

R00A04 Subcabinet Fund

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	\$40,142	\$40,084	\$38,555	-\$1,529	-3.8%
FY 2003 Cost Containment	0	-1,964	0	1,964	
Adjusted General Funds	\$40,142	\$38,120	\$38,555	\$436	1.1%
Special Funds	0	1,761	2,522	761	43.2%
Fund Balance Transfer	0	261	0	-261	
Adjusted Special Funds	\$0	\$2,022	\$2,522	\$500	24.8%
Federal Funds	24,339	29,307	28,504	-804	-2.7%
Reimbursable Funds	10,750	10,750	10,900	150	1.4%
Adjusted Grand Total	\$75,231	\$80,199	\$80,481	\$282	0.4%

- Fiscal 2003 reductions of \$1,964,101 in general funds reflect cost containment measures taken through Board of Public Works' actions. This reduction was wholly taken from the Return/Diversion Program, used for families that need assistance to maintain a child in the least restrictive setting.
- The fiscal 2004 allowance includes a transfer from the subcabinet reserves for the Infant Mortality Prevention Initiative. These funds are to provide a continuation of a media campaign begun in 2002. In fiscal 2002 and 2003, funds for this initiative were transferred directly from the reserves to Campaign for Our Children (and were not included in the State budget), which was awarded the contract for the campaign.
- The fiscal 2004 allowance also contains a transfer from the Department of Health and Mental Hygiene, which will cover costs associated with a new school-based health center.

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

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Analysis in Brief

Issues

Has Rate Setting Been Integrated with the State Budget Process?: While recognizing that fiscal 2004 provider rates for the residential and nonresidential treatment of children have been limited in the budget bill to fiscal 2003 rates, the subcabinet is asked to comment on the progress of integrating rate setting into the budget process. It is also asked to provide a plan for evaluating providers based on performance through outcome measures.

Do Inequitable Rates Remain?: The Maryland State Department of Education is asked to respond to questions concerning the current rate-setting structure developed by the Interagency Rate Committee. The Department of Legislative Services questions whether it fully addresses earlier criticisms concerning outside contributions and inequitable rates for providers that offer similar services.

Abolish Local Management Boards: By eliminating the \$7.9 million in general funds used for Local Management Board (LMB) administration, the State could also eliminate the extra level of bureaucracy LMBs represent. Abolishing the LMBs may reduce the level of coordination among child serving agencies at the local level. However, the awareness of the need to coordinate services fostered by the initiative should be maintained at the local level with or without the LMBs

Children Entering School Ready to Learn: The results of recent efforts of the State in preparing children for school, including a review of the child care credentialing issue, are discussed.

Recommended Actions

	<u>Funds</u>
1. Add language that provides the Governor with the ability to transfer Subcabinet Fund appropriations to other agencies and other provisions.	
2. Delete funds for Local Management Boards.	\$ 7,889,674
3. Reduce general fund program expenditures and substitute Subcabinet Fund balance.	500,000
4. Adopt narrative providing for out-of-home placement data.	
5. Adopt narrative providing for a plan for evaluation of providers.	
Total Reductions	\$ 8,389,674

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Operating Budget Analysis

Program Description

It is now over a decade since Maryland embarked on the restructuring of its human service delivery systems to make them more effective, efficient, and responsive to the needs of children and families. Known as the Systems Reform Initiative (SRI), this restructuring has included changes to:

- the way decisions about services for children and families are made at the State level;
- the role of local jurisdictions in the provision of services to children and families; and
- the way these services are funded.

Legislation adopted during the 1994 session required the Subcabinet for Children, Youth, and Families to phase in a statewide system of interagency budgeting and funding to support SRI. In the fiscal 1996 budget, funds formerly budgeted in the Department of Juvenile Justice (DJJ), Department of Health and Mental Hygiene (DHMH), Department of Human Resources (DHR), and Maryland State Department of Education (MSDE) for out-of-state placements and family preservation services were consolidated into a new Subcabinet Fund. The fund is administered by the Office for Children, Youth, and Families (OCYF), with MSDE acting as the fiscal agent. Subcabinet monies are in turn, for the most part, granted to Local Management Boards (LMBs), which are the statutory bodies created to be the dominant local mechanism through which the goals of SRI are to be accomplished.

In fiscal 1996, monies in the Subcabinet Fund were primarily used for two activities: family preservation and return/diversion. During the 1996 session, through the regular and supplemental budget process, the fiscal 1997 legislative appropriation was increased to almost \$97 million. Most of these funds (58%) were for institutional and out-of-state placements. However, LMBs did not want the responsibility for these and other programs. The responsibility and funding for these programs were ultimately returned to the State agencies from the Subcabinet Fund, leaving family preservation and return/diversion as the primary focus for Subcabinet Fund spending.

In fiscal 1998, the administration, with significant input from LMBs, adopted a new and expansive direction in the funding approach to SRI. The Subcabinet Fund was divided into two parts. The first, known as the LMB Fund, consisted of family preservation and return/diversion monies plus almost \$11 million made available to LMBs for a variety of community-based programs that were previously budgeted in a variety of State agencies. The second part, known as the Subcabinet Collaborative Fund, consisted of \$17 million in funds supporting a variety of other State programs addressing children and family issues. The funding was included in the Subcabinet Fund although the administration of these programs continued through the State agencies rather than the LMBs. By adding program funds to the Subcabinet Fund in this way, it was hoped that in subsequent years the funding would be made directly available to LMBs.

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The fiscal 2002 budget marked another change in policy direction for the Subcabinet Fund with the elimination of the Subcabinet Collaborative Fund. Because the programs in the Subcabinet Collaborative Fund showed no signs of being placed under control of the LMBs, the fiscal 2002 budget returned funding for the programs to the State agencies that administered them.

By fiscal 2003 the Subcabinet for Children, Youth, and Families has entered into a Community Partnership Agreement (CPA) with each of 24 LMBs. The LMBs are delegated the authority, resources, and responsibility to support services for children and families. As part of the CPA, each LMB is responsible for assessing the needs of its community and, in collaboration with service providers, policy makers, community leaders, and others, developing and implementing a strategic plan to assure that children and families get needed services. These agreements include measurable performance goals that must be achieved.

Performance Analysis: Managing for Results

The Subcabinet Fund does not submit a traditional Managing for Results (MFR) plan. Instead, it uses data from other sources to provide information about trends related to programs supported by the Subcabinet Fund. Indicators related to two of the Subcabinet Fund's major programs, return/diversion and family preservation, are discussed below.

Out-of-state Placements

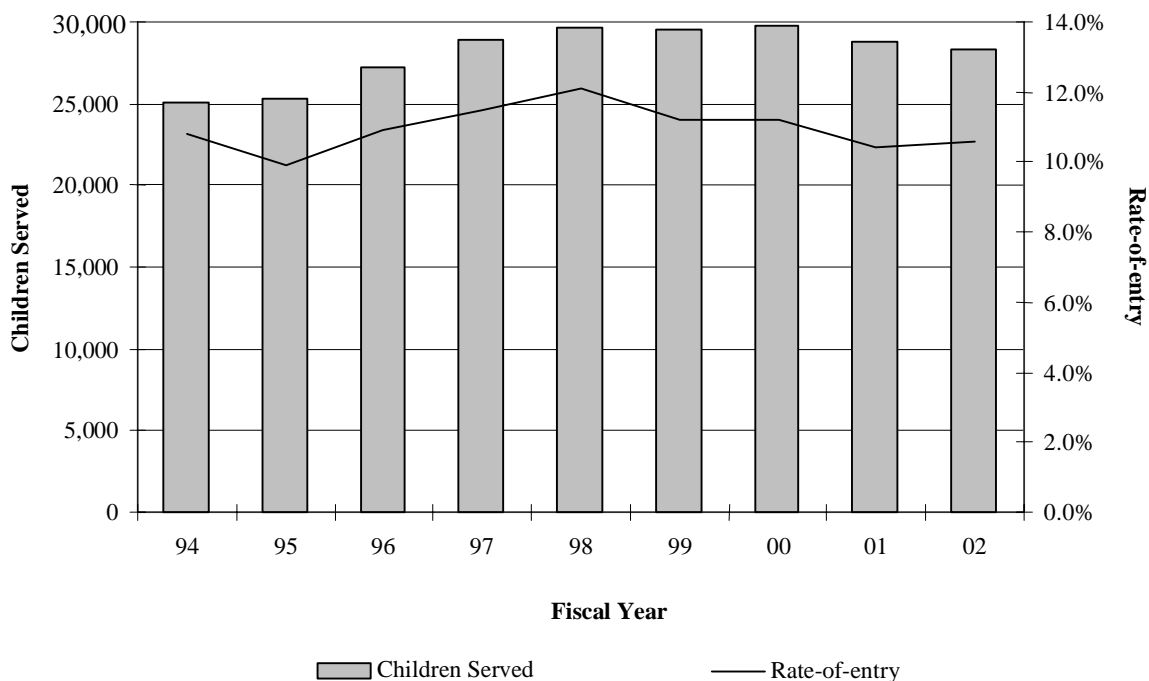
In 1992 the General Assembly established the goal of returning all children from out-of-state placements by July 1, 1997. While not meeting this goal, the State has made significant progress in this area. Out-of-state placements have fallen from a peak of 545 at the end of fiscal 1992 to 92 at the end of fiscal 2001. There has been a slight increase in fiscal 2002 to 94. The subcabinet credits the success of the Return/Diversion program for the overall improvement.

Out-of-home Placements

For most of the second half of the 1990s, the total number of children (including those in Kinship Care) served in out-of-home placements rose steadily, as did the rate of entry into such placements. As shown in **Exhibit 1**, this trend began to reverse in fiscal 1999, with a slight drop in total placements and a more notable drop in the rate of entry into out-of-home placements. After rising slightly in fiscal 2000, the total number of placements continued to drop in fiscal 2001 and 2002. The rate of entry continued its decline until fiscal 2002 when it rose very slightly, from 10.4% to 10.6%, suggesting that the total number of placements will increase slightly in fiscal 2003. The subcabinet attributes this reverse in out-of-home placement trends to such factors as favorable juvenile arrest rates, the impact of family preservation programs, and efforts to maintain community treatment for mentally ill and developmentally disabled children.

Exhibit 1

**Children Served in Out-of-home Placements and
Rate of Entry into Out-of-home Placements**



Source: Office for Children, Youth, and Families

Despite these promising trends in the number of out-of-home placements of children and the rate of entry into these placements, the total costs for placements continue to rise. The subcabinet reports that in fiscal 2002 costs exceeded a half billion for the first time. At \$547.4 million, fiscal 2002 expenditures exceed fiscal 2001 expenditures by 11.3%. Factors contributing are (1) a greater proportion of foster children being placed into group care or institutions rather than less costly family foster care; and (2) the need to provide competitive salaries to direct child care workers commensurate with the salaries provided to social workers employed by the State.

The proportion of children in out-of-home placement by each agency has remained relatively steady, with a small shift in the proportion placed by DHR and DJJ. The proportion placed by DHR has dropped from 59.0% in fiscal 2001 to 57.3% in fiscal 2002; at the same time, the proportion placed by DJJ increased from 34.5% to 36.2%, as demonstrated in **Exhibit 2**.

Exhibit 2

Proportion of Children Placed in Out-of-home Placements by Referring Agency

<u>Fiscal Year</u>	<u>DHR</u>	<u>DHMH</u>	<u>MSDE</u>	<u>DJJ</u>
1994	56.8%	6.6%	4.0%	32.6%
1995	53.5%	6.5%	3.4%	36.7%
1996	58.5%	5.6%	2.9%	33.0%
1997	58.9%	5.3%	2.8%	33.0%
1998	58.9%	6.3%	2.5%	32.3%
1999	60.8%	4.1%	2.0%	33.1%
2000	59.8%	4.0%	1.8%	34.4%
2001	59.0%	4.8%	1.8%	34.5%
2002	57.3%	4.8%	1.6%	36.2%

Source: Office for Children, Youth, and Families

Family Preservation Programs and the Safety of Children

There have been questions about whether the State’s focus on diverting children from out-of-home placements jeopardizes the safety of the children. To help address that issue, the 2000 through 2002 *Joint Chairmen’s Reports* requested data on indicated findings of child abuse or neglect based on Child Protective Services (CPS) investigations for those receiving family preservation services and for those children residing at home in the 12 months following case closure. **Exhibit 3** provides the requested data for DHR Family Preservation, for total Interagency Family Preservation (IFPS), and for IFPS by referring agency.

- Overall, the safety of children, as measured by indicated findings of abuse and neglect, has improved between fiscal 1999 and 2001. One of two referring agencies for which the rate of abuse and neglect increased during the service delivery period was MSDE, which showed an increase from 2.6% to 2.9% between fiscal 1999 and 2000. The rate has again dropped, slightly, to 2.8% in fiscal 2001. DHMH showed a more significant increase between fiscal 1999 and 2000 for families who are within the year after case closure, from 4.4% to 6.6%, but has dropped to a 5.5% rate of indicated findings of abuse and neglect in fiscal 2001.
- A higher proportion of families participating in DHR’s family preservation program and referred to IFPS by DHR have indicated findings compared to families referred to IFPS by other State agencies. Families identified by DHR typically present with child maltreatment issues. Because of this, they are more likely to experience indicated findings both while receiving services and in the year after case

closure.

Exhibit 3

**Family Preservation Services and Indicated CPS Findings
Fiscal 1999 to 2001**

	Families with an Indicated CPS Finding while Receiving Services (% of Families Served)			Families with an Indicated CPS Finding within One Year of Receiving Services (% of Families Whose Cases Closed)		
	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>	<u>FY 99</u>	<u>FY 00</u>	<u>FY 01</u>
	DHR Family Preservation	6.1	5.1	3.6	12.0	9.9
Interagency Family Preservation Services:						
Total	4.8	4.1	3.8	11.4	8.9	8.2
<i>Referred by DHMH</i>	<i>3.8</i>	<i>2.4</i>	<i>1.5</i>	<i>4.4</i>	<i>6.6</i>	<i>5.5</i>
<i>Referred by DHR</i>	<i>6.4</i>	<i>6.3</i>	<i>6.5</i>	<i>16.1</i>	<i>13.1</i>	<i>12.6</i>
<i>Referred by DJJ</i>	<i>2.8</i>	<i>1.4</i>	<i>1.0</i>	<i>4.4</i>	<i>3.2</i>	<i>3.1</i>
<i>Referred by MSDE</i>	<i>2.6</i>	<i>2.9</i>	<i>2.8</i>	<i>10.1</i>	<i>5.5</i>	<i>5.0</i>

Source: Office for Children, Youth, and Families

- A significant portion of IFPS families referred by DHMH, DJJ, and MSDE also have indicated findings, even though child maltreatment is not thought to be as significant an issue for these families.

The State should provide family preservation services only to those families in which the child can remain safely in the home. As indicated by Exhibit 3, the State has made progress in percentage of CPS findings both while families are receiving services and for families who are within a year of case closure. Through collection and analysis of the data, the subcabinet agencies can continue to identify the factors most likely to lead to maltreatment. **To that end, the Department of Legislative Services (DLS) recommends the adoption of the following committee narrative so the General Assembly can continue to monitor out-of-home placement activities and indicated findings of abuse and neglect for families that participate in family preservation programs:**

Out-of-home Placement Data: To facilitate evaluation of Maryland’s family preservation programs in stemming the flow of children from their homes, OCYF is requested to submit to the committees data on the total number of out-of-home placements and entries by jurisdiction over the previous three years. OCYF should also provide information on the cost per child served, the reasons for new placements, and an evaluation of data derived from the application of the North Carolina Family Assessment Scale. Data should also be collected concerning the reports of new child abuse and neglect while an individual is

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receiving family preservation services or residing at home in the 12 months following case closure. Other subcabinet agencies should provide the appropriate information to OCYF by October 1, 2003.

Information Requested	Author	Due Date
Out-of-home placement data	OCYF	December 1, 2003

Fiscal 2003 Actions

Impact of Cost Containment

The fiscal 2003 allowance includes reductions of \$1,964,101 in general funds to reflect cost containment measures taken through Board of Public Works' actions. This reduction was wholly taken from the Return/Diversion Program, used for families that need assistance to maintain a child in the least restrictive setting.

Governor's Proposed Budget

As shown in **Exhibit 4**, the Subcabinet Fund budget increases by \$281,999, or 0.4% compared to the fiscal 2003 working appropriation, after adjustments for the use of the fund balance. The significant budgetary changes are discussed below.

- Fiscal 2003 actions include utilization of \$260,970 in the Subcabinet Fund balance to cover costs associated with school-based health centers.
- The fiscal 2004 allowance contains an additional \$500,000 for the Infant Mortality Grant program. These funds are also transferred from the Subcabinet Fund balance and are going to be used for continuation of the Infant Mortality Prevention media campaign. In fiscal 2002 and 2003, the monies used for this purpose were paid directly from the Subcabinet Fund balance to the contractor who managed the campaign. With the use of reserves for this purpose, approximately \$531,847 remains in reserves.
- The allowance also reflects an increase of \$123,522 in federal funds for the Safe and Stable Families program. Please note that this increase was misclassified as Title IV-E funding in the Governor's budget book. There is also an increase of \$150,000 in reimbursable funds from DHR to cover the contract for the After-school Opportunities program.

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Exhibit 4

**Subcabinet Fund
Fiscal 2002 through 2004**

<u>LMB Spending</u>	<u>FY 02 Actual</u>	<u>FY 03 Approp.</u>	<u>FY 04 Allowance</u>	<u>\$ Increase</u>	<u>% Increase</u>
LMB Administration	\$7,250,883	\$7,827,009	\$7,889,674	\$62,665	0.8%
Interagency Family Preservation*	19,334,222	23,422,112	22,764,699	-657,413	-2.8%
Return/Diversion	15,744,019	12,905,737	12,175,052	-730,685	-5.7%
Community Partnerships	9,497,963	10,550,600	11,172,926	622,326	5.9%
Home Visiting	5,000,000	5,064,856	5,100,950	36,094	0.1%
Subtotal	\$56,827,087	\$59,770,314	\$59,103,301	-\$667,013	-1.1%
Other Pass-through Programs**	19,617,108	20,428,759	21,377,771	809,982	3.9%
Total LMB Fund	\$76,444,195	\$80,199,073	\$80,481,072	\$281,999	0.4%
Adjustments***	-1,213,000				
Total Budget	\$75,231,195	\$80,199,073	\$80,481,072	\$281,999	0.4%

*Prior to 2003, family preservation supported services were funded through DHR's local departments of social services (LDSS) and contracted by the LMBs. The fiscal 2003 appropriation consolidates these programs under the control of the LMBs.

** Funding for each of the pass-through programs is provided in **Appendix 4**.

***Adjustment made to account for use of unappropriated fund balance.

Source: Office for Children, Youth, and Families

- To cover an increase in State employee health and retirement benefits, the IFPS program funding increases by \$337,864 in the 2004 allowance (\$269,629 in general funds and \$68,235 in federal funds), which is offset by a decrease of \$995,277 in federal funds.
- There are two unprocessed reimbursable fund amendments not reflected in the fiscal 2003 appropriation. The first will provide \$150,000 in reimbursable funds from DHR to cover additional expenditures related to the After-school Opportunity program budget. The second is a DHR – Child Care Administration grant in the amount of \$399,200 in reimbursable funds intended to cover expenditures for a two-year early childhood mental health pilot program.
- Community Partnership funding shows an increase of \$622,326 in fiscal 2004. This does not represent an increase in services, but rather the reclassification of funds in fiscal 2003 resulting from CPA renegotiations. This increase is partly reflective of the decrease in return/diversion funding over the same period.

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Subcabinet Fund Balance

Statute authorizes the Subcabinet Fund to retain a balance of up to \$1 million at the end of each fiscal year. **Exhibit 5** details Subcabinet Fund balance activities from the start of fiscal 2003. It shows that fiscal 2002 funding recovery for unmet goals is very low compared to the prior year when these funds from LMBs totaled \$1,685,270. Legislative action requires that \$400,000 of the fiscal 2003 fund balance be used to cover a reduction in general funds for School Based Health Centers; however, only \$260,970 was needed for this purpose in the working appropriation. The subcabinet also intends to utilize \$500,000 of the fund balance to provide for a continuation of the Infant Mortality Prevention media campaign in fiscal 2004. With estimated fiscal 2003 funding recoveries of \$350,000, the Subcabinet Fund balance is likely to be approximately \$531,847 at the end of fiscal 2004. **If the General Assembly elects to not eliminate LMBs, DLS recommends reducing general fund program expenditures by \$500,000 to reflect the availability of funds in the subcabinet balance.**

Exhibit 5

Available Subcabinet Fund Balance

Balance July 1, 2002	\$138,799
Net funding recovery due to failure to meet goals in fiscal 2001 and 2002 operations	804,018
Utilization of Subcabinet Fund balance for School Based Health Centers fiscal 2003	-260,970
Continuation of Infant Mortality Prevention media campaign in fiscal 2004	-500,000
Estimated fiscal 2003 funding recovery*	350,000
Balance	\$531,847

*Estimated by the Department of Legislative Services.

Source: Office for Children, Youth, and Families; Department of Legislative Services

TANF in the Subcabinet Fund

The administration introduced the concept of “Temporary Assistance for Needy Families (TANF) substitutions” during the 2000 legislative session. Under the TANF substitutions concept, the State used TANF dollars to finance nine programs previously supported by general funds. Of the seven programs shown in **Exhibit 6**, all but the prevention services (Disruptive Youth) are considered TANF substitution programs. General funds equivalent to the amount that had supported these programs in fiscal 2000 were deposited in the Family Investment Dedicated Purpose Account. In this way, the State essentially reserved general fund support for these programs. In the event that TANF dollars were no longer available, the general fund contributions to the reserve account would not be made and the funds would once again support the six Subcabinet Fund programs.

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Exhibit 6

**TANF in the Subcabinet Fund
Fiscal 2002 through 2004**

	FY 02	FY 03	FY 04	Change
	<u>Actual</u>	<u>Appropriation</u>	<u>Allowance</u>	<u>FY 02-03</u>
Interagency Family Preservation*	\$8,195,185	\$7,470,342	\$7,463,577	-\$6,765
Community Partnerships	6,723,472	6,959,267	6,959,267	0
Home Visiting	3,750,000	3,744,360	3,744,360	0
Youth Service Bureaus	1,536,328	1,536,329	1,536,329	0
Prevention Services (Disruptive Youth)	1,125,300	1,493,235	1,500,000	6,765
Consolidated Education Grants	1,043,937	1,096,390	1,096,390	0
GCAP**	533,202	607,501	607,501	0
Subcabinet Fund	\$22,907,424	\$22,907,424	\$22,907,424	\$0

*Prior to fiscal 2003, the LMBs and the LDSS operated separate family preservation programs. In fiscal 2003, the programs are together under the name "Interagency Family Preservation."

** GCAP=Governor's Council on Adolescent Pregnancy. Although the amount of TANF funding supporting this initiative declines in the fiscal 2003 allowance, total funding remains at \$810,000 for both fiscal 2003 and 2004. In both years, general funds in the amount of \$202,499 restore the loss of TANF dollars.

Note: The LMBs also administer the After-school Opportunity Fund, which is funded with TANF. The funds appear as reimbursable funds in the allowance and will be added as reimbursable funds through a fiscal 2003 budget amendment.

Source: Office for Children, Youth, and Families

Commitment to the concept of TANF substitutions waned in fiscal 2002 when the Governor continued to fund the six programs with TANF and, in some cases, even provided enhanced TANF funding but added only \$9.6 million to the reserve account. This was well short of the \$30 million needed to cover TANF substitutions in the Subcabinet Fund, DHR, and MSDE. With the withdrawal of the \$9.6 million through a negative deficiency appropriation, the concept of TANF substitutions was abandoned. By the close of fiscal 2004, all funds used for welfare programs remaining in the Dedicated Purpose Fund are expected to be withdrawn. The six programs in the Subcabinet Fund will need to rely on TANF as an ongoing funding source.

Exhibit 6 shows that TANF funding in the Subcabinet Fund remains at its fiscal 2003 level of \$22.9 million in the fiscal 2004 allowance.

Issues

1. Has Rate Setting Been Integrated with the State Budget Process?

The General Assembly passed two bills in the late 1990s to address problems with the rate-setting process for residential and nonresidential child care programs and nonpublic general education schools. Chapter 609, Acts of 1998 (SB 426) required MSDE to act as the lead agency in redesigning the rate-setting process in conjunction with the Department of Budget and Management (DBM), DHMH, DHR, DJJ, and OCYF. According to the legislation, the agencies were to use the new structure in preparing the State budget for fiscal 2000. Chapter 541, Acts of 1999 (SB 291) transferred rate-setting responsibilities from OCYF to MSDE. It also required the agencies to pilot the redesigned process in developing the State budget for fiscal 2001 and to fully implement the new process in the budget for fiscal 2002.

The previous rate-setting structure raised several concerns. First, it failed to encourage efficiency and the development of additional resources. In addition, rates granted to providers offering similar services were sometimes inequitable. Further, the methodology for determining rates changed every year from fiscal 1993 through 1999, thus making the process unpredictable for the provider community.

The Interagency Rates Committee (IRC), housed in MSDE, includes representatives from all the appropriate State agencies. MSDE staff, with input from the provider community and the other State agencies, revised the rate-setting process to address the legislative concerns noted above. IRC has developed what it believes to be a reasonable, equitable, and predictable process.

Although the legislation called for a pilot implementation of the rate-setting structure with the State budget in fiscal 2001 and full implementation by fiscal 2002, IRC has not yet complied with this provision of the law. Reports from the subcabinet have identified challenges associated with achieving this integration. Providers submit their budgets to IRC in February to allow IRC to establish rates for the July of the same fiscal year. To inform development of the State budget, providers would likely need to submit rate requests to the IRC 17 months prior to the effective date of the rates. By doing so, each agency with provider payments in their budgets could include the rate increases in their budget requests submitted to DBM in August of each year. However, providers may not have the necessary data to project costs so far in advance. This could lead to compromised care for children if providers underestimate the cost of services. Conversely, providers might overestimate costs in an attempt to address unanticipated expenses.

With three years of experience with the rate-setting process, IRC staff should have the ability to identify significant problems with provider requests and to make the appropriate adjustments. This could help mitigate some of the issues associated with requiring providers to request rates almost one-and-a-half years prior to the effective date of the rates. In addition, DBM could consider the portion of each agency's budget that includes provider payments on a different schedule than the rest of the agency budget. By doing so, providers would not have to estimate their needed rates so far in advance of the effective date of the rates.

Compared to the other State agencies, DHR places the largest number of children in out-of-home placements. During each of the three years since implementation of the revised rate-setting structure,

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DHR needed deficiency appropriations for foster care maintenance payments, primarily because of higher-than-anticipated costs for group home and institutional placements. Rate increases and Foster Care Program deficiencies for the three years in which the IRC has existed are shown in **Exhibit 7**.

Exhibit 7

**Average Increases in Rates for Child Residential Programs
Issued by the Interagency Rates Committee**

<u>Fiscal Year</u>	<u>Number of Programs on July 1</u>	<u>Average Rate on July 1</u>	<u>Average Rate % Change</u>	<u>CPI-U for 12-month Period Ending the December Prior to Fiscal Year</u>	<u>Foster Care Deficiency</u>
2000	231	\$46,662			
2001	223	49,289	5.6%	2.7%	\$15,813,000
2002 (rev)*	239	52,958	7.4%	3.4%	10,912,000
2003	254	55,518	4.8%	1.6%	4,900,000

- The fiscal 2002 rate was revised to reflect reconsideration and appeal decisions, plus new programs. All reconsideration decisions have been supported by the program’s State licensing agency.

Source: Maryland State Department of Education; Department of Budget and Management

In fiscal 2004 the Governor has addressed this issue in the budget bill by limiting fiscal 2004 provider rates to those in effect on January 17, 2003. Payments in fiscal 2004 in excess of the fiscal 2003 rates are possible but must be approved by the Secretary of Budget and Management. **Representatives from the IRC are asked to comment on the impact of limiting fiscal 2004 rates to fiscal 2003 levels.**

Even though the fiscal 2004 rates have been determined through the budget bill, this may not always be the case. DLS recommends that the subcabinet discuss its current efforts to comply with State law requiring the integration of the rate-setting structure with the State budget process and the timeline for implementing this provision of the law.

2. Do Inequitable Rates Remain?

As originally envisioned, the revised rate-setting structure would have introduced significant changes to the current system. One criticism of the rate-setting process in place before revisions were made was that it resulted in rates granted to providers that were sometimes inequitable, even when covering similar services. It is not clear that this criticism has been addressed.

The IRC recommendations currently in place incorporate a “second phase” of revisions. These

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revisions are to provide:

- provider-specific basic costs of program (room and board);
- variable costs for supervision (allowing for regional and programmatic differences); and
- costs for providing services specifically linked to children's needs based on a consistent assessment.

The process adopted for assigning renewal rates in fiscal 2003 incorporates three major steps:

- MSDE rate staff reviews each budget filed by a provider and contacts providers to correct errors. Budgets are grouped by program type, according to populations served and type of facility (**Exhibit 8**). MSDE reviews each line item to ensure that expenditures are not excessive compared to other programs. Providers are not given budget data related to other providers, which is considered by MSDE to be propriety information. Adjustments are made if necessary.
- Each program's budget is compared to the mean of the final budgets of all other providers in the same program type category. A composite "intensity" score is calculated for each program budget based on the extent (e.g., education vs. shelter) and intensity (e.g., treatment foster care vs. treatment foster care for medically fragile clients) of services. The program itself assigns these intensity scores. The respective licensing agencies reviews the self-rating and disagreements over the appropriateness of a particular rating are resolved through discussion. Each program's intensity score is compared to the mean score of each program type and individual providers are assigned either a preferred or nonpreferred provider designation based on those scores and on their budgets.
- The IRC applies the "Rate Setting Methodology" to each program to determine the final rates. This methodology provides different rules based on membership in the following categories:
 - new or existing program that received a rate during fiscal 2002;
 - programs that requested a rate increase equal to or less than the Consumer Price Index;
 - nonpreferred providers;
 - programs requesting a rate based on an occupancy of less than 90%;
 - programs required by or that have proposed staffing or physical plant changes approved by a licensing agency;
 - programs experiencing a reduction in donations or contributions;
 - programs that are preferred providers but are not included in other categories;

Exhibit 8

Range of Rates Paid in Each Rate Category

	<u>Number</u>	<u>Nonpreferred</u>			<u>Preferred</u>		
		<u>Low</u>	<u>High</u>	<u>Dif.</u>	<u>Low</u>	<u>High</u>	<u>Dif.</u>
Alternative Living Units	15	\$84,071	\$98,266	\$14,195	\$63,875	\$92,833	\$28,958
Diagnostic/Evaluation							
Treatment Programs	5	n/a	n/a	n/a	75,803	104,633	28,830
Education	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Group Home – Large	26	57,323	61,967	4,644	38,799	73,031	34,232
Group Home – Small	67	50,662	84,790	34,128	45,883	77,231	31,348
Independent Living	13	33,679	36,672	2,993	22,957	41,870	18,913
Medically Fragile Program	8	185,583	201,713	16,130	83,437	123,878	40,441
Miscellaneous	13	69,320	70,298	978	11,356	77,348	65,992
High Intensity Respite	5	95,082	95,082	n/a	66,973	144,660	77,687
Shelter	15	62,158	62,158	n/a	43,380	68,047	24,667
Treatment Foster Care	39	34,447	59,345	24,898	19,641	46,421	26,780
Treatment Foster Care – Medically Fragile	6	57,847	57,847	n/a	27,697	67,525	39,828
Therapeutic Group Home	15	78,436	87,785	9,349	72,194	84,735	12,541
Teen Mother Program	7	69,048	80,132	11,084	45,684	61,129	15,445

Source: Maryland State Department of Education

- programs held to fiscal 2002 rates for non-compliance with licensing agency or rate-setting rules, or that has filed a budget for a modified program (held to fiscal 2002 rates pending completion of modifications);
- programs that receive no rates for either failing to file a budget or for not having a valid license.

This multi-tiered process results in widely varying rates within rate categories, as demonstrated in Exhibit 8. It also does not address a concern raised under the previous rate-setting process. The old process was criticized for failing to encourage efficiency and the development of additional resources. The current process considers the experience of losing donations or contributions a mitigating circumstance, requiring the replacement of these lost funds. The availability of this “fallback” resource of replacement funds does not appear to be an incentive to develop new sources of donations or contributions. **MSDE is asked to comment.**

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DLS recommends that the subcabinet also discuss the status of the revised rate-setting process, including the resulting widely varying rates. These rates, demonstrated above, are partly caused by regional differences in the cost of treatment. They also appear to be the result of the historic experience of the IRC with individual providers. The IRC provides for limits on annual increases but does not question to any great degree the relationship of one provider to another in terms of rates or the appropriateness of the rate in the base year. This may be partly due to the reliance on self-evaluation by each provider in the assignment of an intensity score. Finally, the absence of independent, consistent provider performance indicators makes it very difficult for the IRC and others to determine if it is getting that for which it is paying. It also makes it difficult for families and others concerned with children to make informed decisions about services for these children. **The IRC is asked to provide a plan for evaluation of the providers on which the State relies for its residential and nonresidential treatment of children. This evaluation method should be based on treatment outcomes, not the cost of services and, to the extent possible, it should be based on existing, validated assessment tools.**

3. Abolish Local Management Boards

In the late 1980s, as mentioned earlier, Maryland embarked on the restructuring of its human service delivery systems to make them more effective, efficient, and responsive to the needs of children and families. Known as the Systems Reform Initiative, this restructuring has included changes to the role of local jurisdictions in the provision of services to children and families and to the way that these services are funded.

LMBs are the statutory bodies created to coordinate the delivery of services in each county and Baltimore City. LMBs are responsible for coordinating efforts to return or divert special needs children from out-of-state residential placements, preserving families by preventing out-of-home placements, and administering a variety of community-based programs. Funding for the LMBs is drawn from programs previously budgeted in various State agencies. In many cases, the LMBs contract with the State agencies for service delivery.

Any authority, responsibility, and funding delegated to each of 24 LMBs is negotiated through Community Partnership Agreements (CPA). These CPAs provide that each LMB is responsible for assessing the needs of its community and, in collaboration with service providers, policy makers, community leaders, and others, developing and implementing a strategic plan to assure that children and families get needed services. These CPAs require measurable performance goals that must be achieved.

The fiscal 2004 budget for LMBs totals \$80.5 million. **DLS recommends deleting \$7.9 million in general funds of this total used to finance administrative costs.** By eliminating the extra level of bureaucracy that the LMBs represent and returning the funds for the programs to the appropriate State agencies, the State could save the \$7.9 million in general funds currently expended on LMB administrative costs. Abolishing the LMBs may reduce the level of coordination among child serving agencies at the local level. However, the awareness of the need to coordinate services fostered by the initiative should be maintained at the local level with or without the LMBs.

DLS further recommends that Community Partnership Agreement program funds remaining be given out through competitive grants, for which county governments, nonprofits, and other interested parties will be eligible to apply. These grants will be used to address community-based needs. Administrative staff remaining in OCYF will evaluate grants proposals.

4. Children Entering School Ready to Learn

In recent years, a major focus of the General Assembly, OCYF, and the subcabinet has been to prepare children to succeed when they enter school. Over the last four years, the State has invested in a variety of early childhood initiatives including:

- Voluntary accreditation for early childhood programs such as pre-kindergarten, Head Start, and licensed child care.
- Voluntary credentialing of childcare providers. The credentialing system was intended to provide a career ladder for child care providers. Providers were to attain higher credential levels by improving their education, work experience, and active participation in professional development training and networking.
- Tiered reimbursement for child care providers serving children subsidized by the State. Under this system, providers are paid more for their services if they are moving toward or have achieved accreditation.
- Judy Hoyer Centers. The centers serve as a single-point-of-entry to a variety of services including public pre-kindergarten, kindergarten, the Maryland Infant and Toddlers Program, and early childhood education services provided through childcare providers.

There is an apparent shift in priorities related to this effort in the fiscal 2004 allowance. Funding that was to be used for the child care credentialing program in DHR will be used instead to prevent reductions in child care subsidies. The impact of this may be mitigated somewhat in future years as the result of Thornton Commission recommendations (Chapter 288, Acts of 2002). In recognition of the importance of early childhood educational experiences, this legislation requires every school system to provide full-day kindergarten for students by the 2007 - 2008 school year. Also, by the 2007 - 2008 school year, each school system must make publicly funded pre-kindergarten programs available to all economically disadvantaged four-year-old children. The results of recent efforts of the State in preparing children for school, including a review of the child care credentialing issue, are discussed below.

Recent Efforts

New data addressing the degree to which children are prepared for school is not yet available from the Maryland State Department of Education (MSDE) but will be released by the end of March. **Exhibit 9** shows baseline (2000 - 2001 school year) Work Sampling System data and data gathered after the first year of activity (2001 - 2002). These early data show progress to full readiness in every subject area, with the exception of social studies. However, it remains that the level of children ready for school is only average (49% at full readiness) for the 2001 - 2002 school year. Even though current data are not yet available, the Department of Legislative Services (DLS) is concerned that *future* improvements may be impaired by reductions taken in the Office of Credentialing for the child care credentialing program, described below. **OCYF is asked to comment on the impact, if any, the child care credentialing program has had on levels of school readiness in the State. It is also asked to comment on the impact the reductions in support for credentialing will have on future improvements in readiness levels.**

Exhibit 9

Work Sampling System – Statewide Trends

Domain	School Year 2000-2001 Readiness Levels			School Year 2001-2002 Readiness Levels			Difference Readiness Levels		
	Full	Approach	Devel	Full	Approach	Devel	Full	Approach	Devel
Composite	40	50	10	49	44	7	+9	-6	-3
Social/Personal	48	42	10	55	36	9	+7	-6	-1
Language and Literacy	35	48	17	36	50	14	+1	+2	-3
Mathematical Thinking	35	51	14	40	47	13	+5	-4	-1
Scientific Thinking	20	60	20	24	59	17	+4	-1	-3
Social Studies	34	57	9	32	55	13	-2	-2	+4
The Arts	43	51	6	51	42	7	+8	-9	+1
Physical Development and Health	51	44	5	60	35	4	+9	-9	-1

Key: Full = full readiness level
 Approach = approaching readiness level
 Devel. = developing readiness level

Note: Numbers may not add to 100 due to rounding.

Source: Maryland State Department of Education

Office of Credentialing and the Child Care Credential

In July 2001 DHR initiated the Maryland child care credential for child care providers. Working in tandem with MSDE's early childhood accreditation system, the credentialing system is designed to improve the quality of early childhood experiences through enhanced staffing and curriculum. However, due to low participation in the credentialing program and projected deficits for the purchase of care (POC), DHR shifted funding away from credentialing and toward POC.

Participation in Credential System Less Than Anticipated

According to the most recent data collected in 2000 by the Maryland Child Care Resource Network, there are 13,420 child care providers in Maryland, which include 11,058 family child care providers and 2,362 licensed group programs. Yet, only 1,071 staff attained a child care credential in fiscal 2002. Therefore, there is approximately one credentialed staff person for every 13 child care providers.

DHR identified several reasons why participation in the system was less than anticipated:

- ***Overly Optimistic Projections:*** Original estimates of program participation were based on other states' participation in similar programs that had been running for several years, and thus were already fully developed. DHR is still in the process of ramping up its system.
- ***Poor Implementation Timing:*** The initiative began during the summer when most child care programs are on a more relaxed schedule and some are closed. However, since the program is beyond a full year of implementation, program participation should have picked up in the other three seasons.
- ***Programs Redirected to Other Activities:*** Since September 11, 2001, child care programs have concentrated on other priorities and activities, including safety and emergency preparedness.
- ***New System Confusing to Providers:*** The process to become credentialed and other related pieces of the system were confusing to many providers. DHR had to offer technical assistance and training as a result.
- ***Tiered Reimbursement Requires Time-consuming Accreditation Process:*** In order to be qualified to receive tiered reimbursement payments for POC children, providers must be nationally or State accredited, a lengthy and intensive process that can take many months.

Only \$76,204 of the appropriated \$2 million for financial incentives was distributed in fiscal 2002. According to DHR, only 31 child care facilities were approved to receive the tiered reimbursement incentive. Due to the lackluster participation in the credentialing system and the financial incentives, DHR plans to shift funding out of the Office of Credentialing and into the POC program.

Recommended Actions

1. Add the following language:

Further provided that the Governor shall develop a schedule for reallocating funds appropriated for R00A01.04, Subcabinet Fund, among the State agencies that serve children and families. Reallocated funds may only be expended for the programs and purposes herein appropriated and may not be expended for any other program or purpose except that \$11,172,926 of this appropriation for community partnerships may only be used for competitive grants to organizations proposing innovative solutions to community needs. Authorization is hereby granted to reallocate the funds among State agencies through budget amendments.

Explanation: This language provides for the elimination of the Subcabinet Fund, but provides that the programs originally funded through the Subcabinet Fund remain funded in fiscal 2004. The language also provides for the conversion of Community Partnership program funds to a competitive grant program, administered by the Office for Children, Youth, and Families.

- | | <u>Amount</u> | |
|--|-------------------------|----|
| | <u>Reduction</u> | |
| 2. Delete funding for Local Management Board (LMB) administration. The fiscal 2004 budget for LMBs totals \$80.5 million. About \$7.9 million of this finances administrative costs. By eliminating the extra level of bureaucracy that the LMBs represent and returning the funds for the programs to the appropriate State agencies, the State could save the \$7.9 million in general funds currently expended on LMB administration. | \$ 7,889,674 | GF |
| 3. Reduce general fund program expenditures and substitute Subcabinet Fund balance. This reduction of \$500,000 in general fund program expenditures is to be replaced with \$500,000 from the Subcabinet Fund reserve balance. | 500,000 | GF |

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4. Adopt the following narrative:

Out-of-home Placement Data: To facilitate evaluation of Maryland's family preservation programs in stemming the flow of children from their homes, the Office for Children, Youth, and Families (OCYF) is requested to submit to the committees data on the total number of out-of-home placements and entries by jurisdiction over the previous three years. OCYF should also provide information on the cost per child served, the reasons for new placements, and an evaluation of data derived from the application of the North Carolina Family Assessment Scale. Data should also be collected concerning the reports of new child abuse and neglect while an individual is receiving family preservation services or residing at home in the 12 months following case closure. Other subcabinet agencies should provide the appropriate information to OCYF by October 1, 2003.

Information Request	Author	Due Date
Out-of-home placement data	OCYF	December 1, 2003

5. Adopt the following narrative:

Plan for Independent, Consistent Evaluation of Providers: It is necessary to be able to evaluate whether or not there is a correlation between quality of service and rates paid to providers of residential and nonresidential treatment of children. To that end, the Interagency Rate Committee (IRC) is asked to provide a plan for evaluating these providers. This evaluation method should be based on treatment outcomes, not the cost of services and, to the extent possible, it should be based on existing, validated assessment tools. The IRC is also asked to provide rate data by geographic region within each category of service.

Information Request	Author	Due Date
Plan for independent evaluation of providers	IRC	December 1, 2003

Total General Fund Reductions **\$ 8,389,674**

Current and Prior Year Budgets

Current and Prior Year Budgets Subcabinet Fund (\$ 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	\$43,142	\$48	\$29,049	\$1,500	\$73,739
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-3,000	0	0	9,250	6,250
Reversions and Cancellations	0	-48	-4,710	0	-4,758
Actual Expenditures	\$40,142	\$0	\$24,339	\$10,750	\$75,231
Fiscal 2003					
Legislative Appropriation	\$40,084	\$1,761	\$29,307	\$10,750	\$81,902
Cost Containment	-1,964	261	0	0	-1,703
Working Appropriation	\$38,120	\$2,022	\$29,307	\$10,750	\$80,199

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

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Fiscal 2002:

- \$3,000,000 was transferred out on November 14, 2001, by budget amendment to comply with the Governor's cost containment transfer to the general fund.
- \$9,250,000 was transferred into the Subcabinet Fund from DHR to cover expenditures related to the After-school Opportunity Program budget.

R00A04 - Subcabinet Fund

**Object/Fund Difference Report
Subcabinet Fund**

<u>Object/Fund</u>	<u>FY 02 Actual</u>	<u>FY 03 Working Appropriation</u>	<u>FY 04 Allowance</u>	<u>FY 03 - 04 Amount Change</u>	<u>Percent Change</u>
Objects					
02 Technical & Spec Fees	\$ 5,000	\$ 0	\$ 0	\$ 0	0.0%
12 Grants, Subsidies, Contr	75,226,195	81,902,204	80,481,072	-1,421,132	-1.7%
Total Objects	\$ 75,231,195	\$ 81,902,204	\$ 80,481,072	-\$ 1,421,132	-1.7%
Funds					
01 General Fund	\$ 40,141,771	\$ 40,083,693	\$ 38,555,111	-\$ 1,528,582	-3.8%
03 Special Fund	0	1,761,196	2,522,166	760,970	43.2%
05 Federal Fund	24,339,424	29,307,315	28,503,795	-803,520	-2.7%
09 Reimbursable Fund	10,750,000	10,750,000	10,900,000	150,000	1.4%
Total Funds	\$ 75,231,195	\$ 81,902,204	\$ 80,481,072	-\$ 1,421,132	-1.7%

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

		Fiscal Summary Subcabinet Fund					
		FY 02 Actual	FY 03 Legislative Appropriation	FY 03 Working Appropriation	FY 02 - 03 % Change	FY 04 Allowance	FY 03 - Y04 % Change
<u>Unit/Program</u>							
01	Local Management Board Fund	\$ 75,231,195	\$ 81,902,204	\$ 81,902,204	8.9%	\$ 80,481,072	-1.7%
Total Expenditures		\$ 75,231,195	\$ 81,902,204	\$ 81,902,204	8.9%	\$ 80,481,072	-1.7%
General Fund		\$ 40,141,771	\$ 40,083,693	\$ 40,083,693	-0.1%	\$ 38,555,111	-3.8%
Special Fund		0	1,761,196	1,761,196	n/a	2,522,166	43.2%
Federal Fund		24,339,424	29,307,315	29,307,315	20.4%	28,503,795	-2.7%
Total Appropriations		\$ 64,481,195	\$ 71,152,204	\$ 71,152,204	10.3%	\$ 69,581,072	-2.2%
Reimbursable Fund		\$ 10,750,000	\$ 10,750,000	\$ 10,750,000	0%	\$ 10,900,000	1.4%
Total Funds		\$ 75,231,195	\$ 81,902,204	\$ 81,902,204	8.9%	\$ 80,481,072	-1.7%

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

Subcabinet Funding
Fiscal 2002 through 2004

LMB Spending	FY 03 – FY04				
	FY 2002 Actual	FY 2003 Approp.	FY 2004 Allowance	\$ Increase	% Increase
Administration	\$7,250,883	\$7,827,009	\$7,889,674	\$62,665	0.8%
Interagency Family Preservation*	19,334,222	23,422,112	22,764,699	-657,413	-2.8%
Return/Diversion	15,744,019	12,905,737	12,175,052	-730,685	-5.7%
Community Partnerships	9,497,963	10,550,600	11,172,926	622,326	5.9%
Youth Services Bureau	2,048,438	2,048,438	2,048,438	0	0.0%
Consolidated Education	1,461,853	1,455,891	1,455,891	0	0.0%
DJJ Prevention Services	167,822	167,822	167,822	0	0.0%
Safe and Stable Families	1,432,000	2,024,258	2,147,780	123,522	6.1%
School Based Health Centers	2,054,100	2,315,070	2,454,945	139,875	6.0%
GCAP-Grants	810,000	810,000	810,000	0	0.0%
Infant Mortality Grants	150,000	150,000	650,000	500,000	333.3%
Boys and Girls Club	25,000	25,000	25,000	0	0.0%
Prevention Services-Disruptive Youth	1,500,000	1,493,235	1,500,000	6,765	0.5%
Choice	717,895	717,895	717,895	0	0.0%
After School	9,250,000	9,221,150	9,400,000	178,850	1.9%
Home Visiting	5,000,000	5,064,856	5,100,950	36,094	0.7%
Adjustments**	-1,213,000				
Total	\$75,231,195	\$80,199,073	\$80,481,072	\$281,999	0.4%

*Prior to 2003, family preservation supported services funded through DHR's local departments of social services and contracted by the LMBs. The fiscal 2003 allowance consolidates these programs under the control of the LMBs.

**Adjustments made to account for use of unappropriated fund balance.