

N00B
Child Welfare
Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp.</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03 - 04</u> <u>Change</u>	<u>FY 03 - 04</u> <u>% Change</u>
General Funds	\$178,468	\$186,366	\$210,814	\$24,448	13.1%
FY 2003 Deficiencies	0	29,868	0	-29,868	
Contingent & Back of Bill Reductions	0	-42	-409	-367	
Adjusted General Funds	\$178,468	\$216,192	\$210,405	-\$5,787	-2.7%
Special Funds	\$18,763	\$11,403	\$9,438	-\$1,965	-17.2%
Contingent & Back of Bill Reductions	0	-12	-57	-45	
Adjusted Special Funds	\$18,763	\$11,391	\$9,381	-\$2,010	-17.6%
Federal Funds	\$220,550	\$210,599	\$197,532	-\$13,067	-6.2%
FY 2003 Deficiencies	0	-24,968	0	24,968	
Contingent & Back of Bill Reductions	0	-72	-453	-382	
Adjusted Federal Funds	\$220,550	\$185,559	\$197,078	\$11,519	6.2%
Reimbursable Funds	\$10,859	\$9,964	\$10,775	\$811	8.1%
Contingent & Back of Bill Reductions	0	0	-68	-68	
Adjusted Reimbursable Funds	\$10,859	\$9,964	\$10,707	\$743	7.5%
Adjusted Grand Total	\$428,640	\$423,106	\$427,571	\$4,466	1.1%

- The allowance includes two deficiencies to address higher-than-anticipated foster care costs and overestimated federal fund attainment for child welfare services in the fiscal 2003 budget.
- Accounting for these proposed deficiencies and other cost containment measures, the allowance grows by \$4.5 million, or 1% over fiscal 2003.
- The allowance includes a \$5.4 million increase for foster care maintenance payments.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Working</u>	<u>FY 04</u> <u>Allowance</u>	<u>Change</u>
Regular Positions	2,456.15	2,509.82	2,504.82	-5.00
Contractual FTEs	4.91	0.00	0.00	0.00
Total Personnel	2,461.06	2,509.82	2,504.82	-5.00

Vacancy Data: Regular Positions

Budgeted Turnover: FY 04	111.97	4.47%
Positions Vacant as of 12/31/02	111.07	4.43%

- Five vacant positions that provided clerical, administrative, and supervisory assistance are eliminated.

Analysis in Brief

Major Trends

Caseload Declines While Median Length of Stay Increases: The out-of-home caseload has declined almost 10% since its peak of 12,634 cases in fiscal 2000. Yet, the median length of stay has increased 20%, from 28 months in fiscal 1998 to 34 months in fiscal 2002.

Maryland's Performance Better Than National Average but Misses Federal Targets: In all but one indicator, percentage of children subject to substantiated maltreatment by foster care parent or staff, Maryland falls short of meeting federal performance measure targets. Nevertheless, Maryland's performance exceeds the national average in all but one indicator: children exiting foster care through adoption who do so within two years of entry.

Issues

Progress Made Toward Reducing Caseload-to-Staff Ratios Reversed by Position Abolitions and Hiring Freeze: The fiscal 2002 and 2003 appropriations included funding for over 200 new child welfare positions to meet Child Welfare League of America (CWLA) standards in every jurisdiction by June 2003. Under Section 37 of the fiscal 2003 budget, the Board of Public Works abolished 123 caseworker positions. As a result of these abolitions and the hiring freeze, the Department of Human Resources does not expect to reach CWLA standards by the mandated deadline.

Examining the Privatization of Foster Care: The department, under contract with the Martin Pollak Project, launched a three-year pilot privatization project for 500 children in Baltimore City in January 2000. Language in the fiscal 2002 and 2003 budget bills required the expansion of the project to include an additional 500 children. Faced with the current budget crisis, the department determined not to move forward with the expansion.

Fiscal 2004 Allowance Assumes Overly Optimistic Federal Fund Attainment and Relies on One-time Revenues from the Joseph Fund: The fiscal 2004 allowance assumes an overly optimistic federal fund attainment rate for foster care maintenance payments and subsidized adoption. As a result, the Department of Legislative Services projects an estimated shortfall of \$9.8 million for fiscal 2004. Moreover, the fiscal 2004 allowance relies on \$8.2 million in one-time only revenues from the Joseph Fund that will not be available in fiscal 2005 to support ongoing expenditures.

Agreement with District of Columbia Expires: The District of Columbia places a significant number of its foster care children in Maryland, many times without notifying the State. According to the Department of Human Resources, the most recent agreement between Maryland and the District on foster placements, which helps to ensure the safety of the children, expired December 2002.

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Recommended Actions

	<u>Funds</u>
1. Add language authorizing the Department of Human Resources to recognize fees collected for adoption reunification services as special funds.	
2. Reduce general fund support for adoption reunification services to reflect availability of user fees.	\$ 12,097
3. Delete funding for replacement equipment for the local departments.	350,000
4. Add budget bill language to reduce the authorized reimbursable funds for office equipment in local offices	
5. Add language authorizing the transfer of funds out of the Joseph Fund.	
Total Reductions	\$ 362,097

Updates

Maryland Receives \$1.5 Million in Bonus Funding for Adoptions: During the 2002 interim the U.S. Department of Health and Human Services awarded almost \$17.5 million in bonuses to 23 states and Puerto Rico for increasing the number of children adopted from state-supervised foster care in fiscal 2001. Maryland received the second highest award of \$1.5 million.

N00B
Child Welfare
Department of Human Resources

Operating Budget Analysis

Program Description

The mission of the Department of Human Resources' (DHR) Child Welfare programs is to support the healthy development of families, assist families and children in need, and protect abused and neglected children. The department conducts programs that facilitate family preservation and family reunification by providing early intervention and prevention services and intensive case management to families. Specific services for families and children include adoptive services, intensive family services, protective services, and placement of abused or neglected children in foster care homes. Staff in local departments of social services (LDSS) typically provide or coordinate the delivery of these services.

Key goals of the Social Services Administration include:

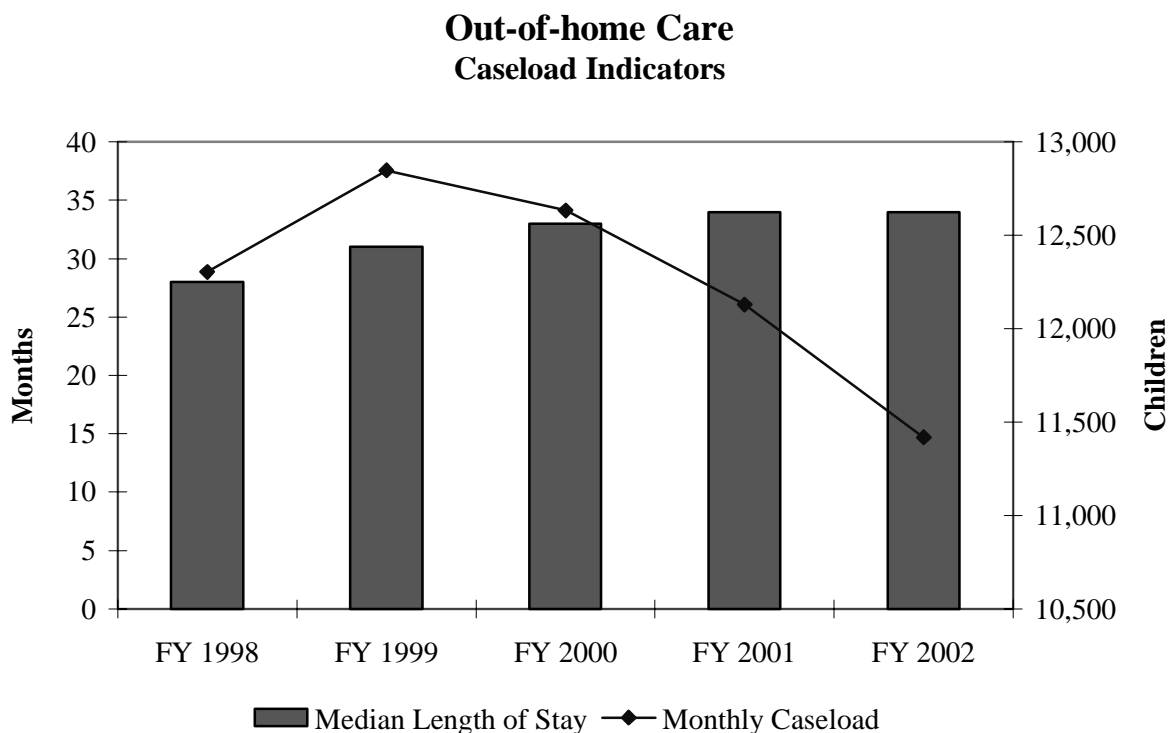
- children reside in permanent homes;
- children are safe from abuse and neglect; and
- children receive appropriate social services consistent with their overall well being.

Performance Analysis: Managing for Results

Caseload Declines While Median Length of Stay Increases

Exhibit 1 shows trends in the out-of-home placement caseload. The total caseload has declined almost 10% to 11,418 in fiscal 2002 from its peak of 12,634 cases in fiscal 2000. According to DHR, the fiscal 1999 caseload is overstated due to a change in the method of counting out-of-home placements. Family foster homes witnessed the largest declines, followed by kinship care. Caseload increases for pre-adoption, group, and treatment foster care partially offset these declines.

Exhibit 1



Source: Department of Human Resources

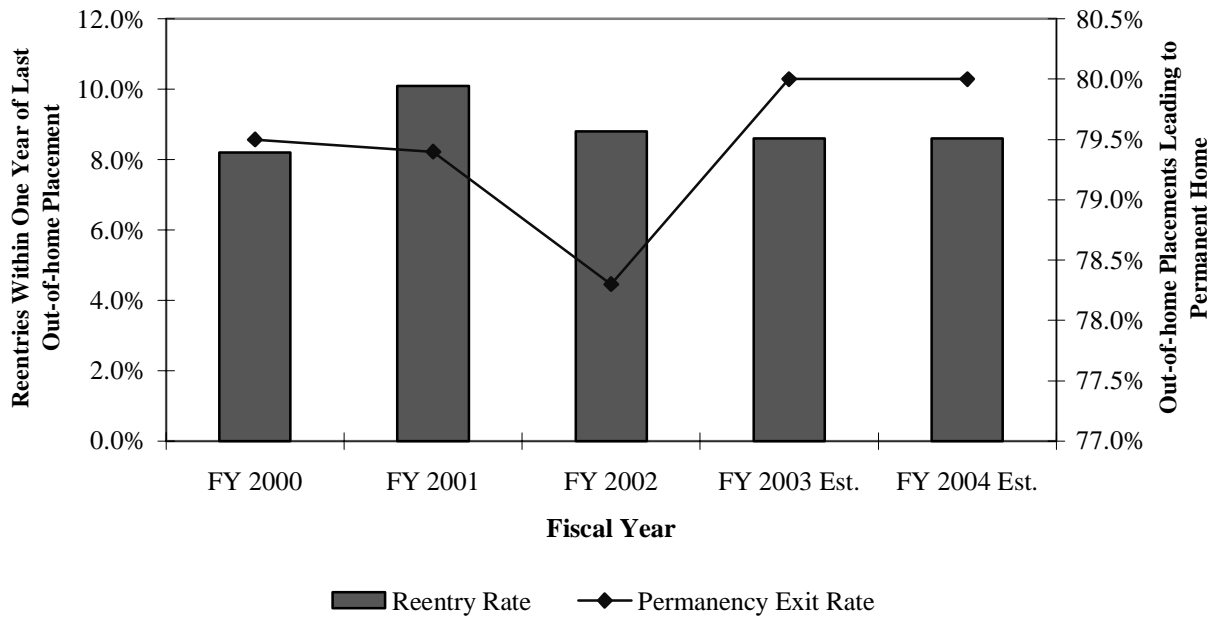
While the overall caseload has decreased, the median length of stay has increased 20%, from 28 months in fiscal 1998 to 34 months in fiscal 2002. The aging of children placed in out-of-home care years ago is cited as the primary reason for the increase in the median length of stay. Fewer new entries are staying in foster care as long as in previous years. Children between the ages of 10 and 15 made up 54.6% of the caseload in fiscal 1998, compared to 66.4% in fiscal 2002.

DHR Performance

Exhibits 2 and 3 show DHR’s performance for its two first goals: children reside in permanent homes and children are safe from abuse and neglect. Several observations are listed below.

Exhibit 2

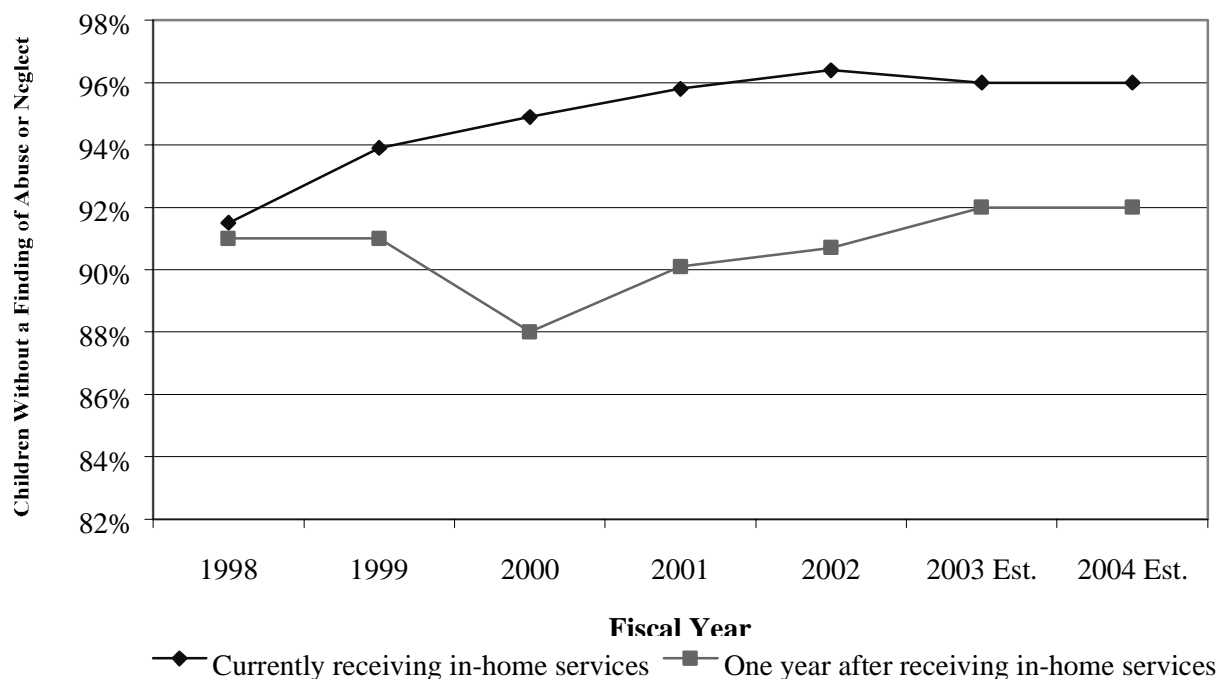
Children Reside in Permanent Homes



Source: Department of Human Resources

Exhibit 3

Children Are Safe from Abuse and Neglect



Source: Department of Human Resources

- Reentry rate:** The number of children who are in two out-home-placements within one year (reentries into foster care) declined from 10.1% in fiscal 2001 to 8.8% in fiscal 2002. The department expects the number of reentries to drop slightly to 8.6% in fiscal 2003 and 2004.
- Permanency rate:** The rate of children who exited out-of-home care into permanent placements declined slightly in fiscal 2002 to 78.3% from 79.4% in fiscal 2001. Permanency outcomes include adoption, relative custody or guardianship, and return to home. DHR expects this rate to rebound in fiscal 2003.
- No finding of abuse or neglect while receiving services:** The number of children without a finding of abuse or neglect while receiving in-home services has increased each year since fiscal 1998, reaching over 96% of the caseload in fiscal 2002. This performance is expected to continue in fiscal 2003 and 2004.
- No finding of abuse or neglect one year after receiving services:** In fiscal 2002, the rate of children with no finding of abuse or neglect one year after receiving services increased to 90.7%. This rate is expected to improve in fiscal 2003 to 92%.

Maryland’s Performance Better Than National Average but Misses Federal Targets

Exhibit 4 compares Maryland’s child welfare performance to federal standards and the national average. In all but one indicator, Maryland falls short of meeting federal performance measure targets. The rate of children who have a substantiated finding of maltreatment by the foster parent or facility staff in Maryland (0.3%) improved upon the federal performance target (0.6%) in fiscal 2002. However, Maryland’s rate does not include facility staff; therefore, Maryland’s performance could either be underestimated or overestimated. In contrast, Maryland’s performance exceeds the national average in all but one indicator: children exiting foster care through reunification who do so within two years of entry.

Exhibit 4

Comparison of Maryland’s Child Welfare Indicators to Federal Standard and National Average

<u>Federal Performance Measure</u>	<u>Federal Target</u>	<u>National Average</u>	<u>Maryland</u>	<u>Federal Target Met</u>	<u>Exceeds National Average</u>
Children with one or more substantial recurrence of maltreatment within six months.	6.1%	8.8%	8.1%	No	Yes
Child subject of substantiated maltreatment by foster parent or facility staff.	0.6%	0.7%	0.3% ¹	Yes	Yes
Children re-entering foster care within 12 months of prior episode.	8.6%	11.1%	8.8% ²	No	Yes
Children in foster care less than one year who have had two or fewer placements.	86.7%	74.9%	85.6% ²	No	Yes
Children exiting foster care through reunification who do so within one year of entry.	76.2%	63.1%	58.0% ³	No	No
Children exiting foster care through adoption who do so within two years of entry.	32.0%	19.7%	26.8% ⁴	No	Yes

¹ Does not include facility staff.

² Out-of-home care includes kinship care and foster care.

³ Time in care includes trial home visits or after care.

⁴ Adoptive placement is proxy for adoptive finalization in many cases.

Source: Department of Human Resources

Fiscal 2003 Actions

Proposed Deficiency

The fiscal 2004 allowance includes two deficiencies highlighted in **Exhibit 5**. The first deficiency of \$4.9 million in general funds addresses two specific problems in the fiscal 2003 working appropriation. Higher-than-anticipated placement costs for institutional care created a funding shortfall of approximately \$4.9 million. Also, the fiscal 2003 budget includes \$6 million in Medicaid dollars for targeted case management (TCM). However, DHR cannot bill the Medicaid program for these administrative expenses because the federal government rejected Maryland’s Medicaid State plan amendment relating to TCM. The second deficiency addresses the fiscal 2003 budget’s overly optimistic assumptions about DHR’s ability to attain Title IV-E and Medicaid funds for child welfare services. Approximately \$19 million in general funds will replace an equal amount of unattainable federal funds.

Exhibit 5

Fiscal 2003 Deficiencies (\$ in Thousands)

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Total</u>
Foster care maintenance payments	\$10,900	-\$6,000	\$4,900
Federal fund attainment for child welfare services	18,968	-18,968	0
Total	\$29,868	-\$24,968	\$4,900

Source: Department of Budget and Management

Impact of Cost Containment

There is a \$126,000 reduction related to the State employee transit subsidy program, contingent on enactment of a provision in the Budget Reconciliation and Financing Act (BRFA) of 2003.

Governor’s Proposed Budget

After accounting for proposed deficiencies and cost containment, the fiscal 2004 allowance grows by \$4.5 million, or 1% over the fiscal 2003 working appropriation, as shown in **Exhibit 6**. Personnel costs increase by slightly over \$7 million. Reduced cost containment and higher health insurance costs are offset by the abolition of 268 positions in fiscal 2003 and 5 positions in fiscal 2004.

Exhibit 6

**Governor’s Proposed Budget
Child Welfare
(\$ in Thousands)**

	<u>FY 02</u> <u>Actual</u>	<u>FY 03</u> <u>Approp.</u>	<u>FY 04</u> <u>Allowance</u>	<u>FY 03 - 04</u> <u>Change</u>	<u>FY 03 - 04</u> <u>% Change</u>
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Adjusted Grand Total	\$428,640	\$423,106	\$427,571	\$4,466	1.1%

Where It Goes:

Personnel Expenses

Reduced turnover and restoration of undistributed fiscal 2003 cost containment	\$16,095
Increased health insurance premiums for current and retired State employees	4,487
Abolition of 268 positions through statewide fiscal 2003 staff reduction initiative.....	-10,054
Workers’ compensation premium assessment	-2,190
Elimination of deferred compensation match program, contingent on a provision in the BRFA of 2003	-794
Five vacant positions that performed clerical, administrative, and supervisory duties abolished.....	-191
Reduced overtime offset by restoration of employee transit subsidy and other personnel costs	-318

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Where It Goes:

Children Reside in Permanent Homes

Growth in average payment estimates for children in foster care offset by a declining caseload of children in family foster care.....	5,407
End of three-year managed foster care contract with Martin Pollak	-4,058
Evaluation of managed foster care project eliminated due to end of project.....	-415
Reduction in independent living services for foster care youth	-133

Children Are Safe from Abuse and Neglect

26% reduction in funding for the Family Support Centers.....	-1,805
Promoting Safe and Stable Families one-time only federal grant.....	-915
Reduced contract with the University of Maryland to train current child welfare staff offset by increased training contract for students at the School of Social Work to work in child welfare services.....	-529
Elimination of funding for Kinship Care Resource Center and Evaluation of Subsidized Guardianship Assistance Demonstration Project.....	-437
Reduced funding for evaluation of the substance abuse treatment IV-E waiver	-226

Administrative Costs

Replacement equipment in local departments of social services	350
Increased rent offset by decreased subscriptions, insurance, supplies, vehicles, and other administrative expenses.....	163

Other	29
Total	\$4,466

Note: Numbers may not sum to total due to rounding.

Impact of Cost Containment

There is a \$987,000 reduction for the deferred compensation match program, contingent on the enactment of the BRFA of 2003, which eliminates the State match portion of the program in fiscal 2004.

Children Reside in Permanent Homes

Maintenance payments for foster care increase by \$5.4 million. This increase is primarily due to increased average payment estimates for foster care, which are partially offset by a declining caseload of children in family foster care, discussed in more detail later in this section. There is also a \$4 million decrease related to the ending of the three-year managed foster care contract, discussed in Issue 2. Funding for evaluation of the managed care project is also eliminated.

Children Are Safe from Abuse and Neglect

The Family Support Centers are reduced \$1.8 million, approximately 26% of total funding in fiscal 2003. Family Support Centers provide preventive services to parents and children related to health, childhood development, parenting, education, and work preparedness. There are currently 27 Family Support Centers throughout the State. **DHR should discuss the impact of this reduction on the provision of services by the centers.**

Additional reductions are made to staff training and evaluations of demonstration projects.

Foster Care/Subsidized Adoption Caseload and Expenditure Trends

Exhibit 7 demonstrates trends in foster care and subsidized adoption between fiscal 2001 and 2004. Between fiscal 2001 and 2002, the foster care caseload dropped at a rate of approximately 10.4%. This decline is more than offset by a 14.4% increase in the number of subsidized adoptions. A large reason for these offsetting changes is that legislation passed in 2001 (Chapter 346, Acts of 2001), increased the subsidized adoption grant to match the foster care grant, thereby eliminating the disincentive for foster parents to adopt. Total expenditures grew 10.6% between fiscal 2001 and 2002, due mostly to the increase of average monthly grants from \$1,203 to \$1,414. The payment increases stemmed from a growing proportion of the foster care caseload needing more intensive, and therefore more expensive, care. Also, the reimbursement rates set by the Interagency Rates Committee (IRC) for group and institutional care increased 6%. Average monthly payments for children in institutional foster care were \$5,692 in fiscal 2002 compared to \$4,471 in fiscal 2001.

Exhibit 7

Foster Care/Subsidized Adoption Caseload and Expenditure Trends Fiscal 2001 through 2004

Foster Care Maintenance Payments	FY 01 Actual	FY 02 Actual	FY 03 Approp.*	FY 03 Est.**	FY 04 Allow.	% Change FY 03 Est. FY 04 Allow.
Foster care caseload	9,842	8,822	10,789	8,275	7,964	-3.8%
Subsidized adoptions	4,608	5,273	5,195	5,690	5,838	2.6%
Total caseload	14,450	14,095	15,984	13,965	13,802	-1.2%
Average monthly grant	\$1,203	\$1,414	\$1,191	\$1,393	\$1,442	3.5%
Total funds (\$ in Millions)	\$208.6	\$230.7	\$233.5	\$233.5	\$238.9	2.3%

* Includes deficiency appropriation of \$4.9 million.

** Department of Legislative Services estimate.

Source: Maryland State Budget; Department of Legislative Services

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The Department of Legislative Services (DLS) projects these trends will continue, albeit at a slower rate, in fiscal 2003. The estimated 6.2% decrease in the foster care caseload is more than offset by a 7.9% increase in the subsidized adoption caseload. Average monthly grants are expected to decrease 1.5%, bringing total projected expenditures to \$233.5 million, or 1.2% over fiscal 2002. After accounting for a proposed \$4.9 million deficiency, the fiscal 2003 appropriation assumes the same rate of growth in expenditures over fiscal 2002 as DLS estimates.

The fiscal 2004 allowance includes \$238.9 million in expenditures for foster care/subsidized adoptions, a 2.3% increase over estimates for fiscal 2003. This assumes a 1.2% decrease in the total caseload, whereby foster care declines are partially offset by increased subsidized adoptions. The average payment increases by 3.5%, reflecting a shift in the caseload toward children in institutional care, a more expensive type of foster care. To address growing foster care costs stemming from higher average monthly payments, the budget bill caps the reimbursement rates set by the IRC. Section 33 prohibits any rate increases over those in effect as of January 17, 2003. However, the Department of Budget and Management may approve payments made in excess of the cap in cases of extreme financial hardship.

Issues

1. Progress Made Toward Reducing Caseload-to-Staff Ratios Reversed by Position Abolitions and Hiring Freeze

The fiscal 2002 and 2003 appropriations included funding for over 200 new child welfare positions to meet the Child Welfare League of America (CWLA) standards in every jurisdiction by June 2003. However, under Section 37 of the fiscal 2003 budget, the Board of Public Works abolished over 260 positions and, with few exemptions, the local departments may not fill vacancies. As a result of these abolitions and the hiring freeze, DHR does not expect to reach CWLA standards by the June 30, 2003, deadline.

Caseload-to-Staff Ratio Reduction Initiative Background

Chapter 544, Acts of 1998 (HB 1133) required DHR and the Department of Budget and Management (DBM) to undertake various activities related to improving the State's child welfare system. Among other items, the law required DHR and DBM to develop appropriate caseload-to-staff ratios for each of the 24 jurisdictions. Because of delays in implementing this provision, the General Assembly added language to the fiscal 2000 budget bill directing DHR to reduce caseload-to-staff ratios in all jurisdictions by the end of fiscal 2003.

In both fiscal 2000 and 2001, DHR's appropriation did not include sufficient funding to meet the lower ratios. To emphasize the importance and urgency of the goal, the General Assembly again adopted budget language directing DHR and DBM to meet the caseload-to-staff ratios recommended by CWLA in every jurisdiction by June 2003. **Exhibit 8** shows the caseload-to-staff ratios recommended by CWLA. Progress was made in fiscal 2002 when the budget included 109 new positions to implement the first phase of the caseload-to-staff reduction initiative. An additional 64 positions plus a grant for Montgomery County for their share of positions were included in the fiscal 2003 budget to implement the second phase.

Exhibit 8

CWLA Recommended Caseload-to-Staff Ratios

<u>Child Welfare Service</u>	<u>Ratio</u>
Family Preservation/Intensive Family Services	6:1
Foster Care and Kinship Care	15:1
Adoption	16-30:1
Services to families with children	15:1
Child Protective Services intake	12:1
Child Protective Services investigations	17:1

Source: Department of Human Resources

Position Abolitions and Hiring Freeze Actions

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Former Governor Parris N. Glendening instituted several cost containment measures to address the State's projected fiscal 2002 deficit, including a hiring freeze beginning October 2001. When the hiring freeze began, DHR filled 50 of its 109 new positions. The remaining 59 vacant positions were frozen. Although there were exceptions to the hiring freeze, including positions that met public safety, public health, and other critical needs, these positions were not exempted. During the 2002 legislative session, the General Assembly adopted a statewide position cap for fiscal 2003. Consequently, the 59 vacant positions, plus the 64 new positions included in the fiscal 2003 allowance were abolished.

DHR Will Not Meet Target Caseload-to-Staff Ratios by June 30, 2003

Exhibit 9 shows the necessary number of positions needed by each jurisdiction to reach CWLA caseload standards, compared to their filled and vacant positions. As shown, the jurisdictions are far from reaching their goals. There are approximately 1,673 caseworkers positions in the budget. According to the department's statistics, it would need almost 113 new positions and sufficient funding to fill almost 60 vacant positions to reach CWLA caseload-to-staff ratios. Furthermore, the department would need about 69 new supervisor positions and sufficient funding to fill 9 vacant supervisor positions to meet the CWLA ratios. To add the necessary positions and fill all the current vacancies, the department would need an additional \$10.4 million (\$6.8 million are general funds).

No new positions are included in the fiscal 2004 allowance for child welfare positions. The turnover rate assumed in the allowance offers no relief as the number of vacancies required to meet turnover is almost identical to the number of current vacancies. Furthermore, while the hiring freeze continues, DHR is likely to lose additional child welfare workers through regular attrition that cannot be replaced. **The department should comment on the effect the cost containment measures, particularly the hiring freeze and the position abolitions, have had on the level of services provided in the local departments of social services. Further, the department should discuss whether it is seeking additional exemptions from the hiring freeze for child welfare workers and supervisors.**

Exhibit 9

**Child Welfare Caseworker Positions by Jurisdiction
(As of February 2003)**

<u>Jurisdiction</u>	<u>Filled</u>	<u>Vacant</u>	<u>Total Current</u>	<u>Positions Needed to Meet CWLA Ratios</u>	<u>Above/(Below) CWLA Ratios</u>
Allegany	46	0	46	50	(4)
Anne Arundel	103	1	104	101.5	2.5
Baltimore County	121.5	7	128.5	131.5	(3)
Calvert	13.5	2	15.5	16	(0.5)
Caroline	14.5	3	17.5	14.5	3
Carroll	26.5	0	26.5	24.5	2
Cecil	31	1	32	37	(5)
Charles	32.5	2.5	35	45.5	(10.5)
Dorchester	15	0	15	15	0
Frederick	36	3	39	56	(17)
Garrett	19	0	19	18	1
Harford	51	1	52	51	1
Howard	33.5	2	35.5	35.5	0
Kent	9	0	9	8	1
Prince George's	131.5	13.5	145	150.5	(5.5)
Queen Anne's	13	0	13	12	1
St. Mary's	31	1	32	27.5	4.5
Somerset	19.5	0	19.5	15.5	4
Talbot	13	0	13	17	(4)
Washington	62.5	3	65.5	59	6.5
Wicomico	27	0	27	38.5	(11.5)
Worcester	19.5	1	20.5	19.5	1
Baltimore City	744.5	18.2	762.7	842	(79.3)
Total	1,613.5	59.2	1,672.7	1,785.5	(112.8)

Note: Montgomery County receives a block grant from the State to pay for caseworkers and supervisors.
In fiscal 2003, 424 positions are funded through the Montgomery County grant, of which 11 are currently vacant.

Source: Department of Human Resources

2. Examining the Privatization of Foster Care

DHR, under contract with the Martin Pollak Project, launched a three-year pilot privatization project for 500 children in Baltimore City in January 2000. Language in the fiscal 2002 and 2003 budget bills required the expansion of the project to include an additional 500 children. However, based on the current budget crisis, the department determined not to move forward with the expansion.

Background

In 1995, the federal government created a federal waiver program lifting restrictions on the use of federal Title IV-E dollars – the primary federal fund source for foster care. This waiver was designed to help states and counties develop creative approaches to improving permanency outcomes for children and families. Maryland faced particular obstacles to creative approaches for child welfare services, including growing costs for children with special needs, such as substance abuse and mental health treatment, an inflexible patchwork of federal fund sources, and limited federal and general funds for therapeutic and social services.

With the largest foster care caseload in the State (65%), Baltimore City faced the greatest challenges. The fiscal 2002 average monthly caseload was 2,890 out of the State's 4,412 family foster care total. Further, slightly more than one in two children from Baltimore City are placed in treatment foster care, a more expensive type of care. Baltimore City has also faced problems complying with the *L.J. v. Massinga* class action lawsuit, which required the local department of social services to meet certain standards in child welfare services in response to serious incidents involving children in out-of-home placement.

Baltimore City Managed Care Waiver

In 1999, the U.S. Department of Health and Human Services granted DHR a three-year managed care waiver with two one-year extensions. The waiver would privatize foster care responsibilities using managed care principles and funding strategies to improve outcomes. Similar to managed health care, a foster care managed care vendor receives a capitated rate for each child in its care.

The objectives of the waiver were to improve permanency outcomes; reduce days in care while assuring the child's safety; reduce congregate care for children ages zero to five; and promote innovative practices. The waiver would serve 1,000 randomly selected children in out-of-home placements currently served by the Baltimore City Department of Social Services. Half of these children would be age zero to five already in out-of-home placements and their siblings; an additional 340 would be children entering out-of-home placements and their siblings; and 160 would be children entering placements from kinship care.

First Contract Awarded – Second Contract Delayed Three Times

DHR decided to award two separate contracts, each vendor serving half (500) of the waiver participants in order to allow for comparison of different managed care approaches. Martin Pollak was awarded the first contract at \$24 million for January 2000 through December 2002. Martin Pollak subcontracted with Foster America, a Pennsylvania-based company, to provide financial and managed care services.

The second contract was delayed numerous times until DHR eventually delayed it indefinitely. Reasons for the delays are described below.

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- **First Delay** – The bidder selected in 1999 along with Martin Pollak decided not to take the contract. Subsequently, the legislature added budget language to the fiscal 2002 budget setting a deadline of October 2001 for full implementation of the waiver.
- **Second Delay** – DHR missed the statutory deadline of October 2001. The department had issued a request for proposals in September. However, the review committee determined that no bids were satisfactory. Another request for proposals was reissued later that year. Again, the legislature added language to the fiscal 2003 budget directing DHR to fully implement the waiver by serving an additional 500 children.
- **Third Delay** – DHR initially selected a vendor in the spring of 2002, Adoptions Together. However, formal approval of the award by the Board of Public Works was delayed due to an appeal sought by the losing bidder (the incumbent vendor). Further, DHR decided in October 2002 that it was not fiscally possible to move forward with the new contract, nor extend the current contract and, therefore, delayed the second contract indefinitely.

Adoptions Together presented a bid of \$40 million, or \$16.3 million above the amount of the ongoing contract. However, DHR increased the eligible population for the waiver from children less than five years of age to those less than 16 years of age since there were not enough children to meet the original eligibility limit in the city. By increasing the age limit, costs would inevitably have increased since the older children needed more expensive services. In its decision process, DHR also compared costs of the current vendor, Martin Pollak, to costs estimated for the State to serve the same children. Estimates showed that the average payment per child per month under the managed care group was \$1,446 compared to \$1,018 under the local department of social service's care.

The first contract with Martin Pollak ended December 2002. Since the department is not moving forward with a one-year extension, those children served by the vendor will now receive services from the Baltimore City Department of Social Services. **DHR should provide an update on its efforts to transition these children smoothly back to the local department and discuss any disruptions, if at all, in the provision of care.**

Evaluation of the Managed Care Waiver

The University of Maryland was competitively selected to evaluate the waiver demonstration pilot. The evaluation was designed to include a control group of 500 who would receive the traditional services from the Baltimore City Department of Social Services. Since only one contract was begun, the control group was later reduced to 250 children. In 2002 the university completed its interim evaluation on the first completed year of the waiver.

In the evaluation, the report made preliminary conclusions about the managed care project. Researchers found that the vendor did not fully develop managed care tools, such as a network of service providers other than those already accessed by the local department. Also, the researchers found no statistically significant difference between permanency outcomes for the children served by the vendor and those served by the State. The report did not draw any conclusions on the cost effectiveness of the demonstration, stating that this could not be completed until at least a year after children exited out-of-home placements.

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Second and third year results may present different conclusions about the project. However, funds for the evaluation piece of the project are not included in the fiscal 2004 allowance. **DHR should provide an update on the evaluation of the three-year demonstration project. DHR should also discuss how the elimination of funds for the evaluation will impact the ability to measure outcomes and cost effectiveness for the managed care project.**

3. Fiscal 2004 Allowance Assumes Overly Optimistic Federal Fund Attainment and Relies on One-time Revenues from the Joseph Fund

The fiscal 2004 allowance includes deficiencies to offset the overly optimistic assumptions about federal fund attainment in fiscal 2003. As discussed earlier, there is a \$6 million general fund deficiency in foster care due to the unavailability of Medicaid dollars. There is also a \$19 million general fund deficiency to cover unattainable federal funds in child welfare services. These overly optimistic assumptions about federal fund attainment related to foster care/subsidized adoption payments continue in fiscal 2004.

Exhibit 10 compares the federal fund attainment rate for foster care/subsidized adoption in prior years to the fiscal 2004 allowance. In fiscal 2000 and 2001, 34% of total spending on foster care was federal funds, specifically Title IV-E dollars. In each of these years, DHR assumed the \$6 million in Medicaid reimbursement dollars related to targeted case management. But, since these funds never materialized, a deficiency was necessary. In fiscal 2002, the federal (foster care and Medicaid) attainment rate was much lower because Temporary Assistance for Needy Families (TANF) dollars were used to finance foster care. DHR transferred \$20 million in general funds out of the program to cash assistance, as discussed in the DHR Overview analysis. This prevented DHR from claiming its 50% federal Title IV-E fund match, thereby reducing the overall rate of federal fund attainment.

Exhibit 10

**Federal Fund Attainment for Foster Care Maintenance
Payments and Subsidized Adoption
Fiscal 2000 through 2004
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Percent of Budget</u>	<u>Total Federal Dollars*</u>
2000	34%	\$68.8
2001	34%	74.4
2002	25%	60.3
2003**	36%	88.3
2004	42%	104.3

* Federal funds consist of Title IV-E (foster care) and Medicaid funds only.

** Accounts for deficiency appropriations for foster care maintenance payments in fiscal 2004 allowance.

Source: Governor's budget books; Maryland State budget; Department of Legislative Services

The fiscal 2004 allowance assumes a 42% federal fund attainment rate, or eight percentage points above the actual rate in fiscal 2000 and 2001. This rate assumes that DHR will receive \$6 million in federal Medicaid dollars related to TCM. As stated earlier, the federal government rejected this proposal, and therefore the possibility of receiving Medicaid dollars is unlikely. Excluding the \$6 million, the fiscal 2004 federal fund attainment rate would be 40%, still above actual funding levels in previous years.

DLS Predicts a \$9.8 Million Shortfall in Fiscal 2004

Assuming a more reasonable federal fund attainment rate of 38% (based on historic rates and excluding the TCM Medicaid dollars), the Department of Legislative Services estimates that the fiscal 2004 allowance will be short \$9.8 million. Given the unavailability of reserve funds, as discussed in the DHR Overview analysis, and a projected structural deficit for fiscal 2005, the availability of additional general funds is uncertain. Therefore, if deficits materialize because of underattainment of federal funds, DHR may need to identify resources within its fiscal 2004 budget, which already includes large cost containment reductions. **DHR should discuss its efforts to maximize federal Title IV-E and Medicaid dollars and how it would fund any deficits resulting from lower-than-budgeted federal fund attainment.**

Fiscal 2004 Allowance Based on One-Time Revenues

The fiscal 2004 allowance includes \$8.2 million from the Joseph Fund to pay for local child welfare services. This is a one-time only revenue source, as this expenditure completely exhausts the Joseph Fund in fiscal 2004. Hence, DHR will need to identify an additional \$8.2 million to continue level services in

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fiscal 2005. If the General Assembly does not approve the proposed transfer out of the Joseph Fund, then DHR will face an \$8.2 million deficit in fiscal 2004 as well. **DLS recommends that \$8.2 million of the Child Welfare Services appropriation be contingent on enactment of legislation that authorizes the transfer of an equivalent amount from the Joseph Fund.**

4. Agreement with District of Columbia Expires

Over the past several years, the District of Columbia (DC) has placed its foster children in homes in Maryland. The majority of DC children placed in Maryland have been placed in Prince George's County, primarily because of its proximity to Washington, DC. However, DC's Child and Family Services Agency was placing these children in Maryland homes without giving notice to DHR. According to DHR, many of these children were placed in unapproved or illegal homes, putting the safety of the children at risk.

Maryland and DC are part of the Interstate Compact on the Placement of Children (ICPC). ICPC is statutory law in 52 member jurisdictions and is a binding contract between member jurisdictions. It establishes uniform legal and administrative procedures governing the interstate placement of children. Despite this compact, DHR continues to face problems with DC foster children being placed in the State without approval or knowledge of the Maryland ICPC office. Furthermore, according to DHR, the most recent agreement between Maryland and DC on foster placements expired December 2002.

DHR should provide an update on its agreement with Washington, DC's Child and Family Services Agency regarding interstate foster care placements.

Recommended Actions

1. Add the following language:

Further authorization is hereby granted to use receipts from fees collected in connection with adoption reunification services as special funds, which may be appropriated by approved budget amendment to support the expenses of that program.

Explanation: The allowance does not reflect the availability of fees collected for adoption reunification services. The fee collections should be recognized in the budget as special funds. As such, the language grants the Department of Human Resources the authority to recognize the user fees as special funds that can be appropriated by approved budget amendment to support adoption reunification activities.

- | | <u>Amount</u> | |
|--|--|-------------------------|
| | <u>Reduction</u> | |
| 2. Reduce general fund support for adoption reunification services. The allowance does not reflect the fees paid by users of these services. The fee collections should be recognized in the budget as special funds and used to offset general fund expenditures on the program. This reduction reflects actual fee collections from fiscal 2002. | \$ 12,097 | GF |
| 3. Delete funding for replacement office equipment, such as furniture and small electronics, for the local departments. Replacement of this equipment should be deferred to a later year when the State’s fiscal situation improves. | 150,570
19,355
167,965
12,110 | GF
SF
FF
ReimF |
| 4. Add the following language: | | |

Further provided that authorization to expend reimbursable funds received from other agencies is reduced by \$12,110.

Explanation: The department will not require the reimbursable funds as the purchase of replacement office equipment can be deferred until the future.

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5. Add the following language:

, provided that \$8,232,636 of this appropriation is contingent on enactment of the Budget Reconciliation and Financing Act of 2003 authorizing the transfer of an equivalent amount from the Joseph Fund.

Explanation: Legislation must be enacted in order to make these funds available to the program. The transfer amount constitutes the entire remaining balance in the Fund.

	<u>Amount Reduction</u>
Total Reductions	\$ 362,097
Total General Fund Reductions	\$ 162,667
Total Special Fund Reductions	\$ 19,355
Total Federal Fund Reductions	\$ 167,965
Total Reimbursable Fund Reductions	\$ 12,110

Updates

1. Maryland Receives \$1.5 Million in Bonus Funding for Adoptions

During the 2002 interim the U.S. Department of Health and Human Services awarded almost \$17.5 million in bonuses to 23 states and Puerto Rico for increasing the number of children adopted from state-supervised foster care in fiscal 2001. Maryland was one of those states, receiving \$1.5 million. Maryland earned the second highest bonus grant behind California, which earned \$4.4 million.

States were awarded a bonus if the number of children adopted exceeded the previous year's performance. A bonus of \$4,000 was awarded for each additional child adopted in federal fiscal 2001 compared to federal fiscal 2000. In addition, states received \$2,000 for each additional special needs child adopted in 2001 compared to 2000. These funds may be used to provide maintenance payments and child welfare services otherwise supported by federal funds.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Child Welfare
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2002					
Legislative Appropriation	\$196,411	\$3,389	\$199,631	\$10,862	\$410,293
Deficiency Appropriation	8,500	14,567	2,412	0	25,479
Budget Amendments	-23,885	2,643	24,675	0	3,433
Reversions and Cancellations	-2,559	-1,836	-6,168	-3	-10,566
Actual Expenditures	\$178,467	\$18,763	\$220,550	\$10,859	\$428,639
Fiscal 2003					
Legislative Appropriation	\$186,366	\$11,403	\$207,552	\$9,964	\$415,285
Deficiency Appropriation	29,868	0	-24,968	0	4,900
Budget Amendments	-42	-12	2,975	0	2,921
Working Appropriation	\$216,192	\$11,391	\$185,559	\$9,964	\$423,106

Note: Numbers may not sum to total due to rounding.

Explanation of Significant Budgetary Changes During Fiscal 2002

Through deficiency appropriations and the budget amendment process, the fiscal 2002 appropriation increased by 7.0%, from \$410.3 to \$439.2 million. However, at the end of the fiscal year, the department reverted/cancelled \$10.6 million, reducing the total appropriation to \$428.6 million. Explanations for changes to the legislative appropriation and cancellations are provided below.

Fiscal 2002 Deficiency Appropriations

As shown in **Appendix 1**, fiscal 2002 deficiency appropriations totaled \$25.5 million. Of this amount, \$5.5 million was intended for other programs within the department, primarily for cost containment relief, and was later redistributed. The remaining dollars were used for the following:

- offset unattainable federal funds due to overly optimistic assumptions;
- higher-than-anticipated foster care maintenance payments, primarily for institutional care;
- erroneously budgeted Medicaid funding related to targeted case management; and
- cost containment relief related to the foster care privatization pilot, filled positions, and exemptions from the hiring freeze for social workers.

Fiscal 2002 Budget Amendments

Appendix 1 also shows that budget amendments added \$3.4 million to the fiscal 2002 working appropriation. Major changes are described below.

- \$20 million substitution of federal TANF funds for \$20 million in general funds related to subsidized adoptions and non-Title IV-E relative care expenditures. A portion of these general funds were used for cash assistance payments to assist the department's maintenance of effort needs.
- \$6.6 million general and federal fund realignment which moved funds out of local child welfare to the Office of Technology for Human Services for the automated child welfare system. Funds were also moved from the local offices to headquarters for central coordination of service delivery for Family Support Centers and Family Tree.
- \$5.3 million increase in general funds for higher than expected administrative costs related to the Martin Pollak contract for privatization of foster care; a legal services contract with the University of Maryland; and to replace less than anticipated federal fund attainment for the Family Support Centers.
- \$5.7 million decrease in general funds related to a fiscal 2003 deficiency for hiring freeze relief which was initially budgeted in the Social Services Administration (SSA) but later distributed throughout the entire department during fiscal 2003.

Fiscal 2002 Cancellations

During fiscal 2002, SSA cancelled \$10.6 million of its appropriation. Of this amount, \$2.5 million in general funds were reverted for cost containment. Also, \$1.8 million in special funds were cancelled due to lower than anticipated local government payment contributions. In addition, \$6.2 million in federal funds were cancelled. Of this amount, \$2.7 million represents a transfer of TANF dollars to the Social Services Block Grant for spending outside of SSA; \$2.6 million represent lower than anticipated Medical Assistance expenditures and federal fund attainment. The remaining cancelled dollars (\$891,716) relate to unspent funding for the Promoting Safe and Stable Families program.

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Appendix 2

Object/Fund Difference Report
DHR - Child Welfare

<u>Object/Fund</u>	<u>FY 02 Actual</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>FY 03 - FY 04 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	2,456.15	2,509.82	2,504.82	-5.00	-0.2%
02 Contractual	4.91	0	0	0	0.0%
Total Positions	2,461.06	2,509.82	2,504.82	-5.00	-0.2%
Objects					
01 Salaries and Wages	\$ 144,742,927	\$ 124,190,876	\$ 132,087,554	\$ 7,896,678	6.4%
02 Technical & Spec Fees	1,360,338	1,651,009	1,470,591	-180,418	-10.9%
03 Communication	2,103,982	2,005,295	1,928,902	-76,393	-3.8%
04 Travel	1,744,081	1,565,681	1,539,343	-26,338	-1.7%
06 Fuel & Utilities	161,893	249,823	237,471	-12,352	-4.9%
07 Motor Vehicles	417,711	600,142	494,120	-106,022	-17.7%
08 Contractual Services	38,615,460	36,923,779	27,625,867	-9,297,912	-25.2%
09 Supplies & Materials	1,156,640	1,132,214	1,083,175	-49,039	-4.3%
10 Equip - Replacement	54,419	0	350,000	350,000	N/A
11 Equip - Additional	536,168	1,000	0	-1,000	-100.0%
12 Grants, Subsidies, Contr	230,831,189	240,665,688	251,780,692	11,115,004	4.6%
13 Fixed Charges	6,915,083	9,346,030	9,960,607	614,577	6.6%
Total Objects	\$ 428,639,891	\$ 418,331,537	\$ 428,558,322	\$ 10,226,785	2.4%
Funds					
01 General Fund	\$ 178,467,549	\$ 186,365,723	\$ 210,813,563	\$ 24,447,840	13.1%
03 Special Fund	18,762,924	11,402,989	9,438,233	-1,964,756	-17.2%
05 Federal Fund	220,550,434	210,599,073	197,531,823	-13,067,250	-6.2%
09 Reimbursable Fund	10,858,984	9,963,752	10,774,703	810,951	8.1%
Total Funds	\$ 428,639,891	\$ 418,331,537	\$ 428,558,322	\$ 10,226,785	2.4%

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.

Fiscal Summary
DHR - Child Welfare

<u>Unit/Program</u>	FY 02		FY 03		FY 03		FY 02 – FY 03		FY 03 – FY 04	
	<u>Actual</u>	<u>Legislative Appropriation</u>	<u>Working Appropriation</u>	<u>Appropriation</u>	<u>Appropriation</u>	<u>Allowance</u>	<u>% Change</u>	<u>Allowance</u>	<u>% Change</u>	
04 General Administration - State	\$ 31,333,725	\$ 33,614,815	\$ 36,661,858			\$ 26,085,938	17.0%	\$ 26,085,938	-28.8%	
01 Foster Care Maintenance Payments	241,553,820	238,619,000	238,619,000			248,926,558	-1.2%	248,926,558	4.3%	
03 Child Welfare Services	155,752,346	143,050,679	143,050,679			153,545,826	-8.2%	153,545,826	7.3%	
Total Expenditures	\$ 428,639,891	\$ 415,284,494	\$ 418,331,537			\$ 428,558,322	-2.4%	\$ 428,558,322	2.4%	
General Fund	\$ 178,467,549	\$ 186,365,723	\$ 186,365,723			\$ 210,813,563	4.4%	\$ 210,813,563	13.1%	
Special Fund	18,762,924	11,402,989	11,402,989			9,438,233	-39.2%	9,438,233	-17.2%	
Federal Fund	220,550,434	207,552,030	210,599,073			197,531,823	-4.5%	197,531,823	-6.2%	
Total Appropriations	\$ 417,780,907	\$ 405,320,742	\$ 408,367,785			\$ 417,783,619	-2.3%	\$ 417,783,619	2.3%	
Reimbursable Fund	\$ 10,858,984	\$ 9,963,752	\$ 9,963,752			\$ 10,774,703	-8.2%	\$ 10,774,703	8.1%	
Total Funds	\$ 428,639,891	\$ 415,284,494	\$ 418,331,537			\$ 428,558,322	-2.4%	\$ 428,558,322	2.4%	

Note: Fiscal 2003 appropriations and fiscal 2004 allowance do not include cost containment and contingent reductions.