
Department of Human Resources Fiscal 2004 Budget Overview

**Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland**

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N00
Department of Human Resources
Fiscal 2004 Budget Overview

Changes to Fiscal 2003 Working Appropriation and Fiscal 2004 Allowance
(\$ in Thousands)

	<u>General</u>	<u>Special</u>	<u>Federal</u>	<u>Reimb.</u>	<u>Total</u>
	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>	<u>Funds</u>
Fiscal 2003 Working Appropriation	\$475,181	\$74,466	\$986,311	\$10,442	\$1,546,415
Cost Containment	-\$7,600			\$0	-\$7,600
Proposed Deficiencies	\$29,868		-\$24,968		\$4,900
Foster Care Maintenance Payments	10,900		-6,000		4,900
Federal Fund Attainment	18,968		-18,968		0
Elimination of Employee Transit Subsidies	-\$175	-\$16	-\$196		-\$387
Revised Fiscal 2003 Working Appropriation	\$497,274	\$74,450	\$961,147	\$10,442	\$1,543,328
Fiscal 2004 Allowance	\$531,130	\$82,621	\$921,502	\$11,150	\$1,546,403
Contingent Language – Maryland After School Program	-\$5,000				-\$5,000
Revised 2004 Allowance	\$526,130	\$82,621	\$921,502	\$11,150	\$1,541,403

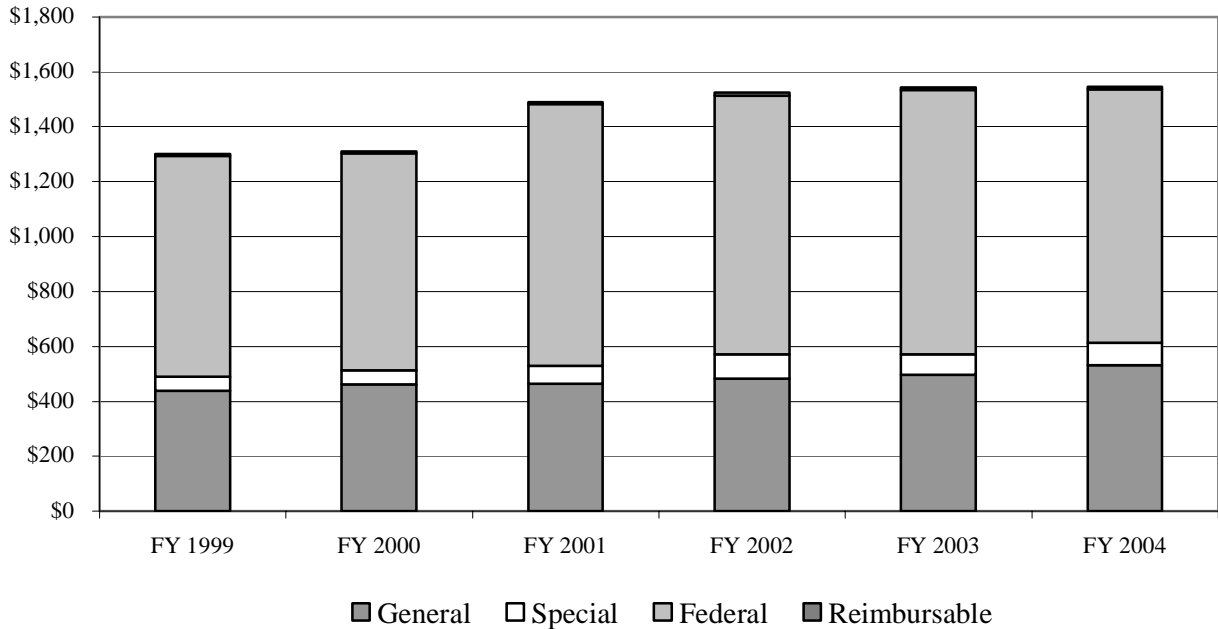
Source: Department of Budget and Management; Department of Legislative Services

Fiscal 2003 Cost Containment
(\$ in Thousands)

	<u>General Funds</u>
Administration Reductions	
Delay of expansions and relocations of local departments	-\$1,349
Contractual services, including printing, employment advertising, communications, and Managing for Results consultants	-1,297
Equipment and vehicle purchases	-1,078
General office supplies	-911
Overtime, outside consultants, temporary staff, and student workers	-717
Subscriptions, telephone system modifications, and travel	-632
Grant payments to Montgomery County and other department grants and stipends	-616
Program Reductions	
Maryland Fatherhood Initiative	-659
Responsible Choices Program	-341
Total Cost Containment	-\$7,600

Source: Department of Budget and Management

DHR Funding by Source
Fiscal 1999 through 2004
 (\$ in Millions)



<u>Fund</u>	<u>FY 1999 Actual</u>	<u>FY 2000 Actual</u>	<u>FY 2001 Actual</u>	<u>FY 2002 Actual</u>	<u>FY 2003 Working Appropriation</u>	<u>FY 2004 Allowance</u>
General	\$438.00	\$462.90	\$465.20	\$482.7	\$497.3	\$526.1
Special	52.4	49.4	64.5	88.7	74.5	82.6
Federal	802.5	791.6	951.9	942.1	961.1	921.5
Reimbursable	8.1	7.3	7.8	11.3	10.4	11.1
Total	\$1,301.0	\$1,311.2	\$1,489.4	\$1,524.8	\$1,543.3	\$1,541.4

Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

General Funds Grow As a Proportion of the Budget

In the fiscal 2004 allowance, general funds make up an increased proportion of the Department of Human Resources' (DHR) entire budget while federal fund support as a proportion of the total budget declines from 62% to 60% of the budget. Major reasons for this fund switch are described below.

- Fund balances from the Temporary Assistance for Needy Families (TANF) and the Child Care Block Grant supported spending in fiscal 2002 and 2003. Those fund balances are now exhausted forcing greater reliance on general funds in fiscal 2004.
- General fund support of cash assistance increases by almost \$21 million in order to claim the needed Maintenance of Effort dollars for TANF. Consequently, an equal amount of federal fund support for cash assistance decreases.

N00 - Department of Human Resources - Fiscal 2004 Budget Overview

**Department of Human Resources
Budget Overview: All Funding Sources
(\$ in Thousands)**

	FY 2002	FY 2003	FY 2004	FY 04-03	Percent
	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>Change</u>	<u>Change</u>
Family Investment/Cash Assistance	\$579,210	\$563,961	\$580,162	\$16,201	2.9%
Temporary Cash Assistance (TCA) Payments	121,989	123,190	122,329	-861	-0.7%
TEMHA Assistance Payments	25,533	23,457	24,431	975	4.2%
Food Stamps for Immigrants	339	300	439	138	46.1%
Other Public Assistance	226,679	217,671	225,760	8,089	3.7%
Work Opportunities	46,916	41,668	41,832	165	0.4%
Administration	157,755	157,675	165,371	7,696	4.9%
Social Services	\$428,640	\$423,106	\$428,558	\$5,453	1.3%
Foster Care/Adoption	241,554	243,519	248,927	5,408	2.2%
Programs/Administration	187,086	179,587	179,632	45	0.0%
Child Care	\$153,893	\$179,091	\$138,430	-\$40,661	-22.7%
Purchase of Care (POC)	115,350	134,571	109,174	-25,397	-18.9%
Administration	38,543	44,520	29,256	-15,264	-34.3%
Community Services/Adult Services	\$142,975	\$167,942	\$178,716	\$10,774	6.4%
Child Support	\$77,657	\$81,106	\$84,207	\$3,101	3.8%
Administration	\$142,500	\$128,123	\$131,329	\$3,207	2.5%
Office of the Secretary	12,497	13,790	13,646	-143	-1.0%
Operations Office	20,256	18,356	17,741	-614	-3.3%
Information Management	67,439	54,090	56,558	2,469	4.6%
Local Department Operations	42,308	41,888	43,384	1,496	3.6%
Total: All Funding Sources	\$1,524,875	\$1,543,328	\$1,541,403	-\$1,925	-0.1%
General Funds	\$482,710	\$497,273	\$526,130	\$28,857	5.8%
Special Funds	88,712	74,466	82,621	8,155	11.0%
Federal Funds	942,124	961,147	921,502	-39,646	-4.1%
Reimbursable Funds	11,329	10,442	11,150	707	6.8%

TEMHA - Transitional Emergency Medical and Housing Assistance

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

Source: Maryland State Budget

Department of Human Resources
Budget Overview: General Funds Only
(\$ in Thousands)

	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Working</u> <u>Approp.</u>	<u>FY 2004</u> <u>Allowance</u>	<u>FY 04-03</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Family Investment/Cash Assistance	\$134,656	\$126,737	\$139,934	\$13,197	10.4%
TCA Payments	30,842	31,249	47,019	15,771	50.5%
TEMHA Assistance Payments	22,404	18,918	19,428	510	2.7%
Food Stamps for Immigrants	339	300	439	138	46.1%
Other Public Assistance	11,645	12,193	16,589	4,396	36.1%
Work Opportunities	0	0	0	n/a	n/a
Administration	69,426	64,077	56,458	-7,618	-11.9%
Social Services	\$178,468	\$216,192	\$210,814	-\$5,378	-2.5%
Foster Care/Adoption	117,679	143,808	136,279	-7,529	-5.2%
Programs/Administration	60,788	72,384	74,535	2,151	3.0%
Child Care	\$38,163	\$39,625	\$44,697	\$5,072	12.8%
POC	27,809	29,897	29,897	0	0.0%
Administration	10,354	9,728	14,800	5,072	52.1%
Community Services/Adult Services	\$35,839	\$39,830	\$45,534	\$5,704	14.3%
Child Support	\$18,279	\$20,143	\$19,738	-\$405	-2.0%
Administration	\$77,306	\$54,746	\$65,413	\$10,667	19.5%
Office of the Secretary	7,720	8,442	8,476	35	0.4%
Operations Office	12,519	11,295	11,060	-236	-2.1%
Information Management	32,841	13,957	22,058	8,101	58.0%
Local Department Operations	24,226	21,052	23,819	2,767	13.1%
Total: General Funds	\$482,711	\$497,273	\$526,130	\$28,857	5.8%

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

Source: Maryland State Budget

Department of Human Resources
Fiscal 2004 Allowance Changes
(\$ in Millions)

	<u>All Funds</u>
Family Investment	
Increased funding for food stamps to reflect actual spending in fiscal 2002	\$8.4
Social Services	
Growth in foster care maintenance payments	5.4
Evaluation of managed foster care project eliminated	-0.4
Reduction in federal fund support of Family Support Centers	-1.8
End of three year managed foster care contract	-4.0
Child Care	
Actions taken to address overstatement of federal fund appropriation and cost containment	-25.4
Support for Child Care Resource and Referral Network	-3.8
Elimination of funding for Baltimore City After School Program	-2.5
Quality Improvement Activities	-2.1
Office of Credentialing financial incentives eliminated	-2.0
Community Services/Adult Services	
Increase in energy assistance grants offset by a decrease in EUSP computer funding to the Major Information Technology Account	4.6
Restoration of funding for Maryland Fatherhood Initiative and Responsible Choices programming	1.0
Respite care, Project Home, AIDS Prevention, and other adult programming	0.5
Federal grant increase for refugee transitional services	0.5
Child Support Enforcement	
Elimination of Public Awareness Campaign	-2.0
Administration and Other Operating Costs	
Increased health insurance for current and retired State employees	12.3
Other personnel related costs	10.3
Increased CSES and CCAMIS expenditures	2.1
Revision of contract and schedule for MD CHESSIE	-4.0

N – Department of Human Resources – Fiscal 2004 Budget Overview

	<u>All Funds</u>
Reduced contracts for EBTS, client server application service, DHRIS technical support, and independent verification and validation offset by increased IBM/Global Services contract	-1.0
Increased rent, licenses, postage, and telecommunications offset by decreased subscriptions	6.2
Other	-4.2
Total	-\$1.9
EUSP	– Electric Universal Service Program
CSES	– Child Support Enforcement System
CCAMIS	– Child Care Administration Management Information System
MD CHESSIE	– Maryland Children’s Electronic Social Services Information Exchange
EBTS	– Electric Benefits Transfer System
DHRIS	– Department of Human Resources Information System

Source: Maryland State Budget

Department of Human Resources
Fiscal 2003 Deficiency Requests
(\$ in Millions)

<u>Explanation</u>	<u>Funding</u>
<ul style="list-style-type: none">● Foster Care Maintenance Payments: Two issues contribute to the need for a general fund deficiency appropriation for maintenance payments. First, higher-than-anticipated placement costs for institutional care created a funding shortfall of approximately \$4.9 million. Second, the fiscal 2003 budget includes \$6 million in Medicaid dollars for Targeted Case Management. However, DHR cannot bill the Medicaid program for these administrative expenses because the federal government rejected the State’s application for this Medicaid State plan amendment.	\$10.9 GF -6.0 FF
<ul style="list-style-type: none">● Offset for Unattainable Federal Funds: The fiscal 2003 budget contains overly optimistic assumptions about DHR’s ability to attain Title IV-E and Medicaid funds. This proposed deficiency uses general funds to offset unattainable federal funds for the delivery of child welfare services in the local departments.	\$19.0 GF -19.0 FF
Total	\$29.9 GF -25.0 FF

**Department of Human Resources
Caseload Estimates**

<u>Program</u>	<u>FY 2002 Actual</u>	<u>FY 2003 Approp.</u>	<u>FY 2004 Allowance</u>	<u>FY 03-04 % Change</u>
Cash Assistance				
TCA	73,135	73,835	70,904	-4.0%
TEMHA	11,922	10,566	11,000	4.1%
Social Services				
Foster Care	8,822	10,789	9,019	-16.4%
Subsidized Adoptions	5,273	5,195	5,838	12.4%
Child Care				
Child Care Subsidies (Children)	28,287	28,782 *	27,465	-4.6%
Expenditures	\$115,350,210	\$134,570,969	\$109,173,613	-18.9%
Child Support Enforcement				
TCA Collections	\$21,903,614	\$22,519,510	\$21,903,614	-2.7%
Non-TCA Collections	\$397,644,024	\$383,304,392	\$397,644,024	-3.7%

*Note: The Child Care Administration projects an actual caseload of 27,924 children served in fiscal 2003 due to the implementation of a waiting list January 2003. Consequently, projected change between fiscal 2004 and 2003 is -1.6%.

Source: Maryland State Budget

**Department of Human Resources
Fiscal 2004 Budget Overview: Regular Positions**

<u>Programs</u>	<u>FY 02 Actual</u>	<u>FY 03 Approp.</u>	<u>FY 04 Allowance</u>	<u>FY 03-04 Change</u>	<u>Percent Change</u>
Social Services	2,456.1	2,509.8	2,504.8	-5.0	-0.2%
Family Investment	2,276.5	2,386.0	2,311.0	-75.0	-3.1%
Administration	1,061.0	1,094.5	1,066.5	-28.0	-2.6%
CSA/Adult Services	710.7	775.5	768.5	-7.0	-0.9%
Child Support	641.3	740.8	732.8	-8.0	-1.1%
Child Care	218.0	226.5	226.5	0.0	n/a
Total Positions	7,363.6	7,733.1	7,610.1	-123.0	-1.6%

CSA = Community Services Administration

Source: Maryland State Budget

- 75 vacant positions in the Family Investment Administration are eliminated. Of this amount, 58 assisted in determining benefit eligibility; 16 provided supervisory and clerical support; and 1 provided fiscal support.
- 28 vacant positions are eliminated that provided general administrative, technical, and fiscal support at DHR’s headquarters and in the local departments of social services.
- 8 vacant positions that provided general administrative assistance (3) and special help with child support enforcement services (5) in the Child Support Enforcement Administration are eliminated.
- 7 vacant positions that provided general administrative assistance (6) and supervisory assistance to caseworkers (1) in the Community Services and Adult Services programs are eliminated.
- 5 vacant positions that provided clerical, administrative, and supervisory assistance in the Social Services Administration are eliminated.

**Department of Human Resources
Fiscal 2004 Budget Overview: Contractual Positions**

<u>Programs</u>	<u>FY 02 Actual</u>	<u>FY 03 Approp.</u>	<u>FY 04 Allowance</u>	<u>FY 03-04 Change</u>	<u>Percent Change</u>
Social Services	4.9	0.0	0.0	0.0	n/a
Family Investment	74.95	137.0	137.0	0.0	n/a
Administration	13.7	7.2	7.2	0.0	n/a
CSA/Adult Services	13.6	2.8	4.0	1.2	41.4%
Child Support	3.61	0.0	0.0	0.0	n/a
Child Care	0.0	0.0	0.0	0.0	n/a
Total Positions	110.8	147.0	148.2	1.2	0.8%

Source: Maryland State Budget

- There is a 1.2 increase in contractual positions located in the Community Services Administration. The positions are for interns that will work with the Commission on Asian Pacific American Affairs and the Maryland Office of New Americans.

Issues

1. TANF Balance Gone – Annual TANF Grant Oversubscribed

During the first several years of welfare reform, the State witnessed unprecedented caseload declines. Similar to other states, Maryland accumulated a large surplus of TANF block grant dollars. Congress threatened to pull back these surplus TANF dollars and reduce the annual grant amounts. Thus, Maryland began drawing down its surpluses to avoid losing federal funds. Maryland directed its TANF surplus toward existing programs funded with general funds, and then moved those general funds into a reserve account. TANF funds were also used to expand programs, as well as support the POC child care program.

Over the past couple of years, the cash assistance caseload has stabilized. Moreover, DHR has needed to access TANF funds to help plug deficits elsewhere in the budget, particularly in foster care. As a result, DHR can no longer rely on a TANF fund balance to support its current expenditures. Indeed, estimates show that by the end of the current fiscal year, the balance will be entirely depleted. Furthermore, the fiscal 2004 allowance oversubscribes the annual TANF grant by approximately \$5.7 million.

Fiscal 2003 Working Appropriation Exhausts TANF Balance

Exhibit 1 shows the State's TANF spending for fiscal 2002 through 2004. Fiscal 2002 ended with a TANF balance of almost \$21 million. Last year, DLS had projected a TANF balance of \$8.9 million. DHR accounts for the difference with the following changes:

- **Child Care TANF Pulled Back:** In the first years of welfare reform, DHR transferred TANF into the Child Care Development Fund (CCDF) block grant to support the growing POC care subsidies to support the program as well as draw down the large surplus. DHR pulled back \$40 million of these TANF dollars, the entire amount left in CCDF, to support deficits elsewhere in the fiscal 2002 and 2003 budgets. *DHR plans to use TANF to support the POC program in fiscal 2003 and 2004.*
- **Cancellation of TANF:** DHR cancelled approximately \$3.2 million in TANF funding due to less than anticipated expenditures.

These surplus TANF dollars were offset by higher-than anticipated expenditures for TCA cash assistance of approximately \$31.1 million, leaving the balance at \$20 million.

In fiscal 2003 spending will exceed the annual block grant of \$229.1 million, necessitating the use of the remaining fund balance. DHR's fiscal 2003 appropriation of TANF is \$200.3 million. The department also intends to transfer \$17.7 million in TANF back into the POC program to support its projected deficit for fiscal 2003. Also, DHR anticipates a need for \$3.2 million in TANF to support a

Exhibit 1

**Availability of TANF Funding
(\$ in Thousands)**

	<u>Expenditures</u>	<u>TANF Balance</u>
TANF Balance at End of Fiscal 2002		\$20,825
Fiscal 2003 Budget		
TANF Grant	\$229,098	
DHR appropriation	-200,318	
Transfer to CCDF	-17,738	
OCYF	-50	
MSDE Children at Risk	-5,731	
MSDE LMB Fund	-22,907	
Projected TCA shortfall	-3,179	
Total TANF Spending Fiscal 2003	-\$249,923	
TANF Balance Fiscal 2003		\$0
Fiscal 2004 Allowance		
Estimated TANF Grant	\$229,098	
DHR Appropriation	-206,062	
OCYF		
MSDE Children at Risk	-5,731	
MSDE LMB Fund	-22,907	
Total TANF Spending Fiscal 2004	-\$234,701	
TANF Balance Fiscal 2004		-\$5,603

MSDE – Maryland State Department of Education
 OCYF – Office for Children, Youth, and Families
 LMB – Local Management Board

Source: Department of Human Resources; Maryland State Budget; Department of Legislative Services

projected shortfall in TCA cash assistance. Total TANF spending in DHR is estimated to reach \$221 million in fiscal 2003, \$25.4 million less than actual spending in fiscal 2002. However, TANF spending in OCYF and MSDE bring total spending in fiscal 2003 to almost \$250 million, exhausting the TANF balance completely.

Fiscal 2004 Allowance Spends More TANF Than Available

The fiscal 2004 allowance oversubscribes the annual TANF grant by \$5.6 million. DHR has budgeted almost the entire amount of the State’s block grant at \$206.1 million. The remaining TANF is budgeted in MSDE for the LMB fund and the Children at Risk program.

The department should discuss how it plans to align its TANF expenditures with the annual TANF grant, given the grant is oversubscribed \$5.6 million in fiscal 2004.

Exhibit 2 demonstrates the change in TANF spending within DHR. As the fund balance was drawn down, DHR had to adjust its TANF expenditures downward. As shown, total TANF spending in fiscal 2002 was \$246.4 million, compared to estimates of slightly over \$221 million in fiscal 2003 and \$206 million in fiscal 2004.

Exhibit 2

Changes in TANF Funding in DHR’s Budget Fiscal 2002 through 2004 Allowance (\$ in Millions)

Activity	FY 2002	FY 2003	FY 2004	FY 04-03	%
				Change	Change
Cash assistance	\$80.3	\$87.7	\$64.8	-\$22.9	-26.1%
Foster care maintenance payments	51.9	6.9	6.9	0.0	0.0%
Work opportunities	46.9	41.7	41.8	0.1	0.2%
Caseworkers and other LDSS family investment services	42.0	32.0	36.3	4.3	13.4%
Child welfare social workers, local services, and related administrative support	16.5	11.7	14.3	2.6	22.2%
Administrative support	5.4	10.6	12.8	2.2	20.8%
Local adult and victims’ services	2.9	4.3	4.5	0.2	4.7%
POC and CCA administration	0	25.2	23.6	-1.6	-6.3%
Other	0.5	1.1	1.1	0.0	1.0%
Total	\$246.4	\$221.2	\$206.1	-\$15.1	-6.8%

LDSS - Local Department of Social Services

Source: Department of Human Resources

TANF support of cash assistance declines by \$22.9 million, or 26.1% between fiscal 2003 and 2004. However, general fund support actually increases to fill the void; total funding for cash assistance declines in fiscal 2004 by less than 1%. This drop in TANF for cash assistance is offset by an increase in TANF for the POC program. As shown, DHR did not use TANF in fiscal 2002 for POC, but plans to use TANF for POC in fiscal 2003 and 2004 to address the projected deficit, discussed in the Child Care Administration analysis.

To allow for continued monitoring of DHR’s TANF expenditures, DLS recommends the following committee narrative:

Quarterly Reports on Temporary Assistance for Needy Families (TANF) Spending: The committees would like to continue monitoring the Department of Human Resources’ (DHR) TANF expenditures. As such, DHR should submit quarterly reports to the budget committees that track TANF expenditures by budget code, obligations by budget code, and report the TANF balance available at the end of each quarter. DHR should submit its first quarterly report on September 1, 2003, and this report should cover the quarter ending June 30, 2003.

Information Request	Author	Due Date
Quarterly reports on TANF expenditures, obligations, and remaining balance	DHR	September 1, 2003, and quarterly thereafter

2. Fiscal 2004 Allowance Meets TANF MOE Requirement

In return for its annual TANF block grant of \$229.1 million, the State must spend \$177 million of its own money to meet federal Maintenance of Effort (MOE) requirements. Spending for assistance that helps needy children stay in their own or relatives’ home and programs that promote job preparation, work, or marriage count toward MOE. According to the 1996 welfare reform law, the federal penalty for not meeting MOE is a reduction in the TANF block grant equal to the amount not spent on the required MOE in the previous year. **Exhibit 3** provides a summary of the MOE funding in the fiscal 2002 budget and estimates for fiscal 2003 and 2004.

DHR can rely on cash assistance spending to account for a large amount of MOE spending. In fiscal 2004, DHR plans to claim almost \$55 million, or 31% of the MOE requirement, on cash assistance. Spending on child care subsidies, employment services, caseworkers, and administration related to the Family Investment Program are also counted toward traditional spending. To meet the balance of MOE, DHR has turned to non-traditional spending on eligible families. In particular, the State’s refundable earned income tax credit (EITC) has helped meet the requirement significantly; the State may claim an estimated \$52.2 million in fiscal 2003 and \$61.8 million in 2004 due to the acceleration of the credit.

Exhibit 3

TANF Maintenance of Effort (MOE) Dollars
Fiscal 2002 through 2004
(\$ in Thousands)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Traditional Sources of MOE			
Cash Assistance	\$36,000	\$47,167	\$54,747
Child Care Subsidies	23,300	23,301	23,301
Employment Services/Caseworkers	9,510	12,819	21,461
Administration	4,854	11,663	11,208
Adult Services	648	0	0
Kinship Care/Foster Care Maintenance			
Payments	19,569	11,000	8,800
Work Opportunities	46	0	0
Social Services Administration	5,577	0	0
Child Care Administration	24	0	0
Subtotal	\$99,530	\$105,951	\$119,517
Other Sources of MOE			
Refundable State Earned Income Tax Credit	\$47,653	\$52,200	\$61,800
Poverty and Targeted Improvement Grants (MSDE)	27,707	27,707	0
Electric Universal Service Program	2,163	2,163	0
Subtotal Other Sources of MOE	\$77,523	\$82,070	\$61,800
Total MOE	\$177,053	\$188,021	\$181,317

Source: Department of Human Resources; Department of Legislative Services

New Education Law Will Affect DHR's Ability to Claim MOE

Historically, the State claimed spending for MSDE's Poverty and Targeted Improvement Grants toward MOE. These programs, aimed at low-income students, helped satisfy the second purpose of TANF to promote job preparation, work, or marriage. In fiscal 2002 and 2003, \$27.7 million, or almost 16% of the MOE requirement, was claimed for this purpose. However, legislation passed during the 2002 session, the Bridge to Excellence in Public Schools Act of 2002, eliminated 27 State aid programs, including the Targeted Improvement grants, Targeted Poverty I grants, and additional

poverty grants. Funding for these grants were combined into local block grants based on each jurisdiction's wealth, known as compensatory education aid.

This change will make it difficult for Maryland to claim these education dollars toward MOE. According to a National Conference of State Legislatures analysis of the federal law, states cannot count spending on public education programs that are available generally to the students as MOE. Although the compensatory aid grants will be based on local jurisdictions' wealth, where lower-wealth counties will receive higher grants, it will be very difficult to determine exactly how much of those grants will go directly to TANF eligible families. The counties may use the grants anyway they choose, as long as overall school performance improves. If DHR chooses to calculate a portion of these grants to claim toward MOE, it might face problems with federal auditors later, who may reject the funding as meeting the MOE requirement. The acceleration of the State refundable earned income tax credit will help DHR fill this hole in fiscal 2004.

The TANF program provides significant flexibility in spending to meet the MOE requirements. For example, DHR may want to consider State spending on non-medical substance abuse services, such as room and board at residential treatment programs, or State spending on non-Medicaid medical services for families that lack health benefits as potential sources of MOE. Also, DHR should investigate spending on HotSpots and the Montgomery County Earned Income Tax Credit to solve its MOE issue.

Fiscal 2004 MOE Claims Above the Federal Requirement

Estimates show that in fiscal 2004 DHR will be able to claim \$181.3 million in State spending toward MOE. This is approximately \$3.6 million above the federal requirement. This difference provides the General Assembly flexibility in reducing funds to address the State's overall budget deficit without the risk of federal financial penalties.

DHR should discuss whether it will be able to claim the new compensatory aid grants in MSDE toward MOE.

3. Show Me the Money Trail

In January 2003 the Office of Legislative Audits (OLA) presented a report on the fiscal 2002 budget closeout for several agencies, including DHR. In this audit OLA concluded that, under federal law, DHR erroneously used TANF dollars to fund certain child welfare services. Although it is still evaluating the accuracy of the finding, DHR plans to address the problem with several budget maneuvers.

Initial Problem Begins with TANF Maintenance of Effort

During the process of closing out its books, DHR calculated that it would be short its \$177.7 million TANF maintenance of effort requirement by \$20 million. As a solution, DHR transferred \$20 million in general funds budgeted for foster care/subsidized adoption into MOE eligible programs. Since the foster care appropriation takes into account a 50/50 federal Title IV-E match, DHR had to replace twice as much funding in foster care to fill the hole it created. To accomplish this, DHR put \$40 million of TANF into foster care/subsidized adoption. These funds were available from the CCDF fund balance. Also, under federal law the surplus TANF had to be liquidated since it was not spent within two years of being transferred into the child care budget.

Funding Swaps Leave Deficit in Child Care for Fiscal 2003

An unfortunate consequence of taking \$40 million in TANF out of the POC/CCDF budget in fiscal 2002 was a projected fiscal 2003 deficit in child care assistance. **Exhibit 4** shows the effect of the \$40 million transfer and DHR’s partial solution to the deficit. Fiscal 2002 ended with a balance

Exhibit 4

Purchase of Care and Discretionary Child Care Spending Fiscal 2002 and 2003

	FY 2002	FY 2003
	<u>Actual</u>	<u>Estimate</u>
CCDF/TANF Balance	\$93,910,807	\$8,005,538
CCDF Grant	78,196,064	78,196,064
New TANF Transfer	0	17,737,994
Total Revenues	\$172,106,871	\$103,939,596
Purchase of Care	\$115,350,210	\$104,673,713
Quality Enhancement Projects/Administration	7,913,318	37,853,970
TANF Transfer to Child Welfare	40,837,805	
Cost Containment Action		-17,800,000
Appropriation Overestimated Costs		-15,000,000
Total Expenditures	\$164,101,333	\$109,727,683
Balance	\$8,005,538	-\$5,788,087

Source: Department of Human Resources

of \$8.0 million, accounting for the reverse TANF transfer. However, this balance, combined with the annual grant of approximately \$80 million, left only \$88 million in revenues for fiscal 2003, compared to \$142 million in planned expenditures. To solve the problem, DHR intends to use \$17.7 million in new TANF dollars to help fill the gap. Also, several cost containment actions will be taken, including a POC waiting list and reduced quality initiatives. Even with these actions, DHR is still projecting a \$5.8 million deficit in fiscal 2003.

Back to the Future Budgeting

In its report, OLA determined that \$34 of the \$40 million TANF transferred into foster care were not allowable uses of the TANF funds. DHR believed these expenditures should have been allowable under the first purpose of welfare reform – provide assistance to needy families so that children can be cared for in their own homes or the homes of relatives. Nevertheless, DHR plans several funding switches to reverse its actions. These steps will put back \$17 million in general and \$17 million in federal funding back into foster care for fiscal 2002.

- **General Fund Gap:** DHR plans to retroactively substitute \$8.8 million in general fund expenditures (eligible for TANF) from prior years with an equal amount of the TANF used in foster care in fiscal 2002. Additionally, DHR plans to substitute \$8.2 million in general fund expenditures in fiscal 2003 with an equal amount of the questionable TANF. Both these actions will free up \$17 million in general funds to put back into foster care for fiscal 2002.
- **Federal Fund Gap:** When DHR puts \$17 million in general funds back into foster care for fiscal 2002 (described above), it can draw down the federal Title IV-E match, also \$17 million. This match will substitute for the \$17 million in questionable TANF still left in foster care.

Consequences

There are two major consequences to this plan. First, when DHR is able to draw down the Title IV-E match, this frees up \$17 million in TANF that had originally been put into foster care. This TANF can be used toward the projected \$5.8 million child care deficit in fiscal 2003. Also, it can be used toward the projected \$5.6 million TANF deficit projected for fiscal 2004, leaving a \$5.6 million TANF cushion. However, by taking \$8.2 million in general funds out of the current fiscal year to pay back the last fiscal year, DHR leaves itself once again facing maintenance of effort issues in fiscal 2003.

DHR should be prepared to discuss how it plans to use the \$17 million in TANF it will free up in addressing OLA’s concerns. Also, DHR should discuss how it will address the projected maintenance of effort problem resulting from its budget adjustments.

4. Emergency Welfare Funds Washed Out

The Family Investment Dedicated Purpose Account and the Joseph Fund were both statutorily created to support family services in times of emergencies. The fiscal 2004 allowance exhausts all savings accrued in these funds, leaving no reserves in case of future emergencies or increases in the welfare caseload.

Family Investment Dedicated Purpose Account

Exhibit 5 demonstrates transfers out of the Family Investment Dedicated Purpose Account. The fiscal 2002 balance was \$72.8 million. The fiscal 2003 budget used \$22.1 million of the account toward fiscal 2002 deficiencies to support ongoing services, including cash assistance payments, child welfare services, and employee salaries, bringing the balance down to \$50.7 million.

Exhibit 5

Family Investment Dedicated Purpose Account		
(\$ in Millions)		
	<u>Expenditure/Transaction</u>	<u>Balance</u>
Balance for Fiscal 2002		\$72.8
Fiscal 2002 Deficiencies		
Offset unattainable federal funds	-10.2	
TCA payments	-4.9	
Cost containment relief	-7.0	
Subtotal	-\$22.1	
Fiscal 2002 Balance		\$50.7
Fiscal 2003 Transactions		
Transfer to General Fund	-39.3	
Fiscal 2003 Balance		\$11.4
Fiscal 2004 Transactions		
Local Family Investment Operations	-11.4	
Fiscal 2004 Balance		\$ 0.0

Source: Department of Legislative Services; Maryland State Budget

The Budget Reconciliation and Financing Act (BRFA) of 2002 transferred \$39.3 million from the account to the general fund in order to balance the State’s budget. The fiscal 2004 allowance uses all of the remaining funds, \$11.4 million, for local family investment operations.

Joseph Fund

Despite being established in 1999 as a way to meet the emergency needs of economically disadvantaged Marylanders, the Joseph Fund has been depleted without meeting its original intent. The Budget Reconciliation and Financing Act of 2002 transferred half of the fund, \$8.2 million, to the general fund to balance the State’s budget. The remainder was left in the fund, to be spent on TCA cash assistance grant increases in fiscal 2003 and 2004. However, the fiscal 2004 allowance uses the remaining \$8.2 million to support child welfare services, contingent on legislation authorizing the transfer.

Reliance on Reserve Funds Poses Problems for Future

Exhibit 6 shows that DHR has relied on these two reserve funds for ongoing services in fiscal 2002 through 2004. In particular, three separate reserve funds are used to support DHR services: Dedicated Purpose Account, Family Investment Dedicated Purpose Account, and the Joseph Fund. Funding support has not been insignificant, ranging between \$10 and \$21 million. Since the Family Investment Dedicated Purpose Account and the Joseph Fund will be totally exhausted by the end of fiscal 2004, DHR will have to look to other fund sources to support these ongoing expenses. Given the fiscal condition of the State, it is questionable where DHR will be able to find these dollars.

Exhibit 6

DHR Reliance on Social Services Reserve Funds

Fiscal 2002 through 2004

(\$ in Millions)

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>
Reserve Fund			
Dedicated Purpose Account – Family Investment	\$21.6		\$11.4
Joseph Fund			8.2
Dedicated Purpose Account – Federal Actions		\$10.00	
Total	\$21.6	\$10.0	\$19.6

Source: Maryland State Budget

With the transfer out of the Joseph and Dedicated Purpose Funds, no funds remain to meet future human services needs. **DHR should discuss the future balance and purpose of the two reserve funds, given they are being exhausted during tight fiscal times, when demand for government assistance from disadvantaged families is most likely to rise.**

5. Congressional Reauthorization of TANF Remains Unfinished

The federal Personal Responsibility and Work Opportunities Reconciliation Act of 1996 was up for reauthorization October 1, 2002. The 107th Congress failed to extend the law for another five years. However, several welfare reform bills were debated in both Houses of Congress, suggesting what Maryland can expect during the 108th Congress. In particular, H.R. 4737 was passed by the entire House of Representatives, and was based on President Bush's proposal "Working Toward Independence." The Senate Finance Committee passed its version of welfare reform, S. 2648.

Major Welfare Reform Provisions Expected Not to Change

The Senate and House proposals agreed on keeping several provisions of the current law; these provisions can reasonably be expected to remain in law. Those that will affect Maryland directly are described below.

- **TANF Grant Amount:** The current grant is \$16.5 billion; Maryland's share is \$229.1 million. The annual block grant is not adjusted for inflation.
- **Lifetime Benefit Limit:** Cash assistance recipients are limited to 60 cumulative months of benefits for their entire lifetime.
- **20% Hardship Exemption:** The State may exempt 20% of its total caseload from the lifetime benefit limit due to hardship. Maryland adopted the Family Violence Option, which exempts victims of family violence from the lifetime benefit limit as well as work requirements. Others are deemed exemptions as well, as determined by Maryland's LDSS. Based on current caseload estimates, DHR does not expect to reach the 20% exemption limit until fiscal 2010.
- **Uses of TANF:** TANF funds can be spent for four purposes:
 - provide assistance to needy families so that children can be cared for in their own homes or those of relatives;
 - end the dependence of needy parents on government benefits by promoting job preparation, work or marriage;
 - prevent and reduce the incidence of out-of-wedlock pregnancies; and
 - encourage the formation and maintenance of two-parent families.
- **Maintenance of Effort Requirement:** The State must spend an amount of State dollars equal to 85% of its actual expenditures in 1994, or 75% if the work participation rate is met, on expenditures that fulfill the first and second purposes of TANF listed above. The State can face financial penalties if this Maintenance of Effort requirement is not met. One congressional proposal allows the states to claim MOE on all four purposes of TANF.

Major Welfare Reform Provisions Expected to Change

The House and Senate bills proposed several changes to the current law. In some instances, the House and Senate changes were the same; in others there were slight variations. The most significant changes involved work requirements, described below.

- **Universal Engagement:** Cash assistance recipients are currently required to be participating in a work activity after receiving benefits for 24 months. Both the Senate and House proposals would replace this requirement with a universal engagement requirement. Each adult recipient would be required to have a work plan and immediately be engaged in an eligible work activity.
- **Work Participation Rate:** Currently, 50% of the total caseload must be engaged in an eligible work activity. Both proposals increase this percentage to 70% by 2008, increasing 5% every year.

In order to count an individual toward the work participation rate, that person must be in an eligible work activity for 30 hours. The House proposal would increase the total hours worked to 40, but gives partial credit to those who work between 24 and 40 hours. The Senate proposal keeps the required hours at 30, and also gives partial credit to those who work between 15 and 30 hours.

- **Caseload Reduction Credit:** The State's work participation rate is now reduced in relation to the rate of total caseload decline since 1995. Maryland's required work participation rate is currently 50%; however, it is reduced to only 4.2% as a result of the credit. The House proposal would change the base year upon which the credit is calculated. As the base year becomes more recent, the value of the credit diminishes since the caseload has been declining at slower rates. The Senate proposal would base its credit, not on caseload decline, but on the number of individuals: leaving TANF for a job; receiving a diversion grant; working in a higher paying job; and those in certain priority activities. The "employment credit" would be capped.

As a result of these stricter work requirements, an increase in spending can be expected to support the demands of meeting the requirements, including more job training assistance and child care. The Family Investment Administration and Child Care Administration analyses will discuss in more detail the possible fiscal implications of these changes. Given DHR has expended its TANF balance, and the entire TANF grant is accounted for in fiscal 2004, any changes to the welfare reform law will require DHR to realign its expenditures to meet these needs. **DHR should provide an update on the status of welfare reform in Congress. Also, DHR should discuss to what extent it would have to shift its spending patterns to accommodate possible changes in the law.**

6. State Facing Possible Federal Financial Penalty to TANF Grant

In October 2002 DHR received a letter from DHHS stating that Maryland was at risk of federal financial penalties due to noncompliance with federal provisions for child support enforcement. Section 402(a)(2) of the Social Security Act requires that the chief executive officer of a State must certify that it will operate a child support program under an approved Title IV-D plan as a condition

of eligibility for a TANF block grant. DHHS found that the State has not passed the necessary legislation for an approved State plan. As such, DHHS warned that the State is at risk of losing future Title IV-D payments, as well as a reduction in the annual TANF grant.

Provisions Necessary for Federal Compliance

In its letter, DHHS cited three specific provisions that the General Assembly has not passed yet that put the State in noncompliance with federal law, described below.

- ***Income Withholding:*** Currently, for non-Title IV-D orders issued on or after January 1, 1994, courts have the option to issue a withholding order requiring the employer to forward the support directly to the custodial parent's bank account. Federal law requires the support go directly to the State Disbursement Unit.
- ***Administrative Power to Seize and Freeze Assets:*** Federal legislation provides the administrative power to seize and freeze assets. Legislation passed by the General Assembly, however, did not include all financial institutions in this enforcement tool, as required by the federal law.
- ***Collection of Social Security Numbers:*** Maryland law does not require the provision of Social Security numbers when applying for a driver's, marriage, or recreational license, excluding hunting licenses.

DHR should provide an update on DHHS's approval of the State plan for child support enforcement; proposed legislation this session that will make the State in compliance with federal law; and an estimate of possible federal financial penalties the State might face for noncompliance with federal child support enforcement provisions.