Department of Human Resources
Fiscal 2003 Budget Overview

Department of Legislative Services
Office of Policy Analysis
Annapolis, Maryland

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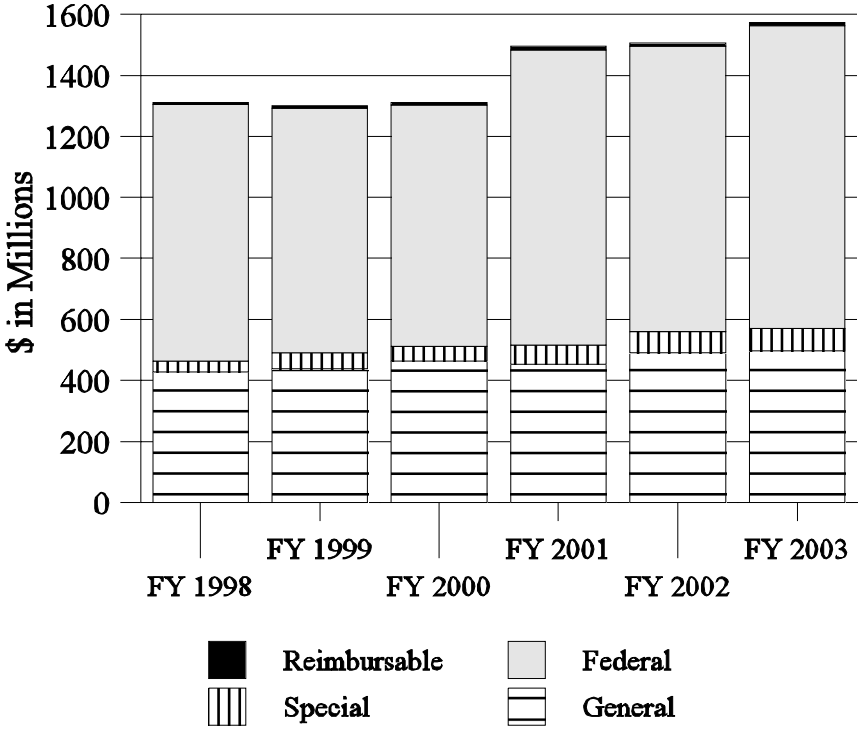
Department of Human Resources
Fiscal 2003 Budget Overview

DHR Funding by Source
Fiscal 1998 through 2003
($ in Millions)



Fund	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Working Approp.	FY 2003 Allowance
General	$426.8	$438.0	$462.9	$465.2	$480.8	$496.6
Special	36.5	52.4	49.4	64.5	64.6	74.7
Federal	841.0	802.5	791.6	951.9	921.0	991.6
Reimbursable	8.0	8.1	7.3	7.8	11.3	10.4
Total	**$1,312.3**	**$1,301.0**	**1,311.2**	**1,489.4**	**$1,477.7**	**$1,573.4**

Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

Department of Human Resources
Budget Overview: All Funding Sources
($ in Thousands)

Program	FY 2001 Actual	FY 2002 Working Approp.	FY 2003 Allowance	FY 02-03 Change	Percent Change
Family Investment/Cash Assistance	**$534,208**	**$543,777**	**$566,018**	**$22,241**	**4.1%**
Temporary Cash Asst. (TCA) Payments	116,287	92,419	123,194	30,775	33.3%
TEMHA Assistance Payments	16,542	23,457	23,457	0	0.0%
Food Stamps for Immigrants	300	275	300	25	9.1%
Other Public Assistance	208,970	221,985	217,667	(4,318)	(1.9%)
Work Opportunities	48,426	46,880	44,713	(2,167)	(4.6%)
Administration	143,682	158,761	156,687	(2,074)	(1.3%)
Social Services	**389,853**	**401,131**	**418,163**	**17,032**	**4.2%**
Foster Care/Subs. Adopt. Grants	220,050	227,222	238,619	11,397	5.0%
Programs/Administration	169,803	173,908	179,544	5,635	3.2%
Child Care	**140,600**	**166,661**	**185,152**	**18,491**	**11.1%**
Purchase of Care (POC)	108,466	125,307	138,071	12,764	10.2%
Administration/Program Direction	32,134	41,355	47,081	5,726	13.8%
Community Services/Adult Services	**148,052**	**149,356**	**168,637**	**19,281**	**12.9%**
Child Support	**68,255**	**77,142**	**82,769**	**5,627**	**7.3%**
Administration	**208,383**	**139,645**	**152,616**	**12,971**	**9.3%**
Office of the Secretary	11,756	12,736	13,824	1,088	8.5%
Operations Office	82,415	16,836	18,717	1,881	11.2%
Information Management	73,812	69,278	77,516	8,238	11.9%
Local Department Administration	40,399	40,796	42,559	1,763	4.3%
Total: All Funding Sources	**$1,489,351**	**$1,477,712**	**$1,573,355**	**$95,642**	**6.5%**
General Funds	465,211	480,811	496,620	15,808	3.3%
Special Funds	64,506	64,573	74,693	10,120	15.7%
Reimbursable Funds	7,780	11,333	10,445	(887)	(7.8)
Federal Funds	951,854	920,996	991,596	70,601	7.7%

TEMHA - Transitional Emergency Medical and Housing Assistance
Note: Numbers may not sum due to total due to rounding.
Source: Maryland State Budget

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

Program	FY 2001 Actual	FY 2002 Working Approp.	FY 2003 Allowance	FY 02-03 Change	Percent Change
Family Investment/Cash Assistance	**$101,272**	**$127,365**	**$127,797**	**$432**	**0.3%**
TCA Payments	8,842	31,249	31,249	0	0.0%
TEMHA Assistance Payments	12,581	18,918	18,918	0	0.0%
Food Stamps for Immigrants	300	275	300	25	9.1%
Other Public Assistance	12,767	12,218	12,193	(25)	(0.2%)
Work Opportunities	1,010	0	0	0	n/a
Administration	65,772	64,705	65,137	432	0.7%
Social Services	**198,750**	**190,555**	**187,637**	**(2,919)**	**(1.5%)**
Foster Care/Subs. Adopt. Grants	126,912	129,311	132,908	3,597	2.8%
Programs/Administration	71,837	61,244	54,729	(6,516)	(10.6%)
Child Care	**40,045**	**40,253**	**39,701**	**(553)**	**(1.4%)**
POC	29,885	29,897	29,897	0	0.0%
Administration/Program Direction	10,160	10,356	9,804	(553)	(5.3%)
Community Services/Adult Services	**31,547**	**37,616**	**42,034**	**4,418**	**11.7%**
Child Support	**14,534**	**18,145**	**20,643**	**2,498**	**13.8%**
Administration	**79,062**	**66,876**	**78,808**	**11,931**	**17.8%**
Office of the Secretary	7,209	7,103	8,423	1,321	18.6%
Operations Office	11,919	9,957	11,601	1,644	16.5%
Information Management	36,757	27,985	37,283	9,298	33.2%
Local Department Administration	23,177	21,832	21,500	(331)	(1.5%)
Total: General Funds	**$465,211**	**$480,811**	**$496,620**	**$15,808**	**3.3%**

Source: Maryland State Budget

Department of Human Resources
Fiscal 2003 Allowance Changes
($ in Millions)

	All Funds
Public Assistance	
Increase in TCA payments to reflect stable caseload ($28.9 million deficiency proposed for fiscal 2002)	$30.8
Growth in foster care maintenance payments ($8.3 million deficit is projected for fiscal 2002)	11.4
Other public assistance programs administered by the Family Investment Administration	7.0
Food stamp spending declines to reflect current trends	(11.2)
Family Investment	
Various research and public assistance contracts	1.2
Increased funding for addiction specialists placed at local departments of social services (LDSS)	1.0
Enhanced funding for Food Stamp reinvestment strategies to improve the Food Stamp accuracy rate	0.1
Transfer of waiver unit to Department of Health and Mental Hygiene (DHMH)	(0.8)
Social Services	
Administrative fee for managed care contract ($2.6 million deficiency for fiscal 2002 included in proposed budget)	4.1
Contract to provide training to social workers	1.2
Continued initiative to reduce caseload-to-staff rates in local departments (includes 64 positions at a turnover rate of 81%)	0.6
Federal Independent Living program	0.1
Increased funding for federally required evaluation of the substance abuse treatment waiver	0.1
Child Care	
Enhanced funding for POC subsidies (including tiered reimbursements)	12.8
Office of Credentialing accidentally double-budgeted	2.4
Additional child care quality improvement activities	2.0
Contract increase for Child Care Resource and Referral services	0.4
Community Services/Adult Services	
Energy assistance grants	14.5
Expansion of Maryland Community Choices program	4.6
Federal grant for refugee assistance and contracts for employment and English training services	0.7

	All Funds
Enhanced funding for Individual Development Accounts program	0.6
Contractual services for family investment mentoring activities	0.3
Federal Supportive Housing Program funds now applied for by local governments	(1.3)
Child Support Enforcement	
Transfer of Anne Arundel and Allegany counties child support enforcement responsibilities to the State (includes 65 positions)	2.1
Enhanced contracts for various activities	1.2
Electronic funds transfer and direct deposit services	0.5
Five new positions to monitor performance of metropolitan regions	0.2
Administration and Other Operating Costs	
Increased costs for the development and implementation of the Maryland Children's Electronic Social Services Information Exchange (MD CHESSIE)	9.1
Rent	4.6
Telephone and postage	2.6
Reduced expenditures for the redesign and development of the Office of Home Energy operating system	(1.9)
Decreased funding for office and data processing equipment	(1.6)
Other reductions including personnel costs impacted by the hiring freeze	(3.8)
Total	**$95.6**

Source: Maryland State Budget

Fiscal 2002 Cost Containment Actions
General and Special Funds Only

Program	Hiring Freeze	Nonpersonnel Expenses	Total
Family Investment	$2,534,504	$1,452,000	$3,986,504
Social Services	2,416,549	112,018	2,528,567
Administration	1,666,170	347,120	2,013,290
Child Support	545,040	89,044	634,084
CSA/Adult Services	298,158	334,680	632,838
Child Care	417,579	24,565	442,144
Total	**$7,878,000**	**$2,359,427**	**$10,237,427**

Source: Department of Budget and Management

- Cost containment for the Department of Human Resources (DHR) totaled $10.2 million in fiscal 2002. The hiring freeze generated a majority of the savings, or $7.9 million. More than half of the remaining amount, or $1.5 million, represents child support collections used to offset TCA payments. Based on fiscal 2001 experience, actual child support collections used for this purpose will likely fall short of the budgeted amount.

- In addition to the actions described above, the Department of Budget and Management (DBM) also abolished 15 vacant positions in DHR to make funding available to help support the creation of 70 new security positions in the Department of General Services.

- As discussed in the following section, the Governor has proposed $7.8 million in deficiency appropriations to provide cost containment relief. This relief supports personnel costs. To produce savings assumed in the turnover expectancy in the fiscal 2002 budget, accounting for the deficiency appropriations, DHR would need a vacancy rate of almost 7%. This is equivalent to about 572 vacancies for the entire year.

- The allowance, however, does not contain the same level of cost containment relief. To generate the anticipated savings assumed in the allowance for cost containment and turnover expectancy, DHR needs a vacancy rate of almost 13%, the equivalent of nearly 1,090 positions. Excluding the 64 positions budgeted at a turnover rate of 80%, the number of positions that must remain vacant for the year drops to 1,025. This is about 450 positions above that allowed for in the fiscal 2002

budget with the cost containment relief. If DHR does not achieve the assumed vacancy rate, it will need to reduce its nonpersonnel expenditures to generate the level of personnel savings assumed in the allowance. **The Secretary should be prepared to comment on:**

- **DHR's ability to meet the 13% turnover rate and the impact that such a high vacancy rate will have on operations;**

- **how DHR will generate the personnel savings assumed in the allowance if a 13% vacancy rate is not anticipated; and**

- **the benefit of hiring additional positions under cost containment relief in fiscal 2002 when the allowance does not provide the funding needed to maintain the increased staffing levels.**

Department of Human Resources
Fiscal 2002 Deficiency Requests
($ in Millions)

Explanation	Funding
• **TCA Payments:** The TCA deficit stems from overly optimistic assumptions about caseload declines used in building the fiscal 2002 budget. The caseload has fluctuated from month to month, but has not exhibited an overall downward trend. The Governor has funded the deficit with unappropriated TANF dollars and the Family Investment Dedicated Purpose Account.	$24.0 FF 4.9 SF
• **Offset for Unattainable Federal Funds:** The fiscal 2002 budget contains optimistic assumptions about DHR's ability to attain Title IV-E and Medicaid funds. This proposed deficiency appropriation uses the Family Investment Dedicated Purpose account to offset unattainable federal funds for the delivery of child welfare and adult services programs in the local departments.	$10.2 SF
• **Foster Care Maintenance Payments:** Two issues contribute to the need for a deficiency appropriation for maintenance payments. First, higher-than-anticipated placements costs for institutional care created a funding shortfall of over $8 million. Second, the fiscal 2002 budget includes $6.0 million in Medicaid dollars, erroneously budgeted under Foster Care Maintenance Payments, for Targeted Case Management. DHR cannot bill the Medicaid program for these administrative expenses because the federal government has not yet approved the needed Medicaid State plan amendment. This proposed deficiency appropriation restores the unattainable federal funds. A combination of unappropriated TANF dollars and general funds comprise the proposed deficiency appropriation.	$8.4 FF (6.0) FF 6.8 GF
• **Cost Containment Relief:** The allowance provides a series of cost containment relief measures funded primarily by the Family Investment Dedicated Purpose Account.	$6.5 SF 1.7 GF
• ***Filled Positions:*** Prior to the imposition of the hiring freeze, DHR had filled a significant number of vacant positions. The vacancy reports used by DBM to identify savings generated by the hiring freeze, however, did not reflect these recent personnel activities. This proposed deficiency appropriation accesses the Family Investment Dedicated Purpose Account to restore funding for approximately 280 filled positions throughout DHR, primarily in the local departments for family investment and child welfare services. DHR will also access nearly $3.3 million in federal funds to support these positions.	4.2

Explanation	**Funding**
• ***Administrative Costs for Foster Care Privatization Project:*** Because of the budgeting method used for the administrative costs for managed care, the funds allotted for this purpose were identified as savings under the hiring freeze. The proposed general fund deficiency appropriation would restore the lost funds so that DHR can pay its managed care vendor.	1.7
• ***Critical Needs:*** With the imposition of the hiring freeze and other cost containment efforts, DHR has limited resources to respond to critical human service needs. These funds from the Family Investment Dedicated Purpose Account are intended to provide DHR with the flexibility to address any such needs that may arise in fiscal 2002. **The Department of Legislative Services (DLS) recommends that the Secretary discuss DHR's plans for spending these funds.**	0.9
• ***Social Workers for Child Welfare and Adult Services:*** LDSS have a significant number of vacant social worker positions, including a majority of the 109 new positions included in the fiscal 2002 budget to reduce the caseload-to-staff ratios for child welfare services. DHR has requested exemptions from the hiring freeze for 50 social worker positions: 30 in Child Protective Services and 20 in Adult Protective Services. This proposed deficiency appropriation provides funds from the Family Investment Dedicated Purpose Account to support these positions.	0.6
• ***Food Stamp Reinvestment Strategies:*** The State's food stamp error rate has exceeded the national average for the past six years. In lieu of paying penalties to the federal government, DHR must spend State dollars on food stamp reinvestment strategies. DHR has requested that the 15 new positions included in the fiscal 2002 budget be exempted from the hiring freeze. The proposed deficiency appropriation accesses the Family Investment Dedicated Purpose Account to provide funding for these positions.	0.3
• ***Child Support Enforcement Workers in Prince George's County:*** The fiscal 2002 budget provided 15 new positions to transfer child support enforcement responsibilities from the county to the State. To provide these needed services, the Governor has proposed a deficiency appropriation to restore personnel costs lost through cost containment.	0.2

Explanation		Funding
• ***Maryland Community Choices:*** The proposed deficiency appropriation provides funding for eight positions related to the Home and Community Services Medicaid Waiver. These positions were in the process of being filled when the Governor initiated the hiring freeze but were deemed critical to the operations of this new program.	0.2	
● **Relocation of Baltimore County LDSS:** The original office was designated a "sick building." Funds will be used for moving expenses ($600,000), equipment replacement ($500,000), and increased rent in the new location ($500,000).		$1.1 GF $0.5 SF
Total		**$9.6 GF**
		$22.1 SF
		$26.4 FF
		$58.1 TF

Department of Human Resources
Caseload Estimates

Program	FY 2001 Actual	FY 2002 Approp.	FY 2003 Allowance	FY 02-03 % Change
Cash Assistance				
TCA*	75,710	74,458	73,835	(0.1)%
TEMHA	10,768	10,566	10,566	0.0%
Social Services				
Foster Care	9,909	11,000	11,000	0.0%
Subsidized Adoptions	4,868	4,800	5,000	4.2%
Child Care				
Child Care Subsidies	27,128	28,037	28,782	2.7%
Child Support Enforcement				
TCA Collections	$22,077,950	$270,939,756	$22,519,510	(19.4)%
Non-TCA Collections	$379,729,873	$393,277,080	$383,304,392	(2.5)%

*The fiscal 2002 legislative appropriation includes funding for a caseload of 59,911. The Governor has proposed a deficiency appropriation of $28.9 million to fund the increased caseload costs.

Source: Maryland State Budget

Department of Human Resources
Fiscal 2003 Budget Overview: Regular Positions

Programs	FY 01 Actual	FY 02 Approp.	FY 03 Allowance	FY 02-03 Change	Percent Change
Social Services	2,551.4	2,688.7	2,766.7	78.0	2.9%
Family Investment	2,403.0	2,607.0	2,588.0	(19.0)	-0.7%
Administration	1,097.5	1,200.3	1,200.3	0.0	0.0%
CSA/Adult Services	737.8	803.9	821.9	18.0	2.2%
Child Support	644.8	735.3	805.3	70.0	9.5%
Child Care	218.0	244.5	244.5	0.0	0.0%
Total Positions	**7,652.4**	**8,279.6**	**8,426.6**	**147.0**	**1.8%**

CSA - Community Services Administration

Source: Maryland State Budget

- Local child welfare services includes 64.0 new social worker positions for the second phase of the caseload-to-staff reduction initiative mandated by Chapter 544, Acts of 1998 (HB 1133) and reinforced in fiscal 2000, 2001, and 2002 budget bill language.

- The Social Services Administration receives 14.0 additional positions for the Title IV-E Child Welfare Improvement Project, an initiative that helps ensure that the State maximizes its ability to claim federal IV-E dollars. The funds would support contractual conversions for positions currently contained in the service contract with the University of Baltimore.

- The Family Investment Administration provides 19 positions to DHMH to transfer the Medicaid waiver unit. The waiver unit consists of specialized eligibility staff that determine technical and financial eligibility for Medicaid waiver programs authorized by the federal government. DHMH initiates waiver requests and, through this process, gains expertise on each program that will help it provide oversight for the transferred unit.

- Adult and Community Services grows by 18 new positions: Adult Services increases by 11 for the Responsible Choices Program (4) and Maryland Community Choices Program (7); Victims' Services (formerly Women's Services) increases by 3 for Project Retain; and the Office of Home Energy Programs (OHEP) increases by 4 positions.

- The Child Support Enforcement Administration (CSEA) grows by 70 new positions. Of this amount, 60 Anne Arundel County employees and five Allegany County employees will become State employees as a result of the transfer of the counties' support enforcement responsibilities to the State. The remaining five positions are located at headquarters and are designated for monitoring the metropolitan jurisdictions.

Department of Human Resources
Fiscal 2003 Budget Overview: Contractual Positions

Programs	FY 01 Actual	FY 02 Approp.	FY 03 Allowance	FY 02-03 Change	Percent Change
Social Services	35.9	4.0	0.0	(4.0)	-100.0%
Family Investment	180.8	150.0	150.0	0.0	n/a
Administration	67.9	5.6	6.9	1.3	23.8%
CSA/Adult Services	45.1	13.5	3.2	(10.3)	-76.0%
Child Support	14.2	5.5	0.0	(5.5)	-100.0%
Child Care	10.2	0.0	0.0	0.0	n/a
Total Positions	**354.1**	**178.6**	**160.1**	**(18.5)**	**-12.6%**

Source: Maryland State Budget

- The reduction of four contractual positions in social services reflects a change in method for budgeting for the college work-study program. The program provides internships to social worker students completing master's degrees. In exchange, the student commits to working for a local department of social services after graduation. The fiscal 2003 allowance includes funds for this program under stipends and tuition to better reflect the purpose of the program.

- The allowance for the Office of the Secretary includes 1.3 contractual positions to provide funding for a new student intern to work with the commissions in CSA.

- In fiscal 2003, Adult and Community Services decreases by 10.25 contractual positions: 6 within Adult Services; 3 within Victim's Services; and 1.25 within OHEP.

- Child Support Enforcement loses 5.5 contractual positions in the local departments, 1 in Montgomery County for activities related to the Intergovernmental Personnel Agreement and 4 in Carroll County that had been needed on a temporary basis to handle caseload growth.

Issues

1. TANF Surplus Sufficient to Support Fiscal 2002 and 2003 Budgets

Changes in Fiscal 2002 TANF Expenditures

Accounting for legislative actions taken during last session and additional TANF dollars identified by DHR, DLS projected that the State would completely exhaust its TANF reserves by the end of fiscal 2002. As shown in **Exhibit 1**, the TANF balance is expected to total nearly $9 million. The estimated level of reserves has changed primarily for the reasons listed below.

- **Reductions to TANF Transfer to Child Care Development Fund (CCDF):** Over the course of fiscal 2001 and 2002, DLS assumed that DHR would transfer a total of $64 million in TANF to CCDF to support POC child care subsidies. Instead, DHR transferred $46 million in fiscal 2001 and, to conserve TANF funding, has eliminated additional transfers to CCDF. The revised transfer amounts result in TANF savings of $18 million. Issue #2 discusses the impact that these reductions have on the POC program. As stated in this issue, reducing transfers to child care no longer remains an option for generating TANF savings.

- **Additional TANF Cancelled Obligations:** After the 2001 session, DHR identified an additional $6 million in cancelled obligations from previous fiscal years.

- **Projected Fiscal 2002 Expenditures Exceed Previous Estimates:** Last session, DLS estimated that fiscal 2002 TANF expenditures would total approximately $235 million, but actual expenditures will likely exceed this amount. To cover the fiscal 2002 TCA deficit, the Governor has proposed using $24 million in TANF, an amount higher than that anticipated last session. In addition, the budget includes a second proposed TANF deficiency appropriation to help address the fiscal 2002 foster care deficit.

Aligning Expenditures with Available Reserves

In recent years, the budgets have relied heavily on TANF reserves to support ongoing activities. As shown in Exhibit 1, fiscal 2002 expenditures exceeded the amount of the annual block grant by about $30 million. This represents a decrease from fiscal 2001 when expenditures reached $60 million above the annual block grant. Because estimated TANF reserves at the end of fiscal 2002 total only about $9 million, DHR reduced its TANF expenditures to align them more closely with available revenues.

Exhibit 1

Availability of TANF Funding
($ in Millions)

	Expenditures	TANF Balance
TANF Balance at End of Fiscal 2001		**$40.0**
Fiscal 2002 Budget		
TANF Grant	$229.1	
DHR appropriation/transfer Social Services Block Grant (SSBG)	(245.6)	
Proposed deficiency for TCA Deficit	(24.0)	
Eliminate transfer to CCDF	24.9	
Proposed deficiency for Foster Care	(8.4)	
Unappropriated TANF to restore restricted general funds*	(7.2)	
Subtotal Fiscal 2002	**($31.2)**	
TANF Balance at End of Fiscal 2002		**$8.9**
Fiscal 2003 Allowance		
Estimated TANF Grant**	$229.1	
DHR allowance/transfer to SSBG	(237.5)	
Subtotal Fiscal 2003	**($8.5)**	
TANF Balance at End of Fiscal 2003		**$0.4**

*Language in the fiscal 2002 budget bill prohibits DHR from spending $7.2 million of its general fund appropriation; it authorizes the Governor to transfer these funds, by budget amendment, to the Dedicated Purpose Fund. The Governor has elected not to make this transfer.
**Grant amount subject to congressional reauthorization.

Source: Maryland State Budget; Department of Human Resources; and Department of Legislative Services

Exhibit 2 shows that, compared to the fiscal 2002 working appropriation, TANF expenditures drop by about $15 million in DHR. Increased TANF expenditures on TCA payments are fully offset by reductions in other areas. Foster care maintenance payments, child care initiatives, administrative support, and caseworkers for family investment experience the largest decreases in TANF funding. In most cases, other federal fund sources can support the services previously funded by TANF. According to DHR, the reduced TANF expenditures do not impact service delivery or programs. Without a TANF surplus to spend in fiscal 2004, the State will need to reduce TANF expenditures even further.

Exhibit 2

Changes in TANF Funding in DHR's Budget
Fiscal 2002 Appropriation vs. Fiscal 2003 Allowance

Activity	Fiscal 2002 Budget*	Fiscal 2003 Allowance	Amount Change	Percent Change
Cash assistance	$72.1	$84.5	$12.4	17.2%
Foster care maintenance payments**	15.2	6.9	(8.4)	(55.0%)
Child Care Office of Credentialing and child care grants**	5.3	0	(5.3)	(100.0%)
Administrative support**	16.7	11.7	(5.0)	(30.2%)
Caseworkers and other LDSS family investment services	24.7	20.7	(4.0)	(16.1%)
Social workers and other LDSS child welfare services**	13.6	11.7	(1.9)	(14.1%)
Work opportunities/allocations to LDSS for family investment programs	54.2	53.2	(1.0)	(1.8%)
After School Opportunity Fund**	12.5	11.8	(0.7)	(5.9%)
Other	6.0	4.3	(1.7)	(28.3%)
Total DHR TANF Expenditures* **	**$220.3**	**$204.8**	**($15.5)**	**(7.1%)**

*Includes proposed TANF deficiency appropriations for cash assistance ($24.0 million) and foster care maintenance payments ($8.4 million).
**Total funding for these activities does not decrease as CCDF, Title IV-E, or other federal funding is available to offset the loss of TANF dollars.
***Including non-DHR expenditures, total TANF funding included in the fiscal 2002 budget is $253.1 million. This decreases to $237.4 million in the fiscal 2003 allowance.

Note: Numbers may not sum due to rounding.

Source: Maryland State Budget

To allow for the 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 the Department of Human Resources' (DHR) TANF expenditures. As

such, DHR should submit quarterly reports to the budget 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, 2002, and this report should cover the quarter ending June 30, 2002.

Information Request	Author	Due Date
Quarterly reports on TANF expenditures, obligations, and remaining balance	DHR	September 1, 2002 and quarterly thereafter

2. Department of Human Resources Looks to Increased Federal Funds in Order to Sustain Growth in Purchase of Care Program

Under federal regulation, the State may transfer up to 20% of its TANF block grant to the CCDF balance. In the past, DHR has done this to support child care subsidy expansions. Such expansions helped support families moving off welfare and into the workforce. The transfers also helped DHR "spend down" or encumber the TANF block grant, as members of Congress were threatening to take back unspent TANF funds.

Little TANF Left for Child Care Assistance

As cash assistance caseloads declined, the State was able to use remaining TANF dollars to support or expand programs that fulfilled other principles of welfare reform, such as reducing out-of-wedlock-births. Funded with the remaining TANF fund balance, these programs have become part of ongoing expenses. Consequently, now that caseloads are stabilizing, the fund balance has been drained. As a result, TANF transfers to CCDF are no longer an option for POC expansions. Indeed, DHR will not make the originally planned TANF transfer of $24.6 million in fiscal 2002 and will not make a transfer in fiscal 2003.

Exhibit 3 shows the fund balances for the POC program from fiscal 2001 through 2004. In fiscal 2003, estimated expenditures will total $137.2 million, of which $121.2 are for POC subsidies. As demonstrated, the POC program will remain solvent through fiscal 2003, ending with a fund balance of $17.6 million. However, in fiscal 2004 projected program expenditures will exceed revenues by $11.9 million.

Exhibit 3

Purchase of Care and Discretionary Spending Fund Balances
Fiscal 2001 through 2004

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Estimate [1]	FY 2004 Estimate
Balance				
CCDF		$22,713,394	$44,706,089	$17,601,710
TANF	$42,044,241 [2]	40,837,805		
Revenues				
GF	29,897,256	29,897,256	29,897,256	29,897,256
CCDF	74,882,654 [3]	80,165,677	80,165,677	80,165,677
TANF	45,819,606 [4]	0		
Total Revenues	**$192,643,757**	**$173,614,132**	**$154,769,022**	**$127,664,643**
Expenditures				
Purchase of Care				
CCDF	$18,727,048	$31,651,256	$85,253,227	$87,676,573
TANF	47,026,042	40,837,805	0	0
GF	29,897,256	29,897,256	29,897,256	29,897,256
Administration	10,521,726	10,521,726	6,016,829	6,016,829
Subtotal	**$106,172,072 [5]**	**$112,908,043 [6]**	**$121,167,312 [7]**	**$123,590,658 [8]**
Quality Enhancement Projects	$22,920,486	$16,000,000	$16,000,000	$16,000,000
Total Expenditures	**$129,092,558**	**$128,908,043**	**$137,167,312**	**$139,590,658**
Balance	**$63,551,199**	**$44,706,089**	**$17,601,710**	**($11,926,015)**

[1] Projected expenditures for fiscal 2002 includes estimated costs for phase-in of Purchase of Care regulation changes.

[2] Balance of TANF transfer from prior years ($91,639,212).

[3] Actual amount of CCDF claimed for fiscal 1999, 2000, and 2001.

[4] Maximum allowable 20% transfer from TANF.

[5] Governor's Budget book shows $108,466,196.

[6] Governor's Budget book shows $125,306,803.

[7] Governor's Budget book shows $138,070,969.

[8] Includes 2% inflationary increase.

Source: Department of Human Resources

Key assumptions include:

- program participation continues at approximately 35% of the eligible population;
- the CCDF block grant remains the same after the reauthorization of PRWORA;
- no TANF transfers are made beyond fiscal 2001; and
- general funds are not increased. The Governor has funded the program at $29.9 million over the past several years and is not expected to increase this in the future.

Of course, any changes to these assumptions can alter the outlook for POC. Most significantly, any additional increase in the CCDF block grant would assist the program in avoiding a deficit. This could be offset by increases in the caseload due to rising welfare rolls, although this does not appear likely as the caseload has remained relatively stable for the past year. **The department should be prepared to discuss its options in light of the looming deficit for POC.**

3. Governor's Proposed Budget Drains the Dedicated Purpose Account

The 1997 Welfare Innovation Act created an account within the State's Dedicated Purpose Fund. Although the legislation did not set forth criteria for use of the fund, the General Assembly's intent was to establish a savings account for future family investment costs, such as those arising from TCA caseload increases or congressional reductions to the TANF block grant.

As shown in **Exhibit 4**, the Governor's proposed budget spends all but $700,000 of the funds in the Family Investment Dedicated Purpose Account, an account that DLS estimated would reach $90 million by the end of fiscal 2002. This estimate assumed the fund would grow by $16.8 million during fiscal 2002 through two transfers. The first involved the fiscal 2002 appropriation of $9.6 million in "TANF substitution" dollars to the Dedicated Purpose Fund. (See Issue #5 for further details on TANF substitutions.) The Governor has proposed a deficiency appropriation to withdraw these funds. The second assumed transfer involved $7.2 million in restricted general funds in DHR's fiscal 2002 budget. Recognizing the availability of unappropriated TANF, the General Assembly restricted these funds and authorized the Governor to transfer them to the reserve account. The Governor has elected not to make this transfer. As such, the last contributions to the Dedicated Purpose Account occurred in fiscal 2001.

Exhibit 4 illustrates that the Family Investment Dedicated Purpose Account supports a total of $22.1 million in proposed deficiency appropriations for DHR. The deficiencies, discussed in the fifth chart in this analysis, range from funding the TCA deficit to supporting the office relocation of a local department in Baltimore County. A significant portion of the deficiencies, or $6.5 million, replace general funds that were taken as part of cost containment efforts imposed in October. With the possible exception of the Baltimore County office relocation and the TCA deficit, the proposed deficiency items reflect ongoing funding needs. The fiscal 2003 allowance, therefore, relies on other sources of funds to provide continued support for these activities. In the fiscal 2003 proposed budget, an additional $50.0 million of Family Investment Dedicated Purpose dollars are transferred to the State's General Fund.

Exhibit 4

Family Investment Dedicated Purpose Account

	Expenditures/ Transactions	Balance
DLS Estimated Balance for End of Fiscal 2002		**$89.6**
Fiscal 2002 Transactions		
Deficiency appropriation for "TANF substitutions"	($9.6)	
Transfer of funds authorized by General Assembly*	(7.2)	
Subtotal Fiscal 2002 Transactions	**($16.8)**	
Fiscal 2002 Proposed Deficiency Appropriations		
Offset unattainable federal funds	($10.2)	
Temporary Cash Assistance payments	(4.9)	
Cost containment relief (totals $6.45 million)		
Positions filled prior to hiring freeze	(4.2)	
Critical human services needs**	(0.9)	
Social workers for child welfare and adult services	(0.6)	
Food Stamp reinvestment strategies	(0.3)	
Child support workers for Prince George's County	(0.2)	
Community Choices in CSA	(0.2)	
Office relocation for Baltimore County LDSS	(0.5)	
Subtotal Fiscal 2002 Expenditures	**($22.1)**	
Balance at End of Fiscal 2002		**$50.7**
Fiscal 2003 Transactions		
Transfer to General Fund	($50.0)	
Balance at End of Fiscal 2003		**$0.7**

*Language in the fiscal 2002 budget prohibits DHR from spending $7.2 million of its general fund appropriation and authorizes the Governor to transfer these funds, by budget amendment, to the Dedicated Purpose Fund. The Governor has elected not to make this transfer as these funds are identified as a reversion needed to balance the budget.

**These funds are intended to provide DHR with the flexibility to respond to human service needs that may arise in fiscal 2002.

Source: Maryland State Budget

The reserve fund served one of its purposes by providing a way to convert the TANF surplus into general funds savings. For the most part, however, it has not met the legislative intent of serving as a reserve for family investment program expenditures. Applying the strictest criteria for use of the funds, only the $4.9 million for the TCA deficit would qualify as an allowable expense.

The Welfare Innovation Act of 2002 (SB 178/HB 186) proposes setting forth criteria to guide spending from the fund. The criteria encompass the four purposes of TANF and activities intended to reduce child poverty. The four purposes of TANF are:

- providing assistance to needy families so that children may be cared for in their homes or the homes of relatives;
- ending the dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- preventing and reducing the incidence of out-of-wedlock pregnancies; and
- encouraging the formation and maintenance of two-parent families.

Even under the expanded definition of allowable expenditures proposed in the bill, a vast majority of the fiscal 2002 deficiencies would not meet the legislative criteria. In addition to funding for the TCA deficit, costs associated with child welfare, child support, and food stamp reinvestment strategies might fall under the guidelines in the proposed legislation. The transfer of $50 million to the State's General Fund presents a particular problem since these dollars lose their identify as reserve account funds and cannot be tracked.

DLS recommends that the Secretary discuss the recent Family Investment Dedicated Purpose Account activities and, given limited resources, how the remaining $700,000 can best be used.

4. TCA Caseload and TANF Reauthorization May Lead to Need for Additional Funds

With the Family Investment Dedicated Purpose Account, the State had been preparing itself for unanticipated TCA deficits and possible congressional reductions to the TANF block grants. Even though the fiscal 2002 and proposed fiscal 2003 budget spend nearly the entire reserve account, as well as surplus TANF dollars, the original reasons for the establishment of the Family Investment Dedicated Purpose Account still exist. These reasons are discussed below.

- **TCA Payments:** The fiscal 2002 budget; accounting for the proposed deficiency appropriation, the addition of $7.2 million in TANF funds to replace restricted general funds, and cost containment adjustments to reflect unattainable child support collections; provides a total of $119.8 million for cash assistance payments. This includes $15.1 million in anticipated child support collections. Actual collections for fiscal 2001 totaled $11.6 million and the fiscal 2003 allowance assumes this same level of collections. This suggests that child support collections for fiscal 2002 may fall short of the budgeted amount by about $3.5 million. Without the full amount of budgeted child support collections, the dollars available for TCA payments total $116.3 million, the same amount spent in fiscal 2001. Although

caseloads compared to fiscal 2001 have decreased slightly, the grant increase of 7.5% that took effect in October will likely more than offset any savings generated by caseload declines.
In addition, in the fiscal 2003 allowance, the average grant amount seems understated. The allowance assumes an average payment of almost $140, an amount slightly lower than the average grants provided this October and November. Because of the law requiring that TCA grants and food stamp benefits equal at least 61% of the State's minimum living level, the TCA grant will increase beginning the second quarter of the fiscal year. Last October, the grant amount increased by 7.5% and DLS has estimated a 5.25% increase for next October. Higher-than-budgeted grant amounts could create a $7 million TCA deficit in fiscal 2003. Further, although the caseload has not exhibited a consistent upward trend, increases in the caseload may yet materialize.

- **Reauthorization of TANF:** Congress must reauthorize TANF for the federal fiscal year that begins October 2002. As such, only the first quarter of the fiscal 2003 dollars are certain. In the past, dramatic caseload reductions and TANF surpluses held by some states led to concerns that Congress would reauthorize the block grant at a lower level. Now, a shaky national economy and budget priorities that focus on homeland security have renewed concerns about reduced TANF funding for states. In spite of this situation, others believe that Congress may increase the grant level to account for inflation.

  Also, the reauthorized legislation may limit flexibility by requiring states to spend a certain portion of their grants on specific activities, such as fatherhood or faith-based initiatives. If Maryland's current spending plan does not satisfy the requirements, the State would need to shift its TANF dollars from other programs to those specified in the law. Further, Congress could change federal Maintenance of Effort (MOE) requirements, thereby impacting the amount of type of expenditures that the State can count to receive its full TANF grant.

DLS recommends that the Secretary comment on:

- **the adequacy of the deficiency provided to cover the TCA deficit;**
- **the likelihood of attaining the full $15 million assumed in the budget from child support collections; and**
- **the reauthorization of TANF and its possible impact on funding levels and flexibility.**

5. Concept of "TANF Substitutions" Abandoned

The administration introduced "TANF substitutions" during the 2000 legislative session. Under the TANF substitutions concept, the State used surplus TANF dollars to finance nine programs previously supported by general funds. An equivalent amount of general funds was then deposited in the Dedicated Purpose Account to cover future Family Investment Program costs. By doing so, Maryland converted its TANF surplus into general fund reserves. This addressed concerns that Congress might reduce prior year authorizations because of states' accumulation of significant fund balance levels.

The TANF substitution concept was fully applied in only two budgets: fiscal 2000 and 2001. In those years, for every TANF dollar spent on a program previously funded with State dollars, a dollar was deposited in the Dedicated Purpose Account. This is illustrated in **Exhibit 5**. Through TANF substitutions alone, the reserve account grew by $52.3 million. In the original fiscal 2002 budget, the nine programs continued to rely on TANF dollars, but the amount of general funds contributed to the reserve account totaled less than one-third of the TANF dollars spent. Specifically, not including program expansions funded with TANF, TANF expenditures on these programs totaled $30 million, but the budget included only $9.6 million in general funds for the Dedicated Purpose Account.

With the proposed deficiency appropriation to withdraw this $9.6 million from the reserve, the Governor seems to have permanently abandoned the concept of TANF substitutions. While TANF funding for the nine programs remains in tact in the fiscal 2003 allowance, the proposed budget does not include any general funds for the Dedicated Purpose Account. All of the general funds that had supported the nine programs have been diverted to other initiatives. Importantly, as originally introduced, these substitutions drew down TANF reserves. Even with an estimated TANF balance of less than $10 million anticipated at the end of fiscal 2002, TANF support for the programs has not declined. Instead, as shown in Exhibit 2 in Issue #1, the budget reduces TANF funding for other programs in DHR to align expenditures with available revenues. As such, it seems that the nine TANF substitution programs have come to rely on TANF as an ongoing funding source.

Exhibit 5

Use of TANF in Previously State-funded Programs
($ in Millions)

Agency	Program	FY 2000	FY 2001	FY 2002	FY 2003
MSDE	Drop Out Prevention Program	$7.5	$9.7	$9.7 **	$9.7
DHR	Child First Authority	0.4	0.5	0.5	0.5
	YouthBuild Sandtown	0.1	0.1 *	0.1 *	0.1 *
Subcabinet	Youth Service Bureaus	1.5	2.0	2.0	1.5
	Healthy Families	2.4	3.5	3.5 **	3.7
	Consolidated Education Grant	1.1	1.5	1.5	1.1
	Family Preservation	4.4	4.8	4.8	5.8
	Community Partnerships	4.4	7.3	7.3	7.0
	Council on Adolescent Pregnancy	0.5	0.6	0.6 **	0.6
Total		**$22.3**	**$30.0**	**$30.0**	**$30.0**
Amount Committed to Dedicated Purpose Fund		**$22.3**	**$30.0**	**$0**	**$0**
Difference		**$0**	**$0**	**$30.0**	**$30.0**

MSDE - Maryland State Department of Education

*Supplemental fiscal 2001 budget increased appropriation to $0.2 million. The fiscal 2002 budget and fiscal 2003 allowance also provides $0.2 million for this program.

**Fiscal 2002 budget expanded the use of TANF beyond amount shown in this table.

Note: The fiscal 2002 budget and the fiscal 2003 allowance both contain $19.7 million for the Subcabinet Fund. The fiscal 2003 allowance shows different allocations for the six programs compared to the fiscal 2002 budget.

Source: Department of Human Resources; Maryland State Budget

6. Fiscal 2003 Allowance Assumes Optimistic Federal Fund Attainment

During fiscal 2001, federal fund attainment issues, as well as personnel costs that exceeded the budgeted amount, generated deficits in various programs, particularly in child welfare and adult services. To cover the shortfall, DHR transferred $33.5 million in general funds from public assistance payments. In turn, unspent TANF in the fiscal 2001 budget and previously unappropriated TANF were used to cover assistance payments. In fiscal 2002, while the amounts budgeted for salaries appear sufficient to cover costs, federal fund attainment remains an issue. As such, the Governor has proposed a deficiency appropriation of over $10.0 million from the Family Investment Dedicated Purpose Account to restore unattainable Medicaid and IV-E funds currently budgeted in the local departments for child welfare and adult services.

Even with the proposed deficiency appropriations, DHR must achieve a higher level of attainment for Title IV-E and Medicaid dollars than it did in fiscal 2001. As shown in **Exhibit 6**, the adjusted fiscal 2002 budget assumes a federal fund attainment rate of 31%, or 3% above the fiscal 2001 level, for the combination of the following four budget programs: Social Services Administration, foster care maintenance payments, local child welfare, and local adult services.

Exhibit 6

Federal Fund Attainment in Child Welfare and Local Adult Services
Fiscal 1999 through 2003
($ in Thousands)

Fiscal Year	Percent of Budget	Total Federal Dollars*
1999	26.6%	$91,196
2000**	30.9%	119,901
2001	28.1%	119,337
2002***	30.9%	138,849
2003****	35.8%	164,449

*Federal funds consist of Title IV-E (foster care) and Medicaid funds only.

**The fiscal 2000 percentage exceeds that achieved in fiscal 1999 and 2001 because of a higher amount of retroactive claims made during that year.

***Accounts for deficiency appropriations, including cost containment relief, and reduced expenditures of $6.4 million.

****To facilitate comparison among the fiscal years, the fiscal 2003 figures, unlike the allowance, do not assume increased Medicaid attainment through Targeted Case Management.

Note: Budget programs included are the Social Services Administration, Foster care maintenance payments, local child welfare, and local adult services.

Source: Governor's budget books; Maryland State budget; and Department of Legislative Services

In fiscal 2003, DHR may again face shortfalls because of optimistic assumptions about its ability to claim federal dollars. The exhibit shows that DHR will need to cover almost 36% of its fiscal 2003 costs for the four budget programs with Title IV-E and Medicaid dollars. This exceeds the rate claimed in fiscal 2002 by almost 8%. It even exceeds by 4% the rate achieved in fiscal 2000, a year in which DHR made a higher than usual amount of retroactive claims. If DHR's actual federal fund attainment for Title IV-E and Medicaid in fiscal 2003 resembles that achieved in fiscal 2001, it will face a $35 million shortfall. Assuming that federal claiming increases to the level assumed in the adjusted fiscal 2002 budget, the deficit would total about $22 million in fiscal 2003.

With successful implementation of a federal waiver for Targeted Case Management, DHR could generate a minimal amount of additional Medicaid funds leading to a net increase in federal dollars of $3 million. Its options for increasing Title IV-E attainment, however, are even more limited. Several years ago, DHR

retained a consultant to help it optimize this source of federal revenues. By improving the process for collecting and maintaining proper documentation, Title IV-E claims have increased and are almost completely maximized.

Given the limited availability of reserve funds, resources for any significant deficiency appropriations for fiscal 2003 seem unavailable. Therefore, if deficits materialize because of underattainment of federal funds, DHR will need to identify resources within its fiscal 2003 budget, which already includes reductions resulting from cost containment efforts. As previously stated, DHR solved budget shortfalls in fiscal 2001 by transferring general funds from public assistance payments. This, however, posed problems for the State when trying to meet its MOE requirement for the TANF block grant. To identify the required level of MOE for fiscal 2001, DHR relied on certain expenditures incurred in the first quarter of fiscal 2002. This may continue, albeit to a lesser extent, in claiming fiscal 2002 and 2003 MOE expenditures as DHR attempts to recover from this action. As such, transferring a significant amount of State dollars from public assistance payments no longer represents a viable option for funding deficits in other programs in the department.

DLS recommends that the Secretary discuss:

- **DHR's efforts to increase Title IV-E and Medicaid attainment and the amount of funds these efforts are likely to generate;**
- **DHR's ability to achieve the rate of federal fund attainment assumed in the allowance; and**
- **how DHR would fund any deficits resulting from lower-than-budgeted federal fund attainment.**

7. Fiscal 2003 Allowance Contains Sufficient MOE

In return for its annual TANF block grant, the State must spend $177.7 million of its own money to meet federal MOE requirements. **Exhibit 7** provides a summary of the MOE funding in the fiscal 2001 budget and estimates for fiscal 2002 and 2003.

In fiscal 2001, DHR faced difficulties meeting its MOE requirement primarily because it transferred $33.5 million in general funds from assistance payments to cover shortfalls for personnel costs throughout the department. The deficit resulted from inaccurate projections for personnel expenditures and lower-than-anticipated federal fund attainment. DHR used unspent TANF dollars within its fiscal 2001 budget and unappropriated TANF to offset the transfer of general funds out of cash assistance payments. As shown in Exhibit 7, MOE claimed for cash assistance programs totaled $32.6 million. This number could have been significantly higher had DHR not needed to spend general funds originally budgeted in the program elsewhere. To compensate for the significant loss of MOE expenditures resulting from the transfer, DHR used a portion of Earned Income Credit (EIC) expenditures incurred in fiscal 2002 to meet its fiscal 2001 MOE requirements. In addition, DHR identified eligible MOE expenditures incurred by Subcabinet Fund programs. In fiscal 2001, the MOE claims for the Subcabinet Fund represent expenditures for fiscal 2001 as well as a portion of eligible expenditures in fiscal 2000. DHR can continue to count expenditures on these programs in the future.

Exhibit 7

TANF Maintenance of Effort Dollars
Fiscal 2001 through 2003
($ in Millions)

	FY 2001	FY 2002*	FY 2003
Traditional Sources of MOE			
Cash Assistance	$32.6	$45.7	$47.2
Child Care Subsidies	23.3	23.3	23.3
Employment Services/Caseworkers	18.6	15.0	14.7
Administration	6.0	16.7	11.7
Subtotal Traditional MOE	**$80.5**	**$100.7**	**$96.9**
Other Sources of MOE			
Refundable State Earned Income Tax Credit	$55.0	$42.0	$42.0
Kinship Care	9.6	11.0	11.0
Poverty and Targeted Improvement Grants (MSDE)	27.7	27.7	27.7
Subcabinet Programs	3.9	1.9	1.9
HotSpots**	1.6	1.6	1.6
Individual Development Accounts	0.0	0.1	0.1
Subtotal Other Sources of MOE	**$97.8**	**$84.3**	**$84.3**
Total MOE**	**$178.3**	**$185.0**	**$181.2**

*Includes proposed deficiencies appropriation.

**Minimum MOE requirement is $177.7 million for fiscal 2001 and 2002. This level of fiscal 2003 MOE is uncertain at this time as Congress must reauthorize the federal TANF block grant.

***For this program, all figures are estimates.

Note: Fiscal 2002 and 2003 amounts reflect estimated expenditures.

Source: Department of Human Resources; Department of Legislative Services

Exhibit 7 shows that estimated fiscal 2002 MOE expenditures total $185 million. This number assumes that DHR will need to claim a portion of EIC expenditures in fiscal 2003 as MOE expenditures for fiscal 2002. Claiming much beyond four quarters of EIC expenditures, as happened in fiscal 2001, however, is no longer a viable option as that would put increasing pressure of DHR's ability to meet MOE requirement in future years.

The fiscal 2003 estimated MOE expenditures also assume that DHR will need to count a portion of fiscal 2004 EIC expenditures towards MOE to supplement EIC expenditures incurred in the first three quarters of fiscal 2003. As illustrated in Exhibit 7, the fiscal 2003 allowance includes an estimated $181.2 million in MOE eligible expenditures, which exceeds the fiscal 2002 requirement by $3.5 million. Because Congress must reauthorize the TANF block grant, the amount of MOE needed for fiscal 2003 is uncertain. Also, federal auditors may interpret federal regulations more narrowly than states and, therefore, they may reject innovative approaches to claiming MOE. **With uncertainties surrounding the level of MOE needed and concerns about federal audits, DLS recommends a cushion of MOE funds. This means that the fiscal 2003 allowance should contain a minimum of $181 million in MOE.**

DLS also recommends that the Secretary discuss:

- **DHR's difficulties meeting the MOE requirements in fiscal 2001;**
- **DHR's confidence in its ability to meet the MOE requirements in fiscal 2002; and**
- **the possibility of an increased MOE level in the reauthorized block grant legislation and DHR's ability to identify sufficient State dollars to meet any legislative changes to the MOE requirements.**

Updates

1. Allowance Continues to Use TANF/MOE Dollars for "Nontraditional" Expenditures

The TANF regulations issued in April 1999 granted states surprisingly flexibility in their use of TANF dollars and expenses eligible as MOE. Starting in the 2000 session, the availability of a large TANF surplus allowed the State to use the newly granted flexibility to spend dollars on "nontraditional" welfare expenditures. In the fiscal 2001 budget, TANF funds were first used to substitute general fund support for ongoing activities and existing general fund spending (that had not previously been considered MOE eligible) was counted as MOE. This practice continues in the fiscal 2003 allowance.

Exhibit 8 compares fiscal 1996 welfare expenditures, the last full year of the Aid to Families with Dependent Children program, to those in the fiscal 2003 allowance. As shown in Exhibit 8, total spending on core welfare services and nontraditional welfare services decreases by almost $58 million between fiscal 1996 and 2003. In recent years, when the State could rely on TANF reserves to support its welfare expenditures, the change compared to fiscal 1996 was significantly smaller. In fiscal 2001, for example, the State committed $45.9 million in TANF to support child care subsidies. Given the limited availability of TANF dollars, the State does not intend to use these federal funds for child care subsidies in fiscal 2002 or 2003.

Prior to welfare reform, over 60% of expenditures supported cash assistance payments. The caseload decline, which occurred primarily between fiscal 1996 and 2001, is expected to produce savings of over $164 million compared to the amount spent on cash assistance in fiscal 1996. As shown in Exhibit 8, the savings generated from the caseload reduction and other types of core welfare services primarily support nontraditional welfare expenditures. A portion of the savings does fund employment services. Many of the "nontraditional" expenditures were authorized in the 2000 session.

Exhibit 8

TANF/MOE Expenditures
Fiscal 1996 Compared to Fiscal 2003
($ in Millions)

	FY 1996	FY 2003	Difference
Core Welfare Services			
Cash Assistance	$296.0	$131.7	($164.3)
Child Care Subsidies	45.6	23.3	(22.3)
Employment Services/State Family Investment	43.7	56.4	12.7
Caseworkers and Associated Costs	40.6	29.0	(11.7)
Information Systems/General Administration	28.5	25.8	(2.7)
Child Welfare/Foster Care	25.5	18.6	(6.9)
Subtotal Core Services	**$480.0**	**$284.8**	**($195.2)**
Nontraditional Welfare Expenditures			
Refundable Earned Income Tax Credit	$0.0	$42.0	$42.0
Former "TANF Substitutions"[1]	0.0	32.2	32.2
Poverty Grants (MSDE)	0.0	27.7	27.7
After School Opportunity Fund	0.0	11.8	11.8
Kinship Care (DHR)	0.0	11.0	11.0
Substance Abuse Screening and Referrals	0.0	3.2	3.2
HotSpots	0.0	1.6	1.6
Disruptive Youth (Subcabinet Fund)	0.0	1.1	1.1
Other Initiatives[2]	0.0	3.2	3.2
Subtotal Nontraditional Expenditures	**$0.0**	**$133.8**	**$133.8**
Grand Total All Categories	**$480.0**	**$418.6**	**($61.4)**
General/Special Funds	$239.0	$181.2	($57.8)

[1]See Exhibit 5 for a detailed list. In fiscal 2001, the amount of the "TANF Substitutions" totaled $30.0. Expansions in the fiscal 2002 budget increased funding for "TANF Substitutions."

[2]Includes funding for four programs administered by the Community Services Administration in DHR: Home Visiting ($400,000), Best Friends ($384,000), Project Retain ($338,737), Individual Development Accounts ($100,000), and Rape Reduction Effort ($50,000). It also includes $1.9 million from programs administered through the Subcabinet Fund.

Note: Numbers may not sum due to rounding.

Source: Maryland State Budget; Department of Human Resources; Department of Legislative Services