DEPARTMENT OF ECONOMIC SECURITY

Your Partner For A Stronger Arizona

Janice K. Brewer
Governor

Neal Young
Director

SEP 1 5 2009

The Honorable Janice K. Brewer
Governor of Arizona
1700 West Washington
Phoenix, AZ 85007

Dear Governor Brewer:

The Department of Economic Security submits its fiscal year 2011 budget request for your consideration. These documents were prepared in accordance with your Office of Strategic Planning and Budgeting's instructions. In recognition of the shortfalls faced by the state, the Department has limited its request to only those issues required to maintain a continuation budget while deferring other critical needs to future years.

The Department's budget submittal only requests additional funding necessary to maintain current service levels and address caseload growth in certain mandatory programs. The most significant budget issue facing the Department in fiscal year 2011 relates to a number of federal funding shortfalls that will occur. Most of these grants are related to the federal American Recovery and Reinvestment Act of 2009 (ARRA), which provided temporary relief to the states and allowed Arizona to reduce General Fund support for the Department by using federal funds. With the expiration of ARRA funds, the state support must be reinstated simply to maintain current funding levels. The Department's remaining requests relate to caseload growth in non-discretionary programs, including the Arizona Long Term Care System for individuals with developmental disabilities, cash assistance, foster care, and adoption assistance.

The Department's fiscal year 2011 budget submittal does not include requests to undo appropriation reductions that have occurred during the last few budget cycles. More than one hundred million dollars has been cut from the Department's base budget since the first special session earlier this year. The loss of federal matching funds associated with the state dollars cut from the Department's budget added tens of millions of dollars to the total reductions to staffing and services that the agency has had to implement. The Department is managing its remaining resources as efficiently and effectively as possible, but given the magnitude of the funding loss, reductions across all of the agency's programs and operations have been necessary. Given that state revenues are not expected to recover significantly in fiscal year 2011, the Department recognizes that it likely will not be possible to restore already enacted reductions next year;

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however, these issues should be addressed in future years. In particular, significant deficiencies now exist in client services and provider rates, Department infrastructure, and agency staffing.

Ninety-two percent of the Department's original fiscal year 2009 budget consisted of funds that directly related to client services, about 77 percent to benefits paid to clients or moneys paid to contracted service providers and 15 percent for front-line staff who work directly with clients. Since most of the Department's funding directly supports clients, reductions to services have been necessary to implement appropriation reductions. These service cuts have spanned the agency's programs, impacting the vulnerable children, adults, and families that the Department serves and the thousands of private businesses and non-profit agencies with which the agency contracts. Examples of these impacts include:

- A 20 percent reduction to cash assistance benefits for families with dependent children
- Implementation of a waiting list for low-income families applying for child care assistance, an increase in copayments for families receiving assistance for more than one child, and a five percent reduction to child care provider reimbursement rates
- Reductions to in-home services contracts for child welfare providers of as much as 75 percent while eliminating other contracts altogether
- A 20 percent reduction in family foster care reimbursement rates
- Elimination of the general assistance program for disabled adults
- A 10 percent reduction in reimbursement rate for providers of home and community based services for individuals with developmental disabilities
- Implementation of a waiting list for vocational rehabilitation services for individuals with physical and other disabilities
- A decrease in funding for domestic violence and homeless shelters, food banks, and services for older Arizonans

In total, these reductions have impacted tens of thousands of Arizona residents and seriously damaged the state's social services safety net. Unfortunately, the recession that has cut state revenues forcing the reductions in services is simultaneously increases the demand for these services. These dual pressures – increased demand and fewer resources – have resulted in families and individuals losing services due to waiting lists, turn-aways, and program eliminations as well as reduced service levels for those fortunate enough to receive some assistance. Additionally, these reductions directly result in lost private sector jobs as business that have had their rates or contracts reduced are forced out of business or to lay off staff. The Department continues to scrutinize costs as well as its service delivery system to increase efficiency and identify innovative solutions to mitigate even deeper cuts. Longer-term, though, it is critical that the safety net be reinforced by restoring funding to these programs.

The Department's infrastructure must also be strengthened. Much of the Department's core information technology infrastructure, including the computer systems that support the agency's family assistance and unemployment insurance program and its accounting functions, exceeds its useful life. Antiquated technology hinders productivity because it requires more training, is more prone to failure, is more difficult to maintain and prevents programmatic streamlining and consolidation. The Department was engaged in an initiative to replace its family assistance, child care, and Jobs systems with a single, modern application, but this effort was terminated due to the elimination of the dedicated appropriation. Similarly, the Department has not significantly invested in its vehicle fleet since fiscal year 2007. These vehicles primarily support staff whose work requires frequent travel in order to work with clients, including Child Protective Services and Adult Protective Services investigators and Division of Developmental Disabilities support coordinators. Currently, about 200 vehicles exceed 100,000 miles and as many as 350 additional vehicles will have more than 100,000 miles by fiscal year 2012. These vehicles are more likely to break down, resulting in diminished productivity and costly repairs. A modern and reliable infrastructure is integral to the efficient delivery of services. Delays in the modernization and replacement of outdated infrastructure results in its slow deterioration, which becomes more costly to remedy with every passing year. While funding is not currently available for significant infrastructure improvements, it will be necessary to make these investments when revenues recover.

Finally, the Department has been forced to reduce staffing despite continually increasing workloads. For example, between June 2008 and June 2009:

- The number of Child Protective Services specialists decreased 17 percent, from 1,041 to 860, while the numbers of investigations and children in out-of-home care were unchanged
- The number of eligibility interviewers fell 26 percent, 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 Division of Developmental Disabilities declined 12 percent, from 667 to 584, while caseloads increased 4 percent

These staffing reductions directly impact client services. Insufficient staffing in Child Protective Services resulted in the inability to investigate some potential risk reports of child abuse or neglect and more children in foster care not receiving monthly visitation. The Department works to triage cases, but, overall, risks to children have increased. In other instances, eligibility determinations are delayed, preventing access to services. Program staffing reductions are compounded by a decrease in operational staff that perform the centralized accounting, finance, human resource, and information technology functions that are necessary to facilitate the effective and efficient operations of client services staff. Due to the hiring freeze in effect since February 2008, operational support, which accounts for less than one-and-one-half percent of the Department's total funding, has been largely unable to fill vacancies. The Department continues to evaluate its operations to ensure concentration on core activities and enhance productivity, but these improvements alone are not sufficient to manage the extraordinary growth in workloads.

The Department appreciates the support that it has received from you during these challenging economic times. The agency looks forward to working with you and your staff in the preparation of a fiscal year 2011 budget that meets the needs of many of Arizona's most vulnerable residents.

Sincerely,

Neal Young

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Director

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Children Services

DESCRIPTION OF ISSUE

The Department's Division of Children, Youth and Families' (DCYF) Children Services program provides in-home supports that allow children to remain safely in their own homes and, when that is not possible, funds the cost of out-of-home care including family foster care, shelters, and group homes. Due to unfunded shortfalls and lump sum appropriation reductions, DYCF had to make significant reductions to in-home services, as well as decreasing the number of children in costly congregate placements and reducing foster family reimbursement rates, in order to continue providing support for children in out-of-home care. Projected increases in out-of-home costs in fiscal year 2011 will require additional funding to prevent further cuts to in-home services or foster family reimbursement rates.

In fiscal year 2009, the Department reported a $14.5 million shortfall in the Children Services program and requested a supplemental appropriation. The Department was not granted a supplemental appropriation and the agency's overall General Fund budget was additionally cut by $90.4 million. Addressing the unfunded shortfall and allocating the lump sum reduction required significant reductions to Children Services. Some contracts for in-home services were eliminated while others were reduced by 50 or 75 percent. These reductions eliminated much of the expansion of in-home services that occurred in the years following the 2003 legislative special session on child welfare. Providing a broader array of services was instrumental in slowing the growth in the number of children placed in out-of-home care. Comparing June to June figures, the caseload grew by 19
23 percent in fiscal year 2004, 12 percent in fiscal year 2005, less than two percent in fiscal year 2006, and then fell almost two percent in fiscal year 2007. As the recession began in December 2007, the number began to increase. Again comparing June to June, the number grew by a little more than one percent in fiscal year 2008. Growth reached 5.4 percent in fiscal year 2009 but fell somewhat in the last months of the year. DCYF continues to authorize in-home services when they provide an alternative to removal.

Like in-home supports, the Department reduced congregate care costs (shelters and group homes) by cutting utilization rather than by lowering rates. The number of children placed in congregate settings continues to fall and, preliminarily, the associated costs for residential and emergency placement fell by about 11 percent last year compared to fiscal year 2008 (costs are down 27 percent since fiscal year 2006). This success is a result of the Department's focus on increasing the availability of kinship and foster family homes. A recent Auditor General report (CPS-0902) noted this success, stating that the Department "has surpassed the national median rate for placing children in out-of-home care with relative caregivers. Studies support that children placed with relatives experience fewer placement charges, are less likely to re-enter out-of-home care after returning home and have fewer behavioral health problems." When kinship families are available, the Department attempts to place children with foster families, which is both better for children and less expensive than congregate settings. Since reducing the use of family foster care is neither desirable nor feasible, the Department could reduce these costs only by lowering reimbursement rates. The rates were reduced by 20 percent effective March 1, 2009 and a number of allowances were also reduced. Though the overall out-of-home caseload is projected to remain flat in fiscal year 2011, total costs are anticipated to increase modestly.