

N00D01
Child Care Subsidies
 Department of Human Resources

Operating Budget Data

(\$ in Thousands)

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$42,504	\$34,857	\$34,817	-\$40	-0.1%
Special Fund	140	0	0	0	
Federal Fund	<u>61,865</u>	<u>68,772</u>	<u>72,540</u>	<u>3,769</u>	<u>5.5%</u>
Total Funds	\$104,509	\$103,629	\$107,358	\$3,729	3.6%

- Funding for child care subsidies increases by \$3.9 million.

Personnel Data

	<u>FY 05</u> <u>Actual</u>	<u>FY 06</u> <u>Working</u>	<u>FY 07</u> <u>Allowance</u>	<u>FY 06-07</u> <u>Change</u>
Regular Positions	190.95	6.00	6.00	0.00
Contractual FTEs	<u>0.23</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	191.18	6.00	6.00	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.24	4.00%
Positions Vacant as of 12/31/05	0.00	0.00%

- No change in personnel occurs between fiscal 2006 and the 2007 allowance.

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

For further information contact: Steve McCulloch

Phone: (410) 946-5530

Analysis in Brief

Major Trends

Accessibility Projected to Improve Slightly: Although the percent of eligible families receiving child care subsidies is projected to increase from 13% in fiscal 2005 to 17% in fiscal 2006 and 2007, this is well below the high of 35% in fiscal 2000. The percent of families with copayments of 10% or less of gross income is expected to stabilize at the fiscal 2005 level of 70%.

Issues

Purchase of Care Wait List Eliminated: On November 1, 2005, the Department of Human Resources eliminated the Purchase of Care wait list, thereby allowing all eligible non-Temporary Cash Assistance applicants to receive child care subsidies. Despite the large number of children that were on the wait list, enrollment during fiscal 2007 is not expected to approach the pre-wait list level. Expenditure experience during the first half of fiscal 2006 suggests total expenditures will be well short of the appropriation.

Purchase of Care to Be Transferred to the Maryland State Department of Education: The Governor has issued an executive order creating a new Child Care Coordinating Council and has announced that budgetary and operational responsibility for the program will be transferred to the Maryland State Department of Education. Restrictions on the use of Temporary Assistance for Needy Families (TANF) and TANF-maintenance of effort funds will prevent the program from becoming an entirely educational program.

Recommended Actions

1. Add language to the Purchase of Care appropriation restricting expenditure of funds to that purpose only.

N00D01
Child Care Subsidies
Department of Human Resources

Operating Budget Analysis

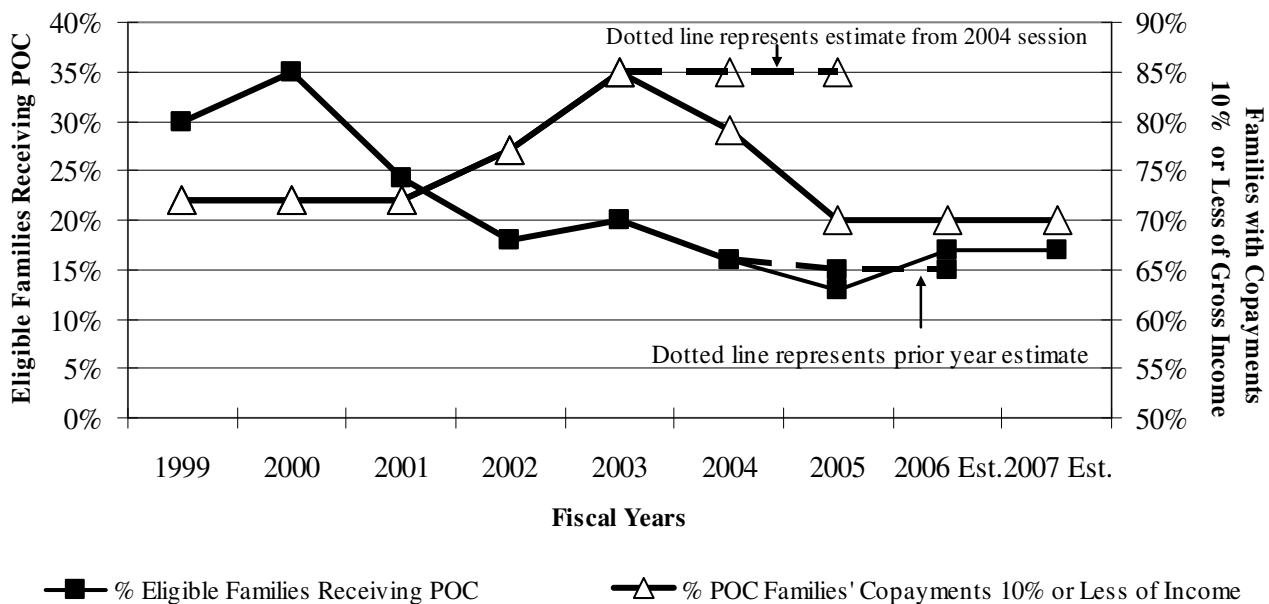
Program Description

On July 1, 2005, the child care licensing and program improvement components of the Department of Human Resources' (DHR) Child Care Administration were transferred to the Maryland State Department of Education. Only the Office of Child Care Subsidy and the Purchase of Care (POC) Voucher Program remain in DHR and are now administered through the Family Investment Administration. The POC program provides child care subsidies to eligible families to enable them to achieve and maintain economic self-sufficiency and avoid dependency on public assistance.

Performance Analysis: Managing for Results

The key goal for the POC program is that child care is accessible to low-income families. **Exhibit 1** shows accessibility measures from fiscal 1999 and projected through fiscal 2007. Although the percent of eligible families receiving child care subsidies is projected to increase from 13% in fiscal 2005 to 17% in fiscal 2006 and 2007, this is well below the high of 35% in fiscal 2000. The percent of families with co-payments of 10% or less of gross income is expected to stabilize at the fiscal 2005 level of 70%.

**Exhibit 1
Accessibility Measures
Fiscal 1999 – 2007**



Source: Maryland State Budget

Governor's Proposed Budget

As shown in **Exhibit 2**, the fiscal 2007 allowance is \$3.7 million more than the current working appropriation. A \$3.9 million increase for child care subsidies in the POC program is partially offset by decreases in personnel costs and the removal of one-time-only funding associated with training for a new information system.

Exhibit 2
Governor's Proposed Budget
Child Care Subsidies
Department of Human Resources
(\$ in Thousands)

How Much It Grows:	<u>General</u> <u>Fund</u>	<u>Federal</u> <u>Fund</u>	<u>Total</u>
2006 Working Appropriation	\$34,857	\$68,772	\$103,629
2007 Governor's Allowance	<u>34,817</u>	<u>72,540</u>	<u>107,358</u>
Amount Change	-\$40	\$3,769	\$3,729
Percent Change	-0.1%	5.5%	3.6%
 Where It Goes:			
Personnel Expenses			
Increments and deferred compensation.....			\$9
Employee and retiree health insurance			8
Reduced turnover			7
Reclassifications			6
Retirement.....			3
Overstatement of health insurance in fiscal 2006 base			-7
Two full-time equivalent positions transferred to Maryland State Department of Education (salary & fringes).....			-105
Other Changes			
Purchase of Care			3,856
Remove contractual one-time-only costs for training and promotion related to Child Care Administration Tracking System.....			-48
Total			\$3,729

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

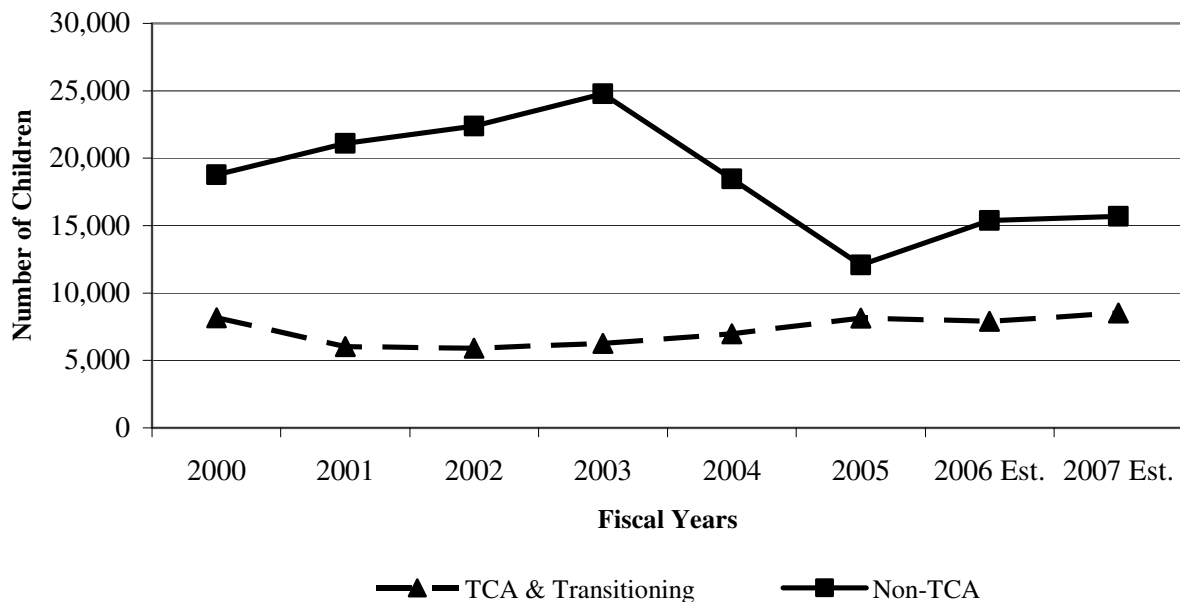
Issues

1. Purchase of Care Wait List Eliminated

On November 1, 2005 DHR eliminated the POC wait list, thereby allowing all eligible non-TCA applicants to receive child care subsidies. The wait list had been imposed in December 2002 as a cost cutting measure, and after it was imposed only those recipients receiving Temporary Cash Assistance (TCA) or transitioning from TCA were allowed to begin receiving subsidies. Clients receiving subsidies at the time the wait list was imposed, including non-TCA clients, continued to receive subsidies, but all new non-TCA applicants were put on the wait list. DHR estimated that there were over 21,000 children on the wait list as of June 30, 2005.

Despite the large number of children on the wait list, DHR does not anticipate an immediate return to the pre-wait list enrollment level. As shown in **Exhibit 3**, non-TCA enrollment in fiscal 2003 stood at just under 25,000 children. With imposition of the wait list, the caseload declined rapidly during the following two years. At the end of fiscal 2005, non-TCA enrollment was less than half the level in fiscal 2003. With the lifting of the wait list, DHR is expecting an increase of just over 3,300 in the non-TCA enrollment for fiscal 2006 and a mere 322 increase in fiscal 2007. There are likely several factors contributing to the relatively low increase in non-TCA caseload. First, many of the applicants that were on the wait list may either have found alternative childcare or the children aged out of the program. Another factor that could be contributing to the slow growth in the caseload is that eligible households are simply unaware that there is no longer a wait list.

**Exhibit 3
Purchase of Care Caseload Mix**



Source: Department of Human Resources

Total expenditures for POC in fiscal 2006 as of December are \$1.8 million less than for the same period in fiscal 2005 as shown in **Exhibit 4**. If this trend continues, total expenditures for fiscal 2006 will be well below the \$103 million budgeted. The General Assembly added language to the 2005 budget bill prohibiting the transfer of funds budgeted for POC to any other purpose. **DHR should brief the committee on efforts it has made to inform eligible families that non-TCA applicants can now receive subsidies.**

Exhibit 4
Purchase of Care Expenditures
Fiscal 2005 and Fiscal 2006 Year-to-date

	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>
July	\$169,925	\$136,087
August	7,787,896	4,251,474
September	5,196,531	10,041,671
October	9,464,088	4,106,343
November	6,848,424	6,677,349
December	7,044,147	9,461,585
January	4,312,317	
February	6,423,900	
March	8,775,627	
April	6,471,352	
May	4,179,821	
June	16,292,092	
Total	\$82,966,120	\$34,674,509
As of December 31	\$36,511,011	\$34,674,509

Source: Department of Human Resources

2. Purchase of Care to Be Transferred to the Maryland State Department of Education

Chapter 585 of 2005 transferred the Child Care Administration from DHR to the Maryland State Department of Education (MSDE) but did not transfer the POC program. Chapter 585 also required MSDE, in consultation with DHR, to study whether the POC program should be transferred to MSDE at a later date and to report back to the budget committees with the results of the study and any recommendations on transferring POC. MSDE submitted the report on November 30, 2005.

The report notes that both DHR and MSDE have a role to play in implementing and improving the State's child care subsidy program given the importance of child care in enabling people on the welfare rolls to move into employment and the importance of child care in early learning and preparing children to be successful in school. The study group therefore recommended that the Governor issue an executive order requiring the joint operation and oversight of the child care subsidy program by both MSDE and DHR but that one or the other be designated as the lead agency

N00D01 – DHR – Child Care Subsidies

in order to comply with federal requirements imposed as a condition receiving federal Child Care Development Fund dollars. The study group also recommended that the executive order establish a policy group comprising an equal number of MSDE and DHR staff and the Budget Director of the Department of Budget and Management (DBM) to focus on improving the child care program in the areas of sustainability, accessibility, quality, and accountability.

On February 13, 2006, the Governor signed Executive Order 01.01.2006.02 creating the Maryland Child Care Subsidy Coordinating Council “...for the purpose of developing, evaluating and coordinating the administration of all State child care subsidy or voucher programs including the Child Care Subsidy Program (commonly known as the Purchase of Care program).” The council will be chaired by the Executive Director of the Office for Children and will include the State Superintendent of Schools, the Secretary of the DHR, and senior staff from each agency. A press release from the Office of the Governor, also issued February 13, 2006, indicates that the Governor is transferring the budget and operational responsibility for POC to MSDE. DHR will continue to provide both eligibility screening and payment processing through local departments of social services and will have input on administration of POC through membership on the Maryland Child Care Subsidy Coordinating Council. DBM indicates that the budgetary transfer would likely be made for fiscal 2007 in a supplemental budget to be introduced during the 2006 legislative session. **DHR should comment on the transfer of the POC program and any impact the transfer could have on Maryland’s ability to continue to use TANF and TANF MOE funds for child care subsidies.**

Recommended Actions

1. Add the following language:

Provided that the funds budgeted in this program may only be expended for the purposes appropriated and may not be transferred by budget amendment or otherwise to any other program or purpose.

Explanation: Purchase of Care funding has been used in the past to cover shortfalls in other areas of DHR's budget. This language restricts the funds budgeted for child care subsidies to that purpose only.

Current and Prior Year Budgets

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2005					
Legislative Appropriation	\$49,015	\$0	\$87,938	\$0	\$136,953
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	-6,511	140	-14,560	0	-20,931
Reversions and Cancellations	0	0	-11,514	0	-11,514
Actual Expenditures	\$42,504	\$140	\$61,865	\$0	\$104,509
Fiscal 2006					
Legislative Appropriation	\$41,794	\$0	\$82,201	\$0	\$123,995
Budget Amendments	-6,937	0	-13,429	0	-20,367
Working Appropriation	\$34,857	\$0	\$68,772	\$0	\$103,629

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

Fiscal 2005

The fiscal 2005 budget for the Child Care Administration closed out \$32.4 million less than the legislative appropriation. Of this amount, \$6.5 million general funds and \$14.5 million federal funds represents funds available due to maintaining the non-TCA wait list for the POC program. These funds were reallocated to cover shortfalls in foster care. Budget amendments also added \$145,827 of general funds for the cost-of-living allowance and withdrew \$156,773 of general funds and \$24,704 of federal funds relating to the Electronic Social Services Information Exchange (MD CHESSIE) System. The general funds were used to cover the costs of development of MD CHESSIE and the federal fund decrease represented the federal match which would have been received had the general funds not been diverted to MD CHESSIE. The \$11.5 million federal fund cancellation comprised \$8.0 million not spent due to maintaining the POC wait list and \$3.5 million not expended in contractual services due to the cancellation of the Resource and Referral contract and not expended in salaries and wages due to positions remaining vacant due to the hiring freeze.

Fiscal 2006

The \$20.4 million decrease in the fiscal 2006 budget represents the transfer to the Maryland State Department of Education of all the Child Care Administration functions except the POC program.

Audit Findings

Audit Period for Last Audit:	December 18, 2000 – January 13, 2004
Issue Date:	March 2005
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	12.5%
Rating: (if applicable)	n/a

- Finding 1:** Substantiated complaints of unlicensed care were not adequately pursued.
- Finding 2:** Results of the Comprehensive Program Review System were not adequately monitored to ensure that local departments implemented appropriate corrective actions.
- Finding 3:** Collection of child care subsidy overpayments was not adequately pursued in accordance with State regulations.
- Finding 4:** Child Care Administration did not ensure that the proper monthly subsidy rates were used to make payments to providers of informal child care services.
- Finding 5:** Child Care Administration’s procedures were inadequate to verify the validity of POC billings submitted by providers.
- Finding 6:** Contractual payments were made without verifying the propriety of charges billed.
- Finding 7:** **Access to critical system functions on the Child Care Administration Management Information System (CCAMIS) was not sufficiently restricted or controlled.**
- Finding 8:** Child Care Administration had not taken action to ensure compliance with the Federal Fair Labor Standards Act (FLSA) that classifies in-home providers as domestic workers that are covered under the minimum wage provisions.

**Object/Fund Difference Report
DHR Child Care Subsidies**

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	190.95	6.00	6.00	0	0%
02 Contractual	0.23	0	0	0	0.0%
Total Positions	191.18	6.00	6.00	0	0%
Objects					
01 Salaries and Wages	\$ 11,716,502	\$ 510,477	\$ 431,515	-\$ 78,962	-15.5%
02 Technical & Spec Fees	10,399	0	0	0	0.0%
03 Communication	319,918	0	2,056	2,056	N/A
04 Travel	101,812	9,567	1,595	-7,972	-83.3%
07 Motor Vehicles	28,459	0	0	0	0.0%
08 Contractual Services	90,790,058	103,108,497	106,921,059	3,812,562	3.7%
09 Supplies & Materials	53,973	0	1,280	1,280	N/A
10 Equip - Replacement	147,066	0	0	0	0.0%
11 Equip - Additional	89,297	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	570,530	0	0	0	0.0%
13 Fixed Charges	680,538	0	0	0	0.0%
Total Objects	\$ 104,508,552	\$ 103,628,541	\$ 107,357,505	\$ 3,728,964	3.6%
Funds					
01 General Fund	\$ 42,504,004	\$ 34,857,035	\$ 34,817,281	-\$ 39,754	-0.1%
03 Special Fund	140,006	0	0	0	0.0%
05 Federal Fund	61,864,542	68,771,506	72,540,224	3,768,718	5.5%
Total Funds	\$ 104,508,552	\$ 103,628,541	\$ 107,357,505	\$ 3,728,964	3.6%

**Fiscal Summary
DHR Child Care Subsidies**

<u>Program/Unit</u>	<u>FY05 Actual</u>	<u>FY06 Wrk Approp</u>	<u>FY07 Allowance</u>	<u>Change</u>	<u>FY06 - FY07 % Change</u>
01 General Administration	\$ 21,542,432	\$ 564,324	\$ 437,476	-\$ 126,848	-22.5%
09 Purchase of Child Care	82,966,120	103,064,217	106,920,029	3,855,812	3.7%
Total Expenditures	\$ 104,508,552	\$ 103,628,541	\$ 107,357,505	\$ 3,728,964	3.6%
General Fund	\$ 42,504,004	\$ 34,857,035	\$ 34,817,281	-\$ 39,754	-0.1%
Special Fund	140,006	0	0	0	0.0%
Federal Fund	61,864,542	68,771,506	72,540,224	3,768,718	5.5%
Total Appropriations	\$ 104,508,552	\$ 103,628,541	\$ 107,357,505	\$ 3,728,964	3.6%