

Department of Legislative Services  
Maryland General Assembly

FISCAL NOTE  
Revised

Senate Bill 686 (Senator Trotter. *et al.*)

Finance

Welfare Innovation Act of 1998

This bill requires the Department of Human Resources (DHR) to establish a Job Skills Enhancement Pilot Program (JSEPP) in at least three counties to provide training to newly employed Family Investment Program (FIP) recipients in entry-level positions with limited potential for advancement. The bill alters State procurement practices to promote the hiring of FIP recipients. By December 1, 1998, DHR is required to develop a model "hiring agreement" form. Under a hiring agreement, DHR and an entity doing business with the State agree to work cooperatively to hire FIP recipients to fill entry-level job openings of the entity. The bill also requires DHR to redesign the FIP service delivery system and conduct a study of finger imaging as a method of preventing fraudulent receipt of FIP and Food Stamp Program benefits. It codifies provisions allocating FIP savings among various programs.

The bill takes effect June 1, 1998.

Fiscal Summary

**State Effect:** Net expenditures could decrease by \$98,800 in FY 1999 as a result of the hiring agreements program and the finger imaging study. Future year savings increase with annualization and additional placement of FIP recipients in work activities, exclusive of indeterminate savings resulting from JSEPP and FIP service delivery system redesign. Minimal decrease in special fund revenues.

(in dollars)	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
SF Revenues	---	---	---	---	---
GF/FF Exp.*	(\$98,800)	(\$470,400)	(\$705,600)	(\$940,800)	(\$1,176,000)
Net Effect	\$98,800	\$470,400	\$705,600	\$940,800	\$1,176,000

Note: ( ) - decrease; GF - general funds; FF - federal funds; SF - special funds

\* savings come from combined pool of general funds and federal block grant funds

**Local Effect:** None.

**Small Business Effect:** Meaningful.

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## Fiscal Analysis

**Bill Summary:** Under the bill's hiring agreement program, DHR is required to assign an account representative to work cooperatively with an entity to process the entity's job notifications, refer qualified candidates to the entity, and arrange post-hire transitional/supportive services. The Board of Public Works, in consultation with DHR, is to designate the types of procurement contracts that are appropriate for executing hiring agreements by October 1, 1998. DHR must submit a report to the Board of Public Works, the Joint Committee on Welfare Reform, and the General Assembly on the status and effectiveness of the hiring agreements.

The bill provides that participation in JSEPP is voluntary. At the discretion of the Secretary of Human Resources, in consultation with the director of the local department of social services, JSEPP is to be administered by local departments of social services or through the State service delivery area system under the federal Job Training Partnership Act.

DHR, in consultation with other State agencies, is to (1) redesign the Family Investment Program service delivery system to improve customer service, leverage available resources, and avoid duplication of effort; and (2) implement the system as a pilot project in one jurisdiction by July 1, 2000. Funding for design, implementation, and evaluation of the system redesign is to come from FIP savings and is not to exceed \$1 million annually. The Departments of Labor, Licensing, and Regulation, Business and Economic Development, Health and Mental Hygiene, Education, and the Higher Education Commission are to work with DHR to design the new system and assist DHR in implementing and evaluating the new system where appropriate. DHR is to present a preliminary report on the system redesign to the Joint Committee on Welfare Reform and the General Assembly by July 1, 1999 and a final report by January 1, 2001. The system redesign provisions of the bill are in effect for three years and terminate on May 31, 2001.

The bill codifies provisions allocating FIP savings for specified purposes among various programs and provides that any unspent savings may be carried over into the next fiscal year.

It provides that when awarding demonstration project grants, DHR must give priority to awarding at least 20% of grant funds to regional proposals from two or more counties.

The bill provides that the finger imaging study is to include an examination of the cost effectiveness of finger imaging programs in other states, the impact of finger imaging in comparison to other fraud prevention methods, and projected savings to Maryland. DHR is to report its findings by October 1, 1998 to the Senate Finance Committee and the House Appropriations Committee.

The bill exempts from the State titling tax any vehicle acquired by a charitable organization or DHR for the purpose of transferring it to a FIP recipient.

The bill prohibits the unspent balance of funds appropriated to the Dedicated Purpose Account for the Family Investment Program and the Purchase of Child Care Program from reverting to the Revenue Stabilization Account, even if those funds are unspent four years after the fiscal year for which the appropriation was made. Current law requires that funds appropriated to the Dedicated Purpose Account revert to the Revenue Stabilization Account if the funds are unspent four years after the fiscal year for which the appropriation was made.

It alters a cost neutrality requirement for the Child Support Reinvestment Fund by providing that any reinvestment fund expenditures generate an increase in total child support collections equivalent to twice the amount of reinvestment fund dollars spent.

The bill repeals the requirement that the Department of Health and Mental Hygiene (DHMH) apply for a federal waiver to obtain federal reimbursement for Medicaid services to minors who lost SSI eligibility under federal welfare reform.

**State Effect:**

*Hiring Agreements*

FIP expenditures could decrease by an estimated \$117,600 in fiscal 1999 due to the bill's provision requiring activities to promote hiring of FIP recipients to fill entry-level job openings of entities doing business with the State. The estimate assumes: (1) an average monthly grant amount of \$392; (2) 100 placements of FIP recipients; and (3) three months of savings per recipient placed, given the provision's effective date of December 1, 1998 and a 90-day start-up delay. Future year savings increase due to: (1) an estimated 100 additional placements each year; and (2) an average six months of savings per recipient placed.

DHR advises that expenditures for establishing the hiring agreement program could increase by an estimated \$89,361 in fiscal 1999, which accounts for the bill's July 1, 1998 effective date (and no start-up delay). This estimate reflects the cost of two new Human Services Specialist positions to manage the program of hiring agreements with entities doing business with the State. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

The Department of Legislative Services (DLS) advises, however, that one position should be sufficient to manage this program and that the cost of the position could be funded with FIP savings from welfare reform. First, the number of hiring agreements will depend on the DHR and Board of Public Works designation of types of procurement contracts deemed

eligible for the hiring agreement program. Further, DHR and local departments of social services are already assisting FIP recipients to move from welfare to work. DHR staffing levels have not dropped significantly, although there has been an unprecedented decline in FIP caseload over the last three years. Moreover, the proposed fiscal 1999 budget includes 150 new contractual positions in the local departments of social services to bolster local department welfare to work efforts. The cost for a new position and associated operating expenditures would be an estimated \$38,959, which accounts for a 60-day start-up delay. The estimate includes salaries and fringe benefits (\$33,316) and ongoing operating expenses (\$5,643).

Expenditures and savings for the FIP are represented as a total pool of State funds. The fiscal 1999 budget includes \$165.8 million for cash assistance payments, of which \$90.5 million is federal block grant funds and \$75.3 million is general funds. With the block grant, however, it is not possible to reliably predict the federal/general fund split used for any particular program.

#### *Job Skills Enhancement Pilot Program*

It is anticipated that funds for the Job Skills Enhancement Pilot Program will come from FIP savings resulting from welfare reform. Therefore, there would be no effect on State expenditures. DLS projects a \$43.8 million FIP surplus in fiscal 1998. Future year FIP expenditures could decrease by an indeterminate amount, however, to the extent that JSEPP is successful in preventing former FIP recipients from returning to the FIP caseload.

#### *FIP Service Delivery System Redesign*

The bill provides that the FIP service delivery system redesign is to be funded by up to \$1 million in FIP savings resulting from welfare reform. Therefore, there would be no effect on State expenditures. DLS projects a \$43.8 million FIP surplus in fiscal 1998. Future year FIP expenditures could decrease by an indeterminate amount, however, to the extent that system redesign promotes the State's ability to move more FIP recipients into the workforce.

#### *Finger Imaging Study*

State expenditures could increase by an estimated \$18,818 in fiscal 1999. This estimate reflects the cost of hiring one contractual employee (Human Services Specialist) for three months to conduct the finger imaging study. It includes salaries, fringe benefits, and ongoing operating expenses.

Salaries and Fringe Benefits	\$9,956
Travel	7,758
Other Operating Expenses	<u>1,104</u>

## **Total FY 1999 State Expenditures**

**\$18,818**

### *Vehicle Titling Tax*

The current titling tax is 5% of the taxable sales price of the vehicle. It is not possible to reliably estimate the number of vehicles that would be affected by the bill's titling tax exemption and the resultant special fund revenue decrease. Any such impact is expected to be minimal.

### *Dedicated Purpose Account - Revenue Stabilization Account*

The fiscal 1998 appropriation to the Dedicated Purpose Account included \$15.7 million in FIP savings and \$4.4 million in federal funds for the Purchase of Child Care Program. Those funds, if unspent, would have been reverted to the Revenue Stabilization Account (Rainy Day Fund) in fiscal 2003, absent the bill's provisions. Fiscal 2003 projections for the Rainy Day Fund do not assume either FIP or Purchase of Child Care funds; therefore, there would be no effect on State finances.

### *Child Support Reinvestment Fund*

The bill provides that any Child Support Reinvestment Fund expenditures generate an increase in total child support collections equivalent to twice the amount of reinvestment fund dollars spent. Seventy percent of federal child support performance incentive funds received by DHR in a fiscal year are included in the reinvestment fund. Federal incentive dollars are earned based upon the State's success in collecting child support dollars. Child Support Reinvestment Fund expenditures may be used to expand the privatization of child support enforcement activities; improve and expand DHR's child support automation capabilities; and expand child support public awareness campaigns. Each dollar of reinvestment fund leverages an additional two dollars in federal matching funds.

Current State law includes a cost neutrality requirement for the reinvestment fund by requiring that any State funds spent be offset by an increase in FIP child support collections retained by the State. Given the reductions in the FIP caseload and corresponding reductions in FIP child support collections, meeting the cost neutrality requirement is proving increasingly difficult. The bill's requirement broadens the cost neutrality provision to include non-FIP as well as FIP collections. The bill is not expected to actually affect the amount of reinvestment fund expenditures or child support collections.

**Small Business Effect:** Small businesses hiring qualified employees could receive a Work, Not Welfare tax credit. The credit is for 30% of the first \$6,000 of wages for the first year of employment (\$1,800), 20% of the first \$6,000 of wages for the second year of employment (\$1,200), and 10% of the first \$6,000 of wages for the third year of employment (\$600). An additional credit is available for child care expenses incurred by the employer, for up to \$600

in the first year, \$500 in the second year, and \$400 in the third year.

Moreover, small businesses in general could benefit from the bill's provisions that result in a larger and more highly skilled workforce.

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**Information Source(s):** Department of Human Resources, Department of Health and Mental Hygiene, Department of Transportation (Motor Vehicle Administration), Department of Budget and Management, Department of Legislative Services

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