SB 787

Department of Legislative Services

Maryland General Assembly
2023 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 787 (Senator Hettleman)
Finance

Human Services - Benefits Cliff Pilot Program - Establishment

This bill establishes the Benefits Cliff Pilot Program in the Department of Human Services (DHS) to (1) mitigate the cliff effect that occurs when a household or individual receiving assistance from a program administered by DHS begins to earn above the income eligibility limit and (2) facilitate, encourage, and support participants in entering, reentering, and remaining in the workforce. DHS must convene a stakeholder support group and develop the pilot program in consultation with the group. By December 1, 2024, DHS must submit an interim report on the pilot program to the Senate Finance Committee and the House Appropriations Committee; a final report is due December 1, 2026. **The bill takes effect July 1, 2023, and terminates June 30, 2027.**

Fiscal Summary

State Effect: General and federal fund expenditures for DHS increase by $172,603 in FY 2024 for contractual staff. Future years reflect annualization, inflation, and termination of the pilot program at the end of FY 2027. In FY 2024 only, general/federal fund expenditures also increase by up to $312,000 for one-time programming costs. State expenditures for DHS further increase by an indeterminate, but potentially significant, amount in FY 2024 through 2027 to otherwise implement and evaluate the program, as discussed below. Revenues are not directly affected.

Local Effect: The bill is not anticipated to materially affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary:

Department of Human Services and Development of Pilot Program

The bill requires DHS to convene a stakeholder support group consisting of specified entities, including private sector employees and nonprofit organizations. In consultation with this group, DHS must (1) develop the pilot program in collaboration with appropriate State agencies, departments, and officials; (2) determine the length of eligibility for a participant and the frequency with which a participant may enroll in the program; and (3) administer the program. DHS must provide two case managers to oversee and assist participants in maximizing their benefits and planning for the gradual reduction of benefits as employment income increases. DHS, the stakeholder support group, and case managers must use existing resources to provide coaching and mentoring, financial wellness education, cliff effect planning training, and other services to help participants achieve the goals of the pilot program.

Eligibility and Participation

An individual or household is eligible for the program if the individual or household (1) has been receiving assistance under Title 5 of the Human Services Article (Public Assistance) for less than 12 months before the date of application to the program and (2) is eligible for the Work Opportunity Tax Credit.

For each year an individual or household participants in the program, the participant must keep all earned income and must be awarded an adjustment to the earned income tax credit under §10-704 of the Tax – General Article that allows the participant to continue to earn an amount not less than the participant's base earnings.

If DHS determines that a participant has successfully moved into the workforce while participating in, or on completion of, the program:

- the State must award the participant a match equal to 20% of the participant's base, up to $10,000; and
- DHS, in consultation with the stakeholder support group, must continue to provide the individual with counseling and technical support services and monitor the individual for data collection purposes.

"Base" means the amount of all assistance and after-tax earnings that a participant is receiving at the time the participant enrolls in the program and becomes fully employed at a minimum of 37.5 hours per week.

Reporting Requirements and Regulations

DHS must work in consultation with the stakeholder support group and a third-party evaluator hired by DHS in submitting the required reports. Each report must include:

- the number of participants who entered the workforce;
- the amount of yearly income earned by each participant;
- the hourly wage rate of each participant, including a record of all salary increases over each year;
- the amount of expenses incurred by the State in each year of the pilot program; and
- records of all participants entering or exiting the workforce, including a participant's reason for exiting the workforce.

DHS is authorized to adopt regulations to implement the bill.

Current Law:

Department of Human Services

DHS is the State's human services provider. In addition to other programs, DHS helps vulnerable Marylanders buy healthy food, pay energy bills, obtain medical assistance, and provide stable environments for at-risk children and adults.

Benefit programs administered by DHS include Temporary Cash Assistance (TCA), the Temporary Disability Assistance Program, and the Supplemental Nutrition Assistance Program (SNAP). DHS also oversees transitional support services, which provide a benefit at the same level as a case received prior to a TCA exit due to employment or income over eligibility thresholds for three months after the TCA exit. The program is intended to reduce the impact of the benefit cliff for recipients.

Work Opportunity Tax Credits

State: Chapters 5 and 6 of 2022 authorized a nonrefundable State income tax credit for up to 50% of the value of the federal Work Opportunity Tax Credit claimed by an employer with respect to a qualified individual who is employed in the State. The credit is available beginning in tax year 2022.

Federal: The federal Work Opportunity Tax Credit provides a federal income tax credit to employers for qualified first-year wages paid to employees who (1) are members of specified targeted groups that face significant barriers to employment and (2) begin work before January 1, 2026. In general, the value of the credit is 40% of the first $6,000 of wages paid to a qualifying employee during the employee's first year of employment. An employer must obtain certification from a designated state workforce agency that an employee for which the credit is claimed is a member of a targeted group.

Targeted groups under the Work Opportunity Tax Credit include recipients of Temporary Assistance to Needy Families or SNAP benefits; veterans; ex-felons; residents of empowerment zones, enterprise zones, enterprise communities, renewal communities, and rural renewal counties; vocational rehabilitation referrals; recipients of supplemental Social Security income; and specified long-term unemployment recipients.

State Earned Income Tax Credit

Maryland's earned income credit offers both refundable and nonrefundable credits against the State income tax and a nonrefundable credit against the local income tax for low- to moderate-income resident taxpayers. The State nonrefundable credit is generally equal to 50% of the amount of an eligible taxpayer's federal earned income credit for the taxable year. A taxpayer for whom the State nonrefundable credit is less than the taxpayer's State income tax liability may also be eligible to claim the State and local poverty level credits.

The State refundable earned income credit is available to eligible taxpayers for whom a specified percentage of the federal earned income credit exceeds the taxpayer's State income tax liability. For tax years after tax year 2017 and prior to tax year 2020, the value of the State refundable credit was 28% of the amount of the taxpayer's federal earned income credit, minus any pre-credit State income tax liability.

The local earned income credit is generally equal to the amount of the taxpayer's federal earned income credit multiplied by 10 times the county income tax rate for the taxable year, not to exceed the taxpayer's county income tax liability.

Legislation enacted during the 2021 session temporarily expanded Maryland's earned income credit for tax years 2020 through 2022. For example, Chapter 39 (1) increased the value of the State refundable credit from 28% to 45% of the amount of a claimant's federal earned income credit, minus any pre-credit State income tax liability and (2) for an individual without a qualifying child, increased the value of the State refundable credit to 100% of the individual's federal earned income credit, up to a maximum of $530.

State Fiscal Effect: State expenditures increase, potentially significantly, beginning in fiscal 2024 and through the end of fiscal 2027 when the pilot program terminates.

Pilot Program Costs

The bill specifically requires DHS, in consultation with the stakeholder support group, *to develop the pilot program* in collaboration with other specified entities (including determining the length of eligibility for participation and the frequency with which a participant may enroll). Expenditures (assumed to be general funds according to DHS) associated with the core components of the program (*i.e.*, the earned income adjustment and the match awards that are specific to a participant's "base") can therefore not be reliably determined in advance and depend on numerous factors, including

- the number of participants;
- the level of employment of participants in the program;
- the number of match awards that may be granted to a participant; and
- the duration of participation in the program for participants.

It is assumed that any earned income tax credit adjustments are made as DHS expenditures and that revenues are therefore not directly affected.

Administrative Costs – Staff

DHS general and federal fund expenditures also increase by $172,603 in fiscal 2024, which assumes a 90-day start-up delay from the bill's July 1, 2023 effective date. This estimate reflects the cost of hiring three full-time contractual positions to administer the program. Although the bill *requires* DHS to provide two case managers to oversee and assist pilot program participants, DHS advises that a program manager is also needed to oversee the pilot program in general. The estimate includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Contractual Positions	3.0
Salaries and Fringe Benefits	$150,376
Operating Expenses	22,227
FY 2024 State Expenditures for Staff	**$172,603**

This estimate does not include any health insurance costs that could be incurred for specified contractual employees under the State's implementation of the federal Patient Protection and Affordable Care Act.

Future year expenditures reflect full salaries with annual increases and employee turnover as well as annual increases in ongoing operating expenses and termination of the contractual employees when the pilot program terminates June 30, 2027.

Computer Programming and Program Evaluation Costs

DHS also incurs one-time computer programming costs in fiscal 2024 of up to $312,000. Furthermore, DHS is also required under the bill to hire a third-party evaluator; DHS estimates that associated costs may be as high as $160,000 annually.

Additional Information

Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: HB 1286 (Delegate McCaskill) - Appropriations.

Information Source(s): Comptroller's Office; Department of Budget and Management; Department of Human Services; Department of Legislative Services

Fiscal Note History: First Reader - March 15, 2023
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