

Department of Economic Security
Employment and Rehabilitation Services

A.R.S. § 41-1954

JLBC Analyst: Eric Jorgensen

	FY 2006 Actual	FY 2007 Estimate	FY 2008 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	474.0	488.9	559.9 ^{1/}
Personal Services	15,778,600	18,535,600	21,018,500
Employee Related Expenditures	5,877,900	5,870,400	6,899,100
Professional and Outside Services	569,800	290,800	290,800
Travel - In State	311,800	485,200	567,700
Travel - Out of State	700	0	0
Other Operating Expenditures	1,477,300	2,996,900	3,075,600
Equipment	658,600	0	575,100
OPERATING SUBTOTAL	24,674,700	28,178,900	32,426,800
SPECIAL LINE ITEMS			
JOBS Administration			
JOBS	21,082,200	22,942,300	23,062,800
Child Care Administration			
Day Care Subsidy	134,059,900	155,000,100	162,289,000 ^{2/3/4/5/}
Transitional Child Care	33,777,100	34,481,900	36,193,000 ^{3/4/5/}
Rehabilitation Services Administration			
Vocational Rehabilitation Services	1,389,300	5,419,100	5,419,100
Independent Living Rehabilitation Services	2,051,800	2,491,900	2,991,900 ^{6/7/}
Workforce Development Administration			
Summer Youth Employment and Training	0	1,000,000	1,250,000
Workforce Investment Act - Discretionary	2,645,500	3,614,000	3,614,000 ^{8/9/}
Workforce Investment Act - Local Governments	36,458,600	48,040,600	48,040,600 ^{10/}
PROGRAM TOTAL	256,139,100	301,168,800	315,287,200^{11/}
FUND SOURCES			
General Fund	78,337,200	93,901,500	103,903,700
<u>Other Appropriated Funds</u>			
Federal CCDF Block Grant	104,670,100	115,973,400	116,487,600
Federal Reed Act Grant	0	0	3,236,500
Federal TANF Block Grant	28,570,400	31,373,800	31,655,300
Special Administration Fund	662,600	1,585,000	1,585,000
Spinal and Head Injuries Trust Fund	2,015,600	2,463,700	2,481,900
Workforce Investment Act Grant	41,883,200	55,871,400	55,937,200
SUBTOTAL - Other Appropriated Funds	177,801,900	207,267,300	211,383,500
SUBTOTAL - Appropriated Funds	256,139,100	301,168,800	315,287,200
Other Non-Appropriated Funds	220,568,100	222,833,900	222,833,900
Federal Funds	88,778,800	105,395,600	105,395,600
TOTAL - ALL SOURCES	565,486,000	629,398,300	643,516,700

^{1/} Includes 93 OF FTE Positions funded from Special Line Items in FY 2008.

^{2/} Of the \$162,289,000 appropriated for Day Care Subsidy, \$107,909,000 is for a program in which the upper income limit is no more than 165% of the federal poverty level. This provision shall not be construed to impose a duty on an officer, agent or employee of the state to discharge a responsibility or to create any right in a person or group if the discharge or right would require an expenditure of state monies in excess of the \$107,909,000 appropriation. (General Appropriation Act footnote)

^{3/} The amounts appropriated for Day Care Subsidy and Transitional Child Care shall be used exclusively for child care costs unless a transfer of monies is reviewed by the Joint Legislative Budget Committee. Monies shall not be used from these appropriated amounts for any other expenses of the Department of Economic Security unless a transfer of monies is reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)

^{4/} Monies in the Child Care Subsidy and Transitional Child Care line items shall be used to provide services only to residents of the State of Arizona who are citizens or legal residents of the United States or who are otherwise lawfully present in the United States. (General Appropriation Act footnote)

COST CENTER DESCRIPTION — The program provides: 1) employability services to Temporary Assistance for Needy Families (TANF) recipients through the Job Opportunity and Basic Skills (JOBS) training program; 2) child care subsidy programs; 3) rehabilitative services to individuals with disabilities; and 4) job training opportunities to economically disadvantaged adults and youth. Several 100% federally funded programs are located in this division, such as the Unemployment Insurance benefit program and the Workforce Investment Act programs.

PERFORMANCE MEASURES	FY 2004	FY 2005	FY 2006	FY 2008
	Actual	Actual	Actual	Approved
• Number of TANF recipients who obtained employment	20,185	16,560	16,074	20,000
• % of customer satisfaction with child care	95.6	93.5	86.7	95.6
• Vocational Rehabilitation individuals successfully rehabilitated	1,650	1,865	2,129	4,000

Comments: The Vocational Rehabilitation program received funding to provide services to an additional 3,800 clients in FY 2007.

Operating Budget

The budget provides \$32,426,800 and 466.9 FTE Positions for the operating budget in FY 2008. These amounts consist of:

	FY 2008
General Fund	\$9,847,000
Federal Child Care and Development Fund (CCDF) Block Grant	10,508,800
Federal Temporary Assistance for Needy Families (TANF) Block Grant	5,897,400
Federal Reed Act Grant	3,236,500
Workforce Investment Act (WIA) Grant	2,282,600
Special Administration Fund	85,000
Spinal and Head Injuries Trust Fund	569,500

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$902,600 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	291,700
Federal Child Care and Development Fund (CCDF) Block Grant	364,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	162,700
Workforce Investment Act (WIA) Grant	65,800
Spinal and Head Injuries Trust Fund	18,200

(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

Unemployment Insurance Administration

The budget provides an increase of \$3,236,500 and 71 FTE Positions from the Federal Reed Act Grant in FY 2008 to shift administrative costs for the Unemployment Insurance program from declining non-appropriated Federal Funds. Federal reductions of these non-appropriated funds began in FY 2005 but were offset by carry-forward balances from previous federal appropriations. There is no longer a fund balance. This appropriation will not decrease the current trust fund balance as the Federal Reed Act Grant monies (\$144,000,000) generate interest of \$4,800,000 annually.

- 5/ Of the sums appropriated, \$7,288,900 from the Day Care Subsidy line item and \$1,711,100 from the Transitional Child Care line item shall be used to increase the maximum provider reimbursement rate for every district, age group and type of services by 5% in FY 2008. (General Appropriation Act footnote)
- 6/ All Spinal and Head Injuries Trust Fund receipts received by the Department of Economic Security in excess of \$2,481,900 are appropriated to the Independent Living Rehabilitation Services line item. Before the expenditure of any Spinal and Head Injuries Trust Fund receipts in excess of \$2,481,900, the Department of Economic Security shall submit the intended use of the monies for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote, as adjusted for statewide allocations)
- 7/ It is the intent of the Legislature that \$500,000 of the \$2,991,900 appropriated for Independent Living Rehabilitation Services be used to expand the Independent Living Program for the blind and visually impaired. (General Appropriation Act footnote)
- 8/ Monies appropriated to the Workforce Investment Act – Discretionary line item may not be expended until a proposed expenditure plan has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 9/ All Federal Workforce Investment Act discretionary monies that are received by the state in excess of \$3,614,000 are appropriated to the Workforce Investment Act – Discretionary line item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 10/ All Federal Workforce Investment Act funds for local governments that are received by the state in excess of \$48,040,600 are appropriated to the Workforce Investment Act - Local Governments line item. Excess monies may not be spent until a proposed expenditure plan for the excess monies has been reviewed by the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 11/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Program.

Federal Reed Act Grant monies are administrative unemployment insurance funds periodically redistributed to the states by the Federal government. These funds are deposited in a sub-account of the Unemployment Insurance Trust Fund. These funds are restricted to specific purposes including system enhancements and short-term operating expenditures.

Federal Child Care Subsidy Reporting

The budget provides an increase of \$150,000 from the Federal CCDF Block Grant in FY 2008 to comply with new federal reporting requirements. A new federal rule requires that states report error rates for child care subsidy payments based on a random sample of cases. The federal government has estimated the state cost of implementing this requirement at \$150,000 for each state.

Administration Funding Shift

The budget provides a decrease of \$(41,200) from the General Fund in FY 2008 to shift rent funding from this division to the Administration Division. Rent payments for the department are paid out of the Administration Division. (See Administration Funding Shift description in the Administration Division for more details.)

Special Line Items

JOBS Administration

JOBS

The budget provides \$23,062,800 and 93 FTE Positions for JOBS in FY 2008. These amounts consist of:

General Fund	1,825,200
Federal TANF Block Grant	17,737,600
WIA Grant	2,000,000
Special Administration Fund	1,500,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget provides an increase of \$120,500 in FY 2008 for statewide adjustments. This amount consists of:

General Fund	1,700
Federal TANF Block Grant	118,800

This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well to former TANF recipients. The line item also includes expenditures formerly included in Work-Related Transportation and Job Search Stipends. These services are contracted out to third party vendors. Table 1 highlights total estimated expenditures for the JOBS line item.

<u>Expenditures</u>	<u>Amount</u>
Job Training	\$13,699,000
Post Employment Services	6,061,500
Case Management	2,970,100
Work-Related Transportation	302,200
Job Search Stipends	30,000
Total	\$23,062,800

Child Care Administration

The DES Child Care Administration (CCA) helps eligible families pay a portion of child care costs when parents or caretakers participate in DES eligible activities. Requirements vary for each program.

CCA administers subsidies to TANF clients engaged in job activities, low-income working individuals under 165% of the Federal Poverty Level (FPL), and children in the Child Protective Services (CPS) program. Clients in the state's TANF, Transitional, and CPS programs are entitled to services. The state, therefore, is required to provide subsidies to families in these categories. Families in the low-income working category are not entitled to services and receive subsidies only to the extent that funding is available. Statute requires that DES review each case at least once a year to evaluate a recipient's eligibility for assistance. If there is not enough funding to provide subsidies to low-income working families, then those individuals are placed on a waiting list.

Subsidy Rates

The average subsidy paid to providers per child is projected to be approximately \$341 per month in FY 2008. The maximum reimbursement rate paid by the state for a 2-year-old child in Maricopa County is \$27.93 per day, using the 2000 Market Rate Survey plus 5%, which is the intent of the FY 2008 provider rate increase.

Families in non-mandatory categories are required to make co-payments to defray the state's share of the cost of care. For families with an income level at or below 100% FPL, the required daily co-payment for their first child in care is \$2.00. Using the \$27.93 Maricopa rate, this \$2.00 co-payment would account for 7.2% of the total cost of care (with the state paying the other 92.8%).

By comparison, a family at 165% FPL is required to make a co-payment of \$10.00 per child. Using the same scenario as above, a family at 165% FPL would contribute 35.8% of the child's day care costs. In practice, families may pay a higher percentage of care, as some providers charge more than the maximum reimbursement rate paid for by the state. For example, a provider may charge \$30.00 per day (while the maximum daily reimbursement paid by the state is \$27.93). In that case, a family at 165% FPL would pay the \$10.00 co-payment as well as an additional \$2.07, which represents the difference between what the provider charges (\$30.00) and what the state

reimburses (\$27.93). Under this scenario, the family is paying for 40.2% of the child's day care.

Caseloads

Table 2 highlights the average number of children receiving child care services per month from FY 2006 through funded caseload levels in FY 2008. Based on data through March 2007, an estimated monthly average of 44,100 children received subsidies in FY 2007, a decrease of about (1)% from FY 2006 levels. The largest decrease, (26)%, occurred in the TANF population, which has declined for the past several years. These declines produced an initial surge in the Transitional Child Care (TCC) population; however, TCC services are time limited and the population is now in decline. The growth in the number of families referred by CPS slowed over previous years to only 8%.

Category	Children Served		
	FY 2006	FY 2007^{1/}	FY 2008^{1/}
TANF	5,154	3,800	3,600
CPS	5,598	6,000	6,500
Low Income Working	<u>24,322</u>	<u>25,500</u>	<u>26,600</u>
Day Care Subsidy SLI			
Subtotal	35,074	35,300	36,700
Transitional Child Care SLI	<u>9,464</u>	<u>8,800</u>	<u>7,600</u>
Total Served	44,538	44,100	44,300

^{1/} Estimated based on data through March 2007
^{2/} Represents funded caseload. Actual caseloads may differ.

For FY 2008, TANF caseloads are expected to increase slightly month over month; however, large decreases during FY 2007 mean that the average caseload is still expected to be nearly (5)% less than FY 2007. Transitional Child Care is expected to accelerate its decline to (14)%. The Low Income Working category and the CPS related caseloads are expected to grow 5% and 7% respectively in FY 2008.

These caseload growth rates would imply an average of 44,300 children being served at an expected average cost of \$341 per child per month, higher than the estimated FY 2007 rate of \$326. This increase is due to a 5% increase in the maximum provider reimbursement rate.

The budget does not include an adjustment for caseload growth. While the caseload is expected to grow slightly in FY 2008, caseloads in FY 2007 were significantly lower than budgeted. Therefore, no waitlist is expected for FY 2008, even with no additional funding.

Day Care Subsidy

The budget provides \$162,289,000 for Day Care Subsidy in FY 2008. This amount consists of:

General Fund	84,482,900
Federal CCDF Block Grant	69,785,800
Federal TANF Block Grant	8,020,300

These amounts fund the following adjustments:

Provider Rate Increase

The budget provides an increase of \$7,288,900 in FY 2008 for a provider rate increase. This amount consists of:

General Fund	9,000,000
Federal CCDF Block Grant	(1,711,100)

A budget footnote expresses the intent of the Legislature that this appropriation be used to raise all provider reimbursement rates by 5%. Previously, the rates were set at the 75th percentile of the 2000 Market Rate Survey. This is expected to raise average monthly reimbursement by about \$14.70 per child.

(Please see the Child Care Administration Summary for more information.)

Transitional Child Care

The budget provides \$36,193,000 from the Federal CCDF Block Grant for Transitional Child Care in FY 2008. This amount funds the following adjustments:

Provider Rate Increase

The budget provides an increase of \$1,711,100 from the Federal CCDF Block Grant in FY 2008 for a provider rate increase. A budget footnote expresses the intent of the Legislature that this appropriation be used to raise all provider reimbursement rates by 5%. Previously, the rates were set at the 75th percentile of the 2000 Market Rate Survey. This is expected to raise average monthly reimbursement by about \$14.70 per child.

This line item funds child care subsidies to clients who no longer receive TANF Cash Benefits due to finding employment. The program provides subsidies for up to 24 months after the client stops receiving TANF Cash Benefits. These subsidies require a co-pay from the recipient. *(Please see the Child Care Administration Summary for more information.)*

Rehabilitation Services Administration

Vocational Rehabilitation Services

The budget provides \$5,419,100 for Vocational Rehabilitation Services in FY 2008. This amount consists of:

General Fund	5,214,400
Spinal and Head Injuries Trust Fund	204,700

These amounts are unchanged from FY 2007. This line item funds individually planned services for the disabled designed to return them to the workforce. Services provided include personal and social adjustment, rehabilitation technology, physical or mental restoration (e.g., prosthetics), and vocational training and placement. The federal government provides 78.7% of funding for

every 21.3% of state match. In addition to the state-appropriated monies, DES has secured other sources of state match through agreements with agencies such as the Department of Health Services (DHS), the Arizona State Schools for the Deaf and the Blind, and also the City of Phoenix.

The program is expected to serve up to 5,450 clients, at an average annual TF cost of \$4,665 per client. In addition to these clients, the division is also expected to serve 200 clients who are not developmentally disabled at an average annual cost of \$3,622 per client, using federal Social Services Block Grant and Arizona Industries for the Blind monies.

Independent Living Rehabilitation Services

The budget includes \$2,991,900 for Independent Living Rehabilitation Services in FY 2008. This amount consists of:

General Fund	1,284,200
Spinal and Head Injuries Trust Fund	1,707,700

These amounts fund the following adjustments:

Services for the Blind and Visually Impaired

The budget provides an increase of \$500,000 from the General Fund in FY 2008 to expand services to the blind and visually impaired.

This 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. Funds are also used to provide eye exams and glasses to financially needy persons. Funding is broken down as follows:

Services to Individuals: \$990,100 GF and \$1,707,700 Spinal and Head Injuries Trust Fund to provide independent living services (case management, counseling, or contracted services) to an estimated 9,100 clients.

Sight Conservation: \$294,100 GF to provide 10,900 eye examinations and 7,300 pairs of eyeglasses and other eye appliances at an average cost of \$27.00 per person.

Workforce Development Administration

Summer Youth Employment and Training

The budget provides \$1,250,000 from the General Fund for Summer Youth Employment and Training in FY 2008. This amount funds the following adjustments:

Increased Capacity

The budget provides an increase of \$250,000 from the General Fund in FY 2008 to provide increased capacity for summer employment and training programs.

This line item provides funds for summer youth employment and training programs for at-risk youth. The division will distribute the \$1,250,000 directly to local governments, pursuant to the formula described in A.R.S. § 11-1042. These amounts are shown in *Table 3* below.

<u>Locality</u>	<u>Amount</u>
Maricopa County	\$ 218,750
Phoenix	293,750
Mesa	143,750
Pima County	343,750
All Other Counties (by population)	<u>250,000</u>
Total	\$1,250,000

Workforce Investment Act - Discretionary

The budget provides \$3,614,000 from the Workforce Investment Act (WIA) Grant for the Workforce Investment Act - Discretionary line item in FY 2008. This amount is unchanged from FY 2007.

This line item funds various programs as recommended by the Governor’s Council on Workforce Policy. These monies make up 15% of the total federal WIA Grant. Some examples of funded activities include:

High Concentration of Youth Activities: Funds are distributed to help defray high program costs associated with serving youth in poverty. Monies are allocated to local workforce boards receiving less than \$500,000 in youth formula funds.

Technical Assistance: Funds are provided to local areas that fail to meet local performance measures. Monies are used to incorporate new strategies that lead to improved customer service and performance outcomes.

Evaluations: Monies are provided to conduct ongoing evaluation studies of workforce investment activities carried out across Arizona to ensure customer satisfaction as well as to identify areas in need of improvement.

A footnote in the General Appropriation Act requires that an expenditure plan be reviewed by the JLBC prior to the expenditure of these funds.

Workforce Investment Act – Local Governments

The budget provides \$48,040,600 from the WIA Grant for the Workforce Investment Act – Local Governments line item in FY 2008. This amount is unchanged from FY 2007.

This line item funds workforce training for dislocated workers and disadvantaged adults and youth at the local level. These monies are the state’s allotment of the federal WIA Grant, established by Congress in 1998. Of the total

grant received by the state, 85% is allocated to local governments.

The allocation of the WIA Grant for workforce related programs in FY 2008 are shown in *Table 4* below.

<u>Category</u>	<u>Amount</u>
Local Governments	\$48,040,600
Discretionary	3,614,000
Administration	2,282,600 ^{1/}
JOBS	<u>2,000,000</u> ^{2/}
Total	\$55,937,200

^{1/} This funding is included in the operating budget.
^{2/} This funding is included in the JOBS line item.

Additional Legislation

Child Care Eligibility

The FY 2008 Health and Welfare Budget Reconciliation Bill (Laws 2007, Chapter 263) continues a provision that permits DES to reduce income eligibility levels for all child care programs if the program has insufficient resources. DES is required to report to JLBC within 15 days of any such change in levels.