Department of Legislative Services

Maryland General Assembly
1999 Session

FISCAL NOTE
Revised

Senate Bill 445 (Senator Lawlah)
Finance

Family Investment Program - Earned Income Disregard

This bill alters the amount of earned income that will be disregarded in determining the amount of Temporary Cash Assistance (TCA) that an individual may receive. It increases the income disregard for current TCA recipients from 26% to 35% and prohibits the increase in the disregard from being funded by an increase in Family Investment Program (FIP) general fund expenditures or from the reserve for future welfare costs in the Dedicated Purpose Fund. The Department of Human Resources (DHR) is required to: (1) subject to federal law and regulation, ensure that if a TCA recipient's eligibility is extended due to the increased disregard, the extended period of cash assistance is not subject to federal and State time limits on the receipt of cash assistance; (2) certify to the Joint Committee on Welfare Reform (JCWR) if any federal action under the Social Security Act subjects the extended period of cash assistance resulting from this bill to federal time limits (in which case the bill is null and void); and (3) certify to JCWR if DHR determines that federal funding under the Temporary Assistance to Needy Families (TANF) has declined to the extent that an increase in State general funds is necessary to fund the bill's requirements (in which case the bill is null and void). The bill takes effect July 1, 1999 and terminates on June 30, 2002.

Fiscal Summary

State Effect: FY 2000 federal fund expenditures increase by at least $3 million, depending on the accuracy of caseload and grant amount estimates and exclusive of a one-time computer modification cost of $60,000, additional child care costs, and an indeterminate effect from federal time limit exemption for TCA recipients who work. FY 2001 TCA expenditures increase by at least $3.6 million and Medicaid expenditures increase by $51,000 ($25,500 general funds, $25,500 federal funds), exclusive of child care costs and federal time limit exemption effect. Future year expenditures reflect annual changes in caseload, stable economic and job market conditions, and the bill's June 30, 2002 termination date. Revenues would not be affected.

(in dollars)	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004
GF Revenues	$0	$0	$0	$0	$0
GF Expend.	0	25,500	41,300	0	0
FF Expend.	3,060,000	3,625,500	3,808,000	0	0
Net Effect	($3,060,000)	($3,651,000)	($3,849,300)	$0	$0

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

Local Effect: None.

Small Business Effect: Potential meaningful.

Fiscal Analysis

Background: The Regional Economic Studies Institute (RESI) of Towson University is under contract with the Department of Human Resources (DHR) to provide forecasts of the number of TCA recipients. RESI's integrated forecast model uses economic, demographic, and policy data to project the number of TCA recipients in each local jurisdiction; these estimates are aggregated into a statewide estimate. The model assumes that individuals assess the relative gain of working vs. TCA and that this assessment is influenced by the constraints imposed by the regional labor market and governmental rules governing public assistance. RESI factors into the "relative gain" variable the after-tax earnings of females working in targeted industries adjusted for the earned income tax credit, Social Security tax, State income tax, and food stamp benefits available to wage earners vs. the value of public assistance benefits such as TCA, Medicaid, and food stamps.

In addition, the model takes into account the 24-month time limit whereby adult TCA recipients must participate in a work activity to continue receiving assistance. The effect of the 24-month limit was assessed by looking at the effect time limits have had in other states and by evaluating the composition of and trends within Maryland's caseload.

The model's economic data include employment in targeted industries, help wanted ads, and TCA case closure rates to represent the constraints of the regional labor market. Demographic data include the "at-risk" population in Maryland, i.e., the number of female-headed households with children under 18 years old. Policy measures assessed include up-front job search, child support first, welfare avoidance grants, and child care in lieu of TCA, as implemented by the local departments of social services.

RESI projects a TCA caseload of 87,591 by the end of fiscal 1999; 75,287 by the end of fiscal 2000; and 67,403 by the end of fiscal 2001. The dramatic caseload decline of recent years begins to level off by fiscal 2001 due to slowing of economic growth due to global economic difficulties and the core caseload (recipients whose need for public assistance is unaffected by changes in the economy or welfare reform) being reached in the larger jurisdictions. The core caseload represents about 34,000 recipients.

State Expenditures:

Enhanced Disregard

By raising the amount of income disregarded in calculating welfare benefits, the bill would increase cash assistance available to welfare recipients engaging in work and result in a small number of current recipients staying on TCA for a longer time period than they otherwise might have. The RESI model projects that fiscal 2000 federal Temporary Assistance to Needy Families (TANF) expenditures would increase by an estimated $3 million to cover the costs of a 35% disregard. This estimate includes increased cash assistance available to welfare recipients engaging in work and 53 recipients staying on TCA who otherwise would not retain TCA eligibility. In addition, a one-time federal fund cost ($60,000) for computer program modifications would be necessitated by establishment of a "segregated program."

The Department of Legislative Services (DLS) advises that income disregard expenditures could be higher than $3 million for two reasons. First, DLS' caseload estimate for fiscal 2000 is approximately 5,000 higher than that assumed by the RESI model. Further, DLS assumes that the maximum TCA grant for a family of three will increase by 3% in October of fiscal 2000 to keep pace with changes in the minimum living level, as required by State law. The RESI model does not assume a higher grant level. Therefore, taking DLS' projections into account would indicate that State expenditures could increase by a greater amount than indicated by RESI.

However, expenditures could be lower to the extent that welfare reform has changed the attitude of many individuals toward public assistance such that individuals are not particularly eager to apply for TCA, stay on TCA, or to re-enroll (particularly for the relatively small monthly payment for which they might be eligible). The Department of Human Resources (DHR) caseload statistics and recent University of Maryland School of Social Work reports on families leaving welfare provide evidence that TCA recipients are leaving the rolls in high numbers and not necessarily because their income is above TCA eligibility limits or due to sanctions.

Federal Time Limits and the "Segregated Program"

The Department of Human Resources has an unappropriated federal fund TANF reserve of $104 million due to the declining TCA caseload and federal maintenance of effort requirements. To secure the entire TANF block grant amount each year, the State must spend a certain amount of general funds each year to provide assistance to TANF families.

The use of federal TANF funds for cash assistance normally invokes the federal five-year lifetime limit on cash assistance. Recipients who, because of the disregard, stay on TCA for a longer time period are likely to receive a small monthly assistance payment while using up a portion of their lifetime limits. These individuals could be in the position of losing eligibility for assistance which may be needed in future years in the event of a recession.

To avoid federal time limits, the Department of Human Resources (DHR) plans to create a "segregated" program in which the population of TCA recipients who are engaged in work activities are placed. Draft federal regulations currently permit a segregated program in which federal lifetime limits do not apply, but federal work requirements still apply. Final federal regulations are expected to be issued soon; therefore, the bill stipulates that DHR's establishment of a segregated program is contingent upon federal regulation.

General funds to support cash assistance for working individuals (including the $3 million needed to support the enhanced disregard in fiscal 2000) would be segregated from the combined TCA pool of federal/general funds and would count towards maintenance of effort. For all intents and purposes, however, there would be no increase in general funds because these general funds would already be appropriated and because $3 million in federal funds from the State's federal fund reserve would be drawn down to replace those general funds.

The segregated program would exempt TCA recipients who work from federal lifetime limits on cash assistance. TCA recipients who work but do not earn enough income to lose eligibility for TCA would be able to take advantage of the exemption. This could have an indeterminate effect, particularly in future years. Expenditures could increase to the extent that recipients stay on TCA who otherwise would have been ineligible for further assistance due to exhausting lifetime benefits or obtaining a higher paying job. Expenditures could decrease to the extent that recipients work or continue to work who otherwise would not have worked, thereby receiving smaller assistance payments than they otherwise would have.

Future Year Costs

The RESI model projects that fiscal 2001 federal fund TANF expenditures would increase by $3.6 million to cover the disregard costs. This estimate includes increased cash assistance available to welfare recipients engaging in work and 86 recipients staying on TCA who otherwise would not retain TCA eligibility. The fiscal 2002 estimate reflects a decrease of

2.5% in recipients who would have retained TCA eligibility regardless of the bill's provisions, a 62% increase in recipients staying on TCA who otherwise would not retain TCA eligibility, and stable economic and job market conditions.

Other Associated Expenditures

Fiscal 2001 expenditures would increase by an estimated $50,900 ($25,450 general funds and $25,450 federal funds) to cover additional Medicaid costs for adult recipients who stay on the TCA caseload longer than they would have otherwise in the absence of new income disregard alternatives. This estimate assumes approximately 20 additional adult recipients and an average Medicaid cost per TCA adult of $2,593 per year. There are no additional Medicaid costs in fiscal 2000 because recipients who otherwise would have left the TCA rolls would be eligible for a year of transitional Medicaid benefits even in the absence of the increased income disregard. The fiscal 2002 estimate reflects a 62% increase in recipients and stable economic and job market conditions.

The increased disregard would allow more TCA recipients to work and still retain cash assistance. Maryland's Purchase of Care (POC) program provides child care subsidies to TCA recipients and eligible working poor families; however, working poor families are responsible for co-payments. The average cost per POC slot in fiscal 2000 is an estimated $4,169. POC costs represent a pool of combined general/federal funds.

Small Business Effect: To the extent that a higher income disregard encourages more individuals to participate in the workplace and still retain cash assistance, small businesses would have a larger workforce available to them. Accordingly, there could be an increased need for child care services that could benefit child care providers, which are predominantly small businesses.

Information Source(s): Regional Economic Studies Institute (RESI), Department of Human Resources, Department of Legislative Services

Fiscal Note History:	First Reader - March 18, 1999
ncs/dr	Revised - Senate Third Reader - April 1, 1999
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