

## Department of Economic Security

	FY 2020 ACTUAL	FY 2021 ESTIMATE	FY 2022 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	4,377.8	4,377.8	4,381.8 <sup>1/</sup>
Personal Services	73,458,000	76,026,400	76,107,000
Employee Related Expenditures	32,580,900	32,557,700	32,585,100
Professional and Outside Services	15,444,200	24,392,100	24,392,100
Travel - In State	755,700	403,600	403,600
Travel - Out of State	65,200	56,900	56,900
Other Operating Expenditures	22,195,400	25,792,900	25,803,400
Equipment	3,356,700	3,881,500	3,881,500
<b>OPERATING SUBTOTAL</b>	<b>147,856,100</b>	<b>163,111,100</b>	<b>163,229,600</b> <sup>2/D/3/</sup>
<b>SPECIAL LINE ITEMS</b>			
<b>Administration</b>			
Attorney General Legal Services	10,047,600	11,458,100	11,540,100
<b>Aging and Adult Services</b>			
Adult Services	8,731,900	8,731,900	8,731,900
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	2,522,600	2,522,600
Domestic Violence Prevention	13,074,700	14,003,700	14,003,700 <sup>4/5/</sup>
Family Caregiver Grant Fund Deposit	1,000,000	0	0
<b>Benefits and Medical Eligibility</b>			
TANF Cash Benefits	22,736,400	22,736,400	22,736,400
Coordinated Hunger Services	1,754,600	1,754,600	1,754,600
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
<b>Child Support Enforcement</b>			
County Participation	4,215,000	8,740,200	8,539,700
<b>Developmental Disabilities</b> <sup>6/-11/</sup>			
DDD Administration	39,445,700	104,474,400	117,046,900
DDD Premium Tax Payment	40,619,200	43,472,900	50,055,200
Case Management - Medicaid	68,516,300	86,955,500	87,972,500
Home and Community Based Services - Medicaid	1,240,019,700	1,527,962,600	1,771,159,600
Institutional Services - Medicaid	37,994,600	45,973,200	34,881,700
Physical and Behavioral Health Services - Medicaid	349,498,000	393,043,700	465,349,400
Medicare Clawback Payments	4,517,800	4,388,900	4,661,200
Targeted Case Management - Medicaid	8,004,700	11,415,500	13,191,900
Case Management - State-Only	6,194,600	6,311,900	6,311,900
Cost Effectiveness Study Client Services	1,220,000	1,220,000	1,220,000
Home and Community Based Services - State-Only	13,589,000	13,589,000	13,589,000
Arizona Early Intervention Program	6,319,000	6,319,000	6,319,000
State-Funded Long Term Care Services	35,151,600	35,413,600	36,476,000
<b>Employment and Rehabilitative Services</b>			
Child Care Subsidy	146,796,600	169,095,000	185,414,000 <sup>12/13/</sup>
Independent Living Rehabilitation Services	1,289,400	1,289,400	1,289,400
JOBS	11,005,600	11,005,600	11,005,600
Rehabilitation Services	7,249,100	7,249,100	7,249,100
Workforce Investment Act Services	68,154,600	53,654,600	53,654,600 <sup>14/</sup>
<b>AGENCY TOTAL</b>	<b>2,305,928,700</b>	<b>2,764,296,800</b>	<b>3,108,309,900</b> <sup>15/-18/</sup>
<b>FUND SOURCES</b>			
General Fund	749,708,200	812,054,300	901,142,500
<u>Other Appropriated Funds</u>			

	FY 2020 ACTUAL	FY 2021 ESTIMATE	FY 2022 BASELINE
Child Support Enforcement Administration Fund	8,880,900	17,531,300	17,531,300
Domestic Violence Services Fund	3,071,000	4,000,000	4,000,000
Federal CCDF Block Grant	158,952,900	181,557,800	197,876,800
Federal TANF Block Grant	65,395,900	65,839,800	65,839,800
Long Term Care System Fund (Non-Federal Matched)	26,559,600	26,563,800	27,360,700
Public Assistance Collections Fund	0	423,600	423,600
Special Administration Fund	4,511,200	4,550,000	4,550,000
Spinal and Head Injuries Trust Fund	2,326,800	2,340,200	2,340,200
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	72,176,200	56,085,500	56,085,500
SUBTOTAL - Other Appropriated Funds	341,874,500	359,892,000	377,007,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>1,091,582,700</b>	<b>1,171,946,300</b>	<b>1,278,150,400</b>
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	33,466,600	43,192,400	43,192,400
Health Care Investment Fund	0	0	26,863,200
Long Term Care System Fund (Federal Match)	1,180,879,400	1,549,158,100	1,760,103,900
SUBTOTAL - Expenditure Authority Funds	1,214,346,000	1,592,350,500	1,830,159,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>2,305,928,700</b>	<b>2,764,296,800</b>	<b>3,108,309,900</b>
Other Non-Appropriated Funds	740,023,800	1,761,348,800	470,998,900
Federal Funds	1,840,554,700	2,167,607,300	2,167,607,300
<b>TOTAL - ALL SOURCES</b>	<b>4,886,507,200</b>	<b>6,693,252,900</b>	<b>5,746,916,100</b>

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

**FOOTNOTES**

- 1/ Includes 294.2 GF, 144.6 OF, and 1,972.6 EA FTE Positions funded from Special Line Items in FY 2022.
- 2/ The operating lump sum appropriation may be spent on Arizona health care cost containment system eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriation Act footnote)
- ~~D/ All state shares of retained earnings, fees and federal incentives in excess of \$17,531,300 received by the division of child support enforcement are appropriated for operating expenditures. The division may authorize new FTE positions with an increase in funding. Before spending these increased monies, the department of economic security shall report the intended use of the monies to the joint legislative budget committee. (General Appropriation Act footnote)~~
- 3/ Before the department may spend any monies to replace the child support information technology system, the Arizona strategic enterprise technology office shall submit, on behalf of the department of economic security, an expenditure plan to the joint legislative budget committee for review. The expenditure plan shall include the project cost, deliverables, timeline for completion and method of procurement consistent with the department's prior reports for its appropriation from the automation projects fund pursuant to section 41-714, Arizona Revised Statutes. (General Appropriation Act Footnote)
- 4/ All domestic violence services fund monies in excess of \$4,000,000 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 \$4,000,000 to the joint legislative budget committee. (General Appropriation Act footnote)
- 5/ On or before December 15, 2021, 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 funding. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriation Act footnote)
- 6/ The department shall report to the joint legislative budget committee on or before March 1 of each year on preliminary actuarial estimates of the capitation rate changes for the following fiscal year along with the reasons for the estimated changes. For any actuarial estimates that include a range, the total range from minimum to maximum may not be more than two percent. Before implementing any changes in capitation rates for the long-term care system, the department

shall submit a report for review by the joint legislative budget committee. Before the department implements any change in policy affecting the amount, sufficiency, duration and scope of health care services and who may provide services, the department shall prepare a fiscal impact analysis on the potential effects of this change on the following year's capitation rates. If the fiscal impact analysis demonstrates that this change will result in additional state costs of \$500,000 or more for any fiscal year, the department shall submit the policy change for review by the joint legislative budget committee. (General Appropriation Act footnote)

- 7/ Before implementing developmental disabilities or long term care statewide provider rate adjustments that are not already specifically authorized by the legislature, court mandates or changes to federal law, the department shall submit a report for review by the joint legislative budget committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriation Act footnote)
- 8/ On or before September 1, 2022, 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 2021-2022 and the reason this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. On or before September 1, 2022, 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 2021-2022. (General Appropriation Act footnote)
- 9/ The department shall submit an expenditure plan to the joint legislative budget committee for review of any new division of developmental disabilities salary adjustments not previously reviewed by the joint legislative budget committee. (General Appropriation Act footnote)
- 10/ On or before August 1, 2021 the department shall report to the joint legislative budget committee the number of filled positions for case managers and non-case managers in the division of developmental disabilities as of June 30, 2021. The department shall submit an expenditure plan of its staffing levels for review by the joint legislative budget committee if the department plans on hiring staff for non case manager, non-case aide, non case unit supervisor and non-case section manager positions above the staffing level indicated in the August 1, 2021 report. (General Appropriation Act footnote)
- 11/ Before transferring any monies in or out of the case management - medicaid, case management - state-only and DDD administration line items, the department shall submit a report for review by the joint legislative budget committee. (General Appropriation Act footnote)
- 12/ The legislature intends that the combined number of children in child care assistance authorized pursuant to section 46-803, subsections D and F, Arizona Revised Statutes, be maintained throughout the year at a minimum of 8,500 children. The department of economic security shall prioritize child care assistance for families that qualify for assistance pursuant to section 46-803, subsection F, Arizona Revised Statutes, on the waiting lists established pursuant to section 46-803, subsection J, Arizona Revised Statutes. (General Appropriation Act footnote)
- 13/ Before the department of economic security changes child care reimbursement rates, the department shall submit the proposed changes for review by the joint legislative budget committee. (General Appropriation Act footnote)
- 14/ All workforce investment act grant monies that are received by this state in excess of \$56,085,500 are appropriated to the workforce investment act services line item. Before spending these increased monies, the department shall report the intended use of monies in excess of \$56,085,500 to the joint legislative budget committee. (General Appropriation Act footnote)
- 15/ On or after April 1, 2022, 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. Notwithstanding any other law, this appropriation must be fully reimbursed on or before September 1, 2022 and must be reimbursed in full as part of the closing process for fiscal year 2021-2022. THE DEPARTMENT SHALL NOTIFY THE JOINT LEGISLATIVE BUDGET COMMITTEE OF REIMBURSEMENT ON OR BEFORE SEPTEMBER 1, 2022. The appropriation may not be used for additional programmatic expenditures. (General Appropriation 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 Appropriation 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 Appropriation Act footnote)

18/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

**Summary**

The Department of Economic Security’s (DES) FY 2022 General Fund spending increases by \$89,088,200, or 11.0% above the FY 2021 appropriation. This amount includes:

- \$90,040,800 for DDD formula adjustments.
- \$(952,600) for the suspension of the Health Insurer Fee.

**Operating Budget**

The Baseline includes \$163,229,600 and 1,970.4 FTE Positions in FY 2022 for the operating budget. These amounts consist of:

	<b>FY 2022</b>
General Fund	\$81,297,500
Child Support Enforcement Administration Fund	13,797,400
Child Support Enforcement Administration Fund (EA)	28,357,300
Federal Temporary Assistance for Needy Families (TANF) Block Grant	20,905,000
Federal Child Care and Development Fund (CCDF) Block Grant	12,444,900
Public Assistance Collections Fund	332,500
Special Administration Fund	2,114,000
Spinal and Head Injuries Trust Fund	560,300
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	2,420,700

FY 2022 adjustments are as follows:

**Gila County Child Support Enforcement**

The Baseline includes an increase of \$118,500 and 3 FTE from the Child Support Enforcement Administration Fund (EA) in FY 2022 for the transfer of the Gila County child support enforcement function back to the state. *(Please see the County Participation narrative below for more details.)*

**Administration**

**Attorney General Legal Services**

The Baseline includes \$11,540,100 and 157.9 FTE Positions in FY 2022 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,275,200
Child Support Enforcement Administration Fund	2,654,800
Child Support Enforcement Administration Fund (EA)	7,374,500
Federal TANF Block Grant	109,500
Federal CCDF Block Grant	17,900
Public Assistance Collections Fund	91,100
Special Administration Fund	5,100
Spinal and Head Injuries Trust Fund	1,800
Workforce Investment Act Grant	10,200

FY 2022 adjustments are as follows:

**Gila County Child Support Enforcement**

The Baseline includes an increase of \$82,000 and 1 FTE from the Child Support Enforcement Administration Fund (EA) in FY 2022 for the transfer of the Gila County child support enforcement function back to the state. *(Please see the County Participation narrative below for more details.)*

**Aging and Adult Services**

**Adult Services**

The Baseline includes \$8,731,900 from the General Fund in FY 2022 for Adult Services. This amount is unchanged from FY 2021.

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

**Table 1**

<b>Independent Living Support</b>	
<b>Services</b>	<b>FY 2022</b>
Adult Protective Contracted Services	\$ 322,700
Supplemental Payments	94,800
Home Care	4,181,500
Older Americans Act	1,905,700
Assessments and Case Management	1,721,800
Respite Care	<u>505,300</u>
<b>Total</b>	<b>\$8,731,900 <sup>1/</sup></b>

<sup>1/</sup> Numbers do not add due to rounding.

### **Community and Emergency Services**

The Baseline includes \$3,724,000 from the Federal TANF Block Grant in FY 2022 for Community and Emergency Services. This amount is unchanged from FY 2021.

Monies in this line item provide funding to 15 community action agencies to deliver a wide range of services related to the needs of low-income families and individuals. In FY 2020, this line item provided short-term crisis services to 1,119 households and energy assistance to 39,094 households.

### **Coordinated Homeless Services**

The Baseline includes \$2,522,600 in FY 2022 for Coordinated Homeless Services programs. This amount consists of:

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

These amounts are unchanged from FY 2021.

In FY 2020, this line item provided emergency shelter services to 10,374 individuals, rapid re-housing services to 1,456 individuals, and homeless prevention services to 342 individuals.

### **Domestic Violence Prevention**

The Baseline includes \$14,003,700 in FY 2022 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,000
Federal TANF Block Grant	6,620,700
Domestic Violence Services Fund	4,000,000
Special Administration Fund	100,000

These amounts are unchanged from FY 2021.

In FY 2020, this line item, along with non-appropriated funds, served approximately 4,428 adults and children in emergency shelters, 1,025 adults and children in transitional housing, and 15,741 victims with legal and lay legal advocacy.

### **Family Caregiver Grant Fund Deposit**

The Baseline includes no funding from the General Fund in FY 2022 for deposit into the Family Caregiver Grant Fund. This amount is unchanged from FY 2021.

Beginning January 1, 2020, monies in this line item provide grants of up to \$1,000 for expenses that relate directly to caring for or supporting a family member requiring assistance with activities of daily living.

### **Benefits and Medical Eligibility**

#### **TANF Cash Benefits**

The Baseline includes \$22,736,400 from the Federal TANF Block Grant in FY 2022 for TANF Cash Benefits. This amount is unchanged from FY 2021.

As of August 2020, the latest month for which data is available, DES served a regular TANF Cash Benefits caseload of 16,960 individual recipients. Caseloads have increased 26.1% compared to August 2019. The COVID-19 pandemic has reversed the long-term decline in the TANF Cash Benefits caseload. Prior to the COVID-19 pandemic, the TANF Cash Benefits caseload reached a low of 12,107 in March 2020. The average cost per person is projected to be \$93. In addition, 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 August 2020 Diversion caseload was 250, a (64.8)% decrease from August 2019. The average diversion payment per person is projected to be \$801.

The FY 2021 budgeted amount would be able to fund an average of 15,750 individuals at \$100 per month and 423 Diversion clients at \$755 per month.

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. To qualify for the second year of eligibility, a recipient must have received no penalties

for violating the work and school attendance requirements. In addition, a recipient can accumulate only 2 penalties before being removed from the program.

The Baseline would continue a provision allowing DES to drug test TANF recipients if there is a reasonable suspicion that they are using illegal drugs.

Laws 2020, Chapter 53, Section 4 waives state time limits and work requirements for TANF benefits during the state emergency declaration for Coronavirus. The Baseline does not need to re-enact this waiver because Chapter 53 is effective until the emergency declaration ends. This provision may lead to higher caseloads. *(Please see [Federal TANF Block Grant](#) in Other Issues for further details on TANF expenditures and a table of expenditure detail by agency.)*

**Coordinated Hunger Services**

The Baseline includes \$1,754,600 in FY 2022 for Coordinated Hunger Services programs. This amount consists of:

General Fund	1,254,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2021.

State and federal dollars are used to administer a USDA commodities food program, to assist in statewide food distribution, and for food banks. Monies are also used to provide information on where individuals and families can obtain food. In FY 2020, this funding assisted in the distribution of 190.1 million pounds of food.

**Tribal Pass-Through Funding**

The Baseline includes \$4,680,300 from the General Fund in FY 2022 for Tribal Pass-Through Funding. This amount is unchanged from FY 2021.

Monies in this line item are passed through to Native American tribes operating their own TANF programs. When originally implemented, program funding was designed to be roughly equivalent to what the state was spending on the population when the state still had responsibility for the cash assistance program for any particular tribe.

**Child Support Enforcement**

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

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

The Baseline deletes a footnote stating that all state shares of retained earnings, fees and federal incentives in excess of \$17,531,300 received by the DCSE are appropriated for operating expenditures. Deletion of this footnote will require DES to request any funds above the appropriated amount through the legislative process.

At its December 2020 JLBC meeting, the Committee gave a favorable review to DES' FY 2021 expenditure plan for replacement of the Arizona Tracking and Locate Automated System (ATLAS). The FY 2021 expenditure plan consists of \$14,282,300 of Federal Funds and \$7,357,600 of Other Appropriated Funds. Total costs for the 5-year project are estimated at \$58,738,400.

<b>Sources</b>	<b>FY 2022</b>
State Share of Retained Earnings	\$ 2,336,000
Federal Incentive Payments	5,589,700
Fees	2,585,700
Excess Appropriation Authority <sup>1/</sup>	7,019,900
Administration (Non-Appropriated)	<u>3,115,600</u>
<b>Total</b>	<b>\$20,646,900</b>
<b>Uses</b>	
DCSE Administration (DES Operating)	\$13,797,400
Attorney General Legal Services	2,654,800
County Participation	1,079,100
Administration (Non-Appropriated)	<u>3,115,600</u>
<b>Total</b>	<b>\$20,646,900</b>

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

**County Participation**

The Baseline includes \$8,539,700 in FY 2022 for County Participation. This amount consists of:

CSEA Fund	1,079,100
CSEA Fund (EA)	7,460,600

FY 2022 adjustments are as follows:

**Gila County Child Support Enforcement**

The Baseline includes a decrease of \$(200,500) from the Child Support Enforcement Administration Fund (EA) in FY 2022 for the transfer of the Gila County child support enforcement function back to the state.

The division contracted with Gila County to provide their own child support program. As of November 15, 2020, Gila County transferred this function back to the state. There are no remaining counties that provide their own child support programs. This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match. The JLBC Staff is reviewing whether this line item is still necessary.

**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 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 2020, the Division of Developmental Disabilities served 44,187 clients, which includes 35,657 clients in the LTC program, 5,048 in Targeted Case Management, and 3,482 clients in the state-only program. The primary disabilities as reported by DES are shown in *Table 3*.

**Table 3**

**Primary Disability of Clients Served**

<u>Disability</u>	<u>Number</u>	<u>Percentage</u>
Intellectual Disability	16,267	36.8%
At Risk	9,671	21.9%
Autism	12,901	29.2%
Cerebral Palsy	3,505	7.9%
Epilepsy	<u>1,843</u>	4.2%
<b>Total</b>	<b>44,187</b>	

**Overall DDD Formula Adjustments**

The Baseline includes an increase of \$90,040,800 from the General Fund in FY 2022 for DDD formula changes. Changes are described in further detail below. (*Please see the Other Issues section for further details on FY 2023 and FY 2024 formula changes and COVID-19-related adjustments.*)

Caseload Growth

The Baseline includes an increase of \$33,308,800 from the General Fund in FY 2022 for DD caseload changes.

Compared to June 2020, LTC caseloads are expected to grow by 5% to 37,466 members by June 2021 (this amount excludes state-only clients). The 5% caseload growth is based on recent growth (estimated 4.5% in FY 2021, 5.0% in FY 2020, and 5.4% in FY 2019) within the program. LTC caseloads are not COVID-driven, but year-to-year growth has been lower in FY 2020 and FY 2021 than in the recent past.

*Table 4* shows the number of clients by placement setting for DDD enrollees in June 2020, and the estimated growth in FY 2021 and FY 2022. Approximately 86.4% of clients are currently at home, and 13.3% receive services in a community-based residential setting, such as a group home or developmental home. The remaining 0.3% of clients receive services in an institution, including an intermediate care facility or a skilled nursing facility.

**Table 4**

**DDD June Caseloads and Placement Settings**

<u>Placement</u>	<u>FY 20</u>	<u>FY 21 Est</u>	<u>FY 22 Est</u>
Home	30,909	32,371	33,989
Group Home	3,210	3,361	3,529
Developmental Home	1,542	1,614	1,696
Institution	<u>113</u>	<u>120</u>	<u>125</u>
<b>Total</b>	<b>35,774</b>	<b>37,466</b>	<b>39,339</b>

Capitation Rate Adjustments

The Baseline includes an increase of \$56,459,700 from the General Fund in FY 2022 for a 3.0% net capitation rate increase beginning October 1, 2021. Capitation rates include adjustments for medical inflation, utilization of services, and other factors. The 3.0% capitation rate is based on the historic growth 3% in FY 2020 and 3.5% in

FY 2019) in the DDD capitation rate. The FY 2021 capitation rate increase of 9.4% was higher than budgeted, even accounting for COVID-related adjustments (2.6% of total adjustments). In comparison to the enacted FY 2021 budget, the JLBC Staff estimates the DD rates will generate General Fund costs that exceed the budgeted inflation adjustment by approximately \$31,000,000. *(Please see the FY 2021 HCIF Supplemental narrative for more information.)*

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

The capitation adjustment does not include a dedicated provider rate adjustment. *(Please see Other Issues for additional information.)*

<b>DDD ALTCS Capitation Growth</b>			
	<b>FY 2021 Capitation Rate <sup>1/</sup></b>	<b>Assumed Growth Rate</b>	<b>FY 2022 Capitation Rate</b>
Administration	248.31	3.0%	255.76
Premium Tax	106.19	3.0%	109.38
Case Management	186.63	3.0%	192.23
HCBS <sup>2/</sup>	3,708.03	3.0%	3,819.27
Institutional Care <sup>3/</sup>	74.00	3.0%	76.22
Acute Care <sup>4/</sup>	1,022.88	3.0%	1,053.57
<b>Total</b>	<b>5,346.04</b>	<b>3.0%</b>	<b>5,506.43</b>

<sup>1/</sup> Revised rate effective January 1, 2021.  
<sup>2/</sup> HCBS line includes PMPM rates for HCBS and Risk Contingency.  
<sup>3/</sup> Institutional Care rate is net of client's share of cost.  
<sup>4/</sup> Acute care rate includes \$86.04 for reinsurance. Does not include behavioral health expenses.

**FMAP Adjustments**

The Baseline includes no change to the General Fund in FY 2022 associated with the Federal Medical Assistance Percentage (FMAP). The FMAP is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-state basis and are revised each year. During FY 2022, the blended Medicaid FMAP is projected to remain at 70.01%. The 6.2% enhanced Medicaid match from the Families First Coronavirus Response Act is not included in this figure. *(Please see the Other Issues section for further details on COVID-19-related adjustments.)*

**Medicare Clawback**

The Baseline includes an increase of \$272,300 from the General Fund in FY 2022 for adjustments associated with Medicare Clawback Payments.

**DDD Administration**

The Baseline includes \$117,046,900 and 294.3 FTE Positions in FY 2022 for DDD Administration. These amounts consist of:

General Fund	35,092,000
Long Term Care System Fund	81,954,900

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$12,572,500 in FY 2022 for formula adjustments. The formula adjustments include a 5.0% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	3,908,300
Long Term Care System Fund	8,664,200

*Background* – This line item includes funding for direct and indirect DDD administrative costs, as well as administrative funding for DES' subcontracted health plans for DD clients.

**DDD Premium Tax Payment**

The Baseline includes \$50,055,200 in FY 2022 for the DDD Premium Tax Payment. This amount consists of:

General Fund	15,007,100
Long Term Care System Fund	35,048,100

FY 2022 adjustments are as follows:

**Premium Tax Growth**

The Baseline includes an increase of \$6,582,300 in FY 2022 for growth in the premium tax. This amount consists of:

General Fund	1,972,700
Long Term Care System Fund	4,609,600

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

**Case Management - Medicaid**

The Baseline includes \$87,972,500 and 1,237 FTE Positions in FY 2022 for Case Management - Medicaid. These amounts consist of:



General Fund	26,375,200
Long Term Care System Fund	61,597,300

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$1,017,000 in FY 2022 for formula adjustments. The formula adjustments include a 5.0% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	253,200
Long Term Care System Fund	763,800

*Background* – This line item provides case managers, case aides, case management unit supervisors, and case management area program managers that serve DDD clients enrolled in the ALTCS program. The ALTCS program requires DES to have at least 1 case manager for every 35 DD clients for each ALTCS client added since 2006.

**Home and Community Based Services - Medicaid**

The Baseline includes \$1,771,159,600 and 94.5 FTE Positions in FY 2022 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	527,789,300
Long Term Care System Fund	1,232,625,000
Health Care Investment Fund	10,745,300

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$243,197,000 in FY 2022 for formula adjustments. The formula adjustments include a 5.0% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	69,664,000
Long Term Care System Fund	162,787,700
Health Care Investment Fund	10,745,300

*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. *Table 6* shows the distribution of home and community-based services by service category for the top 10 most used services. This line item also funds staff in state-operated group homes.

**Table 6**

**FY 2020 Developmental Disabilities Home and Community-Based Services Expenditures for Top 10 Most Used Services**

<u>Service</u>	<u>Expenditures (\$ in M)</u>
Group Homes	\$237.7
Attendant Care	108.9
Day Programs	94.0
Habilitation- Support - Hourly	87.3
Respite	79.8
Adult Development Homes	34.4
Nurses (In-Home)	31.9
Speech Therapy	28.2
Habilitation- Support - Daily	19.8
Habilitation Services – Nursing Supported Group Home	19.7

**Institutional Services - Medicaid**

The Baseline includes \$34,881,700 and 457.7 FTE Positions in FY 2022 for Medicaid Institutional Services. These amounts consist of:

General Fund	10,457,900
Long Term Care System Fund	24,423,800

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes a decrease of \$(11,091,500) in FY 2022 for formula adjustments. The formula adjustments include decreased capitation rates for institutional care in FY 2021, projected FY 2022 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	(3,324,400)
Long Term Care System Fund	(7,767,100)

*Background* – Monies in this line item fund Intermediate Care Facilities for Persons with Intellectual Disabilities (ICF-IIDs) or other nursing facilities, both private and state-operated, including ATP-C. DES reports that ATP-C had November 2020 enrollment of 71, a decrease of 1 from November 2019.

Statute requires DES to annually provide their plans for ATP-C to the JLBC for review. In November 2019, DES reported to JLBC that it plans to close the 5 state-operated group homes (SOGHs) on the ATP-C campus by May 2020, which would require the relocation of 15 residents at the facility. The department reports all 15 residents have opted to stay at the ATP-C facility. In November 2020, DES reported that it still planned to close the SOGHs. As of December 2020, the SOGHs are still

open due to delays related to COVID-19. The department anticipates closing the SOGHs in 2021. The Baseline continues this footnote in FY 2022. *(Please see the December 2019 JLBC Agenda Book for more information about DES' plans for ATP-C.)*

**Physical and Behavioral Health Services - Medicaid**

The Baseline includes \$465,349,400 and 35.4 FTE Positions in FY 2022 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	134,013,700
Long Term Care System Fund	315,217,800
Health Care Investment Fund	16,117,900

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$73,258,300 in FY 2022 for formula adjustments. The formula adjustments include a 5.0% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	16,520,300
Long Term Care System Fund	40,620,100
Health Care Investment Fund	16,117,900

**Suspension of Health Insurer Fee**

The Baseline includes a decrease of \$(952,600) from the General Fund in FY 2022 for the Health Insurer Fee. The Health Insurer Fee is a federal tax on the acute behavioral health component of the DES capitation rate to cover Medicaid Expansion that was previously suspended in FY 2020. Beginning FY 2022, the Health Insurer Fee will again be suspended.

*Background* – This line item funds DES' subcontracts with AHCCCS health plans to obtain medical services, CRS, and behavioral health services for DD clients in the ALTCS program.

**Medicare Clawback Payments**

The Baseline includes \$4,661,200 from the General Fund in FY 2022 for Medicare Clawback Payments. FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$272,300 from the General Fund in FY 2022 for 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.

Medicare Clawback payment is based on the population of individual dually enrolled in DDD and AHCCCS programs.

**Targeted Case Management - Medicaid**

The Baseline includes \$13,191,900 and 76.8 FTE Positions in FY 2022 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	3,954,900
Long Term Care System Fund	9,237,000

FY 2022 adjustments are as follows:

**Formula Adjustments**

The Baseline includes an increase of \$1,776,400 in FY 2022 for formula adjustments. The formula adjustments include a 5.0% increase for caseload growth, 3.0% capitation rate growth, and the federal match rate change. This amount consists of:

General Fund	508,900
Long Term Care System Fund	1,267,500

*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. The program is funded via capitation from AHCCCS. A monthly average of 4,582 clients received TCM services in FY 2020.

**Case Management - State-Only**

The Baseline includes \$6,311,900 and 55.8 FTE Positions from the General Fund in FY 2021 for Case Management - State-Only. These amounts are unchanged from FY 2021.

*Background* – This line item funds case management services to clients in the state-only DD program who meet the functional disability requirements but are not financially eligible for the Targeted Case Management program. A monthly average of 3,752 DD state-only clients received case management state-only services in FY 2020.

### **Cost-Effectiveness Study - Client Services**

The Baseline includes \$1,220,000 from the Special Administration Fund in FY 2022 for Cost-Effectiveness Study (CES) - Client Services. This amount is unchanged from FY 2021.

The CES rate represents DES' estimate of the cost of an ALTCS DD client's care if the client were placed in an appropriate institutional setting. The federal waiver for the DD program requires a client's home and community-based services costs to be at or below the cost of an institutional setting to ensure that HCBS services are cost-neutral to the federal government. The current annual CES rate ranges from \$216,100 to \$469,400 depending on what the appropriate institutional placement would be for the client in the absence of home and community-based services. This program funds the cost above this CES rate, thereby allowing clients to remain in a home and community based setting. *(For more information, please see the FY 2020 Appropriations Report.)*

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

The Baseline includes \$13,589,000 from the General Fund in FY 2022 for State-Only Home and Community Based Services. This amount is unchanged from FY 2021.

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

### **Arizona Early Intervention Program**

The Baseline includes \$6,319,000 from the General Fund in FY 2022 for the Arizona Early Intervention Program (AzEIP). This amount is unchanged from FY 2021.

*Background* – AzEIP provides screening and intervention services for children age 0 to 3 with developmental delays or disabilities. DES receives a capped allotment of Federal Funds for the program through Part C of the Individuals with Disabilities Education Act (IDEA). IDEA Part C is expected to provide \$9,823,200 for AzEIP services in FY 2021. As a result, the total AzEIP funding available is \$16,142,200 in FY 2021. DES reports that there were 16,009 new referrals to AzEIP in FY 2020 and 5,378 referred children were determined eligible.

The funds in this line item represent costs incurred by DES for "AzEIP-Only" children, which include children that are AzEIP-eligible but do not have a qualifying DD diagnosis. AzEIP children with a DD diagnosis continue to be funded within the HCBS State-Only line item. There were 5,031

DD-eligible children enrolled in the AzEIP program in FY 2020.

### **State-Funded Long Term Care Services**

The Baseline includes \$36,476,000 and 2 FTE Positions in FY 2022 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	9,115,300
Long Term Care System Fund	27,360,700

FY 2022 adjustments are as follows:

#### **Formula Adjustments**

The Baseline includes an increase of \$1,062,400 from the General Fund in FY 2022 for 3% caseload growth in ALTCS-eligible DD clients receiving residential services with room and board expenses.

General Fund	265,500
Long Term Care System Fund	796,900

*Background* – This line item primarily funds room and board expenses (e.g., rent and food) for DD 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 \$185,414,000 from the Federal CCDF Block Grant in FY 2022 for child care subsidies. FY 2022 adjustments are as follows:

#### **Additional CCDF Funding**

The Baseline includes an increase of \$16,319,000 from the Child Care and Development Fund Block Grant in FY 2022 for continued suspension of the child care waitlist and a continued increase in paid absences allowed.

This increase includes \$9,000,000 for continued suspension of the child care waitlist and \$7,319,000 to continue the number of allowable paid absences. See *Table 7* for additional details.

DES estimates the CCDF ending balance to be \$43,846,000 in FY 2021 and \$12,841,900 in FY 2022.

These balances include additional one-time CCDF monies appropriated to the state in spring 2020. The Coronavirus Aid, Relief and Economic Security Act (CARES Act)

<b>CCDF Expenditures As Reported by Executive</b>			
	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
Base Appropriation	194,235,500	217,869,300	217,869,300
COVID Half-Day at Full Cost	16,000,000	-	-
COVID Arizona Enrichment Center Program (CARES Act)	11,826,100	-	-
FY 2021 Supplemental - COVID Half-Day at Full Cost	-	12,000,000	-
FY 2021 Supplemental - Other COVID Issues (CARES Act)	-	76,179,700	-
FY 2021 Supplemental - Additional Authority	-	4,991,200	-
FY 2022 - Continued Waitlist Suspension	-	-	9,000,000
FY 2022 - Continued Increase of Paid Absences	-	-	7,319,000
<b>Total Funding</b>	<b>\$260,107,000</b>	<b>\$311,040,200</b>	<b>\$234,188,300</b>

provided Arizona an additional \$88,005,800 in CCDF monies. These funds must be appropriated by September 30, 2022 and may be used on any current allowable CCDF uses and to aid child care providers impacted by the Coronavirus emergency. The Executive began using these funds in August 2020.

In December 2020, the federal Consolidated Appropriations Act of 2021 authorized additional COVID-related spending for child care. This would provide an additional \$10,000,000,000 nationwide for child care. If distributed proportionately as the CARES Act monies were, this would provide about \$250,000,000 to Arizona. These funds allow for continued spending flexibilities given to states during the COVID pandemic. As of this writing, these monies have not yet been allocated.

The Baseline includes a supplemental of \$93,170,900 for child care issues. The FY 2021 supplemental would include funding of \$90,870,900 to DES and \$2,300,000 to DCS. (Please see FY 2021 Child Care Supplemental in Other Issues for further details.)

- \$12,000,000 for continuing full day payments to child care providers. DES enacted an emergency payment initiative in April 2020 to assist child care providers with operational costs. This amount would be used to reimburse child care providers at the level of service provided in January 2020.
- \$76,179,700 in CCDF monies provided through the CARES Act for COVID-related programs established in spring 2020. This amount includes \$11,679,600 for expansion of the Arizona Enrichment Center Program (AECP) and subsidy. The AECP program provides child care and scholarships for healthcare workers, first responders, and essential government employees meeting certain qualifications. This amount also includes \$47,167,500 for the Child Care COVID-19 Grant Program in FY 2020. The Grant Program is available to all 2,800 Department of Health Services and DES child care providers and covers expenses such as salaries, benefits, fees, tuition, and

mortgage/utilities. The \$47,167,500 includes \$43,367,500 toward grant awards for providers and \$3,800,000 for incentives given to providers meeting certain qualifications. Additionally, this amount includes \$7,319,000 to increase paid absences from 3 to 5 per month. DES currently pays for up to 2 absences per month. Lastly, this amount includes \$10,013,600 for reserves.

- \$4,991,200 in additional expenditure authority.

*Background* – This line item funds child care subsidies to TANF clients engaged in job activities, low-income working individuals under 85% of the state median income that were below 165% of the FPL at the time of application, and the Transitional Child Care program in which child care subsidies are provided to clients who no longer receive TANF Cash Benefits due to finding employment. DES also processes DCS child care payments, but those monies are appropriated in DCS' budget. (For more information on state funded child care, please refer to the [Child Care Program Summary on the JLBC website](#).)

*Subsidy Rates* – Effective June 1, 2019, DES increased maximum provider rates for child care subsidies from the 75<sup>th</sup> percentile of the 2000 market survey rates to the 25<sup>th</sup> percentile of the 2018 market survey rates. DES estimates this will increase the average monthly reimbursement rate from \$360 to \$444, a 23.3% increase.

*Caseloads* – According to the department, the estimated number of children receiving child care services in June 2021 is projected to be 35,600 (see Table 8) excluding ECDHB- and DCS-related child care.

<b>Child Care June Monthly Caseloads</b>			
<b>Category</b>	<b>FY 21</b>	<b>FY 21 est</b>	<b>FY 22 est</b>
TANF	1,900	2,300	1,500
Low-Income Working	17,300	28,300	18,700
Transitional Child Care	4,700	5,000	3,600
<b>Total Served</b>	<b>23,900</b>	<b>35,600</b>	<b>23,800</b>

**Independent Living Rehabilitation Services**

The Baseline includes \$1,289,400 in FY 2022 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 2021.

*Background* – The line item assists severely disabled individuals in living more independently. Funds are used to purchase technology assistance, adaptive aids and devices, home modifications, and independent living skills training.

The Independent Living Rehabilitation Services program is expected to serve up to 480 clients in FY 2021 at an average Total Funds cost per client of \$4,300. In addition to these clients, the division is also expected to serve 150 Independent Living clients at an average annual cost of \$2,940 per client using federal Social Services Block Grant monies.

**JOBS**

The Baseline includes \$11,005,600 in FY 2022 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 2021.

*Background* – This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors. *Table 9* highlights total estimated expenditures for the JOBS line item.

**Table 9**

**Estimated FY 2021 JOBS Expenditures**

<b>Expenditures</b>	<b>Amount</b>
Case Management	\$ 6,956,500
Job Training	1,613,200
FLSA Supplement	31,700
Work-Related Transportation	2,104,200
Job Search Stipends	300,000
<b>Total</b>	<b>\$11,005,600</b>

**Rehabilitation Services**

The Baseline includes \$7,249,100 in FY 2022 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 2021.

DES categorizes Vocational Rehabilitation (VR) clients into 3 priority categories. Priority 1 clients have a severe physical or mental impairment that limits 3 or more functional capacities, Priority 2 clients have a severe physical or mental impairment that limits 1 or more functional capacities, and Priority 3 clients have an impairment that does not seriously limit functional capacities. Currently DES provides VR services to all Priority 1 and 2 clients.

*Background* – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match. The program is expected to serve up to 8,600 clients in FY 2021 at an average Total Funds cost of \$12,220 per client.

Third-party partnerships with government and non-governmental agencies provide portions of the state match. These partnerships include the Transition School to Work program, Behavioral Health Services operated out of AHCCCS, and DES' Blind Enterprise Program.

**Workforce Investment Act Services**

The Baseline includes \$53,654,600 from the Workforce Investment Act (WIA) Grant in FY 2022 for the Workforce Investment Act Services line item. This amount is unchanged from FY 2021.

*Background* – These monies are the state's allotment of the federal WIA Grant for job training activities of dislocated workers and disadvantaged adults and youth. Of the total grant received by the state, 85% is allocated to local governments and 15% is retained at the state level. There is no income eligibility for the program. For eligible adults, priority is given to veterans and their spouses, individuals who are below the poverty line, individuals receiving public assistance, and those who were recently laid off.

Eligible youths must be between the ages of 14 and 24 and have at least one barrier to employment such as homelessness, pregnancy, incarceration, or a disability. The projected allocation of the WIA Grant for workforce-related programs in FY 2022 is shown in *Table 10*.

**Table 10**

**FY 2022 WIA Grant Allocations**

<b>Category</b>	<b>Amount</b>
WIA Line Item	\$53,654,600
Operating Budget	2,420,700
AG Legal Services	10,200
<b>Total</b>	<b>\$56,085,500</b>

**Other Issues**

This section includes information on the following topics:

- FY 2021 Child Care Supplemental
- FY 2021 HCIF Supplemental
- FY 2021 Ex-Appropriation
- Statutory Changes
- Long-Term Budget Impacts
- COVID-19-Related FMAP Adjustments
- Federal TANF Block Grant
- COVID-19 Funding

**FY 2021 Child Care Supplemental**

The Baseline includes a one-time supplemental of \$93,170,900 from the Child Care and Development Fund Block Grant. The FY 2021 supplemental includes the following allocations:

- \$12,000,000 in CCDF to provide reimbursements to child care providers using full-day child care rates for all children based on January 2020 service levels, regardless of full-day or half-day enrollment.
- \$76,179,700 in CCDF provided from the CARES Act for services outlined in the Executive's CARES Act summary in the Child Care Subsidy narrative.
- \$4,991,200 in additional CCDF authority.

**FY 2021 HCIF Supplemental**

The Baseline includes a one-time supplemental of \$20,147,300 expenditure authority from the Health Care Investment Fund (HCIF) for physician rate increases.

Laws 2020, Chapter 46 establishes a new hospital assessment effective October 1, 2020. Monies from this assessment are to be deposited into the Health Care Investment Fund and used to make directed payments to hospitals as well as increase base reimbursement rates for services reimbursed under the dental and physician fee schedules. Within DES, Health Care Investment Fund monies will be used for the Physical and Behavioral Health Services and Home and Community Based Services line items.

The Baseline includes an increase of \$26,863,200 expenditure authority from the HCIF in FY 2022 to continue funding for these physician rate increases.

**FY 2021 Ex-Appropriation**

The Baseline includes a one-time ex-appropriation of \$(79,000,000) from the General Fund for savings associated with the enhanced FMAP. The summary table at the beginning of this narrative has not been updated to reflect the ex-appropriation.

*(Please see the COVID-19-Related FMAP Adjustments narrative for more information.)*

**Statutory Changes**

The Baseline would:

- 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 Developmental Disabilities formula costs are projected to increase by \$62,323,700 in FY 2023 above FY 2022 and \$67,399,700 in FY 2024 above FY 2023.

**COVID-19-Related FMAP Adjustments**

In March 2020, the President signed the federal Families First Coronavirus Response Act into law. Among other provisions, the bill temporarily increases the regular Medicaid match rate by 6.2% retroactive to January 1, 2020. The temporary enhanced match rate is effective through the third quarter of FY 2021. The match rate increase reduces General Fund expenditures for AHCCCS, DCS and DES in FY 2020 and FY 2021. The enacted budget did not adjust DES's General Fund appropriation to account for the savings. FY 2020 match rate savings have been realized through adjustments to the General Fund in FY 2021. The magnitude of DES's level of FY 2020 savings is \$(45,000,000). These FY 2020 savings are reflected as a reduction in the FY 2021 estimate of administrative adjustments.

In FY 2021, the JLBC Staff estimates that the match rate increase will reduce DES's General Fund expenditures by approximately \$(79,000,000) relative to the enacted

budget. This estimate assumes that the 6.2% increase will be in effect through March 2021, consistent with the current federal emergency declaration. The match rate savings will be realized via an ex-appropriation to DES's FY 2021 General Fund appropriation.

*(Please see the FY 2021 Ex-Appropriation narrative for more information.)*

### **Federal TANF Block Grant**

The Baseline appropriates \$224,930,900 of the state's Federal TANF Block Grant monies in FY 2022. *Table 11* shows expected yearly revenues, expenditures, and fund balances across 2 agencies.

### **COVID-19 Funding**

*Federal COVID Relief* - Federal funds have been distributed to Arizona through multiple COVID relief bills passed at the federal level. The Families First Coronavirus Response Act provided \$1,000,000,000 in emergency grants to states for unemployment insurance administration. Arizona received an initial grant of \$10,000,000. Additionally, DES received \$2,000,000 for administration of the Arizona Shared Work program that allows employees working reduced hours to receive pro-rated UI benefits. DES also received \$1,000,000 for Dislocated Worker Grants to provide disaster-relief cleanup, humanitarian assistance and employment and training activities.

COVID relief was also provided to the Emergency Food Assistance Program (TEFAP). TEFAP provides emergency food and nutrition assistance. In total, DES received \$6,000,000 for administration of the program and an additional \$14,000,000 for commodities.

DES received \$23,400,000 in funding for services associated with the Older Americans Act. Services include congregate and home-delivered meals, supportive services, supportive services for family caregivers, protection of Vulnerable Older Americans activities, and other discretionary projects.

DES received \$8,000,000 in Community Services Block Grants for programs related to poverty. Local entities will receive 90% of these monies.

Supplemental Nutrition Assistance Program (SNAP) emergency allotments were also provided through COVID relief bills. SNAP benefits are 100% federally-funded. Emergency allotments to individuals total \$289,000,000. Pandemic Electronic Benefit Transfer (P-EBT) availability was also authorized during the COVID pandemic totaling

\$201,000,000. Both of these benefit programs are housed within DES but are 100% federally funded. *(Please see the Federal and State COVID Programs section at the front of this book for more information on federal COVID funding allocations.)*

*Executive Discretionary Funds* - Laws 2020, Chapter 56 appropriated \$50,000,000 from the General Fund to the non-appropriated Crisis Contingency and Safety Net Fund (CCSN). The CCSN Fund is administered by the Governor and monies may only be spent following a state of emergency declaration by the Governor.

The Governor has allocated a total of \$1,000,000 to the Double-Up Food Bucks Program in DES. The Double Up Food Bucks Program allows individuals in Arizona who receive assistance from the Supplemental Nutrition Assistance Program (SNAP) to get a \$1 match from the state for every \$1 they spend on fruits and vegetables grown in Arizona. In addition to the \$1,000,000 provided from the CCSN Fund, private-sector partners will contribute \$500,000.

Additionally, the Governor allocated \$250,000 for the Arizona Produce Purchasing Program. This program provides individuals with fresh produce, dairy, and protein items from local producers through a partnership between the Arizona Food Bank Network, DES, and the Department of Agriculture.

The Governor has also allocated \$250,000 to the Special Olympics to provide virtual programming during the COVID pandemic.

*(Please see the Federal and State COVID Programs section at the front of this book for more information on the CCSN Fund and AZ CRF.)*

Table 11			
TANF Block Grant Spending			
	Actual	Estimate	Estimate
	FY 2020	FY 2021	FY 2022
<b>Revenues</b>			
Beginning Balance	\$ 8,331,100	\$ 8,404,500	\$ 6,532,900
TANF Base Revenues	<u>222,898,100</u>	<u>223,059,300</u>	<u>223,059,300</u>
Total TANF Available	\$ <b>231,229,200</b>	\$ <b>231,463,800</b>	\$ <b>229,592,200</b>
<b>Expenditures</b>			
Department of Child Safety	\$ 157,428,800	\$ 159,091,100	\$ 159,091,100
<b>Department of Economic Security</b>			
TANF Cash Benefits	\$ 22,736,400	\$ 22,736,400	\$ 22,736,400
All Other TANF Expenditures	42,659,500	43,103,400	43,103,400
<b>TOTAL - DEPARTMENT OF ECONOMIC SECURITY</b>	\$ <b>65,395,900</b>	\$ <b>65,839,800</b>	\$ <b>65,839,800</b>
<b>TOTAL - STATEWIDE</b>	\$ <b>222,824,700</b>	\$ <b>224,930,900</b>	\$ <b>224,930,900</b>
Ending Balance	\$ <b>8,404,500</b>	\$ <b>6,532,900</b>	\$ <b>4,661,300</b>

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> State Share of Retained Earnings from child support collections, federal incentives, and fees. In addition, this fund includes Title IV-D funds received from the U.S. Department of Health and Human Services.		
<b>Purpose of Fund:</b> To fund the statewide Child Support Enforcement program. Please see the Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	33,466,600	43,192,400
<b>Year-End Fund Balance</b>	0	0
<b>Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> State Share of Retained Earnings from child support collections, federal incentives, and fees.		
<b>Purpose of Fund:</b> To fund the statewide Child Support Enforcement program. Please see the Non-Appropriated portion of the fund for additional information.		
<b>Funds Expended</b>	8,880,900	17,531,300
<b>Year-End Fund Balance</b>	17,422,600	23,599,400
<b>Client Trust Fund (DEA3152/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
<b>Purpose of Fund:</b> To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	4,000	4,000
<b>Coronavirus Relief Fund (DEA2975/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies received by the state from the federal COVID-19 response legislation. Arizona received \$1.86 billion from the Coronavirus Relief Fund established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act based on the state's share of the population.		
<b>Purpose of Fund:</b> Monies are allocated by the Governor to supplement costs of the state's COVID-19 response, including necessary expenditures incurred by the state due to the public health emergency from March 1, 2020 to December 30, 2020.		
<b>Funds Expended</b>	151,800	0
<b>Year-End Fund Balance</b>	0	0



SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Crisis Contingency and Safety Net Fund (DEA3240/A.R.S. § 41-110)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, public or private gifts, grants and donations.		
<b>Purpose of Fund:</b> Monies in the fund may only be distributed by the Governor for the following forms of economic assistance during a state of emergency: 1) housing assistance; 2) services for homeless persons; 3) economic assistance to small businesses with less than 50 employees, non-profit organizations, and health care providers; and 4) monies for food bank operations. Expenditures are not displayed to avoid double counting the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	1,331,800	0
<b>Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Consists of client monies, such as Social Security, earnings, etc.		
<b>Purpose of Fund:</b> If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
<b>Funds Expended</b>	9,000	14,900
<b>Year-End Fund Balance</b>	1,580,600	1,599,400
<b>Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
<b>Purpose of Fund:</b> To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
<b>Funds Expended</b>	21,200	16,400
<b>Year-End Fund Balance</b>	44,100	28,500
<b>Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offenses. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.		
<b>Purpose of Fund:</b> To fund grants to qualified shelters for victims of domestic violence.		
<b>Funds Expended</b>	3,071,000	4,000,000
<b>Year-End Fund Balance</b>	2,345,000	922,600
<b>Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants, gifts, or bequests.		
<b>Purpose of Fund:</b> To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
<b>Funds Expended</b>	27,300	7,200
<b>Year-End Fund Balance</b>	88,600	45,100
<b>Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
<b>Purpose of Fund:</b> To be used by the department for buildings, equipment, and other capital investments.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	486,200	536,100

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Employee Recognition Fund (DEA2449/A.R.S § 38-613)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Gifts and donations from public and private entities.		
<b>Purpose of Fund:</b> Employee recognition programs or for the specified purpose for which they were donated.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	1,600	1,600
<b>Family Caregiver Grant Program Fund (DEA2347/A.R.S. § 46-343)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations, gifts, grants, and donations.		
<b>Purpose of Fund:</b> Grants provided to individuals who are caring for and supporting a qualifying family member.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	989,800	959,800
<b>Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 4% of funds must be used for consumer education and activities for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. The Department of Child Safety has a separate allocation of CCDF funding.		
<b>Funds Expended</b>	158,952,900	181,557,800
<b>Year-End Fund Balance</b>	155,739,300	43,846,000
<b>Federal Grants (DEA2000/A.R.S. § 41-101.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
<b>Purpose of Fund:</b> To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Food Stamp administration and the Social Services Block Grant, DCYF Expenditure Authority, and Medicaid.		
<b>Funds Expended</b>	1,840,402,900	2,167,607,300
<b>Year-End Fund Balance</b>	19,058,800	10,719,800
<b>Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families.		
<b>Funds Expended</b>	65,395,900	65,839,800
<b>Year-End Fund Balance</b>	8,404,500	6,532,900
<b>Health Care Investment Fund (DEA2588/A.R.S. § 36-2999.73)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> An assessment on hospital revenues, discharges, or beds days in addition to the Hospital Assessment established by A.R.S. § 36-2901.09, interest earnings, and legislative appropriations.		
<b>Purpose of Fund:</b> To increase the base reimbursement level for hospital services, to increase dental and physician fee schedules, and to cover related administrative expenses incurred by DES.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Health Services Lottery Monies Fund (DEA4250/A.R.S. § 36-108.01)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> State Lottery monies.		
<b>Purpose of Fund:</b> To fund teenage pregnancy prevention programs, the Health Start program, and the federal Women, Infants and Children (WIC) food program.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>IGA and ISA Fund (DEA2500/§ 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants and intergovernmental agreements between state agencies and local governments.		
<b>Purpose of Fund:</b> To be used as specified in the grant or agreement.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	56,700	56,700
<b>Long Term Care System Fund (Federal Match) (DEA2225/A.R.S. § 36-2953)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal Medicaid Authority monies.		
<b>Purpose of Fund:</b> To fund administrative and program costs associated with the Long Term Care system.		
<b>Funds Expended</b>	1,180,879,400	1,549,158,100
<b>Year-End Fund Balance</b>	0	0
<b>Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
<b>Purpose of Fund:</b> To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.		
<b>Funds Expended</b>	26,559,600	26,563,800
<b>Year-End Fund Balance</b>	176,735,200	0
<b>Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Includes contributions from income tax refunds and other donations and interest earnings.		
<b>Purpose of Fund:</b> To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.		
<b>Funds Expended</b>	34,700	30,200
<b>Year-End Fund Balance</b>	49,200	59,600
<b>Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.		
<b>Purpose of Fund:</b> To improve public assistance collection activities.		
<b>Funds Expended</b>	0	423,600
<b>Year-End Fund Balance</b>	390,400	19,700
<b>Reed Act Grant (DEA9501/A.R.S. § 23-701)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Administrative unemployment security insurance monies redistributed back to the states by the federal department of Labor.		
<b>Purpose of Fund:</b> To enhance states' employment security programs by providing one-time monies for equipment and short-term operating expenditures to improve customer service delivery for Arizona's unemployment insurance program.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Revenue From State or Local Agency Fund (DEA3193/A.R.S. § 41-1954)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Dollars received through the collection efforts of the Department's Office of Accounts Receivable and Collections and dollars without sufficient identifying documentation may be temporarily deposited in this fund.		
<b>Purpose of Fund:</b> When the benefiting program is identified, funds are transferred out of the fund into the benefiting program's fund. Funds are utilized by the benefiting DES programs per state and federal requirements.		
<b>Funds Expended</b>	1,804,100	1,698,500
<b>Year-End Fund Balance</b>	2,881,000	2,920,000
<b>Special Administration Fund (DEA2066/A.R.S. § 23-705)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
<b>Purpose of Fund:</b> To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
<b>Funds Expended</b>	4,511,200	4,550,000
<b>Year-End Fund Balance</b>	1,881,400	244,400
<b>Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Includes contributions from income tax refunds and other donations and interest earnings.		
<b>Purpose of Fund:</b> To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.		
<b>Funds Expended</b>	83,400	91,500
<b>Year-End Fund Balance</b>	60,900	0
<b>Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.		
<b>Purpose of Fund:</b> For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.		
<b>Funds Expended</b>	2,326,800	2,340,200
<b>Year-End Fund Balance</b>	201,100	(314,500)
<b>Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal reimbursement.		
<b>Purpose of Fund:</b> General operations.		
<b>Funds Expended</b>	0	1,000,000
<b>Year-End Fund Balance</b>	0	0
<b>Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.		
<b>Purpose of Fund:</b> To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.		
<b>Funds Expended</b>	738,044,100	1,759,490,100
<b>Year-End Fund Balance</b>	779,061,400	(583,071,600)

SUMMARY OF FUNDS	FY 2020 Actual	FY 2021 Estimate
<b>Workforce Investment Act Grant (DEA2001/U.S. P.L. 105-220)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Federal formula grant.		
<b>Purpose of Fund:</b> To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
<b>Funds Expended</b>	72,176,200	56,085,500
<b>Year-End Fund Balance</b>	65,574,500	95,399,400