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# **Department of Human Resources Fiscal 2005 Budget Overview**

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

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*Analysis of the FY 2005 Maryland Executive Budget, 2004*

*N00 – Department of Human Resources – Fiscal 2005 Budget Overview*

**N00**  
**Department of Human Resources**  
**Fiscal 2005 Budget Overview**

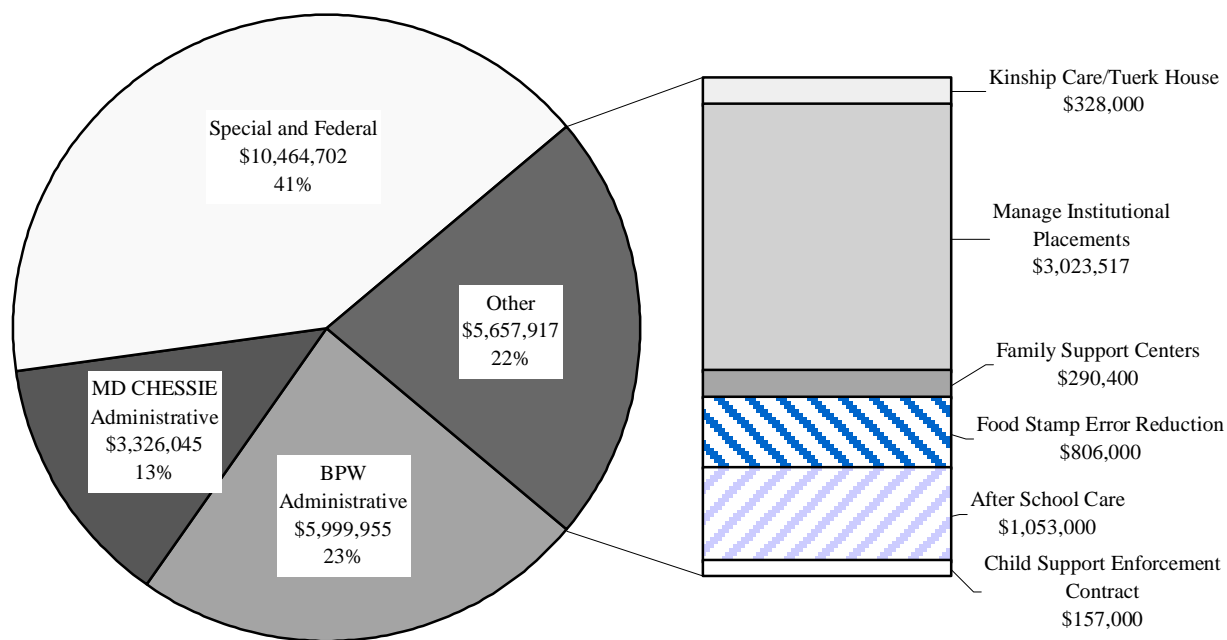
**Budget Changes and Proposals**  
**Fiscal 2004 Working Appropriation and**  
**Fiscal 2005 Allowance**  
**(\$ in Thousands)**

	<u>General</u> <u>Funds</u>	<u>Special</u> <u>Funds</u>	<u>Federal</u> <u>Funds</u>	<u>Reimbursable</u> <u>Funds</u>	<u>Total</u> <u>Funds</u>
<b>Fiscal 2004 Legislative Appropriation</b>	<b>\$519,734</b>	<b>\$82,417</b>	<b>\$916,564</b>	<b>\$11,150</b>	<b>\$1,529,864</b>
July 2003 BPW Cost Containment	-11,658	-418	-10,047		-22,123
Budget Amendments		112	-23,633	-1,231	-24,753
<b>Fiscal 2004 Working Appropriation</b>	<b>\$508,076</b>	<b>\$82,110</b>	<b>\$882,884</b>	<b>\$9,918</b>	<b>\$1,482,988</b>
<b>Proposed Deficiencies</b>	<b>\$39,321</b>		<b>\$1,075</b>		<b>\$40,397</b>
<b>Revised Fiscal 2004 Working Appropriation</b>	<b>\$547,397</b>	<b>\$82,110</b>	<b>\$883,960</b>	<b>\$9,918</b>	<b>\$1,523,385</b>
<b>Fiscal 2005 Allowance</b>	<b>\$573,359</b>	<b>\$65,650</b>	<b>\$929,456</b>	<b>\$10,613</b>	<b>\$1,579,078</b>
Contingent Reductions	-1,355	-42	-2,397	-4	-3,797
<b>Revised Fiscal 2005 Allowance</b>	<b>\$572,003</b>	<b>\$65,608</b>	<b>\$927,059</b>	<b>\$10,610</b>	<b>\$1,575,280</b>
<b>Percent Change Fiscal 2004 to 2005</b>	<b>4.5%</b>	<b>-20.1%</b>	<b>4.9%</b>	<b>7.0%</b>	<b>3.4%</b>

BPW = Board of Public Works

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

### Fiscal 2004 Cost Containment



Source: Department of Budget and Management, Budget Amendment #37-04 and #77-04; Department of Human Resources

In July 2003 the Board of Public Works (BPW) reduced the department’s general fund appropriation by \$11.7 million. The board made specific programmatic reductions in six areas, which are listed in the right column of the figure above. The largest of these programmatic reductions, \$3.0 million, was to foster care and based on the expectation that the department could attain savings through more cost effective institutional placement decisions. Almost half of the board’s action, \$6.0 million, was an unallocated reduction to administrative expenses.

The department allocated the board’s administrative cost containment among programs. In addition, it will transfer an additional \$3.3 million in general fund administrative savings from throughout the department to the information technology program to fund the continued development of the Maryland Children’s Electronic Social Services Information Exchange (MD CHESSIE), its new child welfare information system.

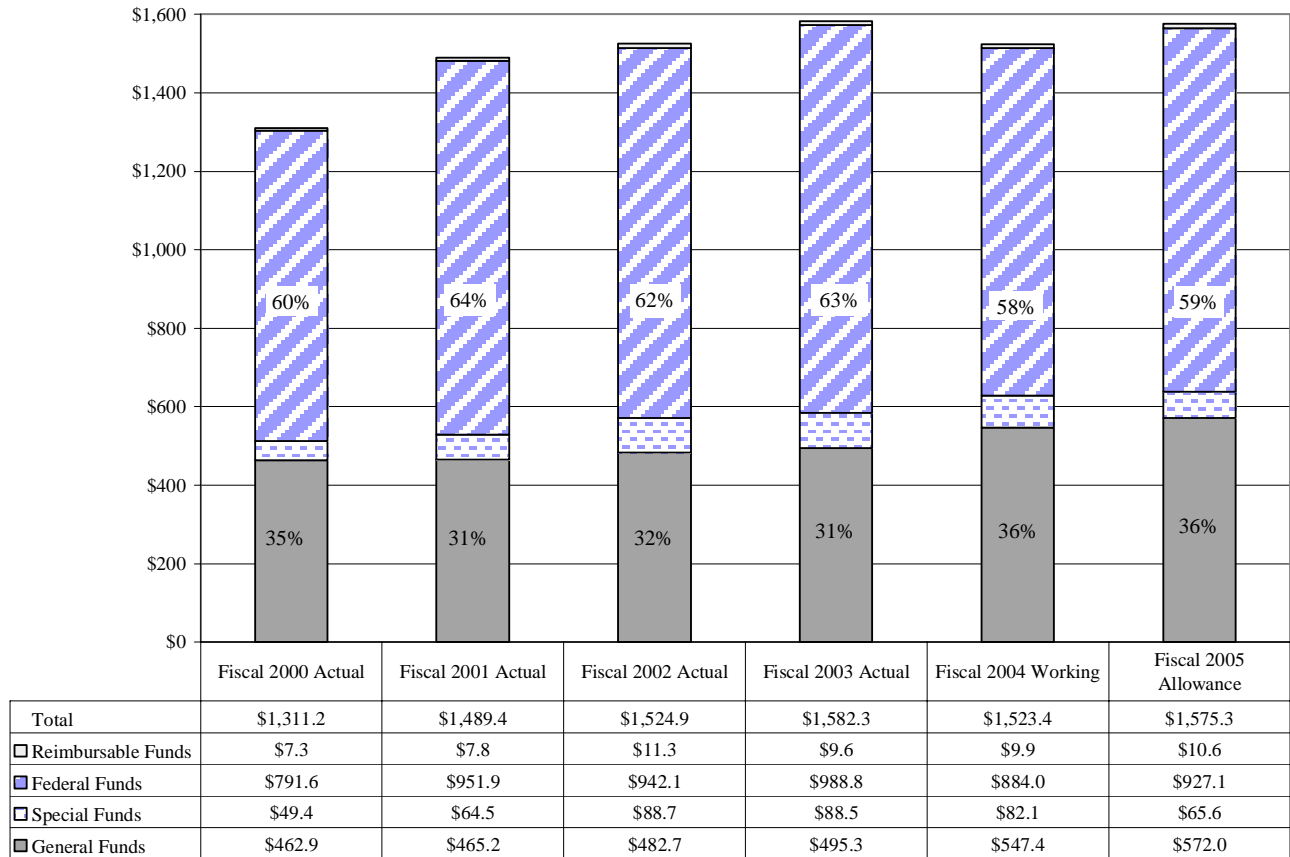
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Because State funds often match other funds in the department's budget, general fund reductions resulted in special and federal fund reductions also. The figure above shows the special and federal fund impact of the reductions made by BPW. In addition to that special and federal fund impact, the department has restricted over \$4 million in special and federal fund spending. These restrictions are related to the anticipated general fund transfers for MD CHESSIE.

**Fiscal 2004 Deficiency Requests**

<u><b>Item</b></u>	<u><b>Amount</b></u>	
<p><b>Foster Care Maintenance Payments:</b> The fiscal 2004 legislative appropriation was overly optimistic in its federal fund projections for foster care. In this deficiency, \$25.5 million is necessary due to unattainable funds. In addition, actual costs and caseloads require additional general funds.</p>	<p>\$36,015,884</p>	<p>GF</p>
<p><b>Burial Assistance:</b> The fiscal 2004 legislative appropriation did not include any general funds for the Burial Assistance program.</p>	<p>\$399,538</p>	<p>GF</p>
<p><b>Legal Services:</b> As anticipated, this perennially underfunded program requires additional funds. Some increased general fund expenditures for the Child in Need of Assistance (CINA) legal services can be matched with federal Title IV-E funds, which also would be appropriated through this deficiency.</p>	<p>\$2,906,000 1,075,367 <b>\$3,981,367</b></p>	<p>GF FF</p>
<p><b>Total</b></p>	<p><b>\$39,321,422</b> <b>1,075,367</b> <b>\$40,396,789</b></p>	<p><b>GF</b> <b>FF</b></p>

**DHR Funding by Source**  
**Fiscal 2000 – 2005**  
**(\$ in Millions)**



Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

The total Department of Human Resources (DHR) budget grows 3.4%, compared to the fiscal 2004 working budget including deficiency appropriations. General funds in the DHR budget increase 4.5%, compared to fiscal 2004. While the general fund portion (36.3%) of the budget is increasing compared to recent years, it is only slightly higher than in fiscal 2000 (35.3%), before the State used fund balances from federal sources to support programs. Even so, over the last five years, the average annual rate of growth of general funds (4.3%) is one and one-third times that of federal funds (3.2%).

In contrast, special funds decline as a proportion of the total budget. The decline in the proportion of special funds reflects a real decrease in special funds, as a result of exhausting the Family Investment Dedicated Purpose Fund and the Joseph Fund in fiscal 2004.

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In actual dollars and in proportion, federal funds increase in the 2005 allowance, growing slightly faster than general funds (4.9%). Fund balances in the Child Care Development Fund and Temporary Assistance for Needy Families (TANF) are no longer available, and the fiscal 2005 allowance reflects more realistic projections of federal fund attainment, specifically in federal Title IV-E and Medicaid funds. The increase in federal funds is related to the Food Stamp program in the Family Investment Administration.

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

	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 04-05</b>
	<b><u>Actual</u></b>	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>% Change</u></b>
<b>Family Investment</b>	<b>\$579,210</b>	<b>\$602,172</b>	<b>\$573,861</b>	<b>\$614,551</b>	<b>7.1%</b>
Temporary Cash Assistance (TCA)	128,205	132,876	128,545	137,275	6.8%
TEMHA	25,533	30,817	24,431	24,431	0.0%
Food Stamps	208,275	242,007	208,101	250,108	20.2%
Other Public Assistance	12,527	9,305	12,007	9,847	-18.0%
Work Opportunities	46,916	35,127	41,832	35,163	-15.9%
Administration	157,755	152,041	158,944	157,727	-0.8%
<b>Child Welfare</b>	<b>\$428,640</b>	<b>\$431,010</b>	<b>\$427,677</b>	<b>\$437,258</b>	<b>2.2%</b>
Foster Care/Adoption	241,554	249,272	253,373	254,237	0.3%
Programs/Administration	187,086	181,739	174,305	183,021	5.0%
<b>Child Care</b>	<b>\$153,893</b>	<b>\$176,410</b>	<b>\$138,290</b>	<b>\$136,993</b>	<b>-0.9%</b>
Purchase of Care (POC)	115,350	134,780	109,174	111,835	2.4%
Programs/Administration	38,543	41,630	29,116	25,157	-13.6%
<b>Adult and Community Services</b>	<b>\$142,975</b>	<b>\$162,101</b>	<b>\$179,446</b>	<b>\$178,754</b>	<b>-0.4%</b>
<b>Child Support Enforcement</b>	<b>\$77,657</b>	<b>\$85,599</b>	<b>\$81,049</b>	<b>\$84,334</b>	<b>4.1%</b>
<b>Administration</b>	<b>\$142,500</b>	<b>\$125,028</b>	<b>\$123,062</b>	<b>\$123,391</b>	<b>0.3%</b>
Office of the Secretary	12,497	11,795	12,827	11,831	-7.8%
Operations	20,256	18,614	18,888	20,544	8.8%
Information Management	67,439	54,527	50,766	48,840	-3.8%
Local Department Operations	42,308	40,091	40,582	42,176	3.9%
<b>Total</b>	<b>\$1,524,875</b>	<b>\$1,582,321</b>	<b>\$1,523,385</b>	<b>\$1,575,280</b>	<b>3.4%</b>
General Funds	482,710	495,315	547,397	572,003	4.5%
Special Funds	88,712	88,522	82,110	65,608	-20.1%
Federal Funds	942,124	988,839	883,960	927,059	4.9%
Reimbursable Funds	11,329	9,646	9,918	10,610	7.0%

TEMHA = Transitional Emergency Medical and Housing Assistance

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

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

	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 04-05</b>
	<b><u>Actual</u></b>	<b><u>Actual</u></b>	<b><u>Working</u></b>	<b><u>Allowance</u></b>	<b><u>% Change</u></b>
<b>Family Investment</b>	<b>\$134,656</b>	<b>\$117,443</b>	<b>\$136,571</b>	<b>\$141,948</b>	<b>3.9%</b>
Temporary Cash Assistance	30,842	9,667	47,019	49,371	5.0%
TEMHA	22,404	26,097	19,428	19,428	0.0%
Food Stamps	339	655	165	0	-100.0%
Other Public Assistance	11,645	12,037	16,989	12,507	-26.4%
Work Opportunities	0	0	0	0	0.0%
Administration	69,426	68,987	52,970	60,642	14.5%
<b>Child Welfare</b>	<b>\$178,468</b>	<b>\$217,373</b>	<b>\$240,853</b>	<b>\$254,631</b>	<b>5.7%</b>
Foster Care/Adoption	117,679	143,225	169,271	172,524	1.9%
Programs/Administration	60,788	74,148	71,582	82,107	14.7%
<b>Child Care</b>	<b>\$38,163</b>	<b>\$39,477</b>	<b>\$44,957</b>	<b>\$49,053</b>	<b>9.1%</b>
POC	27,809	29,897	29,897	37,680	26.0%
Programs/Administration	10,354	9,580	15,059	11,373	-24.5%
<b>Adult and Community Services</b>	<b>\$35,839</b>	<b>\$36,795</b>	<b>\$45,284</b>	<b>\$44,484</b>	<b>-1.8%</b>
<b>Child Support Enforcement</b>	<b>\$18,279</b>	<b>\$17,599</b>	<b>\$18,508</b>	<b>\$18,512</b>	<b>0.0%</b>
<b>Administration</b>	<b>\$77,306</b>	<b>\$66,628</b>	<b>\$61,225</b>	<b>\$63,376</b>	<b>3.5%</b>
Office of the Secretary	7,720	7,249	7,995	7,560	-5.4%
Operations	12,519	11,608	11,348	12,074	6.4%
Information Management	32,841	24,860	20,033	21,626	7.9%
Local Department Operations	24,226	22,911	21,848	22,116	1.2%
<b>Total</b>	<b>\$482,710</b>	<b>\$495,315</b>	<b>\$547,397</b>	<b>\$572,003</b>	<b>4.5%</b>

TEMHA = Transitional Emergency Medical and Housing Assistance  
POC = Purchase of Care

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

**Department of Human Resources  
Major Changes in the Fiscal 2005 Allowance  
(\$ in Thousands)**

	<b><u>Total Funds</u></b>
<b>Administration</b>	
Position reclassifications	\$5,877
Health insurance	3,329
Increments	5,420
Other personnel expenses	-3,639
Major Information Technology development	-1,467
<b>Child Welfare</b>	
Foster Care	864
<b>Adult and Community Services</b>	
CINA representation contracts	4,599
Federal funding for home energy assistance	1,686
Rate increase for attendant care waiver program	1,606
<b>Child Care</b>	
Maryland After School Opportunity Fund transferred to OCYF	-3,714
Increase general funds for POC	2,662
<b>Child Support Enforcement</b>	
Consolidation of office space	-988
<b>Family Investment</b>	
Contracts with higher education institutions reduced or eliminated	-1,508
Temporary Cash Assistance (TCA) Purchase Account contract eliminated	-1,070
Federal Food Stamp payments	42,172
Federal funds for TCA	4,793
Reduced general funds for Emergency Assistance to Families with Children	-1,086
Work Opportunities funds transferred to cover increased costs in cash assistance programs.	-6,669
<b>Other Adjustments</b>	
	-971
<b>Total</b>	<b>\$51,895</b>

CINA = Child in Need of Assistance  
 OCYF = Office for Children, Youth, and Families  
 POC = Purchase of Care

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

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**Department of Human Resources  
Caseload Estimates**

<b><u>Program</u></b>	<b><u>FY 2002</u></b> <b><u>Actual</u></b>	<b><u>FY 2003</u></b> <b><u>Actual</u></b>	<b><u>FY 2004</u></b> <b><u>Estimated</u></b>	<b><u>FY 2005</u></b> <b><u>Estimated</u></b>	<b><u>FY 04-05</u></b> <b><u>% Change</u></b>
<b>Cash Assistance</b>					
TCA	73,135	72,554	70,904	73,275	3.3%
TEMHA	11,922	14,313	11,000	13,500	22.7%
<b>Child Welfare</b>					
Foster Care	8,822	8,009	7,134	6,400	-10.3%
Subsidized Adoptions	5,273	5,899	6,250	6,820	9.1%
<b>Child Care</b>					
Child Care Subsidies	28,287	28,567	26,725	26,725	0.0%
Expenditures	\$115,350,210	\$134,780,252	\$109,173,616	\$111,835,167	2.4%
<b>Child Support Enforcement</b>					
TCA Collections	\$21,903,614	\$24,731,401	\$21,903,614	\$21,073,354	-3.8%
Non-TCA Collections	\$397,644,024	\$412,764,861	\$397,644,024	\$416,892,510	4.8%

TCA = Temporary Cash Assistance

TEMHA = Transitional Emergency Medical and Housing Assistance

Source: Maryland State Budget; Department of Human Resources

**Department of Human Resources  
Employment: Regular Positions**

	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2004</b>	<b>Change</b>	<b>FY 2005</b>	<b>FY 04-05</b>
	<b><u>Actual</u></b>	<b><u>Legislative</u></b>	<b><u>Working</u></b>	<b><u>During</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
				<b><u>FY 2004</u></b>		
Child Welfare	2,511.50	2,504.82	2,549.12	44.30	2,549.12	0.00
Family Investment	2,257.85	2,311.00	2,199.00	-112.00	2,193.00	-6.00
Administration	1,019.65	1,066.50	1,018.00	-48.50	1,018.00	0.00
Adult and Community Services	687.98	768.53	685.23	-83.30	685.23	0.00
Child Support Enforcement	713.35	732.75	721.25	-11.50	721.25	0.00
Child Care	207.50	226.50	208.50	-18.00	208.50	0.00
<b>Total Positions</b>	<b>7,397.83</b>	<b>7,610.10</b>	<b>7,381.10</b>	<b>-229.00</b>	<b>7,375.10</b>	<b>-6.00</b>
				-3.0%		-0.1%

Source: Maryland State Budget

In July 2003 BPW eliminated 225 vacancies at DHR. Since that time, the department has reallocated positions among its administrations, so the changes shown above do not match the reductions made by the board. In addition, the department eliminated four grant-funded positions in fiscal 2004 because the grants expired.

The board eliminated the following positions:

- 9 positions in the Social Services Administration central office;
- 83 positions in the Family Investment Administration;
- 18 positions in the Child Care Administration;
- 39 positions in the Child Support Enforcement Administration;
- 18 positions in adult and community services; and
- 58 positions in administration.

All the positions eliminated by the board were vacant. Current vacancy rates and budgeted turnover in fiscal 2005 suggest that the department has the funding necessary to fill 210 positions in fiscal 2005. The greatest opportunities exist in Child Welfare, Adult and Community Services, and

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Family Investment programs, but the department may transfer funds, within some limitations, and positions among administrations and programs.

The 6 positions eliminated in the fiscal 2005 allowance in the Family Investment Administration are filled positions. The positions are transferred to DHMH (5) and the Department of Planning (1). According to DHR, the transfers have no effect on DHR's operations.

**Department of Human Resources  
Employment: Contractual Positions**

	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2004</b>	<b>Change</b>	<b>FY 2005</b>	<b>FY 04-05</b>
	<b><u>Actual</u></b>	<b><u>Legislative</u></b>	<b><u>Working</u></b>	<b><u>During</u></b>	<b><u>Allowance</u></b>	<b><u>Change</u></b>
				<b>FY 2004</b>		
Child Welfare	1.25	0.00	0.00	0.00	0.00	0.00
Family Investment	53.00	137.00	137.00	0.00	130.00	-7.00
Administration	11.00	7.18	7.18	0.00	1.31	-5.87
Adult and Community Services	7.00	3.96	3.80	-0.16	3.80	0.00
Child Support Enforcement	1.00	0.00	0.00	0.00	0.00	0.00
Child Care	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Positions</b>	<b>73.25</b>	<b>148.14</b>	<b>147.98</b>	<b>-0.16</b>	<b>135.11</b>	<b>-12.87</b>
				-0.1%		-8.7%

Source: Maryland State Budget

The 7 contractual positions reduced in the Family Investment Administration are vacant positions in the Work Opportunities program.

The 5.87 contractual positions reduced in administration are for summer student workers, including Governor’s summer interns and others.

## Issues

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### 1. Despite \$21 Million Bonus, TANF Balance Gone

Despite projecting the Temporary Assistance for Needy Families (TANF) deficits for the last three years, DHR closed fiscal 2003 with a TANF balance of \$10.1 million. As shown in **Exhibit 1**, DHR projects a positive balance for fiscal 2004 and another small deficit in fiscal 2005.

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**Exhibit 1**  
**Availability of TANF Funding**  
**(\$ in Thousands)**

	<u>FY 2004</u>	<u>FY 2005</u>
<b>Balance</b>	<b>\$10.056</b>	<b>\$1.667</b>
TANF Grant	\$229.098	\$229.098
<i>TANF Out-of-wedlock Births Bonus</i>	<i>19.822</i>	
<i>TANF High Performance Bonus</i>	<i>1.582</i>	
DHR Appropriation	-204.449	-205.953
Planned MSDE Transfer: Maryland's Tomorrow	-5.731	-5.731
Planned OCYF Transfer: Local Management Board Fund	-22.907	-19.507
<i>Transfer to OCYF</i>	<i>-1.550</i>	
<i>POC/Child Care Administration Shortfall</i>	<i>-16.500</i>	
<i>TCA Shortfall</i>	<i>-4.400</i>	
<i>Family Investment Administration Investments</i>	<i>-3.204</i>	
<i>Marriage Initiative</i>	<i>-0.150</i>	
<b>Ending Balance</b>	<b>\$1.667</b>	<b>-\$0.426</b>

Note: Italicized items must be accomplished through budget amendment.

Source: Department of Human Resources

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Fiscal 2003 ended with a \$10 million balance. In addition, Maryland has earned \$21.5 million in unexpected TANF bonuses that will be available for spending in fiscal 2004. The bonuses are the result of success reducing out-of-wedlock births (\$19.8 million) and finalizing adoptions (\$1.6 million). By filling projected deficits and making selected program enhancements,

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the department will spend the entire TANF balance and bonus. The TANF balance at the end of fiscal 2004, \$1.7 million, is the result of the federal fund impact of administrative cost containment actions.

Together, the TANF balance and bonuses make available about \$31.5 million. The fiscal 2004 appropriation overspent TANF funds by \$5.6 million, using a portion of the unexpected revenues. The department also plans to use the available TANF to alleviate projected deficits in TCA (\$4.4 million) and POC (\$16.5 million). It will purchase an information technology package to provide immediate feedback on the engagement and work participation rates of active TCA clients (\$335,187). It is planning to provide \$2.9 million in additional resources for the Family Investment Administration but has not provided any information about the purpose of the additional spending. The department is also finalizing plans to spend \$150,000 on the Marriage Initiative in the Community Services Administration. Finally, \$1.6 million will be transferred to the Office for Children, Youth, and Families (OCYF) to augment its activities relating to reducing out-of-wedlock births. The transfer recognizes the role that OCYF programs played in earning the bonus. The planned use of the balance (in part) and the bonus funds will be subject to legislative review through the budget amendment process. The Department of Legislative Services (DLS) has not received the budget amendment(s) making the changes.

Indicating some effort to align TANF expenditures with the annual grant, the administration has reduced planned TANF spending in fiscal 2005 by \$3.5 million compared to the fiscal 2004 allowance. The primary change is a reduction in the transfer to OCYF for Local Management Boards. Spending within DHR is about \$100,000 less than was planned in fiscal 2004. These reductions, combined with the small 2004 balance, mean that fiscal 2005 TANF is less than \$500,000 oversubscribed.

The bonuses awarded in fiscal 2004 will allow TANF spending to increase for one year, but the State should plan on reducing TANF spending by at least another \$2.1 million in fiscal 2006 and for the long term. **Exhibit 2** illustrates changes in TANF spending within DHR.

The most significant change in DHR's TANF spending in fiscal 2005 is the \$22 million decline in TANF support of the Child Care Administration's Purchase of Care (POC) program. The general fund appropriation for POC increases by \$7.8 million. The total appropriation for POC in fiscal 2005 is \$13.9 million less than fiscal 2004 planned spending. The department has increased copayments paid by POC clients (estimated savings = \$11.2 million in fiscal 2005). Normal attrition and maintaining the waiting list may alleviate the remaining \$1 million to \$4 million deficit indicated by fiscal 2004 spending and DLS' baseline estimates.

Other major changes in TANF spending occur in the Family Investment Administration in cash assistance and the Work Opportunities program. As in fiscal 2003, TANF funds are transferred out of the Work Opportunities program and into cash assistance. The implications of this shift in light of stricter work requirements being considered in federal TANF reauthorization legislation will be discussed in the Family Investment Administration analysis.

**Exhibit 2**  
**Changes in TANF Spending in DHR’s Budget**  
**Fiscal 2002 – 2005 Allowance**  
**(\$ in Millions)**

<u>Activity</u>	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>w/o Bonus</u>	<u>FY 2004</u> <u>w/ Bonus</u>	<u>FY 2005</u> <u>Allowance</u>	<u>Annual</u> <u>Change</u>
Cash assistance	\$80.3	\$104.6	\$64.8	\$64.8	\$72.5	\$7.7
Foster care maintenance payments	51.9	25.9	6.9	6.9	6.9	\$0.0
Work opportunities	46.9	35.1	41.8	41.8	35.2	-\$6.6
Caseworkers and other LDSS family investment services	42.0	22.4	36.3	38.7	38.1	-\$0.6
Child welfare social workers, local services, and related administrative support	16.5	0.2	14.3	15.6	17.2	\$1.6
Administrative support	5.4	5.3	12.8	12.4	13.5	\$1.1
Local Adult and Victims' Services	2.9	1.9	4.5	4.6	3.8	-\$0.8
Purchase of Child Care	0.0	11.9	23.6	40.1	18.0	-\$22.1
Other	0.5	0.5	1.1	1.0	0.8	-\$0.2
<b>Total</b>	<b>\$246.4</b>	<b>\$207.8</b>	<b>\$206.1</b>	<b>\$225.9</b>	<b>\$206.0</b>	<b>-\$19.9</b>
Other Agencies	\$23.1	\$23.0	28.6	30.2	25.2	-5.0
<b>Grand Total</b>	<b>\$269.5</b>	<b>\$230.8</b>	<b>\$234.7</b>	<b>\$256.1</b>	<b>\$231.2</b>	<b>-\$24.9</b>

LDSS = local departments of social services

Source: Department of Human Resources

**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 TANF expenditures of the Department of Human Resources (DHR). DHR should submit quarterly reports to the 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, 2004, and this report should cover the quarter ending June 30, 2004.

## 2. Fiscal 2005 Allowance Exceeds TANF MOE Requirement by \$15.5 Million

In return for its annual TANF block grant of \$229.1 million, the State must spend \$177.7 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' homes and programs that promote job preparation, work, or marriage count toward MOE. **Exhibit 3** provides a summary of the MOE funding in the fiscal 2003 budget and estimates for fiscal 2004 and 2005.

**Exhibit 3**  
**TANF Maintenance of Effort**  
**Fiscal 2003 – 2005 Allowance**  
**(\$ in Thousands)**

	<u>Fiscal 2003</u>	<u>Fiscal 2004 Working</u>	<u>Fiscal 2005 Allowance</u>
<b>Traditional Sources of MOE</b>			
Cash assistance	\$44,286	\$64,922	\$64,342
Child care subsidies	23,301	23,301	23,301
Employment services/Caseworkers	13,968	17,302	15,754
Administration	5,120	4,287	4,587
Kinship care/Foster care payments	9,671	8,800	8,800
Social Services Administration	71		
Child Care Administration	19		
<b>Subtotal</b>	<b>\$96,436</b>	<b>\$118,612</b>	<b>\$116,785</b>
<b>Other Sources of MOE</b>			
Refundable State Earned Income Tax Credit	\$56,706	\$63,200	\$63,200
Poverty and Targeted Improvement Grants (MSDE)	28,146		
Local Management Boards			3,450
Electric Universal Service Program	1,501	1,501	1,501
<b>Subtotal</b>	<b>\$86,353</b>	<b>\$64,701</b>	<b>\$68,151</b>
<b>Total</b>	<b>\$182,789</b>	<b>\$183,313</b>	<b>\$184,936</b>

MSDE = Maryland State Department of Education

Source: Department of Human Resources

DHR relies on cash assistance spending to account for a large amount of MOE spending. In fiscal 2005 DHR plans to claim over \$64 million, or 36% of the MOE requirement, on cash assistance. Spending on child care subsidies, employment services, caseworkers, administration

related to the Family Investment Program, and foster care payments for kinship care are also counted toward traditional spending. To meet the balance of MOE, DHR has turned to other spending on eligible families, including the State's refundable earned income tax credit, the Electric Universal Service Program, and certain spending by the Local Management Boards. In fiscal 2005 the State plans to claim an estimated \$68.2 million in these three areas.

Estimates of the MOE show that in fiscal 2005 DHR will be able to claim \$184.9 million, or \$7.2 million more than the federal government requires. This difference provides the General Assembly flexibility in reducing general fund spending in these areas without the risk of federal financial penalties. The constraint on this opportunity is the extent to which other funds or cost-saving measures are available to avoid potential shortfalls.

### **3. 2004 Priorities: Maintain Most, but Not All, Services**

The department has faced almost \$91 million of choices mid-year in fiscal 2004. These choices have resulted from funding shortfalls, federal windfalls, department priorities, and the State's need for general fund savings. **Exhibit 4** enumerates the challenges and choices DHR is facing in fiscal 2004.

As detailed earlier in this overview analysis, the administration is seeking deficiency appropriations totaling \$40.5 million for DHR to cover shortfalls in foster care, burial assistance, and legal services. The department plans to spend its entire TANF balance, as well as \$19.8 million in TANF bonus available in fiscal 2004. The department has improved the program integrity of TEMHA program, ensuring that clients stop receiving assistance payments as soon as their eligibility expires. The administration required the department to find \$6 million in administrative savings to help the State's fiscal condition, and the department has found an additional \$3.3 million in administrative savings to fund a department priority, MD CHESSIE. Finally, the department has reduced services significantly in two areas: suspending cash assistance to new applicants in the TEMHA program and increasing copayments for subsidized child care.

**Exhibit 5** illustrates that, of the \$91 million in needed funds identified in fiscal 2004, 44% is new spending for basic entitlement programs, including foster care and TCA. The administration has proposed a deficiency appropriation for foster care and plans to use a budget amendment to spend TANF balance for TCA. Beyond the entitlements, another 23% is also new spending by the State on programs with direct effect on clients, specifically child care assistance (\$16.5 million), burial assistance (\$0.4 million), and legal services (\$4 million). With these choices, the administration has solved two-thirds of the problem DHR faces by providing new resources or allocating available resources.

Another 14% of the problem DHR faces is the result of spending on administration priorities, including ensuring DHR's contribution to solving the State's fiscal crisis (\$6 million), funding a new child welfare computer system (\$3.3 million), and providing resources for department initiatives and enhancements related to welfare, work, and marriage promotion (\$3.4 million).

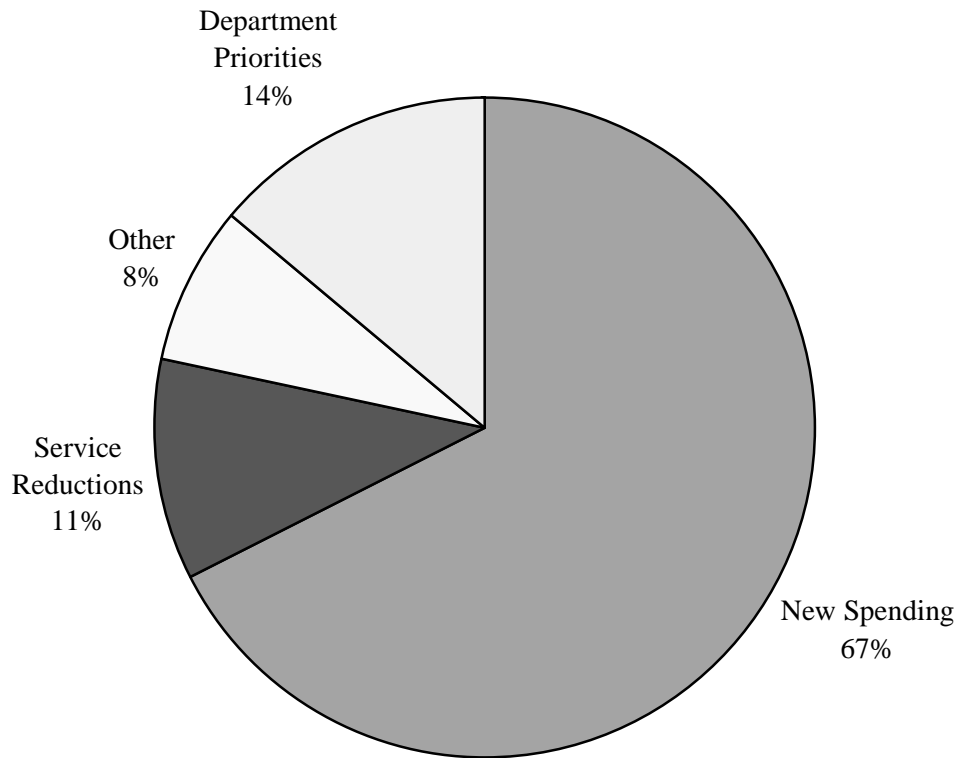
**Exhibit 4**  
**Funding Choices at DHR**  
**Fiscal 2004**  
**(\$ in Millions)**

	New Revenues		Cost Containment		
	<u>Deficiency Appropriations</u>	<u>TANF Bonus and Balance</u>	<u>Program Integrity</u>	<u>Administrative Cost Containment</u>	<u>Service Reductions</u>
<b>Solutions</b>	<b>\$40.4</b>	<b>\$29.9</b>	<b>\$1.3</b>	<b>\$9.3</b>	<b>\$9.9</b>
<b>Needs</b>					
Oversubscribed TANF funds	-\$5.6	5.6			
TEMHA	-7.0		1.3		5.6
POC (child care)	-20.8	16.5			4.3
Foster Care	-36.0	36.0			
Burial Assistance	-0.4	0.4			
Legal Services	-4.0	4.0			
TCA	-4.4	4.4			
State general fund cost containment	-6.0			6.0	
<b>Investments/Enhancements</b>					
Family Investment Administration	3.2	\$3.2			
Marriage Initiative	0.2	\$0.2			
MD CHESSIE	3.3			3.3	
<b>Balance</b>	<b>\$0.0</b>	<b>\$0.0</b>		<b>\$0.0</b>	

TANF = Temporary Assistance for Needy Families  
 TEMHA = Transitional Emergency Medical and Housing Assistance  
 POC = Purchase of Care  
 TCA = Temporary Cash Assistance  
 MD CHESSIE = Maryland Children's Electronic Social Services Information Exchange

Source: Department of Legislative Services

**Exhibit 5  
Choices Show Priorities  
Fiscal 2004**



Source: Department of Legislative Services

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Eleven percent of the problem DHR has faced has been solved with a reduction in services to clients, specifically the POC copayment increase and the TEMHA moratorium.

Finally, 8% of the \$91 million in question has been absorbed in other ways. For example, the department has saved \$1.3 million by ensuring that clients no longer eligible stop receiving TEMHA cash assistance. Also, last year's allowance oversubscribed available TANF by \$5.6 million. Because the appropriation was not reduced, the department will use unexpected TANF balance to fulfill the previous spending plan.

### **Were Service Reductions Avoidable?**

Other choices were available to the administration with regard to programs at DHR. Specifically:

- The State will end fiscal 2004 with a projected general fund balance of almost \$190 million. The \$6 million that DHR returned to the State's general fund is enough to prevent the TEMHA moratorium. With a projected general fund balance of \$190 million, would additional general fund deficiency appropriations be appropriate?
- The department identified \$3.3 million in administrative savings to fund MD CHESSIE.
- The department is spending \$3.4 million on Family Investment enhancements and the Marriage Initiative. Child care subsidies are an acceptable use of TANF and perhaps could have eliminated, reduced, or postponed increases in copayments. Using TANF for part of the child care deficit would have freed up to \$3.4 million in general funds for other purposes.

These are a few examples of different choices that have been available to the administration.

**DLS recommends that the Secretary comment on why the department has funded some shortfalls, initiatives, and enhancements and not others. Specifically, the Secretary should comment on why the Purchase of Care and Transitional Emergency Medical and Housing Assistance programs were identified for service reductions.**

### **4. Still Waiting on Federal TANF Reauthorization**

On October 1, 2003, the President signed the fifth temporary extension of TANF program since September 2002. The law continues TANF as is through March 31, 2004. The U.S. House of Representatives passed its version of TANF reauthorization in February 2003. On September 10, 2003, the Senate Finance Committee passed its version, but the full Senate has yet to act. The National Conference of State Legislatures anticipates that the full Senate will take up the reauthorization bill in mid to late February 2004. As reported last year, child care funding and work requirements are the primary issues to be resolved by congressional negotiators.

Changes to work requirements would have a significant effect on Maryland. Maryland's current work requirement is very low, due to credit the State receives for reducing the overall caseload since 1995. Stricter work requirements would likely require greater investments in job readiness programs and child care. With available TANF at DHR fully subscribed, any changes necessary to comply with the welfare reform law will require DHR to realign its expenditures to meet these needs. **The Secretary should comment on the extent to which the department would have to shift its spending patterns to accommodate possible changes in the law.**

The current TANF extension expires March 31, 2004. What Congress will do and when it will happen are both uncertain. Another extension is possible. New federal policies may require changes in current Maryland policy. New federal money may be available. In any case, should Congress act, or should the effective date of congressional action occur while the General Assembly is not in session, the General Assembly should ensure a process through which it has input into any decision made to alter programs, policies, or spending in response to the reauthorization. **DLS recommends the following budget bill language:**

Provided that it is the intent of the General Assembly that the department spend federal Temporary Assistance for Needy Families (TANF) funds in accordance with the budget detail presented to the General Assembly. If federal legislation reauthorizing the TANF program or extending it with changes, is signed into law, the department shall provide the budget committees with a report on the provisions of the federal law, their implications in Maryland, and the opportunities and challenges presented by the federal law. The report shall be due to the committees within 30 days of final passage of the federal law reauthorizing TANF or extending it with changes. Should the department wish for any reason to make a regulatory, policy, procedural, or budgetary change that transfers among programs, increases, or decreases TANF funds of \$1,000,000 or more, it shall notify the budget committees of its intent, and the committees shall have 30 days to review and consider the proposed change before it becomes effective.

## **5. Audit Reveals Fiscal 2003 Shortfall of \$23 Million**

The Office of Legislative Audit's (OLA) *Statewide Review of Budget Closeout Transactions for Fiscal Year 2003* identified four problems with DHR's fiscal 2003 closeout. Two of the findings have significant general fund effects.

- The department apparently spent \$17.3 million in TANF twice, charging two programs' expenditures against the same revenue.
- The department for several years has made an optimistic assumption about the federal match available for certain foster care expenditures, resulting in \$6.3 million of expenditures that the federal government is unlikely to fund.

### **Having Your TANF and Spending It Too**

At the end of fiscal 2003, the department found that Foster Care Maintenance Payments had exceeded the budgeted amount by about \$17.3 million. Based on accounting adjustments made to correct closeout issues from fiscal 2002 (See "Show Me the Money Trail," *Analysis of the Maryland Executive Budget*, April 2003, Vol. 3, pp. 458 through 460.), the department believed that \$17.3 million in TANF was available to fill the foster care deficit. The fiscal 2003 closeout audit revealed that, in fact, the \$17.3 million had already been spent for another program's expenditures,

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specifically those for certain Family Preservation programs. As a result, the department still needs \$17.3 million to alleviate the fiscal 2003 foster care deficit.

On January 29, 2004, the department submitted to OLA a corrective action plan to use TANF to free up \$17.3 million in State funds in fiscal 2003 and 2004. As illustrated in **Exhibit 6**, the department would transfer the identified general and/or special funds from certain family preservation and other programs to fiscal 2003 Foster Care Maintenance Payments and replace the transferred funds with TANF. Because a portion of the general funds identified for transfer provide match for other federal funds, the department would lose \$2 million in federal Title IV-B funding. As a result, the department would need \$19.3 million in TANF to free up \$17.3 million in general and special funds.

Based on the TANF spending plan for fiscal 2004 described earlier in this analysis, using \$19.3 million in TANF to take this corrective action would result in a negative TANF fund balance of \$17.6 million at the close of fiscal 2004.

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**Exhibit 6**  
**Fiscal 2003 Closeout Audit**  
**Finding and Proposed Corrective Action**  
**(\$ in Millions)**

	<u>TANF</u>	<u>General Funds</u>	<u>Other Federal Funds</u>
<b>The Problem</b>			
Fiscal 2003 Foster Care Maintenance Payments deficit		-\$17.3	
Fill Foster Care Maintenance Payments deficit with TANF	\$17.3		
Audit discovers that TANF is already spent	-17.3		
<b>Audit Fix Needed</b>		<b>-\$17.3</b>	
<b>DHR Proposal</b>			
Fiscal 2004 TANF Ending Balance (Estimated)	1.7		
Substitute TANF for GF in family preservation and other programs in Fiscal 2003 and 2004	19.3	-17.3	-\$2.0
<b>Audit Fix</b>		<b>\$17.3</b>	
<b>Fiscal 2004 TANF Ending Balance (Revised)</b>	<b>-\$17.6</b>		

Source: Department of Human Resources; Department of Legislative Services

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Several issues remain unresolved based on the available audit information and the department's corrective action plan. Those issues are:

- It is unclear whether the Foster Care Maintenance Payments from fiscal 2003 were an allowable TANF expenditure. If they are not, transfers such as those the department has proposed would be necessary to ensure that general funds are used to fill the 2003 Foster Care shortfall. If the expenditures are allowable TANF expenditures, a less complicated solution, involving only TANF funds, may be possible.
- It is unclear whether any of the \$17.3 million in 2003 Foster Care Maintenance Payments is eligible to draw down federal Title IV-E funds. If so, a lower general fund amount may be adequate to fill the 2003 Foster Care shortfall.
- The department has not determined yet how it will make \$19.3 million in TANF available to fund the corrective action plan it has proposed.

### **DLS recommends that the Secretary comment on:**

- **whether the fiscal 2003 Foster Care Maintenance Payments in question could be eligible for federal Title IV-E funding;**
- **whether the fiscal 2003 Foster Care Maintenance Payments in question are an allowable TANF expenditure;**
- **what adjustments in the department's TANF spending plan for fiscal 2004, 2005, and beyond would be necessary to implement the proposed corrective action plan;**
- **the status of conversations with the Department of Budget and Management regarding the availability of general funds to solve this problem without creating a TANF deficit; and**
- **what action the department is taking to ensure that accounting and budgeting safeguards are in place to prevent similar problems in the future.**

### **Training Expenditures Rely on Questionable Federal Match Rate**

The OLA closeout audit also found that the department has charged \$6.3 million for training for child welfare service workers to federal Title IV-E funds, but the charges may not be allowable. Federal Title IV-E funding does in fact help provide training, but the department has assumed a 75% federal financial participation rate when federal officials maintain that a 50% rate is appropriate. The department has used the higher rate since March 1999. OLA included a similar finding in its fiscal 2002 closeout audit.

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The department reports that federal officials began an audit of its training claims in September 2001. The audit was to cover calendar 1999 through 2001. According to the department, the audit was completed in December 2002, but a draft report has not been issued. If the audit is unfavorable to DHR when it is released and the U.S. Department of Health and Human Services confirms the lower match rate, DHR will seek legal counsel and appeal the decision.

In the meantime, DHR intends to continue to submit the training claims at the higher match rate. To limit future liabilities, however, the department will discontinue budgeting the training expenditures at the higher rate.