their own homes, or in the homes of responsible caretaker relatives. Financial eligibility is currently set at 36% of the 1992 Federal Poverty Level (FPL), or \$5,022 for a family of 4. The current cumulative lifetime limit on regular TANF Cash Benefits is 24 months if the following conditions are met:

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

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

The Baseline 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 Baseline includes \$4,680,300 from the General Fund in FY 2027 for Tribal Pass-Through Funding. This amount is unchanged from FY 2026.

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

Navajo Nation Youth Programs

The Baseline includes no funding in FY 2027 for Navajo Nation youth programs. This amount is unchanged from FY 2026. The FY 2026 budget included a footnote that made the FY 2025 appropriation of \$500,000 from the General Fund 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.

Child Support - Clerk of the Court and Family Law Services

The Baseline includes \$8,539,700 in FY 2027 for County Participation. This amount consists of:

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

These amounts are unchanged from FY 2026.

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 2025, the Division of Developmental Disabilities served 61,227 clients, which includes 46,501 clients in the LTC program, 7,442 in Targeted Case Management, and 7,284 clients in the state-only program. The primary disabilities as reported by DES are shown in *Table 2*.

Table 2

Primary Disability of Clients Served ^{1/}

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Autism	22,164	36.2%
Intellectual Disability	17,327	28.3%
At Risk	15,062	24.6%
Cerebral Palsy	3,918	6.4%
Epilepsy	2,327	3.8%
Not Indicated	429	0.7%
Total	61,227	100.0%

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

Overall DDD Adjustments

The Baseline includes an increase of \$286,331,300 from the General Fund in FY 2027 for DDD formula changes. These adjustments are primarily based on the following formula assumptions:

- Caseload growth of 6.8% in FY 2026 and 5.0% in FY 2027. The Baseline assumes that LTC enrollment will total 52,098 by June 2027.

- A capitation rate increase of 8.5% in FY 2026 and 3.0% in FY 2027. (Please see the Home and Community-Based services line item for more information on the 8.5% FY 2026 increase and the Parents as Paid Caregivers program). The Baseline assumes that the DDD capitation rate will be \$8,402 in FY 2027 (or \$100,824 annually).
- A reduction in the regular federal match rate from 64.48% in FY 2026 to 63.94% in FY 2027.

Developmental Disabilities – Federal Match Funding

DDD Premium Tax Payment

The Baseline includes \$102,012,200 in FY 2027 for the DDD Premium Tax Payment. This amount consists of:

General Fund	36,783,100
Long Term Care System Fund (EA)	65,229,100

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$24,260,800 in FY 2027 for standard formula adjustments. This amount consists of:

General Fund	9,163,900
Long Term Care System Fund (EA)	15,096,900

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 \$132,664,700 and 1,217.9 FTE Positions in FY 2027 for Case Management - Medicaid. These amounts consist of:

General Fund	47,835,600
Long Term Care System Fund (EA)	84,829,100

Adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(11,017,900) Positions in FY 2027 for standard formula adjustments. These amounts consist of:

General Fund	(3,288,700)
Long Term Care System Fund (EA)	(7,729,200)

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. Through CYE 2025, DES implemented a caseload of 43 clients per 1 case manager for new enrollees. Beginning in Contract Year Ending 2026 (CYE 2026), the ALTCS program adopted a new formula to allocate case managers to DDD clients. DES is now required to have the following ratios of DDD clients to case managers:

- General DDD services: 48 members to 1 case manager.
- DDD services for complex behavioral health or skilled nursing needs: 24 members to 1 case manager.
- DDD PPCG services: 43 members to 1 case manager.
- DDD AzEIP services: 43 members to 1 case manager.

This revised allocation of members to case managers is incorporated within AHCCCS's capitation rates for CYE 2026.

Home and Community Based Services - Medicaid

The Baseline includes \$3,694,025,700 and 221.2 FTE Positions in FY 2027 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	1,325,388,800
Long Term Care System Fund (EA)	2,368,636,900

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$411,058,100 in FY 2027 for standard formula adjustments. This amount consists of:

General Fund	169,359,000
Long Term Care System Fund (EA)	248,167,200
Health Care Investment Fund	(6,468,100)

The formula adjustments include the impact of annualizing an 8.5% capitation rate increase proposed by state actuaries for the DD program in FY 2026. The increase consists of:

- A 4.3% increase effective October 1, 2025. This adjustment reflects inflationary and utilization adjustments. The increase would have been higher, but the actuaries assumed DES would incur a General Fund savings of approximately \$(47,000,000) annually due to anticipated utilization reductions in the Parents as Paid Caregivers (PPCG) related to statutory

changes to the program required by HB 2945 from the 2025 session.

- An additional 4.2% increase proposed by the actuaries in November 2025 that is retroactive to October 1, 2025, bringing the total increase to 8.5%. According to AHCCCS, the adjustments are associated with "DDD reforms" and "utilization and costs related to home and community-based services, pharmacy, and other physical health services."

As of this writing, AHCCCS has not published specific revised estimates of the original \$(47,000,000) in state savings from HB 2945. We assume the savings are lower than the original estimates due to an emergency rulemaking adopted in October that authorized the development of an exceptions process to new procedures that place age-based limits on service authorizations for home and community-based services delivered to minors, including participants in the PPCG program.

The formula adjustments also include a decrease of \$(6,468,100) from HCIF and a corresponding increase of \$6,468,100 to Long Term Care System Fund (EA). DES reports that it is accounting for HCIF monies in LTCSF instead of a separate fund. The Baseline conforms to the DES display.

Backfill One-Time FMAP Savings

The Baseline includes an increase of \$8,400,000 from the General Fund in FY 2027 to backfill one-time FMAP savings. The FY 2026 enacted budget included a one-time decrease of \$(8,400,000) from the General Fund due to revisions to the state's FMAP in FFY 2025. This increase backfills those one-time savings in FY 2027. *(Please see the FY 2026 Appropriations Report for additional information.)*

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. 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 Baseline includes \$53,584,900 and 383 FTE Positions in FY 2027 for Medicaid Institutional Services. These amounts consist of:

General Fund	19,321,400
Long Term Care System Fund (EA)	34,263,500

Adjustments are as follows:

Formula Adjustments

The Baseline includes a decrease of \$(1,399,600) in FY 2027 for standard formula adjustments. This amount consists of:

General Fund	(232,700)
Long Term Care System Fund (EA)	(1,166,900)

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 48 in FY 2025, a decrease of (3) from FY 2024.

Physical and Behavioral Health Services - Medicaid

The Baseline includes \$1,098,810,200 and 77 FTE Positions in FY 2027 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	353,334,300
Long Term Care System Fund (EA)	745,475,900

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$246,330,200 in FY 2027 for standard formula adjustments. This amount consists of:

General Fund	112,739,200
Long Term Care System Fund (EA)	163,270,900
Health Care Investment Fund	(29,679,900)

The formula adjustments include a decrease of \$(29,679,900) from HCIF and a corresponding increase of \$29,679,900 to Long Term Care System Fund (EA). DES reports that it is accounting for HCIF monies in LTCSF instead of a separate fund. The Baseline conforms to the DES display.

Background – This line item funds DES' subcontracts with AHCCCS health plans to obtain medical services, Children's Rehabilitative Services, and behavioral health services for DDD clients in the ALTCS program.

Medicare Clawback Payments

The Baseline includes \$8,888,400 from the General Fund in FY 2027 for Medicare Clawback Payments. Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$948,000 from the General Fund in FY 2027 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 \$25,383,100 and 174.6 FTE Positions in FY 2027 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	9,152,500
Long Term Care System Fund (EA)	16,230,600

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$2,559,900 and 21 FTE Positions in FY 2027 for standard formula adjustments. These amounts consist of:

General Fund	1,031,900
Long Term Care System Fund (EA)	1,528,000

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 2025, 7,442 clients received TCM services.

State Match Transfer from AHCCCS

The Baseline includes \$1,841,698,500 from the Long Term Care System Fund Expenditure Authority in FY 2027 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 \$286,541,200 from the Long Term Care System Fund Expenditure Authority in FY 2027 for a state match transfer from AHCCCS. The adjustment is to bring the total amount in line with the department's FY 2027 General Fund appropriation for Medicaid line items within DDD and General Fund monies for DDD in the operating budget.

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

Arizona Early Intervention Program

The Baseline includes \$16,119,000 from the General Fund in FY 2027 for the Arizona Early Intervention Program (AzEIP). This amount is unchanged from FY 2026.

Background – AzEIP provides screening and intervention services for children ages 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 \$10,825,400 for AzEIP services in FY 2027. As a result, the total AzEIP funding available is \$26,944,400 in FY 2027.

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 DDD diagnosis. AzEIP children with a DDD diagnosis continue to be funded within the HCBS State-Only line item.

Case Management - State-Only

The Baseline includes \$6,446,100 and 60.8 FTE Positions from the General Fund in FY 2027 for Case Management - State-Only. These amounts are unchanged from FY 2026.

Background – This line item funds case management services to clients in the state-only DDD program who meet the functional disability requirements but are not financially eligible for the Targeted Case Management program. In June 2025, 7,284 DDD state-only clients received case management state-only services.

DD Job Training and Life Skills Services

The Baseline includes no funding in FY 2027 for DD Job Training and Life Skills Services. This amount is unchanged from FY 2026.

Monies in this line item were used to fund job training and life skills services for developmentally disabled individuals in areas outside Maricopa and Pima counties.

DD Reconciliation Payment

The Baseline includes no funding in FY 2027 for a DD Reconciliation Payment. Adjustments are as follows:

Remove Operating Shortfall Funding

The Baseline includes a decrease of \$(32,300,000) from the General Fund in FY 2027 to remove one-time funding for an operating budget shortfall in the contract year ending on September 30, 2024.

Group Home Monitoring Program

The Baseline includes no funding in FY 2027 for the Group Home Monitoring Program. Adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(1,200,000) from the General Fund in FY 2027 to remove one-time funding for the Group Home Monitoring Program. The FY 2025 and FY 2026 appropriations for the Group Home Monitoring Program are non-lapsing until July 1, 2026, and December 31, 2027, respectively.

Background – The DDD 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 on systemic issues and recommendations.

High-Need Client Supplement

The Baseline includes \$8,420,000 in FY 2027 for a High-Need Client Supplement. This amount consists of:

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

Adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(14,800,000) from the General Fund in FY 2027 for the removal of one-time

funding for increased costs in FY 2026. This increase was to address growth in the number of DDD members whose costs exceed the institutional threshold.

Background – The federal waiver for the DDD 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 additional services the cost above this 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 federal cost thresholds. In FY 2024, 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 costs. The remaining shortfall of \$(11,295,200) was covered by one-time FMAP disaster savings monies.

Home and Community Based Services - State-Only

The Baseline includes \$14,089,000 from the General Fund in FY 2027 for State-Only Home and Community Based Services. This amount is unchanged from FY 2026.

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

State-Funded Long Term Care Services

The Baseline includes \$46,084,300 and 2 FTE Positions in FY 2027 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	10,567,200
Long Term Care System Fund	35,517,100

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$853,600 in FY 2027 for standard caseload growth in ALTCS-eligible DDD clients receiving residential services with room and board expenses. This amount consists of:

General Fund	307,800
Long Term Care System Fund	545,800

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

Employment and Rehabilitation Services

Child Care Subsidy

The Baseline includes \$217,080,200 from the Child Care and Development Fund Block Grant in FY 2027 for child care subsidies. Adjustments are as follows:

Remove One-Time Child Care Subsidy Funding

The Baseline includes a decrease of \$(80,707,700) in FY 2027 to remove one-time child care subsidy funding. This amount consists of:

General Fund	(44,900,000)
Federal CCDF Block Grant	(35,807,700)

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.

Subsidy Rates – 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. Additionally, high quality providers that are rated with a 3-, 4-, or 5-star rating by First Things First's Quality First program receive an increased quality incentive rate.

As of October 2025, the department estimates that the FY 2026 average reimbursement rate per child was \$1,073. Beginning in November 2025, DES reduced the quality incentive rate from 50% to 40%. We estimate that this will reduce the average rate per child to \$1,013.

Caseloads –According to the department, the estimated number of children receiving child care services in June 2025 was 23,456 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 December 2025, there are 10,351 children on the waiting list.

A General Appropriations Act footnote requires DES to report on all federal child care monies.

Education Workforce Innovation Initiative

The Baseline includes no funding in FY 2027 for the Education Workforce Innovation Initiative. Adjustments are as follows:

Remove One-Time Funding

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2027 for the elimination of one-time education workforce initiative funding.

A FY 2026 General Appropriations Act footnote required 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 were programs focused 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 had a demonstrated record of developing the leadership capacity of parents and caregivers in Arizona and have been operational for at least 4 years. DES distributed the money to a contracted vendor in October.

Independent Living Rehabilitation Services

The Baseline includes \$1,289,400 in FY 2027 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 2026.

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 Baseline includes \$11,005,600 in FY 2027 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 2026.

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 Baseline includes no funding in FY 2027 for the Out-of-School Time Grant Program. Adjustments are as follows:

Remove One-Time Out-of-School Time Grant Fund Deposit

The Baseline includes a decrease of \$(3,000,000) from the General Fund in FY 2027 to remove a one-time deposit into the out-of-school time grant fund.

The FY 2026 Human Services BRB established 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. The FY 2026 monies are non-lapsing until June 30, 2027.

Rehabilitation Services

The Baseline includes \$7,249,100 in FY 2027 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 2026.

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 Baseline includes \$85,824,200 from the Workforce Investment Act Grant in FY 2027 for the Workforce Innovation and Opportunity Act Services line item.

This amount is unchanged from FY 2026.

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 2026 Supplemental
- Statutory Changes
- Long-Term Budget Impacts
- Auditor General Report
- Federal TANF Block Grant

FY 2026 Supplemental

The Baseline includes a supplemental appropriation of \$96,818,700 from the General Fund and \$241,928,300 from Long Term Care System Fund expenditure authority in FY 2026 for higher-than-budgeted DDD formula costs due to the following factors:

- FY 2026 growth in per-member, per month capitation costs of 8.5%. The enacted budget assumed a 3.0% adjustment. *(Please see the Home and Community-Based Services line item for additional information).*
- Estimated FY 2026 caseload growth of 6.8%. The enacted budget assumed growth of 5.0%.

Statutory Changes

The Baseline would:

- As permanent law, establish the Supplemental Nutrition Assistance Program (SNAP) Fund as an

expenditure authority fund used to house the federal share of the administrative and benefit costs of SNAP.

- As session law, 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 costs, including Developmental Disabilities formula costs, are projected to increase by \$309,674,300 in FY 2028 above FY 2027 and \$211,096,200 in FY 2029 above FY 2028.

The FY 2028 estimate is based on:

- \$159,474,300 for 5.0% DDD caseload growth, 3.0% capitation growth and an estimated 63.81% FMAP.
- \$11,500,000 to annualize the SNAP administrative cost shift under H.R. 1.
- \$138,700,000 for the first 9 months of the SNAP benefit cost shift under H.R. 1, based on an estimated 10% state match.

The FY 2029 estimate is based on:

- \$164,796,200 for 5.0% DDD caseload growth, 3.0% capitation growth and an estimated 63.81% FMAP.
- \$46,300,000 to annualize the SNAP benefit cost shift under H.R. 1, based on an estimated 10% state match.

Auditor General Report

In September 2025, the Auditor General published a performance audit of the Arizona Department of Economic Security Division of Developmental Disabilities, which included a review of member quality-of-care concerns and DDD processes for addressing, investigating, and correcting these concerns.

Findings from the report included that the Department did not appropriately classify and investigate some complaints by DDD members, and that the Department failed to investigate and resolve some reported quality-of-care violations.

The Auditor General made 16 recommendations as a result of this audit, 12 of which were addressed to DES and 4 of which were addressed to AHCCCS. Specifically, the Auditor General recommended that DES follow-up with DDD vendors as required by its policies, institute

procedures for DDD vendors who do not follow corrective actions, and work with AHCCCS to review prior and future quality-of-care concerns.

None of these recommendations carried explicit budget implications. Both DES and AHCCCS agreed with the Auditor General's findings.

Federal TANF Block Grant

The Baseline appropriates \$227,546,600 of the state's Federal TANF Block Grant monies in FY 2027. Table 7 shows expected yearly revenues, expenditures, and fund balances across the 2 agencies that administer TANF funding.

	FY 2025 Actual	FY 2026 Estimated	FY 2027 Estimated
Revenues			
Beginning Balance	\$ 16,152,200	\$ 12,990,500	\$ 9,856,100
TANF Base Revenues	<u>240,109,400</u>	<u>224,412,700</u>	<u>224,412,700</u>
Total TANF Available	\$256,261,600	\$237,403,200	\$234,268,800
Expenditures			
Department of Child Safety	\$176,682,200	\$160,985,500	\$160,985,500
Department of Economic Security			
TANF Cash Benefits	\$ 17,736,400	\$ 22,736,400	\$ 22,736,400
All Other TANF Expenditures	<u>48,852,500</u>	<u>43,825,200</u>	<u>43,825,200</u>
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 66,588,900	\$ 66,561,600	\$ 66,561,100
TOTAL - STATEWIDE	\$ 243,271,100	\$ 227,547,100	\$ 227,546,600
Ending Balance	\$ 12,990,500	\$ 9,856,100	\$ 6,722,200

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Expenditure Authority
Source of Revenue: Title IV-D funds received from the U.S. Department of Health and Human Services.		
Purpose of Fund: To fund the statewide Child Support Enforcement program. Please see the Appropriated portion of the fund for additional information.		
Funds Expended	51,753,500	45,547,500
Year-End Fund Balance	6,578,000	1,159,900
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Appropriated
Source of Revenue: State Share of Retained Earnings from child support collections, federal incentives, and fees.		
Purpose of Fund: To fund the statewide Child Support Enforcement program. Please see the Non-Appropriated portion of the fund for additional information.		
Funds Expended	16,557,900	17,615,600
Year-End Fund Balance	0	0
Client Trust Fund (DEA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	0	0
Year-End Fund Balance	4,000	4,000

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Coronavirus State and Local Fiscal Recovery Fund (DEA2985/U.S. P.L. 117-2)		Federal Funds
Source of Revenue: Federal monies appropriated in the American Rescue Plan Act (P.L. 117-2).		
Purpose of Fund: 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.		
Funds Expended	37,818,900	24,541,400
Year-End Fund Balance	2,322,500	501,100
Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Consists of client monies, such as Social Security, earnings, etc.		
Purpose of Fund: If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
Funds Expended	0	0
Year-End Fund Balance	1,766,400	1,839,200
Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)		Non-Appropriated
Source of Revenue: Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
Purpose of Fund: To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
Funds Expended	0	0
Year-End Fund Balance	34,900	36,300
Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)		Appropriated
Source of Revenue: A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offenses. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.		
Purpose of Fund: To fund grants to qualified shelters for victims of domestic violence.		
Funds Expended	3,000,000	4,000,300
Year-End Fund Balance	3,050,700	2,178,700
Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
Funds Expended	0	0
Year-End Fund Balance	66,700	66,700
Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)		Non-Appropriated
Source of Revenue: Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
Purpose of Fund: To be used by the department for buildings, equipment, and other capital investments.		
Funds Expended	232,300	52,800
Year-End Fund Balance	0	0
Employee Recognition Fund (DEA2449/A.R.S § 38-613)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	2,200	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Family Caregiver Grant Program Fund (DEA2347/A.R.S. § 46-343)		Non-Appropriated
Source of Revenue: Legislative appropriations, gifts, grants, and donations.		
Purpose of Fund: Grants provided to individuals who are caring for and supporting a qualifying family member. This fund was repealed from and after July 1, 2024.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 12% of funds must be used for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. The Department of Child Safety has a separate allocation of CCDF funding.		
Funds Expended	331,028,000	281,075,400
Year-End Fund Balance	39,355,700	(26,195,800)
Federal Grants (DEA2000/A.R.S. § 41-1954)		Federal Funds
Source of Revenue: Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Supplemental Nutrition Assistance Program (SNAP) administration, the Social Services Block Grant, and DCYF Expenditure Authority.		
Funds Expended	3,084,107,000	2,904,037,200
Year-End Fund Balance	75,679,000	147,931,400
Federal Pandemic Emergency Assistance Fund (DEA2955/A.R.S. § 35-152)		Appropriated
Source of Revenue: Monies received from the federal American Rescue Plan Act of 2021 to states administering a TANF program.		
Purpose of Fund: To be used for administrative costs and non-recurrent short-term benefits.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families.		
Funds Expended	66,588,900	66,561,100
Year-End Fund Balance	12,990,500	9,856,600
Health Care Investment Fund (DEA2588/A.R.S. § 36-2999.73)		Expenditure Authority
Source of Revenue: 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.		
Purpose of Fund: 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.		
Funds Expended	0	36,148,000
Year-End Fund Balance	0	0
IGA and ISA Fund (DEA2500/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	2,888,400	3,111,700
Year-End Fund Balance	332,400	56,700

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Long Term Care System Fund (Federal Match) (DEA2224/A.R.S. § 36-2953)	Expenditure Authority	
Source of Revenue: Federal Medicaid Authority monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system.		
Funds Expended	2,592,602,600	4,547,563,000
Year-End Fund Balance	181,303,500	200
Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)	Appropriated	
Source of Revenue: Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.		
Funds Expended	34,429,200	34,971,300
Year-End Fund Balance	0	0
Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)	Non-Appropriated	
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.		
Funds Expended	44,000	40,000
Year-End Fund Balance	109,000	122,200
Out-Of-School Time Grant Program Fund (DEA2543/Laws 2025, Chapter 241)	Non-Appropriated	
Source of Revenue: Legislative appropriations.		
Purpose of 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. Expenditures are not displayed to avoid double counting of General Fund appropriations.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Prescription Drug Rebate Fund - State (HCA2546/A.R.S. § 36-2930)	Appropriated	
Source of Revenue: Prescription drug rebate collections and interest from prescription drug rebate late payments.		
Purpose of Fund: To pay for the administrative costs of the Prescription Drug Rebate Program, for payments to contractors or providers in the administration's medical services programs, and to offset General Fund costs for Medicaid programs. The federal share of rebates is retained by the state and is used in lieu of federal match funds. Monies in the fund used in lieu of federal match funds are subject to expenditure authority; all other monies are appropriated. Expenditures displayed only include the state share of disbursements from the fund and exclude "contra expenses" recorded in AFIS associated with the state share of rebate collections.		
Funds Expended	122,300,300	0
Year-End Fund Balance	0	0
Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)	Appropriated	
Source of Revenue: A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.		
Purpose of Fund: To improve public assistance collection activities.		
Funds Expended	0	441,800
Year-End Fund Balance	403,500	(10,300)

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Revenue From State or Local Agency Fund (DEA3193/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: 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.		
Purpose of Fund: 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.		
Funds Expended	5,552,700	3,627,600
Year-End Fund Balance	1,782,000	1,963,600
Sexual Violence Service Fund (DEA2190/A.R.S. § 36-3102)		Appropriated
Source of Revenue: Legislative appropriations, grants, and contributions.		
Purpose of Fund: Grants provided to service providers for victims of sexual violence.		
Funds Expended	0	0
Year-End Fund Balance	2,101,600	0
Special Administration Fund (DEA2066/A.R.S. § 23-705)		Appropriated
Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
Funds Expended	4,654,700	4,645,400
Year-End Fund Balance	2,064,400	1,546,000
Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.		
Funds Expended	145,000	75,200
Year-End Fund Balance	0	0
Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)		Appropriated
Source of Revenue: The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.		
Purpose of Fund: For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.		
Funds Expended	1,848,000	2,385,400
Year-End Fund Balance	0	(500,300)
Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)		Appropriated
Source of Revenue: Federal reimbursement.		
Purpose of Fund: General operations.		
Funds Expended	0	1,000,000
Year-End Fund Balance	0	(1,000,000)
Supplemental Nutrition Assistance Program Fund (DEA9999/A.R.S. § 41-1954)		Expenditure Authority
Source of Revenue: Federal matching funding through the U.S. Department of Agriculture's Food and Nutrition Service.		
Purpose of Fund: For the federal share of the administrative and benefit costs of SNAP.		
Funds Expended	0	0
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2025 Actual	FY 2026 Estimate
Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)		Non-Appropriated
Source of Revenue: Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.		
Purpose of Fund: To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.		
Funds Expended	356,532,800	386,608,000
Year-End Fund Balance	1,861,343,800	1,822,272,800
Workforce Investment Act Grant (DEA2010/U.S. P.L. 113-128)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
Funds Expended	83,410,000	87,109,200
Year-End Fund Balance	58,948,600	35,318,300