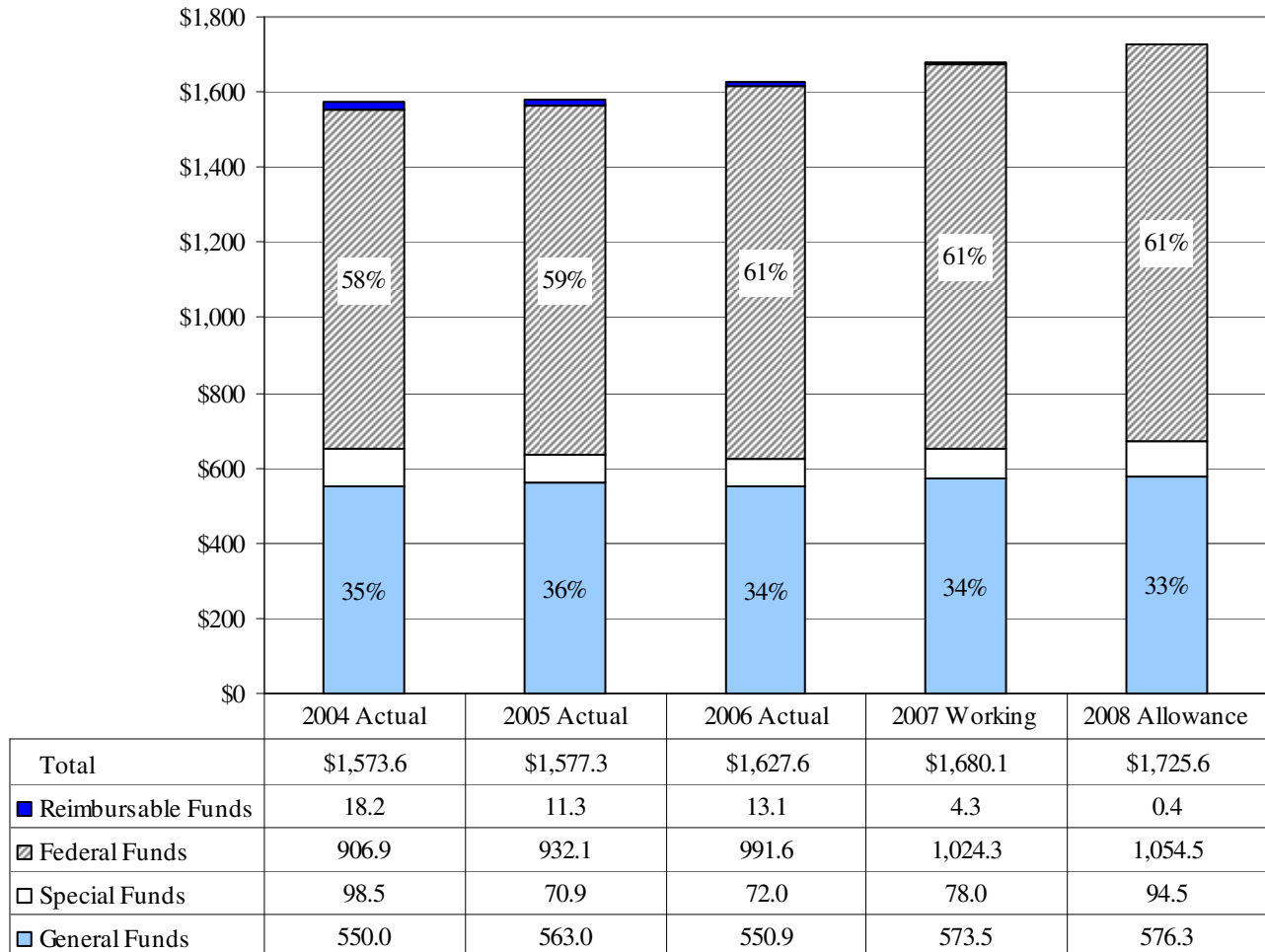

Department of Human Resources Fiscal 2008 Budget Overview

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

February 2007

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

Department of Human Resources – Funding by Source
Fiscal 2004-2008
(\$ in Millions)



Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

The fiscal 2008 budget for the Department of Human Resources (DHR) grows 2.7% compared to the fiscal 2007 working budget. However, when the budget is adjusted to account for the one-time savings in health insurance costs, the real growth equals 4.2%. General funds in the DHR allowance, which increase by \$2.7 million, comprise 33.4% of the total budget, down from 34.1% in fiscal 2007.

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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 – increase from 4.6% of the budget in fiscal 2007 to 5.5% in the allowance representing a dollar increase of \$16.5 million. This includes a \$26.5 million disbursement from the Dedicated Purpose Fund to be used for energy assistance.

Federal funds increase by \$30.2 million growing only slightly as a proportion of the total budget from 61.0% in fiscal 2007 to 61.1% in fiscal 2008. Increases in federal funding for food stamps (\$23.8 million), Temporary Assistance for Needy Families (\$9.9 million), Title IV-E Foster Care (\$8.8 million), and Medical Assistance (\$8.6 million) are partially offset by a \$20.1 million decrease in Low-Income Home Energy Assistance representing removal of one-time-only funding received in fiscal 2007.

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Budget Overview: All Funds
Fiscal 2005-2008
(\$ in Thousands)**

	2005	2006	2007	2008	2007-08
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>% Change</u>
Family Investment	\$642,954	\$660,793	\$677,139	\$713,537	5.4%
Temporary Cash Assistance (TCA) Payments	115,409	102,938	105,931	116,509	10.0%
Temporary Disability Assistance Program (TDAP)	28,063	23,831	24,204	24,420	0.9%
Food Stamps	311,648	334,312	316,323	340,107	7.5%
Other Public Assistance	17,485	17,402	18,119	20,617	13.8%
Work Opportunities	24,693	26,901	45,275	46,648	3.0%
Administration	145,656	155,409	167,287	165,236	-1.2%
Child Welfare	\$462,446	\$498,275	\$559,135	\$569,734	1.9%
Foster Care/Adoption	285,561	313,951	346,003	353,072	2.0%
Programs/Administration	176,886	184,324	213,132	216,662	1.7%
Child Care	\$104,509	\$87,437	\$0	\$0	--
Purchase of Case (POC)	82,966	86,721	0	0	--
Programs/Administration	21,542	715	0	0	--
Adult and Community Services	\$165,069	\$167,354	\$200,160	\$200,286	0.1%
Child Support Enforcement	\$78,507	\$80,603	\$92,360	\$94,258	2.1%
Administration	\$123,791	\$133,128	\$151,323	\$147,825	-2.3%
Office of the Secretary	11,549	12,796	18,700	13,109	-29.9%
Operations	21,300	23,952	23,500	24,699	5.1%
Information Management	52,479	55,045	65,251	64,892	-0.6%
Local Department Operations	38,462	41,336	43,872	45,125	2.9%
Total Program Funding	\$1,577,276	\$1,627,590	\$1,680,117	\$1,725,640	2.7%
General Funds	562,953	550,864	573,528	576,254	0.5%
Special Funds	70,902	72,016	78,009	94,482	21.1%
Federal Funds	932,134	991,639	1,024,305	1,054,529	3.0%
Reimbursable Funds	11,288	13,070	4,275	375	-91.2%
Total Funds	\$1,577,276	\$1,627,590	\$1,680,117	\$1,725,640	2.7%
Less One-time Health Insurance Savings			-23,651		
Underlying Growth			\$1,656,466	\$1,725,640	4.2%

Numbers may not add due to rounding.

Note: Fiscal 2007 does not include federal fund deficiencies totaling \$3,281,119.

Source: Maryland State Budget; Department of Human Resources

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Budget Overview: General Funds
Fiscal 2005-2008
(\$ in Thousands)**

	2005	2006	2007	2008	2007-08
	<u>Actual</u>	<u>Actual</u>	<u>Working</u>	<u>Allowance</u>	<u>% Change</u>
Family Investment	\$114,809	\$111,761	\$98,214	\$106,601	8.5%
Temporary Cash Assistance (TCA) Payments	14,752	16,361	11,849	11,079	-6.5%
Temporary Disability Assistance Program (TDAP)	22,287	18,495	19,200	19,417	1.1%
Food Stamps	0	0	0	0	--
Other Public Assistance	11,921	11,894	12,507	13,061	4.4%
Work Opportunities	0	0	0	0	--
Administration	65,849	65,010	54,657	63,044	15.3%
Child Welfare	\$290,168	\$285,023	\$350,225	\$337,112	-3.7%
Foster Care/Adoption	204,052	212,227	248,784	248,325	-0.2%
Programs/Administration	86,116	72,795	101,441	88,787	-12.5%
Child Care	\$42,504	\$34,852	\$0	\$0	--
Purchase of Care (POC)	31,180	34,680	0	0	--
Programs/Administration	11,324	172	0	0	--
Adult and Community Services	\$39,460	\$38,907	\$35,518	\$35,807	0.8%
Child Support Enforcement	\$15,455	\$15,836	\$17,585	\$21,081	19.9%
Administration	\$60,557	\$64,486	\$71,986	\$75,653	5.1%
Office of the Secretary	7,429	7,558	11,334	8,352	-26.3%
Operations	12,700	13,383	13,836	14,180	2.5%
Information Management	19,029	21,964	24,904	28,092	12.8%
Local Department Operations	21,399	21,581	21,912	25,029	14.2%
Total	\$562,953	\$550,864	\$573,528	\$576,254	0.5%

Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Budget Overview: Fiscal 2007 Federal Fund Deficiencies**

<u>Unit</u>	<u>Amount</u>	<u>Use</u>
Social Services Administration	\$975,653	Additional Educational and Training Voucher program funds are available for educational services in the Independent Living Program.
Community Services Administration – Shelter and Nutrition	31,420	Additional Emergency Food Assistance Program funds are available and may be used by providers to receive, store, and distribute additional food throughout the State.
Community Services Administration – Shelter and Nutrition	371,579	Additional Social Services Block Grant funds are available for the Emergency Disaster Relief activities for the Hurricane Katrina Victims Initiative Program.
Community Services Administration – Victim Services	208,477	Additional Crime Victim Assistance funds are available and will be used to support positions that will provide advocacy, assessment, treatment, and referral services to victims of sexual abuse and their supportive family members.
Office of Technology for Human Services	1,421,188	Additional Child Care Mandatory and Matching Funds of the Child Care Development Fund are available and will be used to complete the development phase of the Child Care Administration Tracking System.
Family Investment Administration	272,802	Additional federal funds are available from various grants and will be used for the State Partnership Program, the Food Stamp Participation Program, and the Nutrition Education Program.
Total FY 2007 Federal Fund Deficiencies	\$3,281,119	

Source: Maryland State Budget

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Major Changes in the Fiscal 2008 Allowance
(\$ in Millions)**

	<u>Total Funds</u>
Departmentwide	
Increments	\$7.5
Retirement\deferred comp costs	5.7
Other personnel expenses	2.4
Health insurance costs decline due to one-time savings	-20.1
Increased turnover	-1.7
Abolition of 15 long-term vacant positions	-0.7
Administration	
Information technology contracts rebid	7.8
Technology Refresh Initiative – replacement of old computers, etc.	1.4
Baltimore City Local Department of Social Services lease	0.9
Six positions for Medicaid Medical Rehab Option	0.3
Transfer child care information system to MSDE	-1.4
End CHESSIE development	-8.3
Child Welfare	
Foster care/adoption payments increase in average rates	27.7
Foster family rate increase	2.5
Baltimore City Health Suite contract to provide medical and dental exams for children in foster care	1.3
Super Flex and Flex Funds	1.0
Montgomery County block grant	0.5
Family Centered Practice Training	0.4
New positions for licensing and monitoring of group homes	0.2
Foster care caseload decline	-24.1
Child Support Enforcement	
Child support in-sourcing positions	1.6
Elimination of in-sourcing contract	-2.2

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

	<u>Total Funds</u>
Family Investment	
Federal Food Stamp payments	23.8
TCA grant increase to 61% of Minimum Living Level	20.1
Increase in Emergency Assistance to Families with Children	2.1
Work Opportunities IT Enhancements	1.4
Non-custodial parent employment program	1.0
TCA caseload decline	-9.4
Other Adjustments	3.8
Total	\$45.5

MSDE: State Department of Education

MD CHESSIE: Maryland Children's Electronic Social Services Information Exchange

TCA: Temporary Cash Assistance

IT: Information Technology

Note: Numbers may not add due to rounding.

Source: Maryland State Budget; Department of Human Resources

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Caseload Estimates
Fiscal 2005-2008**

<u>Program</u>	<u>2005 Actual</u>	<u>2006 Actual</u>	<u>2007 Estimated</u>	<u>2008 Estimated</u>	<u>2007-08 % Change</u>
Cash Assistance					
TCA	65,748	57,589	56,461	52,250	-7.5%
TDAP	12,708	10,972	10,844	11,000	1.4%
Child Welfare					
Foster Care	7,371	6,845	7,080	7,095	0.2%
Subsidized Adoptions	6,612	7,111	7,651	8,191	7.1%
Child Support Enforcement					
TCA Collections	\$19,324,000	20,356,754	13,925,376	13,925,376	0.0%
Non-TCA Collections	\$453,699,404	462,241,983	478,325,335	488,170,350	2.1%

TCA: Temporary Cash Assistance

TDAP: Temporary Disability Assistance Program

Source: Maryland State Budget; Department of Human Resources

- The Department of Human Resources (DHR) is projecting a continued decline in the Temporary Cash Assistance (TCA) monthly caseload to just over 52,000 recipients. As of November 2006 the caseload stood at 50,936.
- The foster care caseload is expected to remain relatively flat while subsidized adoptions are forecasted to grow just over 7% representing an additional 540 cases in fiscal 2008.
- Child support enforcement collections are projected to grow modestly. TCA collections remain unchanged in the allowance while non-TCA collections are expected to increase by 2.1%

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Employment: Regular Positions
Fiscal 2006-2008**

	<u>2006 Actual</u>	<u>2007 Legislative</u>	<u>2007 Working</u>	<u>2007 % Change</u>	<u>2008 Allowance</u>	<u>2007-08 % Change</u>
Child Welfare	2,541.70	2,552.70	2,541.70	-11.00	2,542.70	1.00
Family Investment	2,115.42	2,139.92	2,139.42	-0.50	2,138.42	-1.00
Administration	1,034.00	1,023.50	1,034.00	10.50	1,029.00	-5.00
Adult and Community Services	603.03	600.03	603.03	3.00	603.03	0.00
Child Support Enforcement	703.25	705.25	703.25	-2.00	741.25	38.00
Child Care	8.00	0.00	0.00	0.00	0.00	0.00
Total Positions	7,005.40	7,021.40	7,021.40	0.00	7,054.40	33.00
% Change				0.00		0.50

Source: Maryland State Budget

- Although the overall number of authorized positions remains unchanged in fiscal 2007, several position changes occurred among DHR's units as follows:
 - Child Welfare – vacant positions relating to family preservation were transferred to other units;
 - Family Investment and Child Support Enforcement transferred information technology (IT) positions to administration as part of a centralization of computer related operations;
 - Adult and Community Services assigned the vacant positions it received to the Adult Protective Service and Crime Victims' Assistance programs; and
 - Administration received IT and vacant positions from Child Welfare as part of a centralization of computer related operations.
- The fiscal 2008 allowance includes an increase of 33 positions. This is the net result of 48 new positions partially offset by the abolition of 15 long-term vacancies. The fiscal 2008 position changes are:

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

- Child Welfare added 4 positions to the Licensing and Monitoring unit and abolished 3 long-term vacancies for a net increase of one;
- Family Investment abolished 1 long-term vacancy;
- Administration added 6 new positions to administer the new Medicaid Rehab Option and abolished 11 long-term vacancies for a net decrease of 5; and
- Child Support Enforcement added 38 new positions to assume the Prince George's collections previously handled by the in-sourcing contract.

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

**Department of Human Resources
Regular Positions: Filled as of December 31*
Fiscal 2005-2007**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Change</u> <u>2006-07</u>
Administration	944.5	953.0	958.0	5.0
Child Welfare	2,371.1	2,371.2	2,367.7	-3.5
Adult and Community Services	559.5	545.0	553.0	8.0
Child Care ⁽¹⁾	6.0	0.0	0.0	0.0
Child Support Enforcement	680.8	670.8	674.3	3.5
Family Investment	1,945.0	1,995.4	2,001.4	6.0
Total	6,506.8	6,535.4	6,554.4	19.0

*Fiscal 2006 data as of January 1.

⁽¹⁾ Fiscal 2006 has been adjusted to remove 6.0 positions transferred to the Maryland State Department of Education at the end of fiscal 2006.

Source: Department of Budget and Management

- DHR had 467 positions vacant on December 28, 2006, which equates to a vacancy rate of 6.7%. The turnover rate in the fiscal 2008 allowance is 4.8%. Thus, DHR will have capacity in its 2008 budget to fill an additional 130.5 positions compared to December 28, 2006.
- Adjusting for the Child Care positions that transferred to the Maryland State Department of Education, filled positions increase across the department by 19 positions between fiscal 2006 and 2007.
- Only Child Welfare had fewer filled positions in 2007 than in 2006. The remaining administrations were able to increase slightly the number of filled positions compared to a year earlier.

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**Department of Human Resources
Employment: Contractual Positions
Fiscal 2006-2008**

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008</u> <u>Allowance</u>	<u>2007-08</u> <u>Change</u>
Child Welfare	3.45	0.50	2.50	2.00
Family Investment	55.25	130.00	121.00	-9.00
Administration	6.52	3.31	9.27	5.96
Adult and Community Services	2.25	2.30	2.30	0.00
Child Support Enforcement	3.00	0.00	0.00	0.00
Child Care	0.00	0.00	0.00	0.00
Total Positions	70.47	136.11	135.07	-1.04

Source: Maryland State Budget

- Departmentwide contractual positions decline by 1.04 full-time equivalents (FTEs).
- Child welfare added 2 positions for the Child Welfare Training Academy.
- Family Investment contractual positions related to the Work Opportunities program decrease by 9 in recognition that the previous level was not needed.
- Contractual positions in administration increase by 5.96 FTEs with 1 assigned to the Office of the Attorney General to provide paralegal services, 1 added to provide support and assistance to an employee recovering from a stroke, and 3.96 added to provide technical support services associated with the Maryland Children's Electronic Social Services Information Exchange.

Issues

1. Reauthorization of Temporary Assistance for Needy Families Raises the Work Participation Rate Bar

After operating under a series of extensions since the original expiration in October 2002, the Temporary Assistance for Needy Families (TANF) program was reauthorized as part of the Deficit Reduction Act of 2006. The reauthorization extends the program through fiscal 2010.

Program Changes

There are four major changes to the TANF program, all of which deal with aspects of how the work participation rate is calculated. Failure to meet the work participation rate could subject Maryland to federal penalties which would reduce the annual TANF grant and increase the maintenance of effort (MOE) requirements the combination of which would require Maryland to increase State spending by approximately \$34 million per year.

The work participation rate requirement remains unchanged at 50% under the reauthorization. This means that at least half the eligible caseload must be engaged in federally approved work activities for at least 30 hours per week. However, the caseload reduction credit, which was calculated under the original program based on reductions to the caseload since 1995, will now only apply to reductions to the caseload since 2005. Thus, Maryland's effective work participation rate requirement will go from 7% in federal fiscal 2006, the final year of the original program, to 40% under reauthorization as Maryland's caseload reduction credit falls from 43% based on caseload reductions since 1995 to approximately 10% based on reductions since 2005.

The second major change is that cases in Separate State Programs will now be included in the work participation rate calculation. Separate State Programs used State funds to pay benefits to populations that states did not want to subject to work requirements, such as the long-term disabled. Under the original program, these populations were not included in the work participation rate calculation, but the State spending did count toward the MOE requirements. Under the reauthorization, however, these populations must now be included (if the State wishes to count the spending as MOE) and to the extent these populations are unable to work, higher levels of participation will be needed from the rest of the caseload in order to meet the federal requirement. This change will add approximately 2,000 new cases to the work participation rate calculation.

The third major change under reauthorization is that the U.S. Department of Health and Human Services (HHS) has defined the activities that count toward the work participation rate. Previously, it was left up to the states to decide which activities would count. While DHR tried to anticipate the types of activities that would be allowable, some activities, such as long-term substance abuse treatment, may no longer be counted as a work activity.

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The final major change is the requirement for states to submit a plan to HHS on how work activities and hours of participation will be verified. Maryland was well situated to meet this requirement since DHR had been reporting as working only those cases for which it had written documentation. DHR has already submitted the required plan.

DHR Actions

DHR took a number of steps prior to the reauthorization to better position the State to meet the anticipated changes. These included instituting a policy of universal engagement, establishing a 40-hour per week activity requirement, and creating 24 work participation specialist positions to specifically focus on meeting the new federal requirements. Universal engagement requires aid recipients to participate in work or work preparation activities from the time benefits are received. The 40-hour per week activity requirement parallels the work week and helps prepare recipients to enter the work force.

DHR also plans several changes to how it handles the populations in the Separate State Programs in order to reduce the risk of incurring federal penalties. Two-parent families where both parents are able-bodied is the first such population. For two-parent cases, the federal work participation rate requirement is 90%, and the number of hours per week is set at 35 rather than the 30 hours per week for the rest of the caseload. With only approximately 200 such cases in Maryland, if just 1 case in each jurisdiction failed to meet the federal requirements, Maryland would be subject to federal penalties of approximately \$11.3 million including the increased MOE that would be required. DHR, therefore, plans to take this population out of the TANF program entirely. DHR will continue to serve this population but will not count the approximate \$1.42 million annual expenditure as part of the State's maintenance of effort.

The second population for which a change is planned is that of needy caretaker relatives. These cases involve a relative other than the parent caring for a child where the caretaker has low or no income and qualifies to be included in the Temporary Cash Assistance (TCA) grant. Under the new regulations, these adults must be included in the work participation rate. The average age of these caretaker relatives is 52, and DHR believes it is unlikely that many of these caretakers would continue to care for the children if they were required to participate in work activities. The children would then enter the formal foster care system. DHR intends to deal with this population by removing the caretaker relative from the TCA grant so that the relative is no longer part of the case and subject to work requirements. Instead, the relative will receive a room and board rate for the child that makes up for the loss in the TCA grant. This solution is cost-neutral to the State. Legal immigrants who have resided in the United States for less than five years will also be handled using a room and board rate.

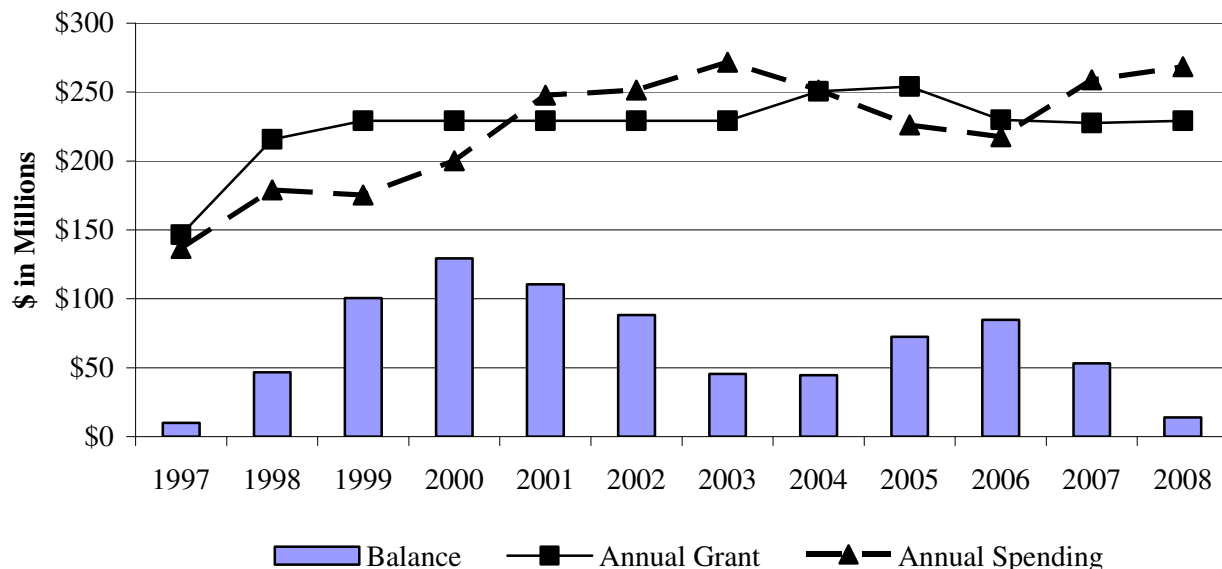
The final Separate State Program population that will require a change in procedures is victims of domestic violence. DHR plans to leave them in the TANF program but will continue to exempt them from work activities unless a case decision is made that participating in federal work activities would help the family. Maryland has elected the federal Domestic Violence Option under reauthorization which will allow DHR to claim a good cause exemption for a failure to meet the work participation rate if the failure is due to selection of this option.

DHR should brief the committees on the status of implementing the changes noted above and any further actions it may need to take to ensure Maryland attains the federal work participation rate.

2. Sizable TANF Balance Projected to Decline

The TANF balance at the end of fiscal 2006 was \$84.6 million and resulted from declining spending levels since fiscal 2003 combined with increased TANF grants due to bonuses for reducing out-of-wedlock births and for high performance. **Exhibit 1** shows the relationship between TANF grant levels, spending, and balance. As the graph illustrates, the TANF annual grant exceeded the annual spending from the inception of TANF in fiscal 1997 until 2001. As a result, the balance increased each year until it reached \$129.4 million at the end of fiscal 2000. Annual spending exceeded the annual grant from fiscal 2001 until 2004 when the spending and grant level were equal. The balance reached a low of \$44.7 million at the end of fiscal 2004, then grew again as spending fell once again below the level of the grant. Spending in fiscal 2007 and 2008 is projected to be well above the grant level and will reduce the TANF balance to \$14.0 million, the lowest level since the first year of the program, by the end of fiscal 2008.

Exhibit 1
TANF Balance, Grant, and Spending
Fiscal 1997-2008



Source: Department of Human Resources

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Exhibit 2 shows the components of the TANF grant and spending for fiscal 2006 through 2008. This shows that total TANF spending is expected to increase by \$41.2 million in the current year and by an additional \$9.4 million in fiscal 2008. These increases occur within the DHR appropriation. The other agency spending remains constant at \$29.8 million per year. The Healthy Families/Home Visiting program used to be funded through the Local Management Boards but the program and funding was transferred to the Maryland State Department of Education in fiscal 2007 and the funding is shown separately.

The level of spending in the fiscal 2008 allowance is not sustainable. If the grant and spending levels were to remain constant for fiscal 2009, there would be a negative balance of \$25.2 million at the end of fiscal 2009. To avoid this, DHR will need some combination of additional revenue (presumably general funds) and/or spending reductions.

Exhibit 2
Availability of TANF Funding
Fiscal 2006-2008
(\$ in Millions)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Beginning Balance	\$72.530	\$84.642	\$53.249
TANF Grant	\$229.766	\$229.098	\$229.098
Less: Data Reliability Penalty		-1.600	
TANF Out-of-wedlock Births Bonus		--	--
Cancelled obligation – Fiscal 2003		--	--
Total Grant Funds	302.296	312.140	282.347
DHR Appropriation	-187.911	-229.098	-238.516
Local Management Boards	-19.457	-14.917	-14.917
MSDE: Healthy Families/Home Visiting		-4.590	-4.590
MSDE: Child Care Subsidy Program	-10.286	-10.286	-10.286
Total Expenditures	-217.654	-258.891	-268.309
Ending Balance	\$84.642	\$53.249	\$14.037

TANF: Temporary Assistance for Needy Families

DHR: Department of Human Resources

MSDE: Maryland State Department of Education

Source: Department of Human Resources

N00 – Department of Human Resources – Fiscal 2008 Budget Overview

Exhibit 3 shows the changes in TANF spending in the DHR budget. Most of the increase between fiscal 2006 and 2007, occurs in Work Opportunities (\$17.6 million) and Cash Assistance (\$10.7 million.) The increase in Work Opportunities is part of DHR's efforts to ensure Maryland achieves the federal work participation rate target. In fiscal 2008, TANF funds devoted to Cash Assistance increases by an additional \$13.3 million due to an increase in the monthly Temporary Cash Assistance grant.

Exhibit 3
Changes in TANF Spending in DHR's Budget
Fiscal 2006-2008 Allowance
(\$ in Millions)

<u>Activity</u>	<u>2006 Actual</u>	<u>2007 Working</u>	<u>2008 Allowance</u>	<u>2007-08 Change</u>
Cash Assistance	\$80.0	\$90.7	\$104.0	\$13.3
Foster Care Maintenance Payments	6.9	6.9	6.9	0.0
Work Opportunities	26.9	44.5	47.7	3.2
Caseworkers and Other LDSS Family Investment Services	32.7	49.2	38.2	-11.0
Child Welfare Social Workers, Local Services, and Related Administrative Support	23.3	11.6	16.3	4.7
Local Adult and Victims' Services	3.5	1.6	2.8	1.2
Information Technology	2.5	12.0	13.7	1.8
Other	12.1	12.6	8.9	-3.8
Total DHR Expenditures	\$187.9	\$229.1	\$238.5	\$9.4
Other Agencies	29.8	29.8	29.8	0.0
Grand Total	\$217.7	\$258.9	\$268.3	\$9.4

LDSS: local departments of social services

Source: Maryland State Budget; Department of Human Resources

DHR should brief the committees on its plan for aligning TANF spending with the grant level once the balance is exhausted. Specifically, the department should indicate the extent to which it expects to receive additional general funds in future budgets and the areas of spending that would be reduced to close any funding gaps.

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 each quarter. DHR should submit its first quarterly report on September 1, 2007, and this report should cover the quarter ending June 30, 2007.

3. Fiscal 2008 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 4** provides a summary of the MOE funding in the fiscal 2006 budget and estimates for fiscal 2007 and 2008.

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 \$77.0 million in fiscal 2008 which accounts for 41.5% 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, local government and State agency spending on eligible populations, and the Electric Universal Service Program. In all, the State plans to claim an estimated \$108.5 million (58.5%) in fiscal 2008 from non-traditional sources.

The fiscal 2008 estimate of MOE shows that in fiscal 2008, DHR will be able to claim \$185.5 million, or just \$7.8 million more than the federal government requires. The removal from the TANF program of some of the populations previously included in Separate State Programs will make it harder for Maryland to achieve its required MOE spending level. **DHR should brief the committees on measures it is taking to ensure that eligible MOE spending is identified and documented.**

Exhibit 4
TANF Maintenance of Effort
Fiscal 2006-2008 Allowance
(\$ in Thousands)

	<u>2006</u> <u>Actual</u>	<u>2007</u> <u>Working</u>	<u>2008</u> <u>Allowance</u>	<u>2006-07</u> <u>Change</u>
Traditional Sources of MOE				
Cash Assistance	\$24,097	\$29,870	\$29,343	-\$527
Child Care Subsidies	23,301	23,301	23,301	0
Employment Services/Caseworkers	8,698	8,698	8,698	0
Administration	2,271	2,458	2,456	-2
Kinship Care/Foster Care Payments	13,158	13,158	13,158	0
Social Services Administration	37	37	37	0
Subtotal	\$71,562	\$77,522	\$76,993	-\$529
Other Sources of MOE				
Refundable State Earned Income Tax Credit	\$93,702	\$93,702	\$93,702	\$0
Montgomery County Earned Income Tax Credit	10,399	10,399	10,399	0
Local Government/State Agencies	2,443	2,443	2,443	0
Electric Universal Service Program	1,953	1,953	1,953	0
Subtotal	\$108,497	\$108,497	\$108,497	\$0
Total	\$180,059	\$186,019	\$185,490	-\$529

Source: Department of Human Resources; Department of Legislative Services

4. General Funds Needed in Local Family Investment Program – Local Department Operations to Match Federal Dollars

Over half the federal funds budgeted in the Local Family Investment Program – Local Department Operations budget require a State match. In fiscal 2006 and 2007, the budgets as passed did not contain sufficient general funds to provide the required matches. At the close of fiscal 2006, DHR moved additional federal funds into the foster care/child welfare budgets which allowed general funds to be transferred out of these programs and into the Family Investment budget to provide the required match. The fiscal 2007 budget, however, has language attached to the foster care and child welfare programs prohibiting the transfer of funds except between those two programs. Therefore, DHR will be

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unable to provide for the required matches in the same manner at the end of the current fiscal year. **Exhibit 5** shows the federal funds budgeted in the Local Family Investment Program in fiscal 2007 and 2008 and the required general fund match. As Exhibit 5 indicates, an additional \$9.4 million of general funds will be needed in the current year to match the federal dollars, and just under \$442,000 additional general fund dollars will be needed in fiscal 2008.

Exhibit 5
Local Family Investment – Federal Funds and Required Match
Fiscal 2007 and 2008

	<u>Federal Match</u>	<u>2007 Federal Funds</u>	<u>2007 Required Match</u>	<u>2008 Federal Funds</u>	<u>2008 Required Match</u>
State Administrative Matching					
Grants for Food Stamp Program	50%	\$28,730,383	\$28,730,383	\$27,194,431	\$27,194,431
Medical Assistance	50%	18,703,888	18,703,888	20,391,053	20,391,053
Foster Care Title IV-E	50%	91,221	91,221	92,445	92,445
Child Support Enforcement	67%	234,565	117,283	237,752	118,876
Mandatory and Matching Child Care Funds	50%	4,900,150	4,900,150	4,966,429	4,966,429
Total		\$52,660,207	\$52,542,925	\$52,882,110	\$52,763,234
Budgeted			43,175,059		52,321,632
Shortfall			-\$9,367,866		-\$441,602

Source: Maryland State Budget

If DHR believes it has sufficient funds in its budget to provide the required match and simply needs the ability to move funds from the foster care/child welfare budgets, it may ask the Governor for deficiency appropriations in a supplemental budget that withdraw the needed funds from the restricted programs and place them into the Local Family Investment Program. If, however, DHR does not believe it has sufficient general funds in its budget, it will need to request additional general funds as a deficiency appropriation in a supplemental budget to provide the needed matching funds. **DHR should discuss with the committees the actions it intends to take to provide the required matching funds in the Local Family Investment Program.**

5. Despite Reducing Unfunded Receivable Balance in Fiscal 2006, \$32.2 Million Remains to Be Resolved

The Legislative Auditor's report on the fiscal 2005 closeout noted that DHR recorded unsubstantiated federal fund revenues of approximately \$35.5 million. This represented spending that had already occurred, but for various reasons, no revenue source backed the expenditures. Of this amount, \$10.5 million represented 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 were 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 related 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.

In fiscal 2006, DHR reduced the TANF unfunded receivable by \$3.3 million. No effort was made to reduce the Title IV-E because the U.S. Department of Health and Human Services has not yet made a final determination of whether and/or how much of these costs will be disallowed. The TANF pay down reduced the potential unfunded receivable to \$32.2 million.

During the 2006 session budget hearings, DHR indicated its intention to eliminate the unfunded receivables within three years. DHR indicates it is still committed to eliminating the remaining balance in the next two years. Although no general funds are included in the fiscal 2007 or 2008 budgets specifically to eliminate these balances, the TANF State Plan that became effective October 1, 2005, should free up between \$3.0 million to \$5.0 million a year through expansion of uses of and populations for which TANF funds may be used. DHR will use the general fund savings to pay down these balances. Additionally, DHR has recently reviewed a draft federal audit report which questions only \$2.9 million of the Title IV-E claims, much less than the \$10.5 million currently unresolved. A favorable ruling on the Title IV-E claims at the lower amount will still leave an unfunded receivable balance of \$24.6 million, and even should the new TANF State Plan result in general fund savings at the high end of the estimate, DHR will still need to generate an additional \$14.6 million in savings in its budget during the current and coming years in order to completely eliminate the balances. **DHR should brief the committees on how it expects to attain the savings needed to eliminate the unfunded receivables.**