DEPARTMENT OF ECONOMIC SECURITY
Your Partner For A Stronger Arizona

Janice K. Brewer
Governor

Neal Young
Director

October 19, 2009

Eileen Klein
Director, Governor's Office of Strategic Planning and Budgeting
1700 West Washington, Suite 500
Phoenix, Arizona 85007

Dear Ms. Klein:

Sixteen months ago the Department of Economic Security was appropriated $808.3 million from the General Fund for fiscal year 2009 operations. Currently, the Department's projected fiscal year 2010 General Fund budget is $555.2 million. In less than a year-and-a-half, General Fund support for the Department has been cut by 31 percent, or more than a *quarter-billion* dollars. Per your September 18 email, the Department is transmitting its draft fiscal year 2010 midyear budget reduction options totaling another 15 percent of the agency's remaining General Fund appropriations. Combined with reductions to select other funds, total state funding cuts would amount to $87 million. Consideration of further cuts first requires an overview of the Department's budget and the reductions that have already occurred.

Previously enacted budget reductions have resulted in steep reductions across the Department's programs and operations.

Although a portion of the decrease to the Department's budget has been backfilled with federal funds authorized by the American Recovery and Reinvestment Act and a payment 'deferral', spending reductions have dramatically impacted clients, employees, and contracting businesses across the State. Examples include:

- *Program and contract eliminations* including general assistance for disabled adults, lifespan respite care for caregivers of individuals with special needs, homeless youth intervention, and certain in-home child welfare services
- *Benefit reductions* such as a 20 percent decrease to cash assistance benefits for 39,000 families with 64,000 children and a 20 percent reduction in reimbursement rates for the 4,700 children in family foster care
- *Waiting lists* for low-income families applying for child care assistance (more than 8,600 children are currently on the waiting list) and vocational rehabilitation services to assist individuals with physical and other disabilities to obtain employment (about 3,500 individuals are currently on a waiting list)

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- *Contractor reductions* including a rate cut of ten percent for more than 4,000 providers of home and community based services for individuals with developmental disabilities and five percent for 6,500 child care providers, as well as funding decreases for contracts for domestic violence and homeless shelters, food banks, services for older Arizonans, prevention services in the child welfare system, substance abuse treatment, and Jobs services
- *Layoffs* of approximately 800 agency staff, about eight percent of the Department's workforce, and hundreds or thousands more private sector employees directly resulting from reductions to Department spending

Enclosed with this letter are detailed descriptions of the strategies that would be necessary to achieve the targeted $87 million state funding reduction. A funding decrease of this magnitude would further impact thousands of Arizona's most vulnerable residents, from families involved in the child welfare system to the elderly, from individuals with developmental disabilities to caregivers, from victims of domestic violence to low-income working families striving for self-sufficiency.

The Department cannot implement a 15 percent state funding reduction simply by rolling back funding growth from recent years, reducing administrative costs, or shifting costs to federal funds.

Although you and your Office are aware of these facts, the Department's discussions with some policymakers and stakeholders regarding reductions to the Department's appropriations has revealed that several facts should be reiterated.

The Department cannot implement appropriation reductions simply by reverting to spending levels in fiscal year 2006 (or any other arbitrary year).

Between fiscal year 2006 and the originally enacted fiscal year 2009 appropriation, the Department's General Fund appropriation increased from $632.7 million to $808.3 million, or by an average of 6.3 percent per year. Evaluating where most of this increase was targeted, though, illustrates the difficulty in simply rolling back increases. Of the $175.6 million net increase to the Department budget, the Division of Developmental Disabilities (DDD) and the Division of Children, Youth and Families (DCYF) accounted for $149.4 million of the total. These two Divisions' budgets grew by an average of 8.2 percent per year while the rest of the Department's budget increased by an average of just 2.8 percent per year, significantly less than the sum of inflation and population growth or growth in personal income. Since the appropriation increases for DDD and DCYF were necessary to accommodate growth in the number of individuals eligible for the Arizona Long Term Care System entitlement as well as in the number of children in foster care, eliminating this funding is not a feasible option.

Further, at this time, the Department's projected fiscal year 2010 General Fund budget is already at its lowest level since fiscal year 2004. Compared to the agency's appropriation five years ago,

General Fund support is 12.2 percent lower. Compared to the other five largest areas of state government, the Department is one of only two agencies that have incurred a net reduction over this five-year period, as illustrated in the table below.

	FY 2006	FY 2010	$ Change	% Change
Education	3,552,448.2	4,398,139.5	845,691.3	23.8%
AHCCCS	1,036,404.5	1,185,709.6	149,305.1	14.4%
Universities	860,255.6	901,652.8	41,397.2	4.8%
Corrections	716,578.7	879,927.0	163,348.3	22.8%
Economic Security	632,655.2	555,184.7	(77,470.5)	(12.2%)
Health Services	484,975.1	458,168.1	(26,807.0)	(5.5%)

Table 1: General Fund Appropriations for the Six Largest Agencies, Fiscal Years 2006-2010

Rolling back funding increases from recent years has already been done and is no longer an option. Further cuts to the Department's budget will require the curtailment or elimination of core services and functions.

The Department cannot implement broad funding reductions simply by eliminating administrative positions.

Of the Department's projected $555.2 million fiscal year 2010 General Fund budget, only about $23 million has been appropriated for centralized administrative functions, or around four percent of the total. These funds support the agency's financial, human resources, information technology, and procurement staff, as well as other functions managed centrally such as appellate services, fraud investigations, and foster home licensure. These units are critical to the operation of the Department's programs. In addition to facilitating the holistic delivery of services, the purpose for creating an umbrella state human services agency was to generate administrative efficiencies.

The Department has, in fact, generated millions of dollars of savings through administrative savings, including overtime and travel reductions, office consolidations, and process automation. Having driven centralized administrative costs down to four percent of total General Fund appropriations, opportunities for further savings are limited. Vacancies in these areas have already contributed to slower provider payments and lengthened response times for information technology problems. Further reductions to administrative units that are already struggling with increasing workloads and widespread vacancies will jeopardize the operations of the Department.

The two largest General Fund Divisions, DDD and DCYF, account for 70 percent of the agency's projected fiscal year 2010 General Fund budget. As a result, it is not possible to make significant reductions to the Department's budget without reducing expenditures in these programs. However, reductions to DDD's Arizona Long Term Care System (ALTCS) program are difficult to implement in the short term as most changes would require changes to state

statute as well as federal approval. Given that ALTCS is the single largest use of General Fund dollars in the Department, though, it is necessary to assess approaches to create a fiscally sustainable program. To that end, the Department is organizing a workgroup to identify and analyze such strategies, which may include evaluating the ALTCS service package as well as cost effectiveness. The table below shows the distribution of General Fund appropriations among the Department's Divisions and illustrates the impossibility of absorbing substantial funding cuts without making significant reductions to client services.

Division	Est. Appropriation	% of Total
Administrative Support	$ 23,508.8	4.2%
Aging and Community Services	$ 29,572.8	5.3%
Benefits and Medical Eligibility	$ 54,292.5	9.8%
Child Support Enforcement	$ 6,559.0	1.2%
Children, Youth and Families	$ 176,081.0	31.7%
Developmental Disabilities	$ 211,764.3	38.1%
Employment and Rehabilitation Services	$ 41,243.3	7.4%
Attorney General	$ 12,163.0	2.2%
Total	**$ 555,184.7**	**100.0%**

Table 2: Estimated Fiscal Year 2010 General Fund Budget by Division (in thousands)

Reducing administrative costs and improving operational efficiency have been, and will continue to be, key strategies in implementing any funding reductions. However, due to the reductions that have previously been made and the already-limited size of central administration, allocating all reductions to these functions is both practically and mathematically impossible.

The Department cannot absorb General Fund reductions simply by shifting costs to other funds.

Though the Department estimates that it will expend approximately $5.2 billion in fiscal year 2010, the great majority of these expenditures use federal moneys that have restricted purposes, including $2.2 billion just for benefit payments for supplemental nutrition assistance and unemployment insurance. Various presentations that have expressed proposed General Fund reductions as a percentage of the Department's total funding are misleading for two reasons: such statements assume that funds are interchangeable and ignore the loss of federal matching funds.

The Department agrees that funds that can be used interchangeably with General Fund dollars should be considered when evaluating state funding reductions. However, most of the agency's federal dollars are for benefits or programs that receive no General Fund support and, in turn, cannot be diverted to backfill General Funded programs or are matching funds that will be lost if the associated state funds are eliminated. Thus, including them in a funding base against which to calculate percentage reductions is misleading.

To provide a truer depiction of the Department's 'flexible' budget, that is the funding against which state funding reductions can be applied, earlier this year the agency's financial services staff worked with staff from the Office of Strategic Planning and Budgeting and the Joint Legislative Budget Committee. Using the fiscal year 2009 funding base (prior to the mid-year reductions), staff categorized funds as being General Fund and flexible funds, matching funds, or restricted purpose funds. The results of this analysis are noted in the table below.

Fund Type	$ in Thousands	% of Total
General Fund and Flexible	1,332,673.1	35.2%
Federal Matching	907,740.9	24.0%
Restricted Purpose	1,544,139.8	40.8%
Total	**3,784,553.8**	**100.0%**

Table 3: Categorization of the Department's Original Fiscal Year 2009 Funding Plan

The table demonstrates that almost two-thirds of the Department's funding is federal matching funds and restricted dollars that may not be used in lieu of General Fund dollars. This percentage has undoubtedly increased as the Department's projected budget has grown from $3.8 billion to $5.2 billion between fiscal year 2009 and fiscal year 2010, despite state funding reductions, due primarily to significant growth in restricted purpose funds for supplemental nutrition assistance and unemployment insurance.

Additionally, the impact on federal matching funds must be recognized when General Fund reductions are considered. If a program receives matching funds for state spending, these federal funds are lost when the state dollars are eliminated. For example, child support enforcement spending is matched by the federal government at approximately two federal dollars for every state dollar. Thus, in order to achieve one dollar of state funding savings, the Department must actually reduce expenditures by three dollars, with two dollars accruing to the federal government. The Department estimated that the mid-year reductions in fiscal year 2009 cost Arizona about $50 million in federal matching funds. Similarly, the options included in this 15 percent assignment would result in about $23 million in lost federal funds, which both removes these funds from the economy and further reduces needed services for Arizonans.

In addition to lost matching funds, state funding reductions will make it difficult for the Department to meet maintenance of effort (MOE) requirements for a number of federal grants, most notably the Temporary Assistance for Needy Families block grant. The base TANF grant and population supplemental provides Arizona with about $226 million annually and is used to fund vital services across the Department's programs. Since March when the Department was tasked with developing five, ten, fifteen, and twenty percent reduction scenarios, the agency's financial services staff has been exploring strategies to meet TANF MOE requirements if state funding were further cut. Although these strategies are not yet fully formed, the Department does believe that the state would continue to meet the minimum spending requirements to receive federal TANF funds. Funding reductions will make it more difficult to meet these requirements; failure to do so will result in a dollar-for-dollar penalty.

Federal funds are an integral piece of the Department's budget and are always part of the agency's review when evaluating proposed spending reductions. However, most of the Department's funding is non-discretionary and, therefore, off-limits to state reductions. Further, the matching nature of many of these funds means that General Fund cuts are magnified due to the loss of the associated federal funds.

When implementing any funding reduction, the Department looks first to operating costs, but a 15 percent funding reduction coupled with the reductions that have already occurred would require drastic program changes, including fee increases, program restructuring, and service reductions and eliminations.

The Department has developed a list of options that would be necessary to achieve $87 million in savings. When developing this list, the Department first evaluated administrative and overall staffing costs. The first three priorities all relate to administrative costs, including implementation of various efficiencies, privatizing certain functions where appropriate and cost-effective, and simply maintaining a number of vacancies across the Department. Given the reductions that have already occurred, opportunities for further savings in these areas are limited, but the Department continues to strive to reduce these costs prior to cutting services.

A 15 percent reduction, coupled with the cuts that have already been implemented since the beginning of the year, would necessitate service reductions. Where possible, the Department's priority list includes options to increase fees or limit programs' focus to ensure that limited resources are devoted to those with the greatest need, which will result in other needy clients losing access to current services. For example, certain fees for child support enforcement services and supports for individuals with developmental disabilities would be increased to better reflect actual program costs. Means-testing would be implemented for child-only cash assistance cases not involved in the child welfare system and a 36-month lifetime limit would be implemented, which would result in 10,000 families with 17,000 children losing this benefit. A portion of the resulting savings would be used to restore the 20 percent benefit reduction implemented earlier this year to assist families transitioning to self-sufficiency.

Further savings would be taken from the child care program, but the Department would release the waiting list for families with the lowest incomes. Next on the priority list is the elimination of a number of smaller programs, including several specialty child welfare contracts, grandparent kinship care, and sight conservation. These reductions would be followed by layoffs of as many as 50 Department staff and cuts to services for individuals with developmental disabilities in the state-only program, community services including domestic violence shelters and emergency assistance, independent living supports for older Arizonans, and in-home child welfare services.

Even all of these reductions would not achieve the reduction target. Reaching that figure would require the elimination of much of the early intervention system for infants and toddlers with, or

at risk of, a developmental delay or disability and of residential supports for individuals with developmental disabilities in the state-only program.

State funding reductions must consider the federal funding shortfalls that the Department is currently facing.

Separate from any potential maintenance of effort issues, a structural shortfall in the Temporary Assistance for Needy Families (TANF) block grant will require cuts to Department spending totaling as much as $42 million even if no further reductions are made to the agency's state funding base.

In state fiscal year 2009, total TANF appropriations exceeded annual base revenues by over $17 million. The Department was able to manage this structural shortfall by using a combination of contingency funds rolled forward from the prior year and by taking advantage of a provision in federal regulations that allows up to 80 percent of the annual base TANF grant allocation to be accessed during the first three federal fiscal quarters (October 1 – June 30). Both of these strategies were one-time solutions and are nearly at an end. As part of its fiscal year 2010 budget submittal, the Department requested an $11.7 million General Fund appropriation to backfill the TANF shortfall. This request was not funded.

The regular TANF contingency fund, from which the Department has been receiving $40 million annually, will be depleted in fiscal year 2010 in the absence of congressional action. This $2 billion fund was created as part of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 to provide additional resources to states in times of economic need by providing additional matching funds if certain conditions are met. Arizona was the second state to begin claiming regular contingency funds, in fiscal year 2008, but there are now at least 17 states claiming funds.

Congress has not authorized additional dollars for the contingency fund to replenish the original $2 billion appropriation. As a result, as additional states become eligible the depletion of the fund is accelerated. The funds will be exhausted in or before the first quarter of federal fiscal year 2010. Arizona receives approximately $10 million per quarter from the contingency fund, so if the fund is not restored by Congress, there will be as much as an additional $30 million TANF shortfall in state fiscal year 2010.

Congress did create a new $5 billion TANF fund, called the emergency contingency fund, in the American Recovery and Reinvestment Act. However, the emergency contingency fund has different requirements than the regular contingency fund and generally requires States to increase their spending. Of course, the Department's funding has been reduced so Arizona will be eligible for only a small amount of emergency contingency funds.

The Department appreciates the Governor's Office's proposal to the federal government to allow states to access the emergency contingency fund using either the regular contingency fund rules

or the emergency contingency fund rules. This proposal utilizes federal funds that have already been authorized and simply provides greater flexibility to the states to take advantage of the set of rules that best apply to their individual circumstances. In the absence of federal action, the Department will be forced to reduce spending by as much as $42 million.

Due to the uncertainty associated with potential federal relief, the Department intends to implement most of the options discussed in priorities one through eleven in the attached document. If Congress does act to restore the regular contingency fund, these reductions can be reversed, but until such relief is approved, the Department must take action now as delay would ultimately result in steeper cuts later in the year if the funds do not become available. This, though, means that these $42 million in priorities cannot also be used to implement any further state funding reductions and that, if the Department budget is cut, implementation would begin with priority twelve. The remaining priorities total approximately $45 million. State funding cuts in excess of this amount would require the identification of other service reductions.

The expiration of federal 'stimulus' funds will create a gaping hole in the Department's budget in fiscal year 2011.

Over the past few years, the state has relied on federal funds to reduce the General Fund cost of the Department. In fiscal year 2011, however, much of this federal support will begin to expire. The Department will require General Fund dollars to replace these lost federal funds to simply maintain existing programs that provide critical services to vulnerable populations. The Department estimates that the cost to replace these funds and resolve the TANF shortfall in fiscal year 2011 is $166.1 million. Any portion of this federal funding loss that is not backfilled with state funding increases will require program reductions that will only be exacerbated by state funding decreases.

The recession that has resulted in massive reductions in state revenues is simultaneously fueling an unprecedented demand for the Department's assistance, which, even without further spending reductions, has already made it impossible to meet the growing human services needs of Arizona's residents as more and more individuals and families are forced to request assistance for the first time.

The reductions that have occurred over the past two budget cycles have eliminated all of the 'easy' options and have already resulted in drastic program cuts as noted in the opening section of this letter. Unfortunately, these reductions are occurring during a time when the need for the Department's services is greatest. Thousands of families and individuals who have never before needed assistance are now in a position of having to request that help. These 'new poor' include families that have lost their jobs and their homes and have turned to the Department in record numbers. The number of families on supplemental nutrition assistance, AHCCCS benefits (for which the Department determines eligibility), and unemployment insurance are at record levels. Community partners and contractors report similar increases.

The Department is struggling to meet these growing needs, but due to diminished resources services have actually been reduced through waiting lists, benefit cuts, or contract eliminations. Further reductions to the Department's budget would affect the very core of the agency's mission and will have devastating long-term consequences for thousands of Arizona's most vulnerable residents.

Sincerely,

Neal Young
Director

Attachment A: Summary of Already Implemented General Fund Reductions
Attachment B: Summary of Options for an Additional 15 Percent General Fund Reduction
Attachment C: Summary of Options for 15 Percent Reduction to Select Other Funds
Attachment D: 15 Percent Reduction Option Write-Ups

Attachment A: Summary of Already Implemented General Fund Reductions

REVISED FISCAL YEAR 2009 BUDGET

Beginning Fiscal Year 2009 Base	**808,328,100**	
Mid-Year Reductions	(90,403,400)	FY 2009 General Fund Budget was reduced 20%
Fiscal Year 2009 "Payment Deferral"	(25,000,000)	
Federal Stimulus Backfill - Title XIX	(59,623,900)	
Supplemental – Div. of Developmental Disabilities	9,400,000	
Subtotal - Implemented Changes	**(165,627,300)**	
Fiscal Year 2009 Budget	**642,700,800**	

PROJECTED FISCAL YEAR 2010 BUDGET

Beginning Fiscal Year 2010 Base	**727,324,700**	
Repay Fiscal Year 2009 Payment Deferral	25,000,000	Projected budget already includes a 24% reduction to the FY 2010 base and is 31% below the FY 2009 base
Fiscal Year 2010 "Payment Deferral"	(42,000,000)	
ALTCS	23,664,500	
Cash Assistance	993,100	
Health Insurance	685,300	
Annualize Fiscal Year 2009 Reductions	(23,510,900)	
Five Percent Reductions	(16,648,100)	
Eliminate Summer Youth	(750,000)	
Children Support Services	(4,900,000)	
Cash Assistance Drug Testing	(1,729,300)	
Child Care	(15,000,000)	
Federal Stimulus Backfill - Title XIX	(100,644,600)	
Federal Stimulus Backfill - Fiscal Stabilization Fund	(17,300,000)	
Subtotal - Implemented Changes	**(172,140,000)**	
Fiscal Year 2010 Budget	**555,184,700**	

Attachment B: Summary of Options for an Additional 15 Percent General Fund Reduction

Beginning Fiscal Year 2010 General Fund Base	**727,324,700**
Subtotal - Implemented Changes	(172,140,000)
Est. Fiscal Year 2010 General Fund Budget	**555,184,700**
15 Percent Reduction Target	(83,277,700)
Less Attorney General Share	(1,369,800)
Department's 15 Percent Reduction Target	**(81,907,900)**

	GF Cut[1]	**Lost Fed**
1. Administrative and Operating Efficiencies	(500,000)	(1,400,000)
2. Opportunities for Privatization	(50,000)	(50,000)
3. Maintain Administrative and Operating Reductions	(4,400,000)	(4,200,000)
4. Utilize One-Time Funds	(4,500,000)	
5. Eliminate SSBG Planning Funds for Councils of Government	(250,000)	
6. Means Testing and Fee Increases	(5,500,000)	
7. Maintain Services Reductions	(23,500,000)	(4,000,000)
8. Eliminate Enhanced Rates for DDD Contracts	(680,000)	(1,720,000)
9. Eliminate Grandparent Kinship Care	(450,000)	
10. Eliminate Sight Conservation Program	(120,000)	
11. Reduce or Eliminate DCYF Programs	(5,300,000)	
12. Reduce State-Only DDD Services	(1,850,000)	
13. Layoffs	(1,000,000)	(1,200,000)
14. Restrict Cash Assistance Eligibility	(9,000,000)	
15. Community Services Reductions	(2,350,000)	
16. Aging and Adult Services Reductions	(1,550,000)	
17. In-Home Child Welfare Services Reductions	(10,100,000)	
18. Restrict or Eliminate Early Intervention Services	(8,200,000)	(10,000,000)
19. Eliminate Residential Services for State-Only DDD Clients	(4,200,000)	
Total	**(83,500,000)**	**(22,570,000)**
Fiscal Year 2010 Budget After 15 Percent Reductions	**471,184,700**	
Above/ (Below) Reduction Target	**1,592,100**	

Necessary to implement due to TANF shortfall

Combined with already implemented changes, these reductions would result in a 36% cut to the FY 2010 General Fund base and a 42% reduction compared to the FY 2009 base

[1] Reductions may be General Fund savings or funds that can be used to displace General Fund dollars elsewhere in the budget.

	15 Percent Reduction Target	(3,869,400)
	Less Attorney General Share	(361,300)
	Department's 15 Percent Reduction Target	**(3,508,100)**
3. Maintain Administrative and Operating Reductions	Public Assistance Collections Fund	(50,600)
	Children and Family Services Training Program Fund	(31,400)
	Child Support Enforcement Administration Fund	(1,955,300)
4. Utilize One-Time Funds		
13. Layoffs	Risk Management Fund	(271,500)
15. Community Services Reductions	Domestic Violence Shelter Fund	(129,200)
17. In-Home Child Welfare Services Reductions	Child Abuse Prevention Fund	(236,600)
	Total	**(2,674,600)**
	Above/ (Below) Reduction Target	**(833,500)**

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY
GENERAL FUND

FY 2010 General Fund Budget **$555,184,700**

AGENCY REDUCTION TARGET - GENERAL FUND ($83,277,700) [2]

Priority	Issue Title[1]	Reductions Amount
1	Administrative and Operating Efficiencies	($500,000)
2	Opportunities for Privatization	($50,000)
3	Maintain Administrative and Operating Reductions	($4,400,000)
4	Utilize One-Time Funds	($4,500,000)
5	Eliminate SSBG Planning Funds for Councils of Government	($250,000)
6	Means Testing and Fee Increases	($5,500,000)
7	Maintain Services Reductions	($23,500,000)
8	Eliminate Enhanced Rates for Developmental Disabilities Contracts	($680,000)
9	Eliminate Grandparent Kinship Care	($450,000)
10	Eliminate Sight Conservation Program	($120,000)
11	Reduce or Eliminate Division of Children, Youth and Families Programs	($5,300,000)
12	Reduce State-Only Division of Developmental Disabilities Services	($1,850,000)
13	Layoffs	($1,000,000)
14	Restrict Cash Assistance Eligibility	($9,000,000)
15	Community Services Reductions	($2,350,000)
16	Aging and Adult Services Reductions	($1,550,000)
17	In-Home Child Welfare Services Reductions	($10,100,000)
18	Restrict or Eliminate Early Intervention Services	($8,200,000)
19	Eliminate Residential Services for State-Only DDD Clients	($4,200,000)
	Issue Total	**($83,500,000)** [3]
	Fund Total as a Percentage of General Fund Reduction Target	100%

[1]Please complete the attached Description and Impact Statement for each issue.

[2]$1,369,800 of the total reduction target is attributable to the Attorney General's funding. This amount is not included in the Department's options.

[3]These reductions will result in the loss of an estimated $22,570,000 in lost federal matching funds.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

ALL NON-GENERAL FUNDS

FY 2010 All Non-General Funds Budget (less Federal Funds) **$25,795,700**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($3,869,400)

Fund	Reductions Amount	Percent Reductions
Child Abuse Prevention Fund	($236,600)	6.1% [1]
Child Support Enforcement Administration Fund	($1,955,300)	50.5%
Children and Family Services Training Program Fund	($31,400)	0.8%
Domestic Violence Shelter Fund	($129,200)	3.3%
Public Assistance Collections Fund	($50,600)	1.3% [1]
Risk Management Fund	($271,500)	7.0%
Issue Total	**($2,674,600)**	

All Non-General Funds Total as a Percentage of Agency Non-GF Reduction Target 69%

[1]The Attorney General's share of the CSEA Fund reduction is $347,700; of the PAC Fund, their share is $13,600. These amounts are not included in the Department's options.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

CHILD ABUSE PREVENTION FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) $1,577,400

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($236,600)

Priority	Issue Title[1]	Reductions Amount
17	In-Home Child Welfare Services Reductions	($236,600)
	Issue Total	**($236,600)**
	Fund Total as a Percentage of Non-General Fund Reduction Target	100%

[1] Please complete the attached Description and Impact Statement for each issue.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

CHILD SUPPORT ENFORCEMENT ADMINISTRATION FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) **$15,352,700**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($2,302,900) [2]

Priority	Issue Title[1]	Reductions Amount
4	Utilize One-Time Funds	($1,955,300)
	Issue Total	**($1,955,300)**
	Fund Total as a Percentage of Non-General Fund Reduction Target	85%

[1] Please complete the attached Description and Impact Statement for each issue.
[2] $347,700 of the total reduction target is attributable to the Attorney General's funding.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

DOMESTIC VIOLENCE SHELTER FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) **$2,400,000**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($360,000)

Priority	Issue Title[1]	Reductions Amount
15	Community Services Reductions	($129,200)
	Issue Total	**($129,200)**
	Fund Total as a Percentage of Non-General Fund Reduction Target	36%

[1] Please complete the attached Description and Impact Statement for each issue.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

PUBLIC ASSISTANCE COLLECTIONS FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) **$427,600**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($64,100) [2]

Priority	Issue Title[1]	Reductions Amount
3	Maintain Administrative and Operating Reductions	($50,600)
	Issue Total	**($50,600)**
	Fund Total as a Percentage of Non-General Fund Reduction Target	79%

[1] Please complete the attached Description and Impact Statement for each issue.
[2] $13,600 of the total reduction target is attributable to the Attorney General's funding.

FY 2010 BUDGET REDUCTIONS - SUMMARY OF ISSUES
DEPARTMENT OF ECONOMIC SECURITY

RISK MANAGEMENT FUND

FY 2010 All Non-General Funds Budget (less Federal Funds) **$271,500**

AGENCY REDUCTION TARGET - ALL NON-GENERAL FUNDS (w/o Federal Funds) ($40,700)

Priority	Issue Title[1]	Reductions Amount
13	Layoffs	($271,500)
	Issue Total	**($271,500)**
	Fund Total as a Percentage of Non-General Fund Reduction Target	667%

[1] Please complete the attached Description and Impact Statement for each issue.

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Administrative and Operating Efficiencies

Issue Priority: 1

General Fund Reduction: ($500,000)
Est. Matching Funds Loss: ($1,400,000)
Total Reduction: ($1,900,000)

Issue Description and Statement of Effects:

Over the last two budget cycles, tens of millions of dollars have been cut from the Department's budget. In response to these reductions, the Department has scrutinized its operations and solicited input from every agency employee to evaluate strategies to increase efficiency. These efforts have generated considerable savings. For example, overtime in fiscal year 2009 was 22 percent less than in fiscal year 2006, travel spending is down 21 percent during that time period despite an increase in the state's mileage reimbursement rate, and equipment spending has fallen 58 percent since fiscal year 2006. Other recent initiatives include office consolidations that will result in the closure of 31 offices by November 2010 and an evaluation of telecommunications bills. These efforts have generated millions of dollars in savings.

The amount of savings that can be achieved through efficiency, however, is finite. The savings created through these efficiencies have already been stripped from the Department's budget through appropriation reductions. The Department does not believe that it is operating at peak efficiency, but the opportunities for greater efficiency are fewer and fewer and the payoffs less and less. As a result, most subsequent budget cuts will not be absorbed through efficiency initiatives, but will require significant reductions to agency operations, adversely impacting timeliness, quality, accountability, and safety.

In addition to the savings that have already been achieved, this option includes another $500,000 that could be achieved by adopting more efficient practices. The majority of the savings associated with this option relate to an effort to reduce vacancies in group homes contracting with the Department's Division of Developmental Disabilities (DDD). Group homes with vacancies drive up costs so DDD is working with providers, clients, and their families to reduce current group home vacancies by relocating consumers to other homes with openings. As homes were brought to capacity, others will be eliminated, reducing costs. Savings estimates assume a 10 percent reduction in excess capacity by April 2010. DDD is also achieving savings through automation and the reallocation of nurses and nursing consultants. This option also includes savings elsewhere in the Department related to process automation and the consolidation of some work units. These measures would result in the displacement of approximately six staff.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Opportunities for Privatization

Issue Priority: 2

General Fund Reduction: ($50,000)
Est. Matching Funds Loss: ($50,000)
Total Reduction: ($100,000)

Issue Description and Statement of Effects:

Most of the Department's work is already privatized. The Department is generally responsible for eligibility determinations, investigations, and case management, although even some eligibility determinations and case management are provided by contractors. Other than these functions, however, the Department delivers very few direct services; rather, the agency has more than 14,000 contracts/ agreements with various organizations, both for-profit businesses and non-profits, to deliver most services. These contractors provide in-home and out-of-home child welfare services; home and community-based, institutional, and medical services for individuals with developmental disabilities; child care services; independent living support for older Arizonans; and various community-based services, such as homeless and domestic violence shelters, food banks, and utility assistance. The Department's Division of Child Support Enforcement relies on contractors for a number of functions, including operations of the child support clearinghouse and genetic testing, while the Department's Division of Benefits and Medical Eligibility contracts for the administration of the electronic benefits transfer cards. Pursuant to statute, the Jobs program was privatized two years ago.

Although the agency is largely privatized, the Department continues to evaluate opportunities for privatization when it is appropriate and cost-effective. Recently, the Department identified an opportunity to privatize certain printing functions, which is included in this option. Additionally, this option includes the privatization of the management of the Department's Division of Developmental Disabilities' (DDD) clients' federal benefit funds, such as supplemental security income, when there is no family member able or willing to do so. There are about 2,500 clients for whom the Department is the representative payee and providers have expressed interest in assuming this responsibility. Other DDD-related possibilities, such as the privatization of state-operated group homes, are not included in this option, but will be considered by a workgroup established to evaluate the operations of the Division.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Maintain Administrative and Operating Reductions

Issue Priority: 3

General Fund Reduction:	($4,400,000)
Public Assistance Collect. Fund	($50,600)
Children/ Family Svcs. Fund	($31,400)
Est. Matching Funds Loss:	($4,200,000)
Total Reduction:	($8,682,000)

Issue Description and Statement of Effects:

The Department laid off approximately 800 employees as a result of the fiscal year 2009 budget reductions. Due to these layoffs and the hiring restrictions in place for the past year-and-a-half, the Department's staffing level fell by 1,000 employees - 9.4 percent – over the past two years. Most of the agency's staff work in the program Divisions providing services to the Department's clients. Less than nine percent of the workforce is in the centralized administrative Divisions, which includes such programmatically-related functions as licensing and inspections for foster homes and group homes, investigations of allegations of fraud and abuse, and appellate services for program applicants and clients. Since most of the Department's employees and resources are in the program Division, most of the staffing reductions occurred in these areas.

Reduced staffing levels have occurred at a time of record demand for services. For example, the number of eligibility interviewers in the Department's Division of Benefits and Medical Eligibility fell 26 percent over the past year, from 1,500 to 1,110, while the nutrition assistance program and Medicaid caseloads increased 37 percent and 17 percent, respectively. The number of support coordinators in the Department's Division of Developmental Disabilities declined 12 percent, from 667 to 584, while caseloads increased 4 percent.

This option would maintain the administration and operating reductions that were implemented last year. Generally, this option will not require additional layoffs, but would result in the abolishment of approximately 80 vacant positions. Further layoffs may be necessary if Divisions are unable to achieve the necessary savings otherwise. With the exception of Child Protective Services, for which the Governor provided $5.5 million from her discretionary stimulus funds to restore a 100 percent investigation rate, the Department will be forced to maintain vacancies throughout the agency. Maintaining existing vacancy rates will result in diminished timeliness and accuracy for eligibility determinations and make it impossible to comply with various statutory or programmatic requirements, such as the frequency of meeting with clients, across the Department's programs.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Utilize One-Time Funds

Issue Priority: 4

General Fund Reduction:	($4,500,000)
Child Support Enforce. Fund	($1,955,300)
Est. Matching Funds Loss:	$0
Total Reduction:	($6,455,300)

Issue Description and Statement of Effects:

The Department proposes a one-time shift of various expenditures to available other funds. Due primarily to funds authorized by the federal American Recovery and Reinvestment Act (ARRA, the "stimulus" legislation"), the Department is currently projecting relatively small surpluses in a few federal grants. Eligible costs can be shifted to these funds in the current fiscal year; however, these are one-time funds so the state dollars must be reinstated next year, as noted in the Department's fiscal year 2011 budget request.

ARRA temporarily reinstated states' ability to use federal child support incentives to match federal Title IV-D child support enforcement funds. This has the effect of increasing the federal share of the child support enforcement program; consequently, the Department is forecasting a surplus in state share of retained earnings funds. An estimated $2 million surplus could be transferred to the General Fund to meet the 15 percent target for the Child Support Enforcement Administration Fund without impacting existing operations. Similarly, ARRA increased the federal share of child welfare costs by temporarily inflating the federal matching rate. On a one-time basis, these funds could be used in lieu of approximately $3.8 million of state funds. ARRA also included an increase in Individual with Disabilities Education Act Part C funds. The Department received $5.0 million in fiscal year 2009 and anticipated an equivalent amount in fiscal year 2010, but actually received $6.5 million this year. The additional $1.5 million may be used for the growth in early intervention costs that otherwise would have been funded from state dollars. Lastly, one-time funds in the Division of Benefits and Medical Eligibility can be used to reduce the state cost of this program by about $1.2 million.

These funds could be used to partially restore reductions implemented last year; however, given Arizona's ongoing budget shortfalls, this option instead proposes that these moneys be used to reduce General Fund costs. All of these are one-time fund sources that will not be available in fiscal year 2011. Thus, while they may be used to offset state costs in fiscal year 2010, the state dollars must be restored to the Department's budget in fiscal year 2011 in order to maintain programs.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Eliminate SSBG Planning Funds for Councils of Government

Issue Priority: 5

General Fund Reduction:	($250,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($250,000)

Issue Description and Statement of Effects:

The Department receives approximately $35.5 million annually from the Social Services Block Grant (SSBG, Title XX of the Social Security Act). These funds can be used for a number of services, but are primarily directed to Child Protective Services staffing and child welfare services, Adult Protective Services staffing and services for older Arizonans, and community-based service contracts for homeless and domestic violence shelters and food banks. In Arizona, $9.1 million of grant funds are "locally planned"; that is, they are directed to services as indicated by councils of government (COG).

This option would eliminate the $501,000 in administrative dollars given annually to the COGs for planning purposes. There is no federal requirement for a local planning process for any portion of the grant and the Department is unaware of any other state that has such a process. At this time, the Department is not planning any changes to the allocation of the "locally planned" funds so there would be no impact on services. On an annual basis, the allocation of locally-planned funds changes very little. The local plans generally direct the same amount of funding to the same services each year. The elimination of these administrative funds will be used to mitigate child welfare services reductions.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Means Testing and Fee Increases

Issue Priority: 6

General Fund Reduction:	($5,500,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($5,500,000)

Issue Description and Statement of Effects:

The Department proposes implementing means-testing for kinship cash assistance cases other than those involved in the child welfare system, increasing child support enforcement processing fees, and increasing collections for services provided by the Department's Division of Developmental Disabilities (DDD). *Given declining resources, this option increases fees and implements means-testing to shift more responsibility for the cost of services to the beneficiaries of the assistance.*

Cash assistance is available to kinship caregivers who provide care for children involved in the child welfare system (kinship foster care) and those without any contact with child welfare. These are "child-only" cash assistance cases in which the adult is not included in the case; their income is not taken into account and they are not included when the benefit level is calculated. This option would require that non-child welfare kinship caregivers' incomes be included when determining the household's eligibility for cash assistance. The Department would continue to exclude caregivers' incomes in kinship foster care cases because doing so could discourage these caregivers and result in the child being placed in more costly foster care.

Court-ordered child support payments are processed through the child support clearinghouse. The Department contracts with a private firm to operate the clearinghouse. Statute establishes a $2.25 fee paid by the non-custodial parent for each payment processed by the clearinghouse. The fee has not increased in twelve years and covers only about 60 percent of the cost of the clearinghouse with the General Fund subsidizing the rest. The Department proposes increasing the fee to $5.00 in order to cover the full cost of the clearinghouse.

This option includes several changes for individuals receiving early intervention services as well as state-only services from the Division of Developmental Disabilities. Statute permits the Department to bill for the cost of state-only DDD services. The Department currently does so, but several changes can be implemented to increase collections. First, state statute limits the Department's billing of Supplemental Security Income (SSI) to 70 percent, with the client retaining the remainder for personal needs. The SSI benefit for a single individual is $674 per month so the Department bills for amount $472 with the client retaining the remaining $202. The Department's share, however, does not cover the cost of residential care, resulting in a structural shortfall in the State-Funded Long Term Care (SFLTC) special line item. For the Elderly and Physically Disabled portion of the Arizona Long Term Care System (ALTCS)

Issue Title: Means Testing and Fee Increases (cont.)

AHCCCS allows individuals to set-aside only $84 per month for personal needs. Adopting the AHCCCS standard would increase the Department share to approximately 88 percent of individuals' SSI benefits and would help resolve the shortfall in SFLTC. Second, early intervention cases have historically been excluded from cost participation. The Department recently updated its early intervention state plan to allow the Department to bill families receiving services through the agency's Arizona Early Intervention Program as well as DDD.

Third, there are several families that are not complying with existing billing requirements by refusing to provide required information. Provision of this information will be required in order to continue to receive services. Fourth, a handful of families are receiving an adoption subsidy through the Department although the child is in a residential placement funded by DDD. The Department will begin billing the subsidy just as it bills Supplemental Security Income (SSI) for clients in residential care. Fifth, the Department would eliminate services that exceed ALTCS' cost-effectiveness limit, which for most clients is $138,500 per year, unless families pay the additional costs. ALTCS funds cannot be used to fund services above this limit, but the Department has been using state-only funds to cover these costs. When an individual's costs exceed this limit, they are still permitted to remain in their current setting if their family signs a managed risk agreement/ contract stating their acknowledgement of the service limitations and risks. The Department will begin enforcing this managed risk agreement by reducing services that exceed the cost-effectiveness limit. Families would have the option of paying for costs for services above this limit.

Lastly, the Department proposes that the deductible for the ALTCS program required by A.R.S. § 36-2939 be implemented.

Statutory or Administrative Rule Changes: Amendments to A.R.S. § 8-514.04, A.R.S. § 25-510, and A.R.S. § 36-562 will be necessary

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Maintain Services Reductions

Issue Priority: 7

General Fund Reduction: ($23,500,000)
Est. Matching Funds Loss: ($4,000,000)
Total Reduction: ($27,500,000)

Issue Description and Statement of Effects:

As part of the legislation to resolve Arizona's fiscal year 2009 budget shortfall (Laws 2009, First Special Session, Chapter 1), the Department's budget was impacted by more than $100 million in appropriation reductions and fund transfers. Coupled with more than $50 million in unfunded shortfalls, the Department had to reduce its budget by more than $150 million with fewer than five months remaining in the fiscal year. Consequently, the program and services reductions were dramatic. Cash assistance benefits were cut by 20 percent for the more than 39,000 families receiving assistance. The benefit level had not been increased for more than 15 years and was capped at 36 percent of the 1992 federal poverty level; for a family of three, the maximum monthly benefit went from $347 to $278. Foster family reimbursement rates for the 4,700 children in family foster care were reduced by 20 percent and various allowances, such as clothing and summer camp for foster children, were scaled back or suspended. A waiting list was implemented for child care assistance, co-payments for families with more than one child receiving assistance were increased, and provider rates were decreased by five percent.

The Department has maintained these restrictions in fiscal year 2010 due to further General Fund reductions and a structural federal Temporary Assistance for Needy Families (TANF) block grant shortfall. These measures are expected to result in savings that exceed current budget planning levels. *This option maintains previously implemented cuts to cash assistance, foster care, and child care, but allows for a partial release of the child care waiting list.* These reductions continue the hardship placed upon low-income families as well as foster parents.

Both the cash assistance and foster care reductions are projected to create excess savings of $4 million. Excess savings in the child care program are estimated to total as much as $25 million. The Department proposes to cut the program by $15 million and use the remainder of the savings to partially release the waiting list later this year. The waiting list will be prioritized according to families' income. The income cut-off will be determined based upon the level that the Department can sustain for the remainder of the year. Continuing restrictions in child care could result in low-income working families quitting their jobs due to lack of access to affordable child care.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Eliminate Enhanced Rates for Developmental Disabilities Contracts

Issue Priority: 8

General Fund Reduction:	($680,000)
Est. Matching Funds Loss:	($1,720,000)
Total Reduction:	($2,400,000)

Issue Description and Statement of Effects:

The Department's Division of Developmental Disabilities (DDD) has approximately 30,000 clients who receive services designed to maximize their self-sufficiency and independence. These services are provided through a network of more than 4,000 private and non-profit contractors. For a number of services, the Division has established enhanced rates. *This option would continue to offer these services, but would eliminate enhanced rates.*

In instances in which a child is placed in a foster home by the Department's Division of Children, Youth and Families (DCYF) and is eligible for Division of Developmental Disabilities services, the case is transferred from the DCYF to DDD. When this occurs, DDD begins paying the foster family a rate higher than they were paid by DCYF. Beginning prospectively in April 2010, the Department will maintain the DCYF payment rate to foster families when the child's case is transferred to DDD, saving approximately $90,000 in fiscal year 2010.

Habilitation services are designed to help individuals with developmental disabilities to learn new skills for everyday living. There are many modalities for delivering habilitation services. One of those modalities is habilitation with a music component, for which the Division created an enhanced rate several years ago. Habilitation is mandated by Medicaid, but habilitation with a music component is not specifically required. Approximately 3,000 individuals are authorized to receive habilitation with a music component so, rather than stopping the service, the Division will eliminate the enhanced rate. Habilitation with a music component will then be reimbursed at the same rates as other habilitation services. This change will save an estimated $850,000, including $200,000 from the General Fund, in the last six months of the fiscal year.

The Division pays a special rate for residential homes where a person was considered at high risk to themselves and the community due to their criminal activities or significantly challenging behaviors. Currently, the Division pays this higher rate for about 40 individuals. The goal for this special rate is that providers use the higher rate to ensure more highly trained, skilled, and compensated staff to serve these clients. However, a recent rate study indicates that providers being paid the special rate are not paying their staff any more than their peers in regular group homes. As a result, the Division will eliminate it to save $1.3 million, including $300,000 from the General Fund, in the final six months of fiscal year 2010. If a provider decides that it will no longer serve an individual due to the loss of the enhanced rate, the Division will have to find another home for that individual.

Department of Economic Security

Issue Title: Eliminate Enhanced Rates for Developmental Disabilities Contracts (cont.)

The Division currently contracts for case management services for some of its clients in Pima County and northeastern Arizona. These contracts call for lower caseloads and fewer responsibilities than those of the Division's case management staff. As a result, the contracts are more expensive than the cost if the duties were performed by state staff. The Department will seek to amend these contracts so that they are commensurate with state costs and expectations. Otherwise these contracts will be eliminated and the Division will assume the case management responsibility for these clients effective in April 2010. This change will reduce costs by about $200,000 including $70,000 in General Fund costs. Approximately 1,300 clients would have to transition to a new case manager.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Eliminate Grandparent Kinship Care

Issue Priority: 9

General Fund Reduction:	($450,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($450,000)

Issue Description and Statement of Effects:

Laws 2006, Chapter 350 established a Grandparent Kinship Care program to provide modest assistance for grandparents caring for their grandchildren. The program is administered by the regional Area Agencies on Aging and is currently funded at $900,000.

Grandparent Kinship Care includes one-time transitional assistance not to exceed $300 per child to help cover the cost of additional beds, furniture, and other necessary expenses related to transitioning the child into the grandparent's home. A monthly stipend of $75 per month per child is available to help purchase food, clothing, and other personal items for the child. It may also be used to cover educational expenses such as tutors or other assistance that may be necessary to help the child adjust to their new living environment and, oftentimes, new school.

The number of grandparents responsible for the care of their grandchildren is on the rise across the country. In Arizona, more than 130,000 children are living in households headed by grandparents or other non-parent relatives, with almost 55,000 having neither parent present. Approximately 19 percent of these grandparents live in poverty. Greater than 60 percent of the families served by the program reported incarceration or drug abuse by the parents as the primary cause for the kinship care situation.

This option terminates the program, which would eliminate assistance for as many as 1,000 children being cared for by their grandparents. Grandparents already facing their own health, income, and housing issues rely on this limited assistance to provide for their grandchildren. Without this program, grandparents with limited resources will continue to struggle to make ends meet as they provide care for their grandchildren.

Statutory or Administrative Rule Changes: Laws 2006, Chapter 350

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Eliminate Sight Conservation Program

Issue Priority: 10

General Fund Reduction:	($120,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($120,000)

Issue Description and Statement of Effects:

AHCCCS does not cover eye exams, glasses, and other services for the prevention or correction of eye problems for individuals who are older than 21 years of age. The Department's Sight Conservation program fills this gap for these individuals as well as those receiving cash assistance or supplemental security income. The program also participates in public awareness campaigns and visual screening in an effort to prevent blindness. The program's annual budget is approximately $240,000, paid entirely from the General Fund.

This option eliminates the sight conservation program, resulting in more than 9,000 low-income adults annually losing access to eye exams, glasses, and other vision-related treatment.

Statutory or Administrative Rule Changes: An amendment to A.R.S. § 46-134 will be necessary

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Reduce or Eliminate Division of Children, Youth and Families Programs

Issue Priority: 11

General Fund Reduction:	($5,300,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($5,300,000)

Issue Description and Statement of Effects:

The Department's Division of Children, Youth and Families (DCYF) contracts with a number of organizations to provide a continuum of child welfare services from prevention programs to in-home services to out-of-home care to post-adoption supports. *This option eliminates a number of specialty contracts to focus resources on core services.*

This option would reduce or eliminate volunteer contracts, a peer mentoring contract in Pima County for older youth in foster care, transitional services, and other in-home services. The Department would also eliminate Promoting Safe and Stable Families contracts, which currently serve both CPS and non-CPS cases to ensure resources are directed to families involved in the child welfare system. These reductions would decrease the array of services available to assist in addressing factors that place children at-risk of maltreatment. Long-term, this could result in a greater number of children in out-of-home care, which would increase state costs. Youth aging out-of-foster care are already at greater risk for a number of negative outcomes, such as failure to complete their education, unemployment, homelessness, and incarceration. Reducing supports for these youths will place them at an even greater disadvantage.

The Adoption Services – Family Preservation Projects appropriation was established in fiscal year 2006 to augment services to prospective adoptive parents as well as families that have already adopted a child. Funds are used to operate the 800-KIDSNEEDU information line as well as crisis response, counseling, and therapeutic services. This appropriation was established to develop more comprehensive services for both prospective adoptive parents as well as families post-adoption. In fiscal year 2008, more than 4,000 calls were received by the 800-KIDSNEEDU information line, 34 families were referred to crisis response services, and 200 children were referred to transition counseling and therapeutic services. Without this appropriation, the Department would continue to operate the information line but would significantly curtail or eliminate the other services. Without this support, fewer adoptions may be completed and some adoptive families could withdraw from completed adoptions. Fewer adoptions will result in foster children remaining in the child welfare system and high out-of-home placement costs.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Reduce State-Only Division of Developmental Disabilities Services

Issue Priority: 12

General Fund Reduction:	($1,850,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($1,850,000)

Issue Description and Statement of Effects:

Funding for the Department's Division of Developmental Disabilities accounts for more than 38 percent of the agency's total fiscal year 2010 General Fund budget. The Medicaid-funded Arizona Long Term Care System (ALTCS) comprises most of this total, but changes to ALTCS require amendments to Arizona's state Medicaid plan and, therefore, cannot be achieved in the current fiscal year. The state-only program provides services to individuals with developmental disabilities who are not ALTCS-eligible, but there is no entitlement for state-only services.

Most spending in the state-only program supports early intervention services for children under the age of three years, supports for foster children, and residential services for individuals in group homes. Restricting early intervention services would require amending or eliminating Arizona's Individual with Disabilities Education Act (IDEA) Part C state plan, the Department must provide supports for foster children, and eliminating residential services would severely jeopardize the health and safety of impacted individuals, but about $3.7 million is annually expended on in-home supports for individuals ages three and older. *This option would eliminate in-home services for approximately 300 children and 400 adults with developmental disabilities.*

Children ages three years and older will lose their therapy services and in-home supports such as attendant care and respite. The loss of these services early in life will impede their development, communication, mobility, and ability to become more independent, while increasing familial stress. Adults with developmental disabilities will lose in-home supports like attendant care, transportation to medical appointments, and day services including supported employment. These vulnerable adults will be without activities or supervision during the day, which may lead to isolation and cause additional stress on family caregivers. These supports may be the only outside contacts and services available to these individuals The loss of supervision, affiliation with others, employment, and supports that allow a person to live as independently as possible will severely impact the quality of life experienced by these individuals.

This option also eliminates non-emergency dental services for individuals in the Arizona Training Program at Coolidge group homes.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Layoffs

Issue Priority: 13

General Fund Reduction:	($1,000,000)
Risk Management Fund	($271,500)
Est. Matching Funds Loss:	($1,200,000)
Total Reduction:	($2,471,500)

Issue Description and Statement of Effects:

As part of the legislation to resolve Arizona's fiscal year 2009 budget shortfall (Laws 2009, First Special Session, Chapter 1), the Department's budget was affected by more than $100 million in appropriation reductions and fund transfers. Coupled with more than $50 million in unfunded shortfalls, the Department had to reduce its budget by more than $150 million with fewer than five months remaining in the fiscal year. The resulting reductions to the Department's staffing and operations were significant. Approximately 800 employees were laid off. Due to these layoffs and the hiring restrictions in place for the past year-and-a-half, the Department's staffing level fell by 1,000 employees - 9.4 percent - from the last pay period of fiscal year 2007 to the same pay period in fiscal year 2009.

This option would require laying off an additional 40 to 50 employees. These layoffs would be focused in support functions, both in the centralized administrative support Divisions and the operations staff in the program Divisions. These units are already challenged by increased workloads due to more work and fewer staff. For example, decreased funding has made cash flow management both more challenging and critical, the need for technological solutions to enhance productivity has increased, and economic conditions have led to greater demands for employee support programs. Vacancies in these areas have already contributed to slower provider payments and lengthened response times for information technology problems. These difficulties will become more pronounced as work accumulates and remaining staff are stretched thinner and thinner.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Restrict Cash Assistance Eligibility

Issue Priority: 14

General Fund Reduction:	($9,000,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($9,000,000)

Issue Description and Statement of Effects:

Cash assistance is intended to provide temporary assistance for needy families with dependent children by providing a very modest monthly benefit to help cover essential living costs such as rent and utilities. The benefit level, however, went without an increase for more than 15 years and was set at 36 percent of the 1992 federal poverty level until fiscal year 2009. Effective March 1, 2009, the Department cut the benefit by 20 percent in response to agency funding reductions. The previous monthly maximum benefit for a family of three, $347, was clearly inadequate to meet families' needs, but was reduced to about $278, where it currently remains.

Given the already low benefit levels, further reductions to the program would require limitations to eligibility. The Department believes that any changes to the program must be coupled with a restoration of the former benefit level. *This option would reduce the lifetime limit from 60 months of assistance to 36 months and make other restrictions to program eligibility, and use a portion of the resulting savings to restore the previous benefit level.*

The most significant change included in this option is limiting receipt of benefits to 36 months. Federal law restricts the use of federal funds for cash assistance to five years and most states, including Arizona, have adopted this standard. States are permitted, though, to implement more stringent requirements, but only six other states have established a limit of three years or less. If a 36 month limit was implemented, and incorporated cases that are currently exempt from the limit because the parent(s) in the household are not included in the assistance, more than 10,000 cases with 17,000 children would be disqualified from cash assistance. The Department proposes that families maintain the ability to apply for a hardship exemption. Hardships may be granted for a number of reasons including disability, domestic violence, etc. and must be reviewed every six months.

This option also includes the requirement that stepparents' income be included in eligibility determinations and the elimination of eligibility for pregnant women in their third trimester if they do not have any other children (they could become eligible when the child is born).

This option assumes that these programmatic changes would take effect by March 1 to generate $9 million savings in fiscal year 2009. In fiscal year 2010, this option assumes that the $9 million reduction would be maintained, but that the annualized savings would be used to fund caseload growth in the program and reverse the 20 percent benefit reduction on July 1.

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Restrict Cash Assistance Eligibility (cont.)

In order to receive cash assistance, families must have little or no income. This assistance is critical to aiding them in providing for the needs of their children. The loss of access to this program could result in these children going without food or utilities, or even becoming homeless or entering the child welfare system because their parents are unable to provide for them.

Statutory or Administrative Rule Changes: Amendments to A.R.S. Title 46, Chapter 2, Article 5 will be necessary

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Community Services Reductions

Issue Priority: 15

General Fund Reduction:	($2,350,000)
Domestic Violence Shelter Fund	($129,200)
Est. Matching Funds Loss:	$0
Total Reduction:	($2,479,200)

Issue Description and Statement of Effects:

The Department's Division of Aging and Adult Services contracts with private entities to provide emergency shelter and transitional housing to homeless families and individuals and victims of domestic violence as well as short-term assistance to families in crisis.

According to Arizona's Community Action Agencies (CAA), due to the current recession, the demand for short-term crisis services from low-income families and individuals has increased dramatically. Arizona's job losses and high foreclosure rate have resulted in a new population of households requesting help; for example, the CAA in Maricopa County reports a 126 percent increase in the number of individuals with college degrees requesting help. The CAAs provide services to families in crisis, including rent or mortgage assistance and utility assistance. CAA case managers also assist families in accessing other services, such as financial counseling, eviction and foreclosure prevention programs, and nutrition assistance. This option includes an $840,000 reduction to Community Action Agencies' funding. *This reduction would result in approximately 1,100 families being denied assistance when they are facing foreclosure, eviction, utility shut-offs and other crisis-related situations.* Without assistance, a number of these families will undoubtedly become homeless.

The Division contracts with providers across the state to provide services to victims of domestic violence, including emergency shelter, transitional housing, and legal assistance. Over the past several years, the demands for these services have increased statewide. Although the program has received funding increases in several years, it remains far short of ensuring that all victims requesting shelter receive it. Victims who do not find shelter could be forced to remain in a dangerous situation, literally putting their lives at risk. An October 4, 2009 Arizona Republic article ("Arizona shelters lag despite woman's death by spouse") reported that Arizona ranks among the top 10 states in the country in the number of women that men kill in single-victim, single-suspect homicides. Budget cuts, unfortunately, have already begun to chip away at the investments made in the program just a couple of years ago. This option would further reduce funding for domestic violence services by $1.5 million from the General Fund and $129,200 from the Domestic Violence Shelter Fund. *This funding reduction is equivalent to eliminating shelter services for 1,600 victims of domestic violence.* Forty-seven percent of those receiving shelter from domestic violence are children.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Aging and Adult Services Reductions

Issue Priority: 16

General Fund Reduction:	($1,550,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($1,550,000)

Issue Description and Statement of Effects:

The Department's Division of Aging and Adult Services provides funding to Arizona's Area Agencies on Aging (AAA) to provide independent living supports to older Arizonans. These services include assessment, case management, personal care, home health aid, visiting nurse services, adult day care/ adult day health care, respite care, home delivered meals, homemaker, and chore services. These home care services are provided to individuals who are functionally impaired and unable to perform activities of daily living to assist them in maintaining their independence and remaining in the least restrictive setting for as long as possible.

According to Census estimates, individuals over the age of 65 account for 13 percent of Arizona's total population. The 85 and older population is the fastest growing age group in the state. More than 30 percent of adults over the age of 60 have one or more disabilities, including disabilities that affect self care. Numerous studies have shown that Americans prefer to stay in their own homes and communities as they age instead of residing and dying in institutions. Independent living supports are intended to help frail elders remain independent. Sixty-nine percent of the program's clients are female and about one-third are under the federal poverty level while two-thirds are under 150 percent of the federal poverty level.

Independent living supports are cost effective. The average annual cost per person is $2,174 compared to $19,428 per year for home and community based services through the Arizona Long Term Care System or the annual $61,656 cost to ALTCS for nursing home care. In the past year, the number of clients receiving services has declined by approximately 20 percent due to budget reductions. Those who do not receive services or whose services are reduced can experience rapid deterioration in their abilities, often forcing them to enter nursing homes when individual or family resources - both physical and financial - have been exhausted. Unfortunately, for many elders, they have no options except institutional care, even if it is premature and not their choice, because the home care services upon which they rely to maintain their dignity and independence in later life are steadily disappearing.

This option would cut the program's funding by $1.5 million, which would reduce or eliminate services for approximately 700 older individuals. The loss of independent living supports may result in premature institutionalization of individuals who could have remained in their own homes with some assistance and, even if a minority of these individuals move to ALTCS-funded nursing care, could actually increase state costs. The current budget climate has required

contractors to reassess their scope of service delivery. Some contractors have not added new clients in more than a year. Other contractors are eliminating home care services such as personal care and nursing services. This option will have a considerable impact on contractors and their respective providers in the potential loss of jobs.

This option also eliminates $50,000 in funding used by Adult Protective Services to provide emergency services to individuals who are abused and neglected, such as room and board, utilities, evaluations, prescriptions, transportation, groceries, bank records, cleaning, medical related services, insurance bills, and repairs.

The Department also intends to evaluate the feasibility of implementing a sliding fee scale for independent living supports to ensure that those with the ability to contribute to the cost of their services do so and to stretch available funds as far as possible.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: In-Home Child Welfare Services Reductions

Issue Priority: 17

General Fund Reduction:	($10,100,000)
Child Abuse Prevention Fund:	($236,600)
Est. Matching Funds Loss:	$0
Total Reduction:	($10,336,600)

Issue Description and Statement of Effects:

The investment that Arizona has made in in-home child welfare services in recent years has been instrumental in slowing the growth in the number of children in foster care. In-home services provide Child Protective Services (CPS) case managers with tools to protect children short of removing them from their homes. These supports may include case management; referral to child care, nutrition assistance, employment, and other programs; parent aide services; transportation; counseling; financial literacy instruction; etc.

This option would eliminate in-home service for the families of as many as 1,000 children. Although this strategy would generate short-term savings, it could increase long-term costs. The loss of these services may not immediately result in more children in out-of-home care, but without an ability to effectively respond to families before they are in crisis, it is likely that many will deteriorate and ultimately require more extreme interventions. For those families in which a removal becomes necessary, the loss of resources in DCYF would also constrain the services that families need for reunification. Long-term, the result will be a larger, and more costly, out-of-home care population as more children are removed from their homes and the length of time in foster care increases.

This reduction would further shift the child welfare system from one that provides a continuum of services with prevention and supportive services on one end to child removals on the other to a system that only has the resources to focus on immediate safety needs. Foster care is clearly better for children than an abusive environment. However, research has demonstrated that children in foster care experience significantly worse outcomes than those who are not in terms of education attainment, exposure to the criminal justice system, unwed pregnancies, etc. Effective interventions, through a comprehensive array of in-home services, are key to supporting families before situations escalate and removal becomes necessary.

Statutory or Administrative Rule Changes: none

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Restrict or Eliminate Early Intervention Services

Issue Priority: 18

General Fund Reduction: ($8,200,000)
Est. Matching Funds Loss: ($10,000,000)
Total Reduction: ($18,200,000)

Issue Description and Statement of Effects:

The Department receives approximately $10 million annually from Part C of the federal Individuals with Disabilities Education Act (IDEA) to provide early intervention services to infants and toddlers with, or at risk of, a developmental delay or disability. Receipt of this federal grant requires states to operate the program as an entitlement though the grant covers less than one-third of the system's costs, creating a significant unfunded federal mandate. *This option would seek to restrict eligibility to better align costs with federal revenues or, if that is not permitted, to eliminate participation in IDEA Part C.* Opting out of IDEA Part C, which no state has done, would result in Arizona forgoing $10 million in federal funding annually. Additionally, the federal government could attempt to recoup more than $11 million in one-time IDEA Part C funds authorized by the American Recovery and Reinvestment Act (ARRA).

Early intervention provides developmental services, such as physical, occupational, and speech therapy; service coordination; psychology; etc. to improve the developmental outcomes of children, birth to three years of age, with, or at risk of, a developmental delay or disability and to prevent the need for more costly services later in life. The Arizona Early Intervention Program (AzEIP) is the comprehensive, coordinated system of early intervention services. The Department is the lead agency and works in collaboration with other state agencies and private providers to implement the program. The program serves an average of 5,500 children monthly, through the Department's Arizona Early Intervention Program and Division of Developmental Disabilities (DDD) and the Arizona State Schools for the Deaf and the Blind. On an annual basis, approximately 10,500 children and their families receive services.

Only about 13 percent of the children receiving early intervention services are eligible for DDD's Medicaid-funded Arizona Long Term Care System (ALTCS). The remainder of the program is funded through the federal IDEA Part C grant or using state-only funds. State-only funded programs are typically limited to available funding; however, Part C does not permit limitations on services due to financial considerations. As a result, the early intervention population receives a full array of services, leaving few dollars available for anyone else, other than foster children and individuals in residential care. When children reach their third birthday and are no longer part of the early intervention program, DDD services typically end.

The growing cost of the early intervention program has greatly exceeded growth in the federal Part C award and has become unsustainable without increased investment by the state from the

Issue Title: Restrict or Eliminate Early Intervention Services (cont.)

General Fund. The Department is implementing a co-payment for the program to help offset cost increases and the federal American Recovery and Reinvestment Act (ARRA) included a one-time increase in Part C funding, which has provided temporary relief. However, the co-payment is not expected to generate large sums and the ARRA funds will be fully expended by the end of the fiscal year. This option seeks to limit the early intervention "entitlement" to a population that can be covered using the federal Part C grant. Individuals who are no longer eligible for the "entitlement" would not necessarily lose access to services, but the Department would be able to limit services as is done for other state-only programs to remain within available funding.

However, Arizona already falls into the "narrow" band of early intervention eligibility nationally and it is uncertain whether the federal government would approve a stricter standard. If federal approval could not be acquired, the state would no longer receive IDEA Part C funds and would not have the obligation to provide early intervention services through state funds. Children eligible for ATLCS would be unaffected, but the other 9,100 children (on an annual basis) may lose their services. Even for those who continue to receive services though their health plans, services may be difficult to access, time-limited, and uncoordinated across disciplines. The savings estimate for this option assumes the loss of the federal Part C grant, though the Department obviously prefers a solution that maintains the grant while reducing the pressure on state funds.

Early intervention is designed to give children a jumpstart on a successful life and research has consistently demonstrated its importance. According to the IDEA Infant and Toddler Coordinators Association's Good News Document[1], "The National Research Council's report *Neurons to Neighborhoods* (Shonkoff and Phillips, 2000) and RAND's analysis of early childhood interventions, *Investing in Children* (Karoly et al, 1998) indicate early intervention can have very positive results, including, increases in short and long term academic achievement, reduction in grade retention rates, reductions in special education referrals and reductions in teenage pregnancies." Conversely, children with developmental delays or disabilities are more likely to experience abuse and neglect and are over represented in the juvenile correctional system.

Statutory or Administrative Rule Changes: Amendments to Arizona's IDEA Part C state plan will be necessary

[1] http://www.ideainfanttoddler.org/pdf/2008_Good_News.pdf

STATE OF ARIZONA
FY 2010 BUDGET REDUCTIONS - ISSUE DESCRIPTIONS

Department of Economic Security

Issue Title: Eliminate Residential Services for State-Only DDD Clients

Issue Priority: 19

General Fund Reduction:	($4,200,000)
Est. Matching Funds Loss:	$0
Total Reduction:	($4,200,000)

Issue Description and Statement of Effects:

The Department's Division of Developmental Disabilities (DDD) provides residential services and day/employment services to approximately 127 individuals who do not qualify for the Medicaid-funded Arizona Long Term Care System (ALTCS). *This option would eliminate state-only funded residential and day/ employment services for 127 individuals with developmental disabilities.*

Many of these individuals are middle-aged or older with no family or other means of support. By virtue of being eligible for DDD services, these vulnerable adults do not have abilities that allow them to live independently without substantial support; they may not be able take care of their hygiene, obtain health care or take their own medication, communicate with others, or maintain employment independently. Eliminating support for these 127 vulnerable individuals would essentially leave them homeless without a safety net or anyone to care for them and at extreme risk for poor or no health care, abuse, neglect, and exploitation.

Statutory or Administrative Rule Changes: none