

Department of Economic Security

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	4,533.8	4,611.8	4,683.8
Personal Services	174,342,300	161,484,600	171,047,600
Employee Related Expenditures	72,488,200	67,337,500	71,322,600
Professional and Outside Services	61,791,400	50,186,300	53,426,100
Travel - In State	346,000	306,300	327,200
Travel - Out of State	116,400	101,800	101,900
Other Operating Expenditures	53,183,100	50,156,800	42,261,400
Equipment	3,501,100	2,271,100	2,312,200
OPERATING SUBTOTAL	365,768,500	331,844,400	340,799,000 ^{1/2/7/}
SPECIAL LINE ITEMS			
Administration			
Attorney General Legal Services	10,306,000	12,810,300	12,810,300
Aging and Adult Services			
Adult Services	15,731,900	12,731,900	10,731,900
Area Agencies on Aging Housing Assistance	1,827,300	0	0
Community and Emergency Services	3,724,000	3,724,000	3,724,000
Coordinated Homeless Services	2,522,600	2,522,600	3,522,600
Navajo Nation Women's Services	0	500,000	0
Pascua Yaqui Tribe Social Services Programs	0	1,000,000	0
Coordinated Hunger Services	2,254,600	2,254,600	2,254,600
Produce Incentive Program	804,500	0	0
Globe-Miami Area Food Bank	250,000	0	0
Low-Income Food Services for Tribal Reservations	0	250,000	0
Cochise County Food Distribution	0	1,000,000	0
Pinal County Nutrition, Housing, and Rental Assistance	0	500,000	0
Domestic Violence Prevention	11,867,400	14,004,000	14,004,000
Long-Term Care Ombudsman	1,000,000	1,000,000	1,000,000
Benefits and Medical Eligibility			
TANF Cash Benefits	22,736,400	22,736,400	22,736,400
Tribal Pass-Through Funding	4,680,300	4,680,300	4,680,300
Diaper and Incontinence Products Assistance	82,000	0	0
Navajo Nation Youth Programs	0	500,000	0
Child Support Enforcement			
Child Support - Clerk of the Court and Family Law Services	8,539,700	8,539,700	8,539,700
Developmental Disabilities ^{5/6/}			
<i>Federal Match Funding</i>			
DDD Premium Tax Payment	67,178,100	64,871,600	77,751,400
Case Management - Medicaid	109,578,300	142,110,000	142,378,800
Home and Community Based Services - Medicaid	2,331,075,900	2,293,118,300	2,793,727,100
Institutional Services - Medicaid	61,721,200	51,584,800	54,678,000
Physical and Behavioral Health Services - Medicaid	571,345,500	655,475,100	852,328,500
Medicare Clawback Payments	6,055,500	7,132,700	7,940,400
Targeted Case Management - Medicaid	21,757,600	19,487,800	22,621,300
State Match Transfer from AHCCCS	0	1,122,988,600	1,385,157,300
<i>State-Only Funding</i>			
Case Management - State-Only	6,335,600	6,383,200	6,383,200
Cost Effectiveness Study - Client Services	9,530,900	8,420,000	8,420,000
Home and Community Based Services - State-Only	14,089,000	14,089,000	14,089,000
Arizona Early Intervention Program	14,119,000	16,119,000	16,119,000
State-Funded Long Term Care Services	43,534,700	44,389,800	45,231,000

	FY 2024 ACTUAL	FY 2025 ESTIMATE	FY 2026 BASELINE
Group Home Monitoring Program	1,200,000	1,200,000	0
Graham County Rehabilitation Center	830,000	0	0
DD Job Training and Life Skills Services	0	1,000,000	0
Employment and Rehabilitation Services			
Child Care Subsidy	179,080,200	320,580,200	187,080,200 ^{11/12/}
Independent Living Rehabilitation Services	806,200	1,289,400	1,289,400
JOBS	9,894,700	11,005,600	11,005,600
Rehabilitation Services	6,962,300	7,249,100	7,249,100
Workforce Innovation and Opportunity Act Services	85,537,400	85,824,200	85,824,200 ^{13/}
AGENCY TOTAL	3,992,727,300	5,294,916,600	6,144,076,300 ^{14/-17/}

FUND SOURCES

General Fund	1,202,667,000	1,344,531,100	1,588,038,000
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	21,331,800	17,678,400	17,678,400 ^{2/}
Domestic Violence Services Fund	1,863,700	4,000,300	4,000,300 ^{3/}
Federal CCDF Block Grant	200,029,200	331,027,900	200,027,900
Federal TANF Block Grant	66,591,300	66,588,900	66,588,900
Long Term Care System Fund (Non-Federal Matched)	33,864,200	34,429,200	34,971,600
Public Assistance Collections Fund	0	441,800	441,800
Special Administration Fund	4,637,900	4,654,600	4,654,600
Spinal and Head Injuries Trust Fund	1,615,500	2,390,200	2,390,200
Statewide Cost Allocation Plan Fund	0	1,000,000	1,000,000
Workforce Investment Act Grant	92,644,100	87,116,200	87,116,200 ^{13/}
SUBTOTAL - Other Appropriated Funds	422,577,700	549,327,500	418,869,900
SUBTOTAL - Appropriated Funds	1,625,244,700	1,893,858,600	2,006,907,900
<u>Expenditure Authority Funds</u>			
Child Support Enforcement Administration Fund	59,627,800	44,401,200	44,401,200
Health Care Investment Fund	0	43,247,300	36,148,000
Long Term Care System Fund (Federal Match)	2,307,854,800	3,313,409,500	4,056,619,200
SUBTOTAL - Expenditure Authority Funds	2,367,482,600	3,401,058,000	4,137,168,400
SUBTOTAL - Appropriated/Expenditure Authority Funds	3,992,727,300	5,294,916,600	6,144,076,300
Other Non-Appropriated Funds	320,445,300	327,919,800	348,856,800
Federal Funds	3,138,359,400	3,290,513,600	3,240,791,600
TOTAL - ALL SOURCES	7,451,532,000	8,913,350,000	9,733,724,700

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

FOOTNOTES

- ^{1/} The operating lump sum appropriation may be spent on Arizona health care cost containment system eligibility determinations based on the results of the Arizona random moment sampling survey. (General Appropriations Act footnote)
- ^{2/} All state shares of retained earnings, fees and federal incentives in excess of \$17,678,400 received by the division of child support enforcement are appropriated for operating expenditures. New FTE positions are authorized with the increased funding. Before spending these increased monies, the department of economic security shall report the intended use of the monies to the joint legislative budget committee. (General Appropriations Act footnote)
- ^{3/} All domestic violence services fund monies in excess of \$4,000,300 received by the department of economic security are appropriated for the domestic violence prevention line item. Before spending these increased monies, the department shall report the intended use of monies in excess of \$4,000,300 to the joint legislative budget committee. (General Appropriations Act footnote)

- 4/ On or before December 15, 2025, the department of economic security shall report to the joint legislative budget committee the amount of state and federal monies available statewide for domestic violence prevention funding. The report shall include, at a minimum, the amount of monies available and the state fiscal agent receiving those monies. (General Appropriations Act footnote)
- 5/ 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 Appropriations Act footnote)
- 6/ Before implementing developmental disabilities or long-term care statewide provider rate adjustments that are not already specifically authorized by the legislature, court mandates or changes to federal law, the department shall submit a report for review by the joint legislative budget committee that includes, at a minimum, the estimated cost of the provider rate adjustment and the ongoing source of funding for the adjustment, if applicable. (General Appropriations Act footnote)
- 7/ Before transferring any monies in or out of the case management - medicaid and case management - state-only and developmental disabilities administration line items and before transferring any monies in or out of the operating lump sum item related to the developmental disabilities program and its administration, the department shall submit a report for review by the joint legislative budget committee, except that transfers from the state match transfer from AHCCCS line item into those line items do not require a report for review. (General Appropriations Act footnote)
- 8/ On or before September 1, 2026, the department of economic security shall report to the president of the senate, the speaker of the house of representatives, the chairpersons of the senate and house of representatives appropriations committees and the director of the joint legislative budget committee any new placement into a state-owned ICF-IID or the Arizona training program at the Coolidge campus in fiscal year 2025-2026 and the reason for this placement, rather than a placement into a privately run facility for persons with developmental disabilities, was deemed as the most appropriate placement. The department shall also report if no new placements were made. On or before September 1, 2026, the department shall also report to the director of the joint legislative budget committee the total costs associated with the Arizona training program at Coolidge in fiscal year 2025-2026. (General Appropriations Act footnote)
- 9/ The department actually spent \$982,064,500 in FY 2024 in the State Match Transfer from AHCCCS line item, but this spending is not displayed for technical reasons.
- 10/ On or before November 30, 2025, the department of economic security shall submit a report to the joint legislative budget committee regarding expenditures from the cost effectiveness study - client services line item in the previous fiscal year. The report shall include the number of clients and total amounts spent from the line item in each setting type along with expenditures for those clients in other line items. The report shall also include cost effectiveness spending in other line items. (General Appropriations Act footnote)
- 11/ ~~On or before September 15, 2025 and March 15, 2026, DECEMBER 31, 2025, AND JUNE 30, 2026, the department of economic security shall submit a report to the president of the senate, the speaker of the house of representatives, the chairpersons of the senate and house of representatives appropriations committees and the joint legislative budget committee on child care development block grant monies provided from the coronavirus aid, relief, and economic security act, the consolidated appropriations act, 2021 and the American rescue plan act of 2021 (P.L. 117-2)-REGARDING FEDERAL CHILD CARE MONIES. The report must include, at a minimum, the actual expenditures made to date by purpose and, separately, by federal legislation, the number of children served with the monies on average each month, the average child care reimbursement rates for the entire program, including these monies, and the number of child care settings with a quality rating~~ **MODIFIED** ACTUAL REVENUES DELINEATED BY FUND SOURCE, THE ACTUAL YEAR TO DATE EXPENDITURES BY PURPOSE AND FUND SOURCE, AND BEGINNING AND ENDING BALANCES FOR ALL FUND SOURCES FOR THE PRECEDING SIX MONTHS. THE REPORT SHALL ALSO INCLUDE PROJECTED ANNUAL REVENUES, EXPENDITURES, AND BALANCES FOR THE CURRENT AND BUDGET YEARS. (existing General Appropriations Act footnote modified to delete information available in other reports and add information on available balances and revenues)
- 12/ The department of economic security shall forward to the joint legislative budget committee a monthly report listing data on the child care population served. The report must include, at a minimum, in each program the number of unduplicated children enrolled in child care within the department of economic security and the department of child

safety by program and the average amount paid per child plus quality-related spending. (General Appropriations Act footnote)

- 13/ All workforce investment act grant monies that are received by this state in excess of \$87,116,200 are appropriated to the workforce innovation and opportunity act services line item. Before spending these increased monies, the department shall report the intended use of monies in excess of \$87,116,200 to the joint legislative budget committee. (General Appropriations Act footnote, as adjusted for statewide allocations)
- 14/ On or after April 1, 2026, the department of economic security may use up to \$25,000,000 from the budget stabilization fund established by section 35-144, Arizona Revised Statutes, for the purpose of providing funding for reimbursement grants. Before using the monies from the budget stabilization fund, the department shall notify the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting. This appropriation must be fully reimbursed on or before September 1, 2026 and must be reimbursed in full as part of the closing process for fiscal year 2025-2026. The department shall notify the joint legislative budget committee of the reimbursement on or before September 1, 2026. The appropriation may not be used for additional programmatic expenditures. (General Appropriations Act footnote)
- 15/ The above appropriations are in addition to monies granted to this state by the federal government for the same purposes but are deemed to include the sums deposited in the state treasury to the credit of the department of economic security pursuant to section 42-5029, Arizona Revised Statutes. (General Appropriations Act footnote)
- 16/ The department of economic security shall forward to the president of the senate, the speaker of the house of representatives, the chairpersons of the senate and house of representatives appropriations committees and the director of the joint legislative budget committee a monthly report comparing total expenditures for the month and year-to-date as compared to prior-year totals on or before the thirtieth of the following month. The report shall include an estimate of potential shortfalls in entitlement programs and potential federal and other monies, such as the statewide assessment for indirect costs, and any projected surplus in state-supported programs that may be available to offset these shortfalls and a plan, if necessary, for eliminating any shortfall without a supplemental appropriation. (General Appropriations Act footnote)
- 17/ General Appropriations Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

The Department of Economic Security's (DES) FY 2026 General Fund spending increases by \$243,506,900 or 18.1% above the FY 2025 appropriation. This amount includes:

- \$262,456,900 for Division of Developmental Disabilities (DDD) formula adjustments.
- \$1,000,000 for homeless youth assistance.
- \$(19,950,000) to remove FY 2025 one-time funding.

Operating Budget

The Baseline includes \$340,799,000 and 2,410.4 FTE Positions in FY 2026 for the operating budget. These amounts consist of:

	FY 2026
General Fund	\$162,269,900
Child Support Enforcement Administration Fund	14,053,300
Child Support Enforcement Administration Fund (EA)	28,190,200
Federal Temporary Assistance for Needy Families (TANF) Block Grant	21,657,400
Federal Child Care and Development Fund	12,927,200

(CCDF) Block Grant

Long Term Care System Fund (EA)	96,253,300
Public Assistance Collections Fund	339,100
Special Administration Fund	2,217,800
Spinal and Head Injuries Trust Fund	610,000
Statewide Cost Allocation Plan Fund	1,000,000
Workforce Investment Act Grant	1,280,800

Adjustments are as follows:

DDD Formula Adjustments

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

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

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

Remove Child Care Operating Shortfall Reallocation

The Baseline includes a decrease of \$(9,500,000) from the Federal CCDF Block Grant in FY 2026 to remove one-time funding for a child care operating shortfall reallocation. Since FY 2017, the department has transferred funds from the Child Care Subsidy line item to the operating budget each year to address a shortfall in funding for the administrative expenses of the child care assistance

program. The one-time increase in FY 2025 was to align the budget's allocation of the Federal CCDF Block Grant with the department's planned expenditures.

Administration

Attorney General Legal Services

The Baseline includes \$12,810,300 and 157.9 FTE Positions in FY 2026 for Attorney General (AG) Legal Services. These amounts consist of:

General Fund	1,265,100
Child Support Enforcement Administration Fund	2,570,800
Child Support Enforcement Administration Fund (EA)	8,725,600
Federal TANF Block Grant	106,400
Federal CCDF Block Grant	20,500
Public Assistance Collections Fund	102,700
Special Administration Fund	5,900
Spinal and Head Injuries Trust Fund	2,100
Workforce Investment Act Grant	11,200

These amounts are unchanged from FY 2025.

Aging and Adult Services

Adult Services

The Baseline includes \$10,731,900 from the General Fund in FY 2026 for Adult Services. Adjustments are as follows:

Remove FY 2025 Area Agencies on Aging Increase

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

This line item provides an array of support services to elderly persons via the Area Agencies on Aging (AAA), as shown in *Table 1*. In addition to appropriated monies in this line item, the department is also allocating an estimated \$51,591,800 in federal grant monies to the AAAs in FY 2025, primarily from federal Older Americans Act and Social Services Block Grant (SSBG) monies for support services, congregate meals, and home-delivered meals. Including federal resources and prior-year carryforward, the department estimates that total allocations to the AAAs will reach \$68,163,400 in FY 2025.

Table 1

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

Community and Emergency Services

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

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

The department also estimates it will allocate an additional \$47,406,600 in federal grants through this line item in FY 2025 for services administered fully or partly by the Community Action Agencies, including the federal Low-Income Home Energy Assistance Program (LIHEAP) and the Community Services Block Grant.

Coordinated Homeless Services

The Baseline includes \$3,522,600 in FY 2026 for Coordinated Homeless Services programs. This amount consists of:

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

Adjustments are as follows:

Homeless Youth General Fund Backfill

The Baseline includes an increase of \$1,000,000 from the General Fund in FY 2026 for a homeless youth assistance General Fund backfill. In FY 2022 and FY 2023, DES distributed one-time Federal Funds to organizations that provide assistance to unaccompanied youth aged 18-24

experiencing homelessness. The 3-year spending plan associated with the enacted FY 2022 budget originally included an increase of \$1,000,000 from the General Fund in FY 2024 to fund the program with state monies instead of Federal Funds. However, due to more federal funds being available than expected, the FY 2024 and FY 2025 budgets each delayed the General Fund increase for 1 year until FY 2026.

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

Navajo Nation Women's Services

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

Remove One-Time Funding

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

Pascua Yaqui Tribe Social Services Programs

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

Remove One-Time Funding

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

Coordinated Hunger Services

The Baseline includes \$2,254,600 in FY 2026 for Coordinated Hunger Services programs. This amount consists of:

General Fund	1,754,600
Federal TANF Block Grant	500,000

These amounts are unchanged from FY 2025.

State and federal dollars are used to contract with regional food banks for the storage and distribution of commodity foods purchased by the United States Department of Agriculture (USDA) via the Emergency Food Assistance Program (TEFAP) and the Commodity Senior Food Program. Income-eligible recipients receive

food via monthly food packages or congregate meals prepared by food pantries or soup kitchens.

Low-Income Food Services for Tribal Reservations

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

Remove One-Time Funding

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

Cochise County Food Distribution

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

Remove One-Time Funding

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

Pinal County Nutrition, Housing, and Rental Assistance

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

Remove One-Time Funding

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2026 to remove one-time funding a nonprofit organization in Pinal County that provides nutrition, housing, and rental assistance programs.

Domestic Violence Prevention

The Baseline includes \$14,004,000 in FY 2026 for Domestic Violence Prevention. This amount consists of:

General Fund	3,283,200
Federal TANF Block Grant	6,620,500
Domestic Violence Services Fund	4,000,300
Special Administration Fund	100,000

These amounts are unchanged from FY 2025.

In FY 2024, this line item, along with non-appropriated funds, served approximately 5,588 adults and children in

emergency shelters, 344 adults and children in transitional housing, and 14,942 victims with mobile and community-based advocacy.

Long-Term Care Ombudsman

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

A.R.S. § 46-452.02 requires that the Office of the State Long-Term Care Ombudsman visit each long-term care facility at least twice per calendar year to speak with residents of the facility or their representatives, investigate and resolve complaints, refer cases to Adult Protective Services or the appropriate agency, and change complaint communication requirements for DD service providers.

Benefits and Medical Eligibility

TANF Cash Benefits

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

The budgeted amount would be able to fund an average of 15,750 individuals at \$100 per month. As of November 2024, the program serves 9,635 individuals.

Additionally, the TANF Diversion program diverts applicants from long-term regular TANF Cash Benefits by offering immediate, one-time assistance to resolve a financial crisis. The budgeted amount would be able to fund an average of 390 Diversion clients at \$817 per month. In November 2024, the TANF Diversion program served 297 clients.

At November 2024 levels, the total cost would be \$14,473,800, or \$(8,262,600) below the budgeted amount.

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

- The family includes at least 1 adult required to participate in the JOBS program.

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

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

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

(Please see Federal TANF Block Grant in Other Issues for more information on TANF expenditures.)

Tribal Pass-Through Funding

The Baseline includes \$4,680,300 from the General Fund in FY 2026 for Tribal Pass-Through Funding. This amount is unchanged from FY 2025.

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

Navajo Nation Youth Programs

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

Remove One-Time Funding

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

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.

Table 2

CSEA Fund Sources and Uses

<u>Sources</u>	<u>FY 2025</u>
State Share of Retained Earnings	\$ 3,483,300
Federal Incentive Payments	6,153,600
Fees	2,402,700
Excess Appropriation Authority ^{1/}	5,268,700
Administration (Non-Appropriated)	<u>3,115,600</u>
Total	\$20,423,900
<u>Uses</u>	
DCSE Administration (DES Operating)	\$13,680,300
Attorney General Legal Services	2,573,700
Clerk of the Court and Family Law Services	1,054,300
Administration (Non-Appropriated)	<u>3,115,600</u>
Total	\$20,423,900

^{1/} This line is the difference between appropriation authority and expected revenues.

Child Support - Clerk of the Court and Family Law Services

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

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

These amounts are unchanged from FY 2025.

DES distributes these monies to counties for clerk of the court and family law services that coordinate and mediate between custodial and non-custodial parents.

Developmental Disabilities

DES provides services to individuals with cognitive disabilities, cerebral palsy, autism, or epilepsy. Clients eligible for federal Medicaid program services are funded through the Long-Term Care (LTC) program. To qualify for federal funding, an individual must have an income below 300% of the Supplemental Security Income (SSI) eligibility limit, which is approximately 222% of the FPL, and have certain functional needs. The division also provides 100% state-funded services for clients who are not eligible for federal Medicaid services.

The LTC program is primarily funded from 2 sources: the General Fund and the Long Term Care System Fund. The Legislature appropriates the division's resources on a Total Expenditure Authority basis. The Total Expenditure approach acknowledges all of the resources available to the Division of Developmental Disabilities (DDD) but does not appropriate any specific non-appropriated fund.

As of June 2024, the Division of Developmental Disabilities served 56,509 clients, which includes 43,364 clients in the LTC program, 6,918 in Targeted Case Management, and 6,227 clients in the state-only program. The primary disabilities as reported by DES are shown in *Table 3*.

Table 3

Primary Disability of Clients Served ^{1/}

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

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

Overall DDD Adjustments

The Baseline includes an increase of \$262,456,900 from the General Fund in FY 2026 for DDD formula changes. These adjustments are based on standard formula assumptions of 6.8% caseload growth in FY 2025, 5.0% caseload growth in FY 2026, and a 3.0% capitation rate increase in FY 2026. Changes are described in further detail below.

FY 2025 Supplemental/Parents as Paid Caregivers

The Baseline includes a supplemental appropriation of \$76,100,000 from the General Fund and \$333,619,000 from Long Term Care System Fund Expenditure Authority in FY 2025 for higher-than-budgeted DDD formula costs in FY 2025.

The projected full-year General Fund cost of the supplemental is \$121,907,700 but has been reduced by \$(45,807,700) to reflect the availability of ARPA funds through March 2025. The \$121,907,700 is based on the following formula adjustments:

- FY 2025 enrollment growth of 6.8%. The enacted budget assumed growth of only 4.5%. The upward revision is based on higher-than-anticipated enrollment growth at the conclusion of FY 2024 and in the first half of FY 2025.
- FY 2025 capitation adjustment of 11.2%. The enacted budget assumed only a 4.0% increase above the original FY 2024 capitation rates.

A significant share of the capitation rate increase appears to be attributable to the Parents as Paid Caregivers (PPCG) program, a pandemic-era initiative to compensate parents of DD members who are age 17 or less for attendant care

and habilitation services they provide to their own children. The program was designed to address the shortage of contracted providers during the pandemic.

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

AHCCCS/DES cannot separate out PPCG costs from other spending for habilitation and attendant care. Based on simplifying assumptions developed by the AHCCCS/DES actuaries, the agencies estimate the program may have a cost of approximately \$165,500,000 total funds in FY 2025. The 11.2% DDD capitation rate increase would cover this cost. Given the expiration of one-time ARPA monies noted above, the state is responsible for the match requirement for the program beginning in FY 2025. Based on the \$165,500,000 total funds cost estimate, the state share on an annualized basis would be \$56,800,000.

DES believes that approximately 6,000 of the 23,000 DDD clients under age 18 are currently receiving the PPCG benefit. In combination with AHCCCS' actuarial assumptions, we estimate the per client cost of PPCG is \$27,600 annually. However, payments are first distributed to a contracted vendor who employs or subcontracts with the parent. DES does not know how much of the payments are being retained by the vendor.

The FY 2025 enacted budget requires that capitation rate adjustments be reviewed by the Joint Legislative Budget Committee. At its December 2024 meeting, the Committee gave an unfavorable review of AHCCCS' proposed capitation rate adjustments for FY 2025. However, the FY 2025 rates, including the 11.2% rate increase within DDD, went into effect on October 1, 2024. Given that the proposed rates are currently in place, the Baseline incorporates the 11.2% adjustment.

FY 2025 Ex-Appropriation

The Baseline includes an FY 2025 ex-appropriation of \$(80,000,000) due to revisions to the state's FMAP. In certain circumstances, the federal government can provide one-time upward adjustments in a state's FMAP if the state would otherwise experience a rapid decline in the match rate due to personal income growth. In

December 2024, the federal government determined that Arizona qualified for such one-time adjustments for FY 2024 due to a 3.27% decline in the state's regular match rate between FY 2023 and FY 2024. Arizona's one-time increase is approximately 1.2% for FY 2024 and FY 2025.

This results in the following match rates:

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

The Baseline assumes this adjustment generates \$(259,000,000) of General Fund savings across the AHCCCS, DES, and DCS budgets. Of this amount, approximately \$(80,000,000) is within the DES budget. The Baseline ex-appropriates this amount in FY 2025.

FY 2026 Base Adjustment

The Baseline includes an increase of \$121,901,700 from the General Fund in FY 2026 for an FY 2026 base adjustment. The base adjustment is primarily associated with the higher-than-budgeted capitation rate increase discussed above. The \$121,901,700 assumes that the one-time federal pandemic relief funding in FY 2025 will no longer be available in FY 2026.

Caseload Growth

The Baseline includes an increase of \$70,718,100 from the General Fund in FY 2026 for DD caseload changes. Compared to June 2024, LTC caseloads are expected to grow by 6.8% to 46,308 members in June 2025 (this amount excludes state-only clients). This estimate is based on caseload growth reported by the department in the first several months of FY 2025, as well as the assumption that growth will continue at a 6.0% annual rate for the remainder of the year.

The Baseline assumes caseload growth will then slow to 5.0% in FY 2026 and in future years. Although year-over-year growth within the LTC program was as high as 6.7% in June 2024, it was below 4.0% as recently as June 2022. As a result, the 5.0% assumption is based on an average of caseload growth throughout FY 2022, FY 2023, and FY 2024. Under these assumptions, the Baseline expects LTC caseloads to reach 48,623 by June 2026.

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

Table 4
DDD June Caseloads and Placement Settings ^{1/}

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

^{1/} Numbers are based on the department's estimates of placement settings, proportionally adjusted for the Baseline's overall caseload estimates.

Capitation Rate Adjustments

The Baseline includes an increase of \$40,797,800 from the General Fund in FY 2026 for a 3.0% capitation rate increase beginning October 1, 2025, as well as to annualize the FY 2025 capitation rate adjustment. The 3.0% growth assumption is based on several factors, including the medical care consumer price index and the growth certain AHCCCS categories experienced in the FY 2025 capitation rate adjustment.

Table 5 shows how the capitation payment is allocated by service category in FY 2025, as well as the Baseline's estimate of the FY 2026 allocation after a 3.0% adjustment.

Table 5
DDD ALTCS Capitation Growth

	FY 2025 Capitation Rate ^{1/}	FY 2026 Capitation Rate Est ^{2/}
Administration ^{3/}	255.8	263.5
Premium Tax	133.2	137.2
Case Management	244.0	251.3
HCBS ^{4/}	4,722.2	4,863.9
Institutional Care ^{5/}	93.7	96.5
Integrated Care ^{6/}	<u>1,212.9</u>	<u>1,249.3</u>
Total	6,661.8	6,861.7

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

FMAP Adjustment

The Baseline includes an increase of \$27,932,800 to the General Fund in FY 2026 associated with adjustments to the state's FMAP. The FMAP is the rate at which the federal government matches state contributions to Medicaid programs. These rates are set on a state-by-

state basis and are revised each year. During FY 2026, the blended Medicaid FMAP for Arizona will decrease to 64.48%, down from 65.24% in FY 2025.

Medicare Clawback

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

Room and Board

The Baseline includes an increase of \$298,800 from the General Fund in FY 2026 for adjustments associated with caseload growth in ALTCS-eligible DD clients receiving residential services with room and board expenses.

Developmental Disabilities – Federal Match Funding

DDD Premium Tax Payment

The Baseline includes \$77,751,400 in FY 2026 for the DDD Premium Tax Payment. This amount consists of:

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

Adjustments are as follows:

Formula Adjustments

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

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

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

Case Management - Medicaid

The Baseline includes \$142,378,800 and 1,217.9 FTE Positions in FY 2026 for Case Management - Medicaid. These amounts consist of:

General Fund	50,576,500
Long Term Care System Fund (EA)	91,802,300

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$268,800 and 65 FTE Positions in FY 2026 for standard formula adjustments.

These amounts consist of:

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

Background – This line item provides case managers, case aides, case management unit supervisors, and case management area program managers that serve DDD clients enrolled in the ALTCS program. Beginning in Contract Year Ending 2024, the ALTCS program requires DES to have at least 1 case manager for every 43 DD clients added since June 2022. For DD clients added between June 2006 and June 2022, the requirement continues to be 1 case manager for every 35 clients. The 65 FTE Position increase in FY 2026 is based on the 1:43 ratio. The Baseline also includes an adjustment to prior year increases that were calculated based on the 1:35 ratio but now retroactively fall under the 1:43 ratio.

Home and Community Based Services - Medicaid

The Baseline includes \$2,793,727,100 and 221.2 FTE Positions in FY 2026 for Home and Community Based Services - Medicaid. These amounts consist of:

General Fund	985,933,700
Long Term Care System Fund (EA)	1,801,325,300
Health Care Investment Fund	6,468,100

Adjustments are as follows:

Formula Adjustments

The Baseline includes an increase of \$500,608,800 in FY 2026 for standard formula adjustments. This amount consists of:

General Fund	197,649,100
Long Term Care System Fund (EA)	305,279,500
Health Care Investment Fund	(2,319,800)

Background – This line item funds residential programs, day programs, and support services for clients in a broad range of settings, from those living independently at home to those living in group homes. This line item also funds staff in state-operated group homes.

Institutional Services - Medicaid

The Baseline includes \$54,678,000 and 383 FTE Positions in FY 2026 for Medicaid Institutional Services. These amounts consist of:

General Fund	19,423,000
Long Term Care System Fund (EA)	35,255,000

Adjustments are as follows:

Formula Adjustments

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

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

Background – This line item funds Intermediate Care Facilities for Individuals with Intellectual Disabilities (ICF-IIDs) or other nursing facilities, both private and state-operated, including ATP-Coolidge (ATP-C). Including residents of the state-operated group homes (SOGHs), DES reports that ATP-C had an enrollment of 51 in FY 2024, a decrease of (4) from FY 2023.

Physical and Behavioral Health Services - Medicaid

The Baseline includes \$852,328,500 and 77 FTE Positions in FY 2026 for Physical and Behavioral Health Services - Medicaid. These amounts consist of:

General Fund	240,540,500
Long Term Care System Fund (EA)	582,108,100
Health Care Investment Fund	29,679,900

Adjustments are as follows:

Formula Adjustments

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

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

Directed Payments Expenditure Authority

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

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

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

Medicare Clawback Payments

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

Formula Adjustments

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

Background – The federal government pays for the prescription drug costs of DDD clients enrolled in Medicare. To partly offset those costs, the federal government requires each state to make “Clawback” payments to Medicare based on a certain percentage of the estimated drug costs.

Targeted Case Management - Medicaid

The Baseline includes \$22,621,300 and 153.6 FTE Positions in FY 2026 for Targeted Case Management (TCM) - Medicaid. These amounts consist of:

General Fund	8,035,600
Long Term Care System Fund (EA)	14,585,700

Adjustments are as follows:

Formula Adjustments

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

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

Background – The TCM program provides case management services to DDD clients that are financially eligible for AHCCCS acute care services but do not meet the functional disability requirements to qualify for ALTCS. In June 2024, 6,918 clients received TCM services.

State Match Transfer from AHCCCS

The Baseline includes \$1,385,157,300 from the Long Term Care System Fund Expenditure Authority in FY 2026 for a state match transfer from the Arizona Health Care Cost

Containment System (AHCCCS). Adjustments are as follows:

Administrative Pass-Through Adjustment

The Baseline includes an increase of \$262,168,700 from the Long Term Care System Fund Expenditure Authority in FY 2026 for a state match transfer from AHCCCS. The adjustment is to bring the total amount in line with the department's FY 2026 General Fund appropriation for Medicaid line items within DDD and General Fund monies for DDD in the operating budget.

Because DES needs to send its General Fund match to AHCCCS to fund DDD, this expenditure authority is to clarify the department is not spending beyond its budget load when it spends those monies returned from AHCCCS with Federal Funds.

Developmental Disabilities – State-Only Funding

Case Management - State-Only

The Baseline includes \$6,383,200 and 60.8 FTE Positions from the General Fund in FY 2026 for Case Management - State-Only. These amounts are unchanged from FY 2025.

Background – This line item funds case management services to clients in the state-only DD program who meet the functional disability requirements but are not financially eligible for the Targeted Case Management program. In June 2024, 6,227 DDD state-only clients received case management state-only services.

Cost-Effectiveness Study - Client Services

The Baseline includes \$8,420,000 in FY 2026 for Cost-Effectiveness Study (CES) - Client Services. This amount consists of:

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

These amounts are unchanged from FY 2025.

Background – The CES rate represents DES' estimate of the cost of an ALTCS DD client's care if the client were placed in an appropriate institutional setting. The federal waiver for the DD program requires a client's home and community-based services costs to be at or below the cost of an institutional setting to ensure that HCBS services are cost-neutral to the federal government. This program funds the cost above this CES rate, thereby allowing clients to remain in a home and community-

based setting. (See the FY 2020 Appropriations Report for more information.)

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

Home and Community Based Services - State-Only

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

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

Arizona Early Intervention Program

The Baseline includes \$16,119,000 from the General Fund in FY 2026 for the Arizona Early Intervention Program (AzEIP). This amount is unchanged from FY 2025.

Background – AzEIP provides screening and intervention services for children age 0 to 3 with developmental delays or disabilities. DES receives a capped allotment of Federal Funds for the program through Part C of the Individuals with Disabilities Education Act (IDEA). IDEA Part C is expected to provide \$12,535,400 for AzEIP services in FY 2026. As a result, the total AzEIP funding available is \$28,654,400 in FY 2026.

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

State-Funded Long Term Care Services

The Baseline includes \$45,231,000 and 2 FTE Positions in FY 2026 for State-Funded Long Term Care Services. These amounts consist of:

General Fund	10,259,400
Long Term Care System Fund	34,971,600

Adjustments are as follows:

Formula Adjustments

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

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

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

Group Home Monitoring Program

The Baseline includes no funding in FY 2026 for the Group Home Monitoring Program. Adjustments are as follows:

Remove Program Funding

The Baseline includes a decrease of \$(1,200,000) from the General Fund in FY 2026 to remove funding for the Group Home Monitoring Program. The 3-year spending plan associated with FY 2023 enacted budget included \$1,200,000 of one-time funding for the program in FY 2023, FY 2024, and FY 2025. As a result, there is no new FY 2026 appropriation authority. The FY 2025 enacted budget, however, added a footnote that made the FY 2024 and FY 2025 appropriations for the Group Home Monitoring Program non-lapsing through FY 2026.

Background – Laws 2022, Chapter 316 authorizes the pilot program to last for 3 years and be contracted to the entity designated to operate the Protection and Advocacy System for Persons with Developmental Disabilities. The entity will monitor group homes for those with complex needs, determining whether clients' needs from their person-centered service plans are being met, services are reducing negative behaviors, and all physical interventions used by group home staff are appropriate. The entity will also investigate complaints and report on all observations and outcomes each year. The entity will report to the Governor, the President of the Senate, and the Speaker of the House by December 31, 2025, on systemic issues and recommendations.

DD Job Training and Life Skills Services

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

Remove One-Time Funding

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

Employment and Rehabilitation Services

Child Care Subsidy

The Baseline includes \$187,080,200 from the Federal CCDF Block Grant in FY 2026 for child care subsidies.

Adjustments are as follows:

Remove One-Time Funding

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

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

The 3-year spending plan associated with the enacted FY 2025 budget designated this funding as one-time.

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.)

<u>Category</u>	<u>FY 24</u>
TANF	505
Low-Income Working	25,435
Transitional Child Care	<u>1,377</u>
Total Served	27,317

Subsidy Rates – As of August 2024, the department has established rates that are at the 75th percentile of the department's 2022 market rate survey for children under age 1, and the 50th percentile of the 2022 market rate survey for ages 1 through 12. We estimate that the average monthly reimbursement per child is \$769 at the current daily rates. Additionally, high quality providers that are rated with a 3-, 4-, or 5-star rating by First Things First's Quality First program are given a 50% increased

rate. Including these quality incentives, the average monthly cost rises to \$1,042 per child.

Caseloads –According to the department, the estimated number of children receiving child care services in June 2024 was 27,317 (see Table 6) excluding ECDHB- and DCS-related child care. A.R.S. § 46-803K stipulates that the department shall establish a waiting list for prospective enrollees if necessary, in order to manage within appropriated resources. Effective August 2024, the department implemented a waiting list for new applicants, excluding children in families on TANF or transitioning from TANF or children in DCS custody.

The Baseline would, as session law, modify the footnote requiring DES to report on child care monies originating from federal emergency pandemic funding to require a biannual report regarding all federal child care monies.

Independent Living Rehabilitation Services

The Baseline includes \$1,289,400 in FY 2026 for Independent Living Rehabilitation Services. This amount consists of:

General Fund	166,000
Spinal and Head Injuries Trust Fund	1,123,400

These amounts are unchanged from FY 2025.

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

JOBS

The Baseline includes \$11,005,600 in FY 2026 for JOBS. This amount consists of:

General Fund	300,000
Federal TANF Block Grant	9,594,700
Special Administration Fund	1,110,900

These amounts are unchanged from FY 2025.

Background – This line item provides job training and job search services to clients currently receiving TANF Cash Benefits, as well as to former TANF recipients. These services are contracted out to third-party vendors.

Rehabilitation Services

The Baseline includes \$7,249,100 in FY 2026 for Rehabilitation Services. This amount consists of:

General Fund	6,594,400
Spinal and Head Injuries Trust Fund	654,700

2025 for higher-than-budgeted DDD formula costs. *(Please see the Developmental Disabilities section for further details.)*

These amounts are unchanged from FY 2025.

Background – This line item funds services for the physically disabled to return them to the workforce. The federal government provides 78.7% of funding for every 21.3% of state match.

Third-party partnerships with government and non-governmental agencies provide portions of the state match.

Workforce Innovation and Opportunity Act Services

The Baseline includes \$85,824,200 from the Workforce Investment Act Grant in FY 2026 for the Workforce Innovation and Opportunity Act Services line item.

This amount is unchanged from FY 2025.

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

Eligible youths must be between the ages of 14 and 24 and have at least one barrier to employment such as homelessness, pregnancy, incarceration, or a disability.

Other Issues

This section includes information on the following topics:

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

FY 2025 Supplemental

The Baseline includes a supplemental appropriation of \$76,100,000 from the General Fund and \$333,619,000 Long Term Care System Fund Expenditure Authority in FY

FY 2025 Ex-Appropriation

The Baseline includes an \$(80,000,000) General Fund ex-appropriation in FY 2025 to account for a retroactive adjustment to the state's match rate. *(Please see the Developmental Disabilities section for further details.)*

Statutory Changes

As session law, the Baseline would continue to require recipients of Temporary Assistance for Needy Families (TANF) Cash Benefits to pass a drug test in order to be eligible for benefits if the Department of Economic Security (DES) has reasonable suspicion the recipient uses illegal drugs.

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, DES’ General Fund Developmental Disabilities formula costs are projected to increase by \$131,019,000 in FY 2027 above FY 2026 and \$129,505,600 in FY 2028 above FY 2027.

The FY 2027 estimate is based on:

- 5.0% DDD caseload growth.
- 3.0% DDD capitation growth.
- An estimated 64.11% FMAP.

The FY 2028 estimate is based on:

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

Federal TANF Block Grant

The Baseline appropriates \$227,665,200 of the state’s Federal TANF Block Grant monies in FY 2026. *Table 7* shows expected yearly revenues, expenditures, and fund balances across the 2 agencies that administer TANF funding.

Table 7			
TANF Block Grant Spending			
	FY 2024	FY 2025	FY 2026
	Actual	Estimated	Estimated
Revenues			
Beginning Balance	\$ 19,108,900	\$ 16,111,900	\$ 11,603,100
TANF Base Revenues	<u>224,676,400</u>	<u>223,156,400</u>	<u>223,156,400</u>
Total TANF Available	\$243,785,300	\$239,268,300	\$234,759,500
Expenditures			
Department of Child Safety	\$161,082,200	\$161,076,300	\$161,076,300
Department of Economic Security			
TANF Cash Benefits	\$ 22,736,400	\$ 22,736,400	\$ 22,736,400
All Other TANF Expenditures	<u>43,854,800</u>	<u>43,852,500</u>	<u>43,852,500</u>
TOTAL - DEPARTMENT OF ECONOMIC SECURITY	\$ 66,591,200	\$ 66,588,900	\$ 66,588,900
TOTAL - STATEWIDE	\$ 227,673,400	\$ 227,665,200	\$ 227,665,200
Ending Balance	\$ 16,111,900	\$ 11,603,100	\$ 7,094,300

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Expenditure Authority
Source of Revenue: Title IV-D funds received from the U.S. Department of Health and Human Services.		
Purpose of Fund: To fund the statewide Child Support Enforcement program. Please see the Appropriated portion of the fund for additional information.		
Funds Expended	59,627,800	44,401,200
Year-End Fund Balance	4,627,800	2,223,100
Child Support Enforcement Administration Fund (DEA2091/A.R.S. § 46-406)		Appropriated
Source of Revenue: State Share of Retained Earnings from child support collections, federal incentives, and fees.		
Purpose of Fund: To fund the statewide Child Support Enforcement program. Please see the Non-Appropriated portion of the fund for additional information.		
Funds Expended	21,331,800	17,678,400
Year-End Fund Balance	1,504,800	722,900
Client Trust Fund (DEA3152/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Monies collected from Social Security, Veterans' Administration benefits, and other benefits payable to a child in the care, custody, or control of DES.		
Purpose of Fund: To defray the costs of care and services expended for the benefit, welfare, and best interest of the child.		
Funds Expended	0	0
Year-End Fund Balance	4,000	4,000
Coronavirus State and Local Fiscal Recovery Fund (DEA2985/U.S. P.L. 117-2)		Federal Funds
Source of Revenue: Federal monies appropriated in the American Rescue Plan Act (P.L. 117-2).		
Purpose of Fund: To provide emergency support to households, small businesses, nonprofits, workers performing essential work, and certain industries negatively impacted by the COVID-19 pandemic. To extend government services that received a reduction in revenue as a result of the COVID-19 pandemic. To make investments in water, sewer, and broadband infrastructure.		
Funds Expended	52,431,000	62,974,900
Year-End Fund Balance	12,331,800	0

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Developmentally Disabled Client Investment Fund (DEA3146/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Consists of client monies, such as Social Security, earnings, etc.		
Purpose of Fund: If consumers need assistance in handling their funds and no other person is available, the division is appointed to be the representative payee and is authorized to administer the personal funds of these consumers.		
Funds Expended	0	0
Year-End Fund Balance	1,693,200	1,754,700
Developmentally Disabled Client Services Trust Fund (DEA2019/A.R.S. § 36-572)		Non-Appropriated
Source of Revenue: Proceeds from the sale or lease of the real property and buildings used by the department for the Arizona Training Program at Phoenix (ATP-P) and the interest earned in those funds.		
Purpose of Fund: To enhance services presently available to the developmentally disabled and to extend services to developmentally disabled persons not presently served.		
Funds Expended	0	0
Year-End Fund Balance	33,500	34,900
Domestic Violence Services Fund (DEA2160/A.R.S. § 36-3002)		Appropriated
Source of Revenue: A portion of monies (8.87%) from statutory filing and copy fees collected by the Superior Court. Another portion of monies is from a \$50 fee for aggravated harassment, stalking, and other violent family offenses. Monies also come from voluntary contributions using tax returns or federal grants, private grants, or other private gifts or contributions.		
Purpose of Fund: To fund grants to qualified shelters for victims of domestic violence.		
Funds Expended	1,863,700	4,000,300
Year-End Fund Balance	2,922,400	1,722,100
Donations Fund (DEA3145/A.R.S. § 36-571, 41-1954)		Non-Appropriated
Source of Revenue: Grants, gifts, or bequests.		
Purpose of Fund: To be disbursed for the purpose of and in conformity with the terms of the grant, gift, or bequest. Monies received for developmental disabilities purposes are maintained in a separate account.		
Funds Expended	0	0
Year-End Fund Balance	66,700	66,700
Economic Security Capital Investment Fund (DEA2093/A.R.S. § 4-116)		Non-Appropriated
Source of Revenue: Receipts received from club license and application fees by organizations selling spirituous liquor as defined in A.R.S. § 4-101.		
Purpose of Fund: To be used by the department for buildings, equipment, and other capital investments.		
Funds Expended	0	0
Year-End Fund Balance	179,500	224,900
Employee Recognition Fund (DEA2449/A.R.S. § 38-613)		Non-Appropriated
Source of Revenue: Gifts and donations from public and private entities.		
Purpose of Fund: Employee recognition programs or for the specified purpose for which they were donated.		
Funds Expended	0	0
Year-End Fund Balance	2,200	2,200
Family Caregiver Grant Program Fund (DEA2347/A.R.S. § 46-343)		Non-Appropriated
Source of Revenue: Legislative appropriations, gifts, grants, and donations.		
Purpose of Fund: Grants provided to individuals who are caring for and supporting a qualifying family member. This fund was repealed from and after July 1, 2024.		
Funds Expended	54,300	0
Year-End Fund Balance	33,300	0

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Federal CCDF Block Grant (DEA2008/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To be used for developing child care programs, providing child care to welfare recipient parents, and implementing licensing standards under state law for child care. Up to 5% of the aggregate amount of funds expended can be used for administrative costs. At least 12% of funds must be used for improving the quality and availability of child care. No monies can be used for purchasing land or building facilities to provide child care. The Department of Child Safety has a separate allocation of CCDF funding.		
Funds Expended	200,029,200	331,027,900
Year-End Fund Balance	108,723,000	10,393,600
Federal Grants (DEA2000/A.R.S. § 41-1954)		Federal Funds
Source of Revenue: Federal grants, excluding Temporary Assistance for Needy Families, Child Care and Development Fund, and Workforce Investment Act Block Grants.		
Purpose of Fund: To be expended as stipulated by federal statutes authorizing the availability of the federal monies. Some major expenditure items include Supplemental Nutrition Assistance Program (SNAP) administration, the Social Services Block Grant, and DCYF Expenditure Authority.		
Funds Expended	3,085,928,400	3,227,538,700
Year-End Fund Balance	76,634,100	65,105,500
Federal Pandemic Emergency Assistance Fund (DEA2955/A.R.S. § 35-152)		Appropriated
Source of Revenue: Monies received from the federal American Rescue Plan Act of 2021 to states administering a TANF program.		
Purpose of Fund: To be used for administrative costs and non-recurrent short-term benefits.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal TANF Block Grant (DEA2007/U.S. P.L. 104-193)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of 2-parent families.		
Funds Expended	66,591,300	66,588,900
Year-End Fund Balance	16,111,900	11,603,100
Health Care Investment Fund (DEA2588/A.R.S. § 36-2999.73)		Expenditure Authority
Source of Revenue: An assessment on hospital revenues, discharges, or beds days in addition to the Hospital Assessment established by A.R.S. § 36-2901.09, interest earnings, and legislative appropriations.		
Purpose of Fund: To increase the base reimbursement level for hospital services, to increase dental and physician fee schedules, and to cover related administrative expenses incurred by DES.		
Funds Expended	0	43,247,300
Year-End Fund Balance	0	0
IGA and ISA Fund (DEA2500/§ 41-1954)		Non-Appropriated
Source of Revenue: Grants and intergovernmental agreements between state agencies and local governments.		
Purpose of Fund: To be used as specified in the grant or agreement.		
Funds Expended	0	0
Year-End Fund Balance	56,700	56,700
Long Term Care System Fund (Federal Match) (DEA2224/A.R.S. § 36-2953)		Expenditure Authority
Source of Revenue: Federal Medicaid Authority monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system.		
Funds Expended	2,307,854,800	3,313,409,500
Year-End Fund Balance	244,614,200	0

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Long Term Care System Fund (Non-Federal Matched) (DEA2224/A.R.S. § 36-2953)		Appropriated
Source of Revenue: Client revenue for room and board, third-party recovery, interest, and miscellaneous federal monies.		
Purpose of Fund: To fund administrative and program costs associated with the Long Term Care system. These monies are used to offset costs of services provided to Long Term Care clients which are not reimbursed by the federal government, such as room and board.		
Funds Expended	33,864,200	34,429,200
Year-End Fund Balance	0	0
Neighbors Helping Neighbors Fund (DEA2348/A.R.S. § 46-741)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To provide assistance in paying utility bills, conserving energy and weatherization to eligible individuals. Fund monies are available to designated community action or other agencies currently providing energy assistance services to eligible individuals. An amount of not more than 2% of the fund monies may be used by DES, and an amount of not more than 8% of the fund monies may be used by the designated agencies for administrative costs.		
Funds Expended	37,000	37,000
Year-End Fund Balance	118,500	126,500
Public Assistance Collections Fund (DEA2217/A.R.S. § 46-295)		Appropriated
Source of Revenue: A portion of monies collected in recovery payments from ineligible or overpaid public assistance recipients and reimbursements received from persons legally responsible for support of public assistance recipients. The fund receives 25% of the monies collected. The remaining 75% of revenues are credited to the General Fund.		
Purpose of Fund: To improve public assistance collection activities.		
Funds Expended	0	441,800
Year-End Fund Balance	372,100	(39,200)
Revenue From State or Local Agency Fund (DEA3193/A.R.S. § 41-1954)		Non-Appropriated
Source of Revenue: Dollars received through the collection efforts of the Department's Office of Accounts Receivable and Collections and dollars without sufficient identifying documentation may be temporarily deposited in this fund.		
Purpose of Fund: When the benefiting program is identified, funds are transferred out of the fund into the benefiting program's fund. Funds are utilized by the benefiting DES programs per state and federal requirements.		
Funds Expended	5,038,200	3,288,300
Year-End Fund Balance	1,180,100	1,960,400
Sexual Violence Service Fund (DEA2190/A.R.S. § 36-3102)		Appropriated
Source of Revenue: Legislative appropriations, grants, and contributions.		
Purpose of Fund: Grants provided to service providers for victims of sexual violence.		
Funds Expended	0	0
Year-End Fund Balance	3,827,300	0
Special Administration Fund (DEA2066/A.R.S. § 23-705)		Appropriated
Source of Revenue: Monies are from interest charges and employers' penalty fees assessed on late unemployment payments.		
Purpose of Fund: To defray administration costs found not to have been properly and validly chargeable against Federal grants or other funds.		
Funds Expended	4,637,900	4,654,600
Year-End Fund Balance	2,383,700	2,172,400
Special Olympics Tax Refund Fund (DEA3207/A.R.S. § 41-173)		Non-Appropriated
Source of Revenue: Includes contributions from income tax refunds and other donations and interest earnings.		
Purpose of Fund: To contract with a nonprofit entity for delivery of those services essential to the Arizona Special Olympics' programs and to cover the Department of Revenue's costs for administering the refund checkoff.		
Funds Expended	93,500	95,500
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2024 Actual	FY 2025 Estimate
Spinal and Head Injuries Trust Fund (DEA2335/A.R.S. § 41-3203)		Appropriated
Source of Revenue: The fund receives 22% of monies deposited in the Medical Services Enhancement Fund (MSEF). MSEF revenues consist of a 13% penalty assessment on fines, violations, forfeitures, and penalties imposed by the courts for criminal offenses, civil motor statute violations, and game and fish violations.		
Purpose of Fund: For 1) prevention and education of spinal and head injuries; 2) rehabilitation, transitional living and equipment necessary for daily living activities; 3) a portion of the cost of the disease surveillance system and statewide referral services for those with head injuries and spinal cord injuries; 4) costs incurred by the Advisory Council on Spinal and Head Injuries; and 5) DES' costs for administering the provisions.		
Funds Expended	1,615,500	2,390,200
Year-End Fund Balance	0	(970,500)
Statewide Cost Allocation Plan Fund (DEA1030/A.R.S. § 41-1954)		Appropriated
Source of Revenue: Federal reimbursement.		
Purpose of Fund: General operations.		
Funds Expended	0	1,000,000
Year-End Fund Balance	0	(1,000,000)
Unemployment Insurance Benefits Fund (DEA7510/A.R.S. § 23-701)		Non-Appropriated
Source of Revenue: Employer contributions and interest earnings. The monies are maintained and tracked in 2 separate accounts: one by the U.S. Treasury and one by the state, which is used for clearing and paying benefits. The majority of the funds available are in the U.S. Treasury account. DES, as federally required, deposits all employer contributions, other than those retained for immediate benefit payments, in the U.S. Treasury, which tracks each state's account separately.		
Purpose of Fund: To retain and invest formula-determined employer unemployment contributions to be used for payment of future unemployment benefits and refunds pursuant to § 903 of the federal Social Security Act. This fund provides regular unemployment benefits up to 26 weeks. Benefits extended beyond that time are federally funded and included in the Federal Grants fund.		
Funds Expended	315,222,300	324,499,000
Year-End Fund Balance	1,871,119,200	1,974,068,600
Workforce Investment Act Grant (DEA2010/U.S. P.L. 113-128)		Appropriated
Source of Revenue: Federal formula grant.		
Purpose of Fund: To consolidate, coordinate, and improve employment, training, literacy, and vocational rehabilitation programs.		
Funds Expended	92,644,100	87,116,200
Year-End Fund Balance	98,050,200	83,793,300