
Department of Human Resources Fiscal 2007 Budget Overview

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

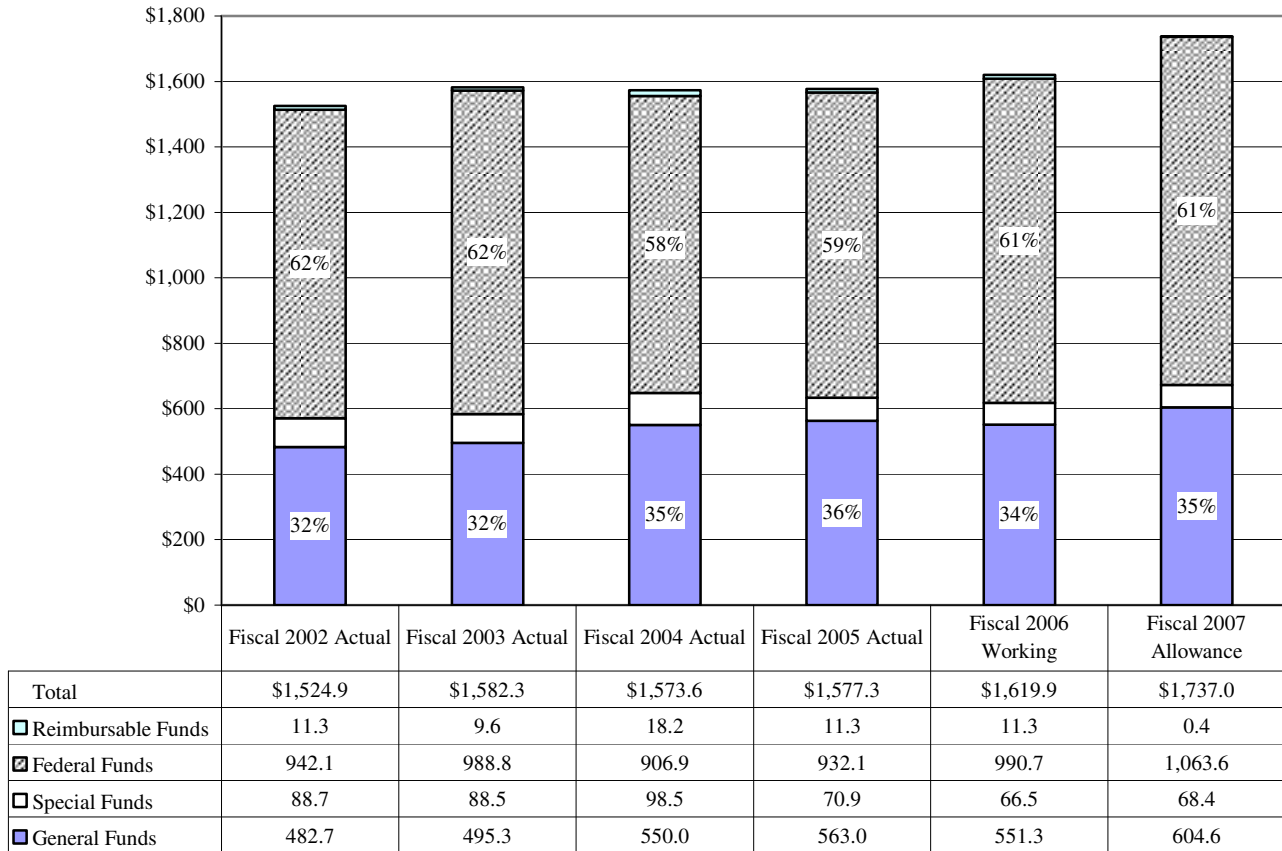
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Analysis of the FY 2007 Maryland Executive Budget, 2006

Department of Human Resources – Funding by Source
Fiscal 2002 – 2007
 (\$ in Millions)



Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

The total Department of Human Resources (DHR) budget grows 7.2% compared to the fiscal 2006 working budget. General funds in the DHR allowance, which increase by \$53.3 million, comprise 34.8% of the total budget, up from 34.0% in fiscal 2006.

Special funds – derived primarily from assessments on electricity customers to fund the Home Energy Program, child support recoveries, and local government participation in aid programs – decline from 4.1% of the budget in fiscal 2006 to 3.9% in the allowance but increase in actual dollars by \$1.8 million.

Federal funds increase by \$72.9 million but remain unchanged as a proportion of the total budget at 61.2%.

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**Department of Human Resources
Budget Overview: All Funds
Fiscal 2004 – 2006
(\$ in Thousands)**

	FY 2004	FY 2005	FY 2006	FY 2007	FY 05-06
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>% Change</u>
Family Investment	\$627,154	\$642,954	\$638,362	\$668,156	4.7%
Temporary Cash Assistance (TCA) Payments	123,791	115,409	117,939	105,831	-10.3%
TDAP ⁽¹⁾	29,487	28,063	24,431	24,204	-0.9%
Food Stamps	283,761	311,648	286,598	316,323	10.4%
Other Public Assistance	17,866	17,485	17,914	18,219	1.7%
Work Opportunities	27,938	24,693	35,672	35,389	-0.8%
Administration	144,310	145,656	155,808	168,190	7.9%
Child Welfare	\$444,622	\$462,446	\$494,024	\$557,287	12.8%
Foster Care/Adoption	274,555	285,561	306,263	346,075	13.0%
Programs/Administration	170,068	176,886	187,761	211,213	12.5%
Child Care	\$132,417	\$104,509	\$103,629	\$107,358	3.6%
Purchase of Care (POC)	106,434	82,966	103,064	106,920	3.7%
Programs/Administration	25,983	21,542	564	437	-22.5%
Adult and Community Services⁽²⁾	\$163,707	\$165,069	\$174,704	\$166,703	-4.6%
Child Support Enforcement	\$76,839	\$78,507	\$85,049	\$94,889	11.6%
Administration	\$128,853	\$123,791	\$124,143	\$142,581	14.9%
Office of the Secretary	11,139	11,549	11,627	12,666	8.9%
Operations	20,674	21,300	19,683	23,665	20.2%
Information Management	56,706	52,479	49,394	62,005	25.5%
Local Department Operations	40,335	38,462	43,440	44,245	1.9%
Total	\$1,573,591	\$1,577,276	\$1,619,911	\$1,736,973	7.2%
General Funds	550,021	562,953	551,345	604,627	9.7%
Special Funds	98,495	70,902	66,529	68,372	2.8%
Federal Funds	906,912	932,134	990,694	1,063,599	7.4%
Reimbursable Funds	18,164	11,288	11,343	375	-96.7%

⁽¹⁾ TDAP = Temporary Disability Assistance Program (formerly Transitional Emergency Medical and Housing Assistance)

⁽²⁾ A fiscal 2006 deficiency appropriation of \$13 million comprising \$6 million general funds and \$7 million special funds is included in the Dedicated Purpose Account. A portion of these funds may be transferred to DHR'S Office of Home Energy Programs in fiscal 2006 and/or 2007 to offset a possible shortfall in federal funding in fiscal 2006 and to cover increasing electric costs in fiscal 2007.

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
Fiscal 2004 – 2006
(\$ in Thousands)**

	<u>FY 2004 Actual</u>	<u>FY 2005 Actual</u>	<u>FY 2006 Working</u>	<u>FY 2007 Allowance</u>	<u>FY 05-06 % Change</u>
Family Investment	\$118,522	\$114,809	\$100,769	\$98,232	-2.5%
Temporary Cash Assistance Payments	23,283	14,752	16,696	11,849	-29.0%
TDAP ⁽¹⁾	24,379	22,287	19,428	19,200	-1.2%
Food Stamps	0	0	0	0	--
Other Public Assistance	12,278	11,921	12,507	12,507	0.0%
Work Opportunities	0	0	0	0	--
Administration	58,583	65,849	52,138	54,676	4.9%
Child Welfare	\$267,544	\$290,168	\$298,782	\$348,445	16.6%
Foster Care/Adoption	204,856	204,052	216,438	248,832	15.0%
Programs/Administration	62,687	86,116	82,344	99,613	21.0%
Child Care	\$44,957	\$42,504	\$34,857	\$34,817	-0.1%
POC	29,897	31,180	34,680	34,680	0.0%
Programs/Administration	15,059	11,324	177	137	-22.5%
Adult and Community Services⁽²⁾	\$38,145	\$39,460	\$41,908	\$35,280	-15.8%
Child Support Enforcement	\$14,979	\$15,455	\$16,487	\$18,325	11.1%
Administration	\$65,874	\$60,557	\$58,542	\$69,528	18.8%
Office of the Secretary	6,765	7,429	7,334	8,101	10.5%
Operations	12,099	12,700	11,451	13,899	21.4%
Information Management	24,662	19,029	17,922	25,518	42.4%
Local Department Operations	22,347	21,399	21,835	22,010	0.8%
Total	\$550,021	\$562,953	\$551,345	\$604,627	9.7%

⁽¹⁾ TDAP = Temporary Disability Assistance Program (formerly Transitional Emergency Medical and Housing Assistance)

⁽²⁾ A fiscal 2006 deficiency appropriation of \$13 million comprising \$6 million general funds and \$7 million special funds is included in the Dedicated Purpose Account. A portion of these funds may be transferred to DHR'S Office of Home Energy Programs in fiscal 2006 and/or 2007 to offset a possible shortfall in federal funding in fiscal 2006 and to cover increasing electric costs in fiscal 2007.

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

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**Department of Human Resources
Major Changes in the Fiscal 2007 Allowance
(\$ in Millions)**

	<u>Total Funds</u>
Department-wide	
Health insurance	\$9.5
Increments and reclassifications	7.7
Underfunding of fiscal 2006 Health Insurance	4.8
Retirement\deferred comp costs	4.0
Removal of savings from fiscal 2006 position abolitions	3.3
Decreased turnover	2.2
Other personnel expenses	-1.5
Administration	
Computer systems – enhancements and maintenance	11.2
Quality assurance contract for MD CHESSIE	3.0
Computer replacement	1.6
New positions – Baltimore City (4)	0.1
Child Welfare	
Foster care/adoption payments	29.0
Increased guardianship subsidies	3.1
Maryland Opportunity Compact – substance abuse treatment	3.0
Safe and Stable Families – Program Improvement Plan funding	2.6
Foster family rate increase	2.5
Super Flex and Flex Funds	1.7
Respite care for foster families	0.7
New positions – Lic & Mont. (5); Balt. City (9); Somerset Co. (1)	0.6
Adult and Community Services	
Transfer Attendant Care Waiver program to DHMH	-15.2
Home Energy Programs – increased eligibility	1.6
New positions – Baltimore City	0.6
Child Care	
Purchase of Care	3.9
Child Support Enforcement	
Contractual cost increases – existing contracts	4.7
New contract for "hard to collect" cases	2.6

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	<u>Total Funds</u>
Family Investment	
Federal Food Stamp payments	29.7
TCA grant increase to 61% of Minimum Living Level	7.7
New positions – Baltimore City (2)	0.1
TCA caseload decline	-19.8
Other Adjustments	12.2
Total	\$117.1

MD CHESIE = Maryland Children’s Electronic Social Services Information Exchange

DHMH = Department of Health and Mental Hygiene

TCA = Temporary Cash Assistance

Note: 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
Fiscal 2003 – 2007**

<u>Program</u>	<u>FY 2003 Actual</u>	<u>FY 2004 Actual</u>	<u>FY 2005 Actual</u>	<u>FY 2006 Estimated</u>	<u>FY 2007 Estimated</u>	<u>FY 06-07 % Change</u>
Cash Assistance						
TCA	72,554	70,745	65,748	60,251	56,461	-6.3%
TDAP	14,313	13,388	12,708	10,844	10,844	0.0%
Child Welfare						
Foster Care	8,009	8,078	7,371	8,094	8,013	-1.0%
Subsidized Adoptions	5,899	6,880	6,612	8,174	8,421	3.0%
Child Care						
Child Care Subsidies	28,567	25,434	21,094	27,390	27,833	1.6%
Expenditures	\$134,780,252	\$106,433,926	\$82,966,120	\$103,064,217	\$106,920,029	3.7%
Child Support Enforcement						
TCA Collections	\$24,731,401	\$20,167,229	\$19,324,000	\$20,167,229	\$19,324,000	-4.2%
Non-TCA Collections	\$412,764,861	\$432,715,911	\$453,699,404	\$432,715,911	\$453,699,404	4.8%

Source: Maryland State Budget; Department of Human Resources

- DHR is projecting continued decline in the Temporary Cash Assistance (TCA) caseload. However, after a steady decline from 80,254 paid recipients in December 2004 to 59,534 paid recipients in July 2005, the caseload stabilized and increased slightly to 61,595 paid recipients in December 2005, the most recent month for which data is available. While some of the increase can be attributed to victims of Hurricane Katrina relocating to Maryland, it may be optimistic to assume the caseload will resume its downward trend to the extent anticipated by DHR.
- Caseloads for foster care are expected to decline slightly from the current year. Subsidized adoptions are projected to grow by 3% from fiscal 2006 to 2007.
- Child care subsidies are expected to increase modestly in fiscal 2007. The big increase in fiscal 2006 results from elimination of the waiting list.
- Child support enforcement collections are not forecast. The most recent actual year's collections are used as the new estimate for collections

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

	FY 2005 <u>Actual</u>	FY 2006 <u>Legislative</u>	FY 2006 <u>Working</u>	FY 2006 <u>Change</u>	FY 2007 <u>Allowance</u>	FY 06-07 <u>Change</u>
Child Welfare	2,394.00	2,571.62	2,537.70	-33.92	2,552.70	15.00
Family Investment	1,988.60	2,161.00	2,113.92	-47.08	2,115.92	2.00
Administration	941.40	1,009.50	1,017.50	8.00	1,021.50	4.00
Adult and Community Services	557.83	597.03	581.03	-16.00	596.03	15.00
Child Support Enforcement	664.05	705.75	705.25	-0.50	705.25	0.00
Child Care	190.95	203.50	6.00	-197.50	6.00	0.00
Total Positions	6,736.83	7,248.40	6,961.40	-287.00	6,997.40	36.00
% Change				-4.0%		0.5%

Source: Maryland State Budget

- Authorized positions have decreased by 287 during fiscal 2006. The decrease comprises:
 - 68.5 positions abolished pursuant to language added to the fiscal 2006 budget bill;
 - 1 grant funded position abolished when the grant ended;
 - 197.5 Child Care Administration positions transferred to the Maryland State Department of Education; and
 - a net of 20 positions transferred to the Departments of Disabilities and Health and Mental Hygiene.
- The fiscal 2007 allowance includes 36 new positions. Of these, 5 positions are being added to the group home licensing and monitoring function (which is being moved from the Social Services Administration to the Office of the Secretary). Another 30 positions are added for the Baltimore City Department of Social Services to address needs identified in its strategic plan. The final new position is a staff attorney for the Somerset Department of Social Services which does not currently have an attorney on staff.

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**Department of Human Resources
Regular Positions: Filled as of December 31***

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>Change FY 06-07</u>
Administration	990.0	944.5	953.0	8.5
Child Welfare	2,304.5	2,371.1	2,371.2	0.2
Adult and Community Services	617.0	559.5	545.0	-14.5
Child Care ¹	203.5	6.0	6.0	0.0
Child Support Enforcement	693.8	680.8	670.8	-10.0
Family Investment	2,047.5	1,945.0	1,995.4	50.4
Total	6,856.2	6,506.8	6,541.4	34.6

¹Fiscal 2005 has been adjusted to remove 189.5 positions transferred to the Maryland State Department of Education in fiscal 2006.

*Fiscal 2006 data as of January 1.

Source: Department of Budget and Management

- Adjusting for the Child Care positions that transferred to the Maryland State Department of Education, filled positions increase across the department by 34.6 positions between fiscal 2005 and 2006.
- Child Welfare, Adult and Community Services, and Child Support had the same or fewer filled positions in fiscal 2006 than in 2005.
- Administration and Family Investment show an increase in filled positions between fiscal 2005 and 2006.

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

	FY 2005	FY 2006	FY 2006	FY 2006	FY 2007	FY 06-07
	<u>Actual</u>	<u>Legislative</u>	<u>Working</u>	<u>Change</u>	<u>Allowance</u>	<u>Change</u>
Child Welfare	1.17	0.00	0.00	0.00	2.00	2.00
Family Investment	47.02	130.00	130.00	0.00	130.00	0.00
Administration	5.03	1.31	1.31	0.00	6.81	5.50
Adult and Community Services	2.97	3.80	3.80	0.00	2.30	-1.50
Child Support Enforcement	0.25	0.00	0.00	0.00	0.00	0.00
Child Care	0.23	0.00	0.00	0.00	0.00	0.00
Total Positions	56.67	135.11	135.11	0.00	141.11	6.00

Source: Maryland State Budget

- Contractual positions increase by a net of six positions. In Child Welfare a position is being added to the Independent Living section of the Prince George’s Department of Social Services. The other position is being added to the St. Mary’s Department of Social Services. In DHR Administration 5.5 new contractual positions are being added to provide general administrative support in headquarters and four counties. In Adult and Community Services 1.5 contractual positions are being eliminated.

Issues

1. Temporary Assistance for Needy Families Reauthorization May Have Significant Budgetary Impact

Background

After operating under a series of extensions since the original expiration in October 2002, Temporary Assistance for Needy Families (TANF) now appears to be close to Congressional reauthorization. Part of the Deficit Control Act of 2005, TANF reauthorization requires only the approval by the U.S. House of Representatives of technical changes to the conference report, made by the Senate in its consideration of the legislation, and the signature of the President to become effective. Under reauthorization, funding and the authority for program activities would be extended through fiscal 2010.

TANF is currently operating under its twelfth extension since 2002. This extension runs through March 31, 2006. The House is scheduled to reconvene on January 31, 2006, and is expected to vote on the technical changes to the conference report shortly thereafter.

While there are a number of major changes to TANF, the basic structure of the program and many components remain unchanged including:

- Basic block grant funding remains at \$16.5 billion per year. Maryland receives just over \$229 million each year.
- Work participation rates for all families that include an adult or minor child head of household remain at 50% and the rate for two-parent families is unchanged at 90%.
- Current hours of work required remains at 30 hours per week for all families and 35 hours for two-parent households.
- Current list of activities that count as work remains unchanged.

Changes

Other components of TANF are altered by imposing additional requirements and by changing the way work participation is calculated. These changes will make it more difficult for states to achieve work participation rates. Failure to attain the rates will result in financial penalties.

One of the changes with the biggest impact on the ability of a state to achieve work participation rates is the recalibration of the caseload reduction credit. Currently, work participation rate targets are reduced one percentage point for each 1% decline in the assistance caseload since fiscal 1995 (although

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declines due to eligibility changes are not incorporated in the credit calculation). Under the reauthorization provisions, states will receive credit toward work participation only for caseload reduction achieved since fiscal 2005. Changing the base year of the caseload reduction credit calculation, eliminates the benefit to the states of the dramatic caseload declines that occurred in the late 1990s. In Maryland, for example, the Department of Human Resources (DHR) indicates that Maryland's credit in fiscal 2005 is 43.2% based on the fiscal 1995 base year. DHR estimates that using fiscal 2005 as the base would reduce the credit to around 5%. Thus Maryland's work participation requirement will increase from 6.8% under the old calculation to 45% using the new calculation. Maryland achieved a work participation rate of 20.6% for fiscal 2005 – well over the required amount using the old calculation but well short under the new guidelines. The revision to the caseload reduction credit would be effective beginning with federal fiscal 2007.

The second change that will prove challenging to the states is that work participation rates and work requirements will now be applied to recipients in separate state programs (SSPs). SSPs are funded entirely with State funds and count toward states' Maintenance of Effort (MOE) requirements. Heretofore, recipients in SSPs were exempt from work participation rates and work requirements. Maryland has used its SSPs for groups that either are not appropriate for participation in federal work activities or, in the case of two-parent households, to deal with problems of achieving a 90% participation rate. An example of a group that is not appropriate for participation in federal work activities is the segment of the caseload that has applied for federal Supplementary Security Income. Maryland currently has about 3,000 households in SSPs.

Other changes include:

- A new penalty for states that do not establish and maintain work verification procedures (DHR indicates that Maryland is likely well positioned to avoid this penalty due to its efforts in addressing concerns in this area raised by the legislative auditors);
- U.S. Department of Health and Human Services oversight and regulation of activities that count toward the work participation rate; and
- Elimination of High Performance and Reduction of Out-of-Wedlock Birth bonuses (Maryland has received over \$45 million from these bonuses in the past five years).

In conjunction with the changes to TANF, the federal legislation also increases child care funding by \$1 billion over five years to help meet the increased child care needs imposed by stricter work participation requirements. The Congressional Budget Office previously estimated that the cost of meeting the new requirements and keeping up with inflation in terms of child care expenditures would be \$8.3 billion over five years. According to an analysis by the Center for Law and Social Policy, Maryland would receive approximately \$3.7 million a year from the \$1 billion increase.

Finally, the federal legislation makes changes to child support to institute a new \$25 user fee and to eliminate the ability of states to use child support incentive grant funds to match federal dollars.

Budgetary Impact

States face significant penalties for not achieving the 50% work participation rate including:

- A reduction in the TANF block grant of 5% (approximately \$11.5 million for Maryland);
- A requirement to replace the funds lost due to the penalty with state funds (another \$11.5 million for Maryland);
- The MOE requirement becomes 80% of the level spent under the former Assistance to Families with Dependent Children (AFDC). Maryland's current MOE requirement is set at 75% of the AFDC level spending. Moving to 80% would require an additional \$11.8 million; and
- The penalty for missing the 90% two-parent work participation rate would be prorated. For Maryland, this would be the loss of approximately \$120,000 plus the backfill requirement, but missing the two-parent rate would also trigger the MOE move to 80%.

Maryland had received between \$5 million and \$6 million in child support incentive funds over the past few years. With the federal match, this has resulted in program funding of between \$16 million and \$18 million annually. Elimination of the ability to use the incentive funds to match additional federal dollars means that Maryland will have to spend an additional \$3.5 million to \$4 million in State funds to match federal dollars in order to maintain the same level of child support enforcement funding.

Given the magnitude of the potential penalties, Maryland will need to strive to further increase the work participation rates for households in its caseloads. DHR, in anticipation of increased work participation rates, has taken several actions in the past few years. It instituted the policy of Universal Engagement in September 2003. Universal Engagement requires cash assistance recipients to be engaged in some type of activity (work, training, substance abuse treatment) from the time they begin receiving subsidies. DHR has also improved data collection by matching TCA recipients against the National Directory of New Hires to ensure Maryland gets credit when a TCA recipient leaves the program due to employment.

The fiscal 2007 budget contains no budgetary changes in response to the expected new requirements. With a work participation rate of 20.6% in federal fiscal 2005, however, Maryland has a significant challenge ahead in meeting the 50% target rate once the caseload reduction credit is recalculated. **The department should brief the committees on how it intends to respond to the proposed changes in the TANF program.**

2. Declines in the TCA Caseload Have Resulted in a Bigger TANF Balance

The TANF balance at the end of fiscal 2005 was \$71.9 million (See **Exhibit 1**.) This is \$36.3 million higher than anticipated during the 2005 legislative session and resulted from the decline in the TCA caseload and maintaining the Purchase of Care waiting list. This additional balance is anticipated to carry through to fiscal 2007. The anticipated ending balance for fiscal 2006 is \$55.3 million which is \$37.9 million more than estimated at the time the fiscal 2006 budget was approved.

Exhibit 1 Availability of TANF Funding (\$ in Millions)

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Beginning Balance	\$1.386	\$71.853	\$55.345
TANF Grant	\$229.098	\$229.098	\$229.098
Less: Data Reliability Penalty	0.000	-1.200	-0.400
TANF Out-of-wedlock Births Bonus	25.000	0.000	0.000
Cancelled Obligation – Fiscal 2003	16.422	0.000	0.000
Total Grant Funds	\$271.906	\$299.751	\$284.043
DHR Appropriation	-180.596	-224.949	-229.053
Planned OCYF Transfer: Local Management Board Fund	-19.457	-19.457	-14.917
MSDE: Healthy Families	0.000	0.000	-4.590
Total Expenditures	-\$200.053	-\$244.406	-\$248.560
Ending Balance	\$71.853	\$55.345	\$35.483

OCYF = Office for Children, Youth, and Families

MSDE = Maryland State Department of Education

Source: Department of Human Resources

This balance does provide Maryland with a cushion against the potential penalties for not attaining the federally required work participation rates discussed in Issue 1, and a source of funding for additional work related programs to avoid the federal penalties.

The Data Reliability Penalty, noted in Exhibit 1, results from DHR not having complete and reliable data in federal fiscal 2003 and 2004 on the paternity establishment measure – one of three measures related to the Child Support Enforcement Program. For more discussion on this topic see the Child Support Enforcement budget analysis.

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TANF spending in fiscal 2006 is currently estimated at \$244.4 million. The fiscal 2007 allowance includes \$248.5 million in TANF spending. As both these amounts are greater than the \$229 million TANF grant Maryland normally receives, in the future DHR will have to scale back the activities supported by TANF dollars or seek an increase in its general fund allotment. **Exhibit 2** shows the categories of TANF spending.

Exhibit 2
Changes in TANF Spending in DHR's Budget
Fiscal 2005 – 2007 Allowance
(\$ in Millions)

<u>Activity</u>	<u>FY 2005 Actual</u>	<u>FY 2006 Working</u>	<u>FY 2007 Allowance</u>	<u>FY 06 - 07 Change</u>
Cash Assistance	\$94.5	\$92.5	\$90.6	-\$1.9
Foster Care Maintenance Payments	6.9	6.9	6.9	0.0
Work Opportunities	24.7	35.7	35.4	-0.3
Caseworkers and Other LDSS Family Investment Services	27.4	44.7	49.1	4.4
Child Welfare Social Workers, Local Services, and Related Administrative Support	19.0	11.6	11.6	0.0
Administrative Support	2.0	5.6	5.9	0.3
Local General Administration	1.8	5.3	5.3	0.0
Office of Technology for Human Services	1.5	9.5	12.0	2.5
Local Adult and Victim Services	2.8	2.8	1.9	-0.9
Purchase of Care and Child Care Administration	0.0	10.3	10.3	0.0
Total DHR Expenditures	\$180.6	\$224.9	\$229.0	\$4.1
Other Agencies	19.5	19.5	19.5	0.0
Grand Total	\$200.1	\$244.4	\$248.5	\$4.1

LDSS = local departments of social services

Source: Maryland State Budget; Department of Human Resources

DHR should brief the committees on its plan for utilizing the TANF balance. To allow for continued monitoring of DHR's TANF expenditures, the Department of Legislative Services 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. The reports should track TANF expenditures and obligations by budget code and report the TANF balance available at the end of

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each quarter. DHR should submit its first quarterly report on September 1, 2006, and this report should cover the quarter ending June 30, 2006.

3. Fiscal 2007 TANF MOE Depends on Non-traditional Sources

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 MOE requirements. Spending for assistance that helps needy children stay in their own homes or in 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 2005 budget and estimates for fiscal 2006 and 2007.

Exhibit 3
TANF Maintenance of Effort
Fiscal 2005 – 2007 Allowance
(\$ in Thousands)

	FY 2005 <u>Actual</u>	FY 2006 <u>Working</u>	FY 2007 <u>Allowance</u>	FY 06-07 <u>Change</u>
Traditional Sources of MOE				
Cash Assistance	\$25,278	\$30,476	\$26,671	-\$3,805
Child Care Subsidies	29,183	23,301	23,301	0
Employment Services/Caseworkers Administration	7,079	14,522	16,017	1,495
Kinship Care/Foster Care Payments	6,922	17,547	18,373	826
Social Services Administration	9,231	4,653	5,157	504
Social Services Administration	76	0	0	0
Subtotal	\$77,769	\$90,499	\$89,519	-\$980
Other Sources of MOE				
Refundable State Earned Income Tax Credit	\$84,482	\$86,800	\$89,200	\$2,400
Montgomery County Earned Income Tax Credit	7,489	7,600	7,800	200
Local Government/State Agencies	0	1,500	1,500	0
Poverty and Targeted Improvement Grants (MSDE)	5,375	0	0	0
Family Support Centers	0	4,847	4,847	0
Electric Universal Service Program	1,027	900	900	0
Subtotal	\$98,373	\$101,647	\$104,247	\$2,600
Total	\$176,142	\$192,146	\$193,766	\$1,620

MSDE = Maryland State Department of Education
Source: Department of Human Resources

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Spending on cash assistance, child care subsidies, employment services, caseworkers, administration related to the Family Investment Program, and foster care payments for kinship care have constituted the traditional sources of MOE spending. Spending in these categories is expected to be \$89.5 million in fiscal 2007 which accounts for 46.2% of the estimated total MOE spending. To meet the balance of MOE, DHR has turned in recent years to other spending on eligible families including the refundable earned income tax credits for the State and Montgomery County, Poverty and Targeted Improvement grants, and the Electric Universal Service Program.

With changes in educational funding resulting from the Bridge to Excellence effort, however, the ability to track the spending formerly distributed through the Poverty and Targeted Improvement grants has been lost, and no spending from this category is included in the estimates for fiscal 2006 and 2007. Beginning in fiscal 2006, Maryland will also begin including some spending made through local governments and other State agencies and Family Support Centers. DHR had to amend the State's TANF State Plan in order to be able to count the local government spending as part of MOE. In all, the State plans to claim an estimated \$104.2 million (53.8%) in fiscal 2007 from non-traditional sources.

Estimates of the MOE show that in fiscal 2007 DHR will be able to claim \$193.8 million, or just over \$16 million more than the federal government requires. Should the State incur federal TANF penalties (as discussed in Issue 1), the planned MOE spending would be just \$4.3 million above the higher federal requirement, leaving little cushion for shortfalls in the estimated spending. **The department should brief the committees on any measures it is taking to ensure that eligible MOE spending is identified and documented.**

4. Despite Reducing Unfunded Receivable Balance in Fiscal 2005, \$35.5 Remains to Be Resolved

The Legislative Auditor's report on the fiscal 2005 closeout notes that DHR recorded unsubstantiated federal fund revenues of approximately \$35.5 million. This represents spending that has already occurred, but for various reasons, there is no revenue source to back the expenditures. Of this amount, \$10.5 million represents accounting entries dating back to March 1999 in which DHR charged 75% of spending against the Title IV-E Foster Care grant, even though under the terms of the grant, only 50% of expenditures are eligible. These expenditures are currently under review, but federal auditors have advised that a ruling in favor of DHR is unlikely to be made.

The remaining \$25 million relates to various TANF expenditures dating as far back as fiscal 2001. In one instance, expenditures of \$17.3 million were made against a TANF grant that had already been exhausted. In another instance, expenditures had originally been incorrectly charged against the Title IV-E grant. When those expenditures were disallowed, they were resubmitted for TANF funding, but the period for allowable claims had already passed.

DHR indicates it hopes to eliminate the unfunded TANF receivable balance within three years. It expects general funds to pay down the amount will be freed up once the amendments to the TANF cost allocation plan, which were submitted as part of Maryland's new TANF State Plan, are approved by the

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federal government. This could result in general fund savings of up to \$5 million. The remaining funds would need to come from the general fund or through savings in DHR's budget. No appropriation to help reduce the unfunded receivable is included in the fiscal 2007 allowance. Since a final decision by the federal government has not yet been made regarding the Title IV-E funds, DHR has not yet indicated how these expenditures would be covered should the federal decision not be favorable. **The department should brief the committees on when it expects the new TANF State Plan to be approved and what efforts it is making to identify other sources of funds to resolve the TANF and Title IV-E unfunded receivables issues.**