MINUTES

MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION

SUBCOMMITTEE ON HUMAN SERVICES & AGING

Call to Order: By **CHAIRMAN DOROTHY BRADLEY**, on January 23, 1991, at 8 a.m.

ROLL CALL

Members Present:
Rep. Dorothy Bradley, Chairman (D)
Sen. Mignon Waterman, Vice Chairman (D)
Rep. John Cobb (R)
Rep. John Johnson (D)
Sen. Tom Keating (R)
Sen. Dennis Nathe (R)

Staff Present: Carroll South, Senior Fiscal Analyst (LFA)
Bill Furois, Budget Analyst (OBPP)
Faith Conroy, Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion:

DEPARTMENT OF SOCIAL AND REHABILITATIVE SERVICES (SRS)

HEARING ON THE OFFICE OF MANAGEMENT, ANALYSIS AND SYSTEMS (CONT.)

Tape 1A

Peter Blouke, SRS Deputy Director, distributed revised savings projections generated by TEAMS, the AFDC and Medicaid computer system. **EXHIBIT 1**

CHAIRMAN BRADLEY said TEAMS savings will be factored into AFDC payment levels. She suggested the information be discussed later.

Carroll South, Legislative Fiscal Analyst, reviewed **EXHIBIT 4 from January 21, 1991, minutes.** He said the FTE slated for elimination under Personal Services may currently be filled. Two FTEs being funded by telephone taxes were existing positions within the program. Funding for them was switched. The program essentially lost several FTEs.

The decision has been made that subcommittees will adopt the budget modification for the expanded Department of Administration Network and executive budget deflation factors for the computer mainframe. The agency's budget would be within $10,000 of a wash if network costs are added in and the executive deflation factors are adopted.

SEARCHS development costs are included in the executive budget, not the LFA budget. It is a new computer network that cannot be used without adoption of the executive budget modification for SEARCHS.

Under Issue No. 1, the revenue source used to fund the telecommunications project will remain relatively static and not keep pace with inflation. The Legislature will have to look at this program in the future to see what actual costs will be.

Operational costs of the TEAMS welfare computer system were grossly underestimated. The Department could not provide a breakdown of the facilities management contract to show what the state was buying for $3 million because it was accepted on a bid basis. The state may never know what it bought for $3 million. Human errors will continue to be made despite the new system, so no one should envision TEAMS as a panacea.

Given the underestimation of TEAMS operating costs, the Legislature needs to decide if it wants to embark on another similar computer project. There is probably no way the subcommittee can avoid adopting the budget modification for TEAMS because the money is needed to fund the facilities management contract.

The budget modification for the telecommunications project includes $100,000 for equipment, 1 FTE and miscellaneous expenditures. Without the equipment, the project probably won't get started.

SEN. KEATING asked for an explanation of the funding source for SEARCHS. **Mr. South** said the federal government pays about 90 percent. About 10 percent comes from child support enforcement monies.

CHAIRMAN BRADLEY asked if the Department is confident that the balance in the telecommunications project will work itself out. **Mr. Blouke** said there is some uncertainty.

SEN. WATERMAN asked what happened in Washington and Oregon after they abandoned their programs. She thought states were required to be on line or face federal sanctions. **Julia Robinson, SRS Director,** said those two states canceled what they were doing with in-house staff and started over. Both are looking at contracting it out.

SEN. KEATING asked what portion of the $12 million committed to TEAMS is federal money. **Mr. South** said about 90 percent for development. **Mike Billings, Office of Management, Analysis and Systems Director,** said $1.9 million is state money and the balance of roughly $10 million is federal.

EXECUTIVE ACTION ON THE OFFICE OF MANAGEMENT, ANALYSIS AND SYSTEMS

Votes were taken on **EXHIBIT 4 from January 21, 1991, minutes.**

CHAIRMAN BRADLEY said the subcommittee needs to adopt the LFA operations budget with the executive budget for the mainframe. **Mr. South** said that if the subcommittee is comfortable with the LFA base, the appropriate motion would be to accept the LFA current level base, adjusted for the Department of Administration Network and deflation for the computer mainframe, both in the executive budget.

MOTION: SEN. KEATING moved the LFA base, adjusted for the Department of Administration Network and deflation for the computer mainframe in the executive budget.

VOTE: The motion **PASSED** 5-1, with **REP. COBB** voting no.

MOTION: REP. COBB moved approval of TEAMS.

VOTE: The motion **PASSED** unanimously.

MOTION: SEN. KEATING moved approval of the SEARCHS development and implementation budget.

DISCUSSION: SEN. WATERMAN asked for an explanation on the funding split and overall cost. **Mr. Billings** said the federal government will pay 90 percent of the development costs and the state will pay 10 percent. Development costs are about $5.5 million. About $550,000 will come from state enterprise funds, which are child-support enforcement collections, and the balance of about $5 million will come from the federal government. About 66 percent of the $6.2 million in operational costs will be financed by the federal government. The state enterprise fund will finance about 34 percent. The $5.5 million is a one-time cost this biennium. Ongoing operational costs will continue at an estimated rate of about $120,000 per month. Until bids are in, the Department won't know how much ongoing operations will cost. The estimate is based on the TEAMS and Medical Management Information System projects.

SEN. WATERMAN asked if all start-up costs would fall in the 1993 biennium. **Mr. Billings** said yes.

SEN. KEATING asked if the enterprise fund is the state's share of AFDC child-support collection fees. **Mr. Billings** said yes. **SEN. KEATING** asked what percentage of AFDC payments is collected from obligors. **Mr. Blouke** said the Child Support Enforcement Division is the next budget to be discussed. **SEN. KEATING** said he could wait for the answer.

Ms. Robinson said SEARCHS is needed for certification and to avoid federal sanctions. The Department recommends it be contracted out because it is difficult to retain in-house staff to keep it going. If the subcommittee doesn't want the work to be contracted out, the Department would have to recalculate what it would cost to do it with in-house staff. The Department felt the bid it received for the TEAMS contract was reasonable. The Department can request a breakdown in costs in the SEARCHS bid. The federal government capped the TEAMS project at $12 million. Maybe SEARCHS could be capped, but the Department may not get a bid. The Department needs the system to comply with federal requirements. She hopes the subcommittee supports the system and that debate will be on how to maintain it.

CHAIRMAN BRADLEY asked if other states have a similar system. She said there was no indication when the Legislature got into the Child Support Enforcement program several years ago that the state would have to buy such expensive computer equipment to meet federal requirements. **Ms. Robinson** said the federal government requires all states to have a system in place by 1993. **Jon Meredith, Child Support Enforcement Division Administrator,** said most states have automated systems in place and are on their way to certification. Montana has an automated system, but auditors have repeatedly said it is inadequate and is part of the reason the Department has trouble processing cases. Montana must have a certified system on line by Oct. 1, 1995.

SEN. WATERMAN asked how long it takes from the time the Department gets a case until it starts collecting child-support payments. **Mr. Meredith** said it depends. If it is an income-withholding case, which is what is done most of the time, the Department needs a court order or must establish an administrative order. The order is forwarded to the employer, who withholds the money. If the employer gets the order at the beginning of the month, the money usually will be withheld from the employee's biweekly paychecks and then sent to the Department. The money is processed through the state's system, which cannot take more than 10 days under federal law, and then it is sent to the obligee. The process involves lengthy front-end time. Once the system is started, the monthly check comes regularly.

<u>**SUBSTITUTE MOTION:**</u> **SEN. WATERMAN** moved to postpone a decision on the modification until the subcommittee hears the report on Child Support Enforcement.

<u>**DISCUSSION:**</u> **SEN. KEATING** said he first encountered the agency in 1981 when it was in the Department of Revenue. It was obvious then that the federal government was going to begin networking child-support bureaus to collect from errant fathers. The Montana Legislature fought for computerization then because federal sanctions against AFDC allowances were substantial. Committees were nervous about not having the agency up and running efficiently and collecting a proper proportion. The federal government wants a national network and state-of-the-art

investigations to track down AFDC obligors.

CHAIRMAN BRADLEY asked if it was acceptable to the subcommittee to postpone the vote. **SEN. KEATING** withdrew his motion and the subcommittee agreed to postpone action.

MOTION: **REP. JOHNSON** moved adoption of the telecommunications project under Executive Budget Modification No. 3.

VOTE: The motion **PASSED** unanimously.

Tape 1B

SEN. KEATING asked if the statistician III position eliminated in the LFA budget was included in the executive budget. **CHAIRMAN BRADLEY** said yes.

SEN. KEATING asked if the position was in the telecommunications program. **Mr. Billings** said no. The position is in the Budget Bureau in the Office of Management, Analysis and Systems. The position was held open originally to meet the governor's 6 percent vacancy savings requirement. The position was left open longer than necessary because the Department hadn't had a chance to fill it. The position is vacant but needed.

MOTION: **SEN. KEATING** moved approval of the position.

VOTE: The motion **PASSED** unanimously.

Mr. South said there is no difference in most instances between the LFA and executive budgets for equipment. State agencies were asked to justify their equipment requests against the 1991 appropriated level. In the past, agencies simply sent in equipment requests to the Budget and LFA offices. This time, the only documentation from the agency justified up to 1991 appropriations. It may not be enough, but that is all the agency requested, so that is all that was built into the budget.

MOTION: **SEN. KEATING** moved acceptance of the LFA budget for equipment.

VOTE: The motion **PASSED** unanimously.

CHAIRMAN BRADLEY postponed action on funding.

HEARING ON THE CHILD SUPPORT ENFORCEMENT DIVISION

CHAIRMAN BRADLEY referred to Page B77 in the LFA analysis and Page 46 in the executive budget summary for discussion of the Division.

Ms. Robinson said there is a national effort to make child-support collections a priority. The Division establishes paternity of children born out of wedlock, locates parents who have left their families, establishes legal support and obligations, and enforces those obligations.

Services are provided to reimburse public assistance received by AFDC families. There are 16,000 AFDC cases. The Department also works on 8,700 non-AFDC cases to help keep those people off welfare. The Department serves 22,000 cases in Montana and 2,700 cases out of state.

Funding is through a proprietary account. The Legislature authorized 70 positions, five of which were assigned as backup support in the fiscal area, automation and development, support services and third-party liability. All of them work on child support.

The Department looked at privatization and determined it would not be the appropriate approach right now. The advantage to privatization is workers can be rewarded for their performance. The Department cannot do that under the state pay plan. The Department contracted out work in some areas, such as contested hearings and blood testing, and is looking at contracting out public information. The Department uses temporary employees for some clerical work and some lower-level professional positions. When volume is down, the Department can let those temporary employees go, which can't be done with state employees. The Department is recommending this activity be expanded and that SRS be allowed to contract for more workers.

The Legislature required the program to maintain cost-effectiveness targets of $1.25 in fiscal year (FY) 1990 and $1.69 in FY 91. The Department surpassed those levels and will reach an all-time high of $1.8 million. The Department is currently generating $1.81 per $1 investment.

Mr. Meredith distributed and reviewed Child Support Enforcement Division charts. **EXHIBIT 2.** He said chart 2 shows the state's share of collections from July through December of FY 90. The Division added 30 staff positions in FY 90. Inexperienced employees do not collect as well initially and the Division waited to hire the additional 40, finishing in August 1990, which caused the drop seen on the graph. Collections eventually went back up.

Ms. Robinson said new staff were hired and trained in two years. The program repaid the $250,000 loan from the General Fund in April 1990. The Division also paid $225,000 in profit in July 1990 and carried forward $500,000 as the state's share of operating capital into FY 91. An additional $102,000 in incentives will be received from the federal government.

The state's share of child-support collections is up 15 percent over the same period for FY 90 and total collections are up 41 percent over the same period. Program expenditures are projected to be around $400,000 less than authorized. **Mr. Meredith** said collections in January were about 46 percent above the level a year ago.

Ms. Robinson said the program had been in danger of substantial federal sanctions before it was moved to SRS. Corrective action was enacted to bring the program into compliance. The Department believes the program exceeds 1987 federal compliance standards. It now seems unlikely that sanctions will be leveled against AFDC funding for Child Support through 1988.

Medical Support Enforcement is a new area that mandates fathers, if they have insurance, to provide coverage for their children. In 1990, 289 children were picked up by third-party insurance carriers and moved off Medicaid rolls, which saved the state $287,000. The Third-Party Liability unit estimates another $1.6 million could be saved in calendar year 1991.

Mr. Meredith reviewed chart 4 in **EXHIBIT 2.** He said the number of Medical Support Enforcement cases is increasing. In the first two weeks of January, 46 more children were moved off Medicaid and onto third-party insurance. It is an area that will probably pay bigger dividends in coming months.

SEN. NATHE asked if there were any guidelines in court or administrative orders to avoid moving a child from Medicaid to something where they won't qualify. **Mr. Meredith** said it is a problem the program is beginning to face. The Department doesn't have an answer. **SEN. NATHE** asked if the Department needed legislation. **Mr. Meredith** said legislation will be introduced by the Third-Party Liability Unit that will allow people to buy insurance without having to reduce cost by taking a large deductible.

CHAIRMAN BRADLEY said **Bob Marks, Department of Administration Director,** was asked to come to the subcommittee hearing to discuss the TEAMS computer system.

Mr. Marks said TEAMS is well on its way toward development. It was necessary to contract out the work because of the federal deadline and difficulty in finding technical people to do the job at salaries the state pays. It is difficult to keep ISD staff positions filled. The Department of Administration believes the state is getting a quality product from TEAMS contractors. The Department of Administration does not have staff to tackle the project. The more use made of the mainframe, TEAMS amounts to more than 30 percent of the whole load, the cheaper it is for everyone else. He believes SRS programs are well planned and will drive down the cost for other users.

Tape 2A

CHAIRMAN BRADLEY said she is apprehensive of launching into another system similar to TEAMS. The question is whether it is necessary and appropriate, or too extravagant right now. She asked if it wouldn't be better to wait a couple of years for results from TEAMS. The subcommittee doesn't even know what it is getting for $3 million. It is just being told it's necessary. **Mr. Marks** said people in the county offices could answer the question better. The state will be left behind if it doesn't get involved in electronic handling of information.

CHAIRMAN BRADLEY said she worries about the dismal state of the pay plan, which forces Departments to use contract services to get needed expertise. Her concern is that contracting out the work and paying sometimes double the amount for the expertise that comparable state employees receive is causing terrible internal morale problems. **Mr. Marks** said the governor's proposed pay plan to gear salaries closer to market levels will help. The Legislature previously chose across-the-board increases, which widened the gap in professional areas. It does create a morale problem. The pay plan gives a base increase and a catch-up increase for employees who are far behind market levels.

SEN. WATERMAN asked how long it will take to raise those employees' salaries up to market levels under the commission's plan. **Mr. Marks** said everyone will get at least a 4 percent increase, except employees whose salaries are at or above market levels, plus a 0.25 percent increase for every percent the employee is behind in his or her class. The governor's plan is less progressive. It provides a 3 percent base increase and one-eighth of a percent catch-up percentage. How long it takes will depend on what future legislators do with it. The governor and Budget Office don't believe there is enough money to bring salaries up to market levels at once. Some progression toward that would help in retention.

SEN. WATERMAN said Departments are seeking pay plan exceptions to hire employees at market levels while 20-year employees end up getting paid within $1,000 of what a new employee receives. The state should go with the fastest progression possible.

CHAIRMAN BRADLEY said the TEAMS project alone includes $2 million in General Fund money, while the pay plan has only $10 million in General Fund money for market progression. Everything spent in this budget is money that can't go somewhere else. The subcommittee is spending $2 million, much of which is going toward extraordinary salaries to retain expertise and not long-term state employees.

Mr. Meredith said there are too many cases and too few resources. The 70 positions authorized by the 1989 Legislature brought the number of caseworkers up to meet the existing caseload at that time, which was about 17,500 cases. The Division now has 25,000 cases. Of the 7,500 cases gained, 2,643 came along in the last quarter of the last calendar year. The Division would need another 30 caseworkers to bring the average caseload to 250 cases per caseworker. With SEARCHS, those people will be able to handle between 375 and 400 cases each. SEARCHS will dramatically reduce redundant paperwork for each case. If the subcommittee doesn't fund SEARCHS but chooses to stay within federal compliance standards, the option is to authorize that many more staff. Without SEARCHS or additional staff, the Division will face sanctions and the program will be out of compliance with the state plan. When it is out of compliance with the state plan, the state loses federal child-support enforcement monies.

Ms. Robinson said this is a program that keeps people off welfare and generates money for the state. The program should receive the level of public support it needs.

Mr. South said the LFA adopted the Department's budget request because there wasn't a history to base it on. The program has grown so rapidly that no one knows where it is headed and how many FTEs it will require. The Legislature should be concerned about where the program is going, given its rapid growth since its transfer to SRS. The 1989 Legislature said the Department could hire additional employees, but the program still has to be cost-effective. For every dollar spent in FY 90, the Department had to collect $1.25. In 1991, the Department had to collect $1.69 for every dollar spent. There was no record of the source of the ratios. The Legislature put those parameters in place to limit growth.

The 1989 Legislature also required any fund balance over $500,000 at the end of the year to revert to the General Fund. That occurred in the first year of the biennium. After that, every dollar profit in the program is General Fund revenue. If the program is not cost-effective, the return to the General Fund would be less. If the program can't maintain the $500,000 fund balance, the General Fund would lose all revenue from this source. The agency reverted $250,000 to the General Fund because the fund balance requirement was met.

Program parameters end June 30, 1991. If the subcommittee wants control of the program, the requirements must be reinstated either in the bill or in the appropriations part of it, which becomes legislative intent.

SEN. WATERMAN asked if there were any requirements under the Medical Support program if a parent does not have insurance. **Mr. Meredith** said the Department includes a clause in its administrative orders that medical insurance be purchased for the children. The Department must ensure the insurance is available to the obligor at reasonable cost. Legislation is pending to make medical insurance available to more people than the group mentioned.

SEN. WATERMAN asked if the Department has authority to require them to purchase insurance and if there are cases in which court orders do not oblige them to pay medical insurance. **Mr. Meredith** said the Department is required by the federal government to modify orders to ensure it is included. The 1989 Legislature mandated fines of $100 per child per month if obligors do not provide information on the child and if they do not obtain insurance for the child.

SEN. NATHE asked what percentage of the 25,000 cases are paternity cases out of wedlock. **Mr. Meredith** said the current paternity caseload is 4,200. The Department anticipates the total to reach 5,400 by the end of FY 93. The total includes AFDC and non-AFDC cases.

Tape 2B

REP. COBB asked what it would take to eliminate the backlog of cases. **Mr. Meredith** said the Department will use some savings May 1 to contract for between 13 and 15 additional positions. The Department anticipates an increase of 3,000 cases per year in the coming biennium, which is an average of 28,000 cases. Without SEARCHS, the Department would need another 33 caseworkers.

REP. COBB asked if 33 additional employees would reduce the backlog or keep things steady. **Mr. Meredith** said the Department believes it could eliminate the backlog by the end of the biennium if it had 33 additional caseworkers, some additional administrative staff and additional clerical workers in field offices. He referred to 10-year projections in **EXHIBIT 3.** With SEARCHS, the Department would need an additional 45-50 employees. Without SEARCHS, the number would be triple.

SEN. NATHE asked where the increased caseload is coming from. **Mr. Meredith** said part of it is coming from AFDC and interstate cases. The majority are non-AFDC cases. Individuals are coming to the agency because they have heard the agency can collect on orders for them.

SEN. NATHE asked what can be done about courts reducing child-support payments. **Mr. Meredith** said the state has no control over what district court judges do. Legislation is pending to grant SRS the administrative authority to modify court orders upward in accordance with guidelines. But an obligor can still come back to have the amount reduced.

REP. COBB asked if the Department could maintain its cost-effective ratio and fund balance if the subcommittee grants authority for an additional 30-33 FTES. **Mr. Meredith** said he didn't know what effect additional employees would have on the cost-effectiveness ratio, but the numbers are being worked out.

CHAIRMAN BRADLEY said an assessment ratio is needed so that the subcommittee knows what effectiveness limits should be met. She asked what might be fair and appropriate. **Mr. Meredith** said the federal government caps incentives paid for non-AFDC cases at 115 percent of the AFDC incentives level. But the non-AFDC caseload is exploding. When a lot of effort is placed on non-paying cases, the cost-effectiveness ratio drops below a dollar for a dollar. This could become a problem in Montana in the future. Currently, the Department collects about the same amount of money in non-AFDC cases as in AFDC cases. The non-AFDC caseload is one-tenth of the AFDC caseload. There is more money to be gained in the AFDC area.

SEN. KEATING asked if non-AFDC cases could become AFDC cases and if the state prevents these cases from becoming AFDC cases by doing this. **Mr. Meredith** said yes. The Department sees cases going on and off the AFDC caseload. That's why this program is such an integral part of the Jobs Program.

SEN. KEATING asked if the federal government recognized that. **Mr. Meredith** said the federal government is beginning to. If the state can supply that group with a steady income through child-support enforcement, clients can get minimum-wage jobs and still be partially supported with welfare. If the state can get them child support in addition to their salaries, they can be kept off AFDC.

SEN. WATERMAN asked what percentage of cases are on and off AFDC. **Mr. Meredith** said the non-AFDC caseload has risen to almost 50 percent. It was 10 percent six months ago. At that time there were about 20,000 AFDC cases and about 2,000-2,600 non-AFDC cases. Non-AFDC cases have risen to 8,700.

SEN. NATHE cautioned the subcommittee against setting too high a rate of return on collections. If the ratio is too high, it will send a signal to the Division to forget non-AFDC cases and go for a quota.

CHAIRMAN BRADLEY asked the Department what it felt about a recovery ratio of $1.25 per $1 spent. **Mr. Meredith** referred to **EXHIBIT 3.** He said he differed with the LFA's cost-effectiveness calculation, which includes the cost of SEARCHS development and monies the program would transfer to Medicaid, Audit Support and OMAS Indirect. Cost-effectiveness should be figured before transfers, because it's a cost to the program that has nothing to do with program operations. Figures beginning with 1994 don't include transfers, but they do include SEARCHS and additional staff. Different ledger sheets will be calculated to accommodate **REP. COBB's** request.

Mr. South said he agreed with **Mr. Meredith.** On Page 1 of **EXHIBIT 4**, the executive proposes some child-support enterprise money be applied against the Medicaid match. The LFA recommends against that. It just offsets General Fund expenditures. He said he is concerned about using SEARCHS expenditures because it is non-productive in terms of return from the federal government. He asked if that were true. **Mr. Meredith** said not immediately. In the future, if caseworkers can work 375 cases each, it will cost less in human resources and will make collections faster and more efficient.

Mr. South recommended the Medicaid expenditure be subtracted before cost-recovery is calculated. Other costs are legitimate. If Program 4, 9 and 8 did not provide these services for Program

5, Program 5 would have to support the services alone and spend the same amount of money. **Mr. Meredith** agreed.

SEN. WATERMAN asked why the subcommittee should be so concerned about the cost-benefit ratio, as long as it doesn't cost the state money. **CHAIRMAN BRADLEY** said at some point collections will be $1 per $1 spent. There needs to be some sort of a measure of a program that does more than that, not one that simply justifies its existence.

SEN. KEATING asked about the source of the $250,000 being returned to the General Fund. **Mr. Meredith** said the Department gets a share of AFDC collections, based on the state's contribution to Medicaid and AFDC. The Department also gets AFDC incentives based on how cost-effective the Department is in collecting AFDC money. There are non-AFDC collections that generate federal incentives based on cost-effectiveness with a 115 percent cap.

SEN. KEATING asked if the Department were retrieving General Fund dollars expended in the program. **Mr. Meredith** said yes.

SEN. KEATING asked if the Department wants to use some of the money it collects to reduce the General Fund expense by depositing it directly in the Medicaid fund, instead of the General Fund. **Mr. Meredith** said yes. The Department looks at it the same way it looks at AFDC expenditures. The Department in essence is returning money to the General Fund to offset AFDC expenditures. The Department wants to know why it can't return money to the General Fund and Medicaid to offset Medicaid expenses.

SEN. KEATING said if other legislators see a return to the General Fund, they will come to expect it. If the money goes back through an accounting procedure, they won't be as aware of it. The state will recoup General Fund money without it looking like regular income. He asked if federal incentives would be hurt if the cost-benefit ratio drops from $1.77 to $1.17. **Mr. Meredith** said no. The federal government doesn't calculate incentives on this basis. If the $7,654 and the $185,929 were not included, the cost-effectiveness ratio would increase by about 11 cents in 1992 and about 30 cents in 1993. SEARCHS and Medicaid costs are driving down cost-effectiveness in 1992.

Tape 3A

SEN. NATHE asked if the federal government was giving the Department more money or if less money was being given to recipients. **Mr. Meredith** said the Department is not taking money away from people who are supposed to receive it. The Department collects money from obligors. The federal government allows the Department to keep the percentage of state money paid to AFDC families, plus cost-effectiveness incentives.

SEN. NATHE asked if any money is withheld from non-AFDC families. **Mr. Meredith** said no. The Department receives incentives for non-

AFDC cases only.

Ms. Robinson said the Department is working on a public relations campaign to teach schoolchildren what their responsibilities are if they have children out of wedlock. **SEN. KEATING** asked what grades are approached. **Mr. Meredith** said middle schools and high schools. **REP. COBB** asked if the Department is coordinating its efforts with the Office of Public Instruction and the Department of Health. **Mr. Meredith** said the Department is working on it.

EXECUTIVE ACTION ON SEARCHS

MOTION: SEN. KEATING moved approval of the SEARCHS program.

DISCUSSION: REP. JOHNSON asked what would happen if SEARCHS was not approved. **Mr. Meredith** said the Department will pay the same amount to abide by federal regulations, but it goes toward human resources instead of the computer system. If the Department doesn't have SEARCHS or abide by federal regulations, then the Department accepts sanctions and probably loses the program. Sanctions begin at 1 percent per year. The Department failed audits in 1984 and 1987 but has not lost any money because the federal government allows time for corrective action. If the Department fails audits again or fails to have the system on line in time, the federal government will issue a warning that it will take 1 percent of the state's AFDC money away until the Department complies. The sanction is not recoverable. If the Department remains unwilling to comply, the sanction increases to 5 percent. This happened in Ohio and New Mexico. New Mexico is fighting the sanctions in court. Ohio lost $6.6 million in its AFDC program.

CHAIRMAN BRADLEY asked what assurances the Department has that the federal government will be satisfied with SEARCHS. **Mr. Meredith** said the federal government has already approved the Department's original Advance Planning Document. The document is being updated and the federal government is reviewing the Department's Request for Proposals. There are no assurances until the government approves the proposed system. The system being proposed is certified and the most advanced child-support enforcement system available. It is easy to modify.

SEN. KEATING asked if sanctions would impact the General Fund. **Ms. Robinson** said the state would have to increase its share to offset the loss in federal funds because AFDC is an entitlement program. It would cost the General Fund directly.

SEN. KEATING asked what the AFDC budget is in Montana. **Mr. Blouke** said $40 million.

Mr. South said if the motion is to adopt funding for SEARCHS, it should include the budget modification for $5.5 million and $317,000 in contract services to begin development, which is not in the LFA current level.

Mr. Blouke said if the subcommittee doesn't approve SEARCHS, it is putting off for four years the Division's ability to use the system. **CHAIRMAN BRADLEY** said the Division intends to do it in two years, but if the subcommittee votes against it, it would only postpone the decision. **Mr. Blouke** said yes. SEARCHS will improve the effectiveness of the state's child-support enforcement efforts and will get the message out that the state is serious about people taking responsibility.

SEN. KEATING asked if the deadline for SEARCHS is 1995. **Mr. Meredith** said yes. It will take four years to develop the system. If development does not begin in July or August 1991, the Division will not be able to meet federal deadlines for having the program on line.

VOTE: The motion **PASSED** 4-2, with **CHAIRMAN BRADLEY** and **SEN. WATERMAN** voting no.

SEN. WATERMAN said she believes the state needs the program, but she would rather risk sanctions for an additional two years of data from TEAMS to ensure the state has gone in the right direction.

CHAIRMAN BRADLEY asked the Department to estimate ongoing costs for SEARCHS. She asked if the subcommittee wanted a cost-benefit ratio guideline.

SEN. KEATING said he wants to avoid a conflict or misunderstanding because of the accounting procedure. The current ratio is altered when money is refunded to the General Fund through Medicaid. He favors returning General Fund money through an accounting procedure rather than a direct payment. He doesn't want the Legislature to think this is some sort of a revenue generating account and have it included in revenue estimates. He suggested the subcommittee adopt language for ratios of \$1.17 and \$1.42.

CHAIRMAN BRADLEY asked the Department a ratio of \$1.25 would create an undue burden. **Mr. Blouke** said ratios of \$1.17 and \$1.42 are what the Department anticipates it will be able to return. It may not be easy to come up with \$1.25 in 1992. **CHAIRMAN BRADLEY** said the Department will be subtracting out Medicaid figures. **Mr. Blouke** said he didn't realize that. **CHAIRMAN BRADLEY** referred the question to **Mr. South.**

Mr. South said the language in force speaks to operational costs of the program. The Medicaid expenditure is not an operational cost. It would be excluded from the ratio and it should be.

Mr. Meredith suggested the \$1.17 include the state's share of interest earned on the money in the enterprise fund, before it is transferred, and fees or cost-recovery money. If those numbers are removed, then the subcommittee is looking at the lower number. The Division can achieve a ratio of about $1.22 with the hiring of staff and system development, if Medicaid and audit support is excluded.

CHAIRMAN BRADLEY asked how the Department feels about a benefit ratio of $1.20. **SEN. KEATING** asked about an average of $1.25 over the biennium. **SEN. NATHE** said he wants to ensure that at $1.25 the Division would not favor collections of AFDC over non-AFDC. **Mr. Meredith** said federal regulations don't allow him to ignore non-AFDC cases.

MOTION: **REP. JOHNSON** moved approval of a cost-benefit ratio of $1.25 over the biennium.

VOTE: The motion **PASSED** unanimously.

CHAIRMAN BRADLEY said a motion is needed to retain the $500,000 fund balance and have the excess revert to the General Fund.

Mr. Meredith said Division calculations for 1992 and 1993 are based on a $350,000 end cash balance as operating capital for the next quarter. The assumption is that the Division would be looking at 125 percent of the first quarter estimated costs for the calendar year in question.

CHAIRMAN BRADLEY asked if that means the Division could immediately turn over another $150,000. **Mr. Meredith** said yes. To put more money into the surplus and have more net available cash, the Division would reduce the end cash balance because it can operate with less money.

Mr. South said one reason the Division is down to $350,000 is because of the Medicaid payment, which is subtracted. Otherwise the figure would be at or above $500,000. **Mr. Meredith** said yes. That money could be in the end cash balance. **Mr. South** said the balance will go up if the Division is at $500,000 and has a cost-recovery ratio of $1.25. **Mr. Meredith** said yes.

Mr. South said fund-balance language doesn't have to be specific now. The subcommittee will review Medicaid funding later. Just the dollar amount should be set now. It is possible for the subcommittee to apply everything above $500,000 to Medicaid match. The executive just plugged in some figures. It has the same effect on the General Fund if anything over $500,000 is deposited into the General Fund or used in lieu of General Fund. **SEN. KEATING** asked why the Division wouldn't want a $500,000 balance. **Mr. Meredith** said the Division doesn't need that much operating capital to get through the first quarter, which is what the cash balance is for. Enterprise money is matched with federal dollars at 66 percent-34 percent.

CHAIRMAN BRADLEY said it may be easier to leave the balance at $500,000 and decide later how it will be divided. **SEN. KEATING**

said there must be a reason the Division wants to go to $350,000.

Tape 3B

Mr. South said there must be enough money to meet payroll and other costs. The Division may be saying that $350,000 is all that is needed. **Mr. Meredith** said that is correct. The $350,000 is a safe amount to get the Division through the first quarter of the year in question.

SEN. WATERMAN asked if approval of the additional positions would affect this. **Mr. Meredith** said the end cash balance would have to be increased if the subcommittee adds the number of positions **REP. COBB** talked about. **SEN. WATERMAN** suggested the subcommittee postpone action. **CHAIRMAN BRADLEY** suggested someone make a motion to leave the balance at $500,000.

MOTION: **REP. COBB** moved to leave the cash balance at $500,000 and revisit it later.

VOTE: The motion **PASSED** unanimously.

MOTION: **REP. COBB** moved approval of the executive budget modification for contract services.

VOTE: The motion **PASSED** unanimously.

MOTION: **SEN. KEATING** moved to adopt executive expenditures in 1992 and 1993 and included funding sources to be adjusted for the subcommittee's previous actions.

VOTE: The motion **PASSED** unanimously.

SEN. NATHE asked how much General Fund money the subcommittee spent above LFA and executive budgets. **CHAIRMAN BRADLEY** said a running log will be maintained and she will have **Taryn Purdy, Legislative Fiscal Analyst,** provide information on the Department of Health.

Mr. South distributed the budget summary for the Child Support Enforcement Division. **EXHIBIT 4**

ADJOURNMENT

Adjournment: 10:50 a.m.

Dorothy Bradley
REP. DOROTHY BRADLEY, Chairman

Faith Conroy
FAITH CONROY, Secretary

DB/fc

HOUSE OF REPRESENTATIVES

HUMAN SERVICES SUBCOMMITTEE

ROLL CALL **DATE** 1-23-91

NAME	PRESENT	ABSENT	EXCUSED
REP. JOHN COBB	✓		
SEN. TOM KEATING	✓		
REP. JOHN JOHNSON	✓		
SEN. DENNIS NATHE	✓		
SEN. MIGNON WATERMAN, VICE-CHAIR	✓		
REP. DOROTHY BRADLEY, CHAIR	✓		

Exhibit #1
1/23/91
Human Serv.
Subc.

DATE 1-23-91

HB

Projected Savings Generated By TEAMS

	Fiscal 1992	Fiscal 1993
I. AFDC		
Overpayment Reduction	$ 189,576	$ 314,605
Recoupment of Overpayments	38,558	63,987
Subtotal AFDC	$ 228,134	$ 378,592
II. Medicaid		
Overpayment Reduction	$ 425,565	$ 714,947
Increased TPL Collections	205,183	344,710
Recoupment of Overpayments	133,137	224,621
Timely Closure	90,840	156,613
IV-D Interface	13,487	22,510
Subtotal Medicaid	$ 868,212	$1,463,401
III. Staff Reductions	$ 211,244	$ 216,323
IV. Reduced Mailing/Printing	$ 39,432	$ 64,134
TOTAL REDUCTIONS	$1,347,022	$2,122,450

Child Support Enforcement Division
State Revenues

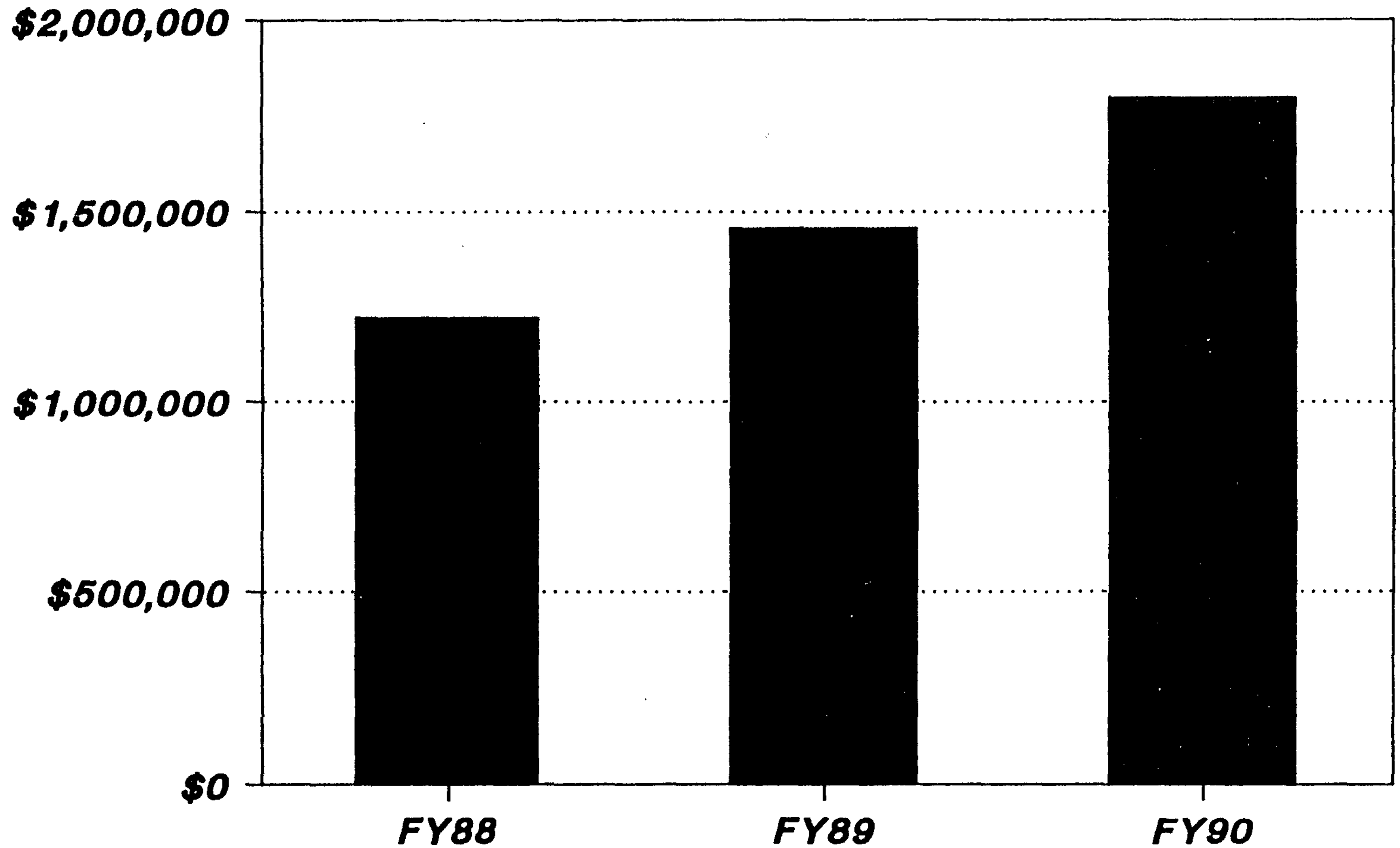


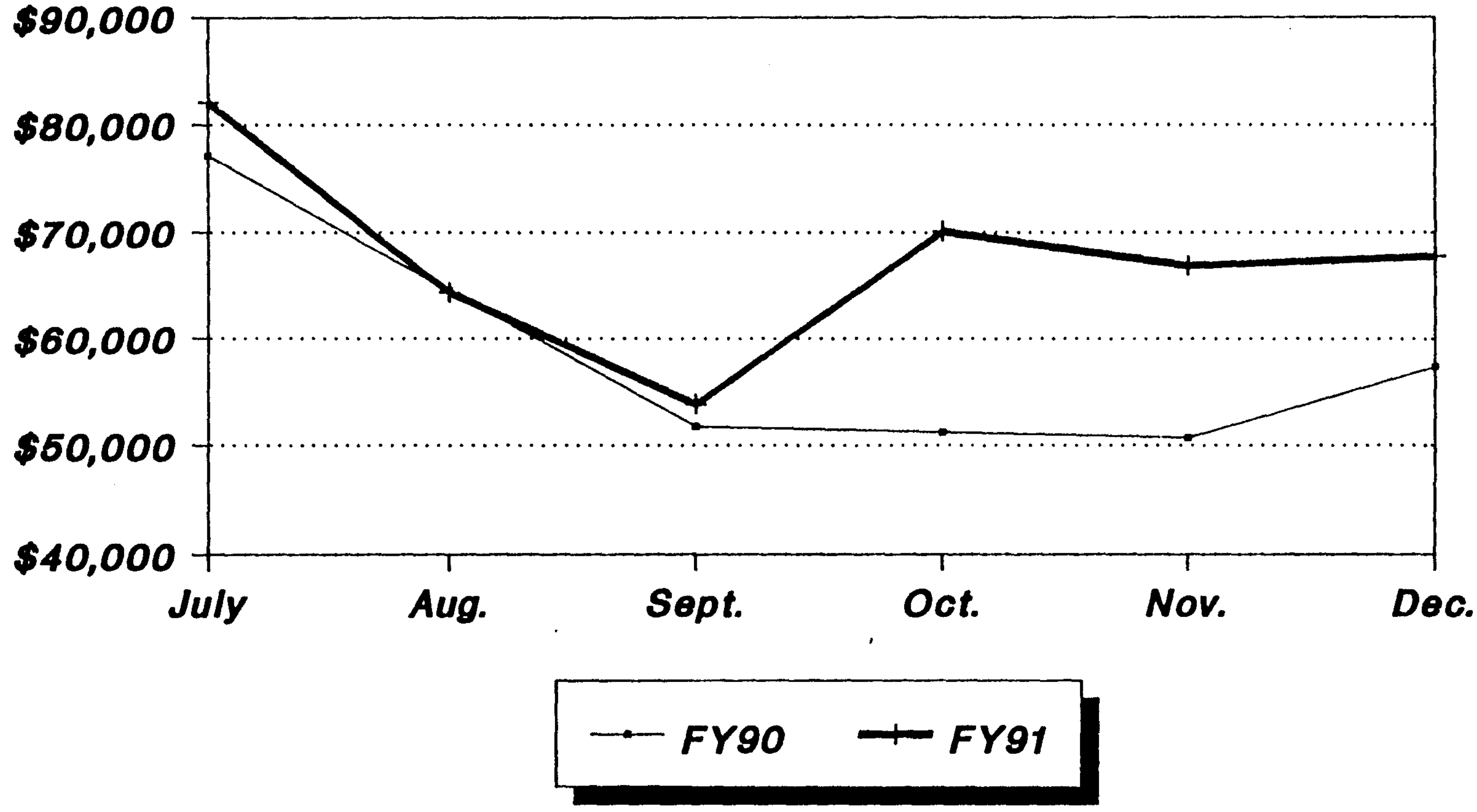
EXHIBIT 2
DATE 1-23-91
HB

Exhibit # 2
1/23/91
Human Ser
Subc

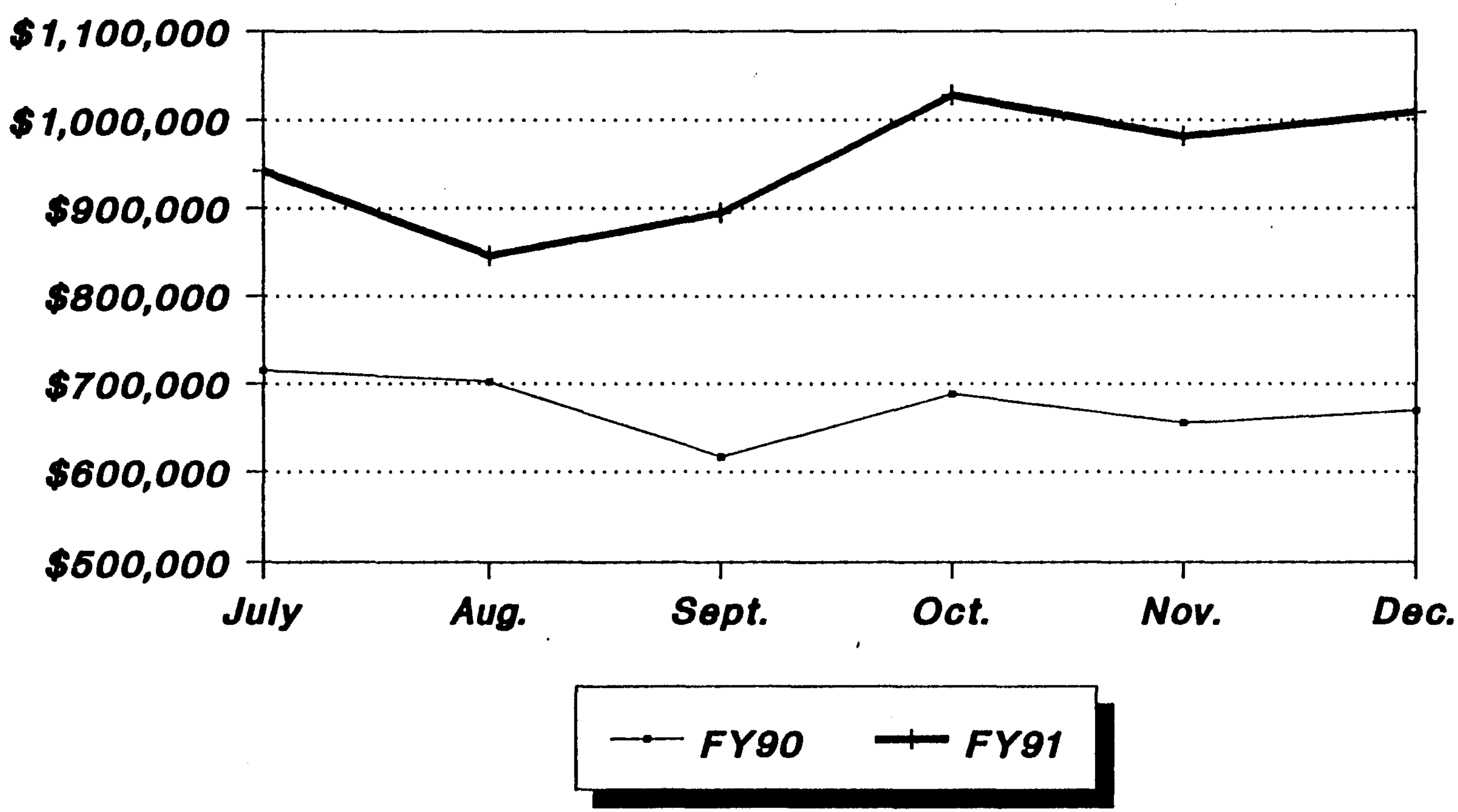
Child Support Enforcement Division

State Share of Collections

July - December, FY90 & FY91

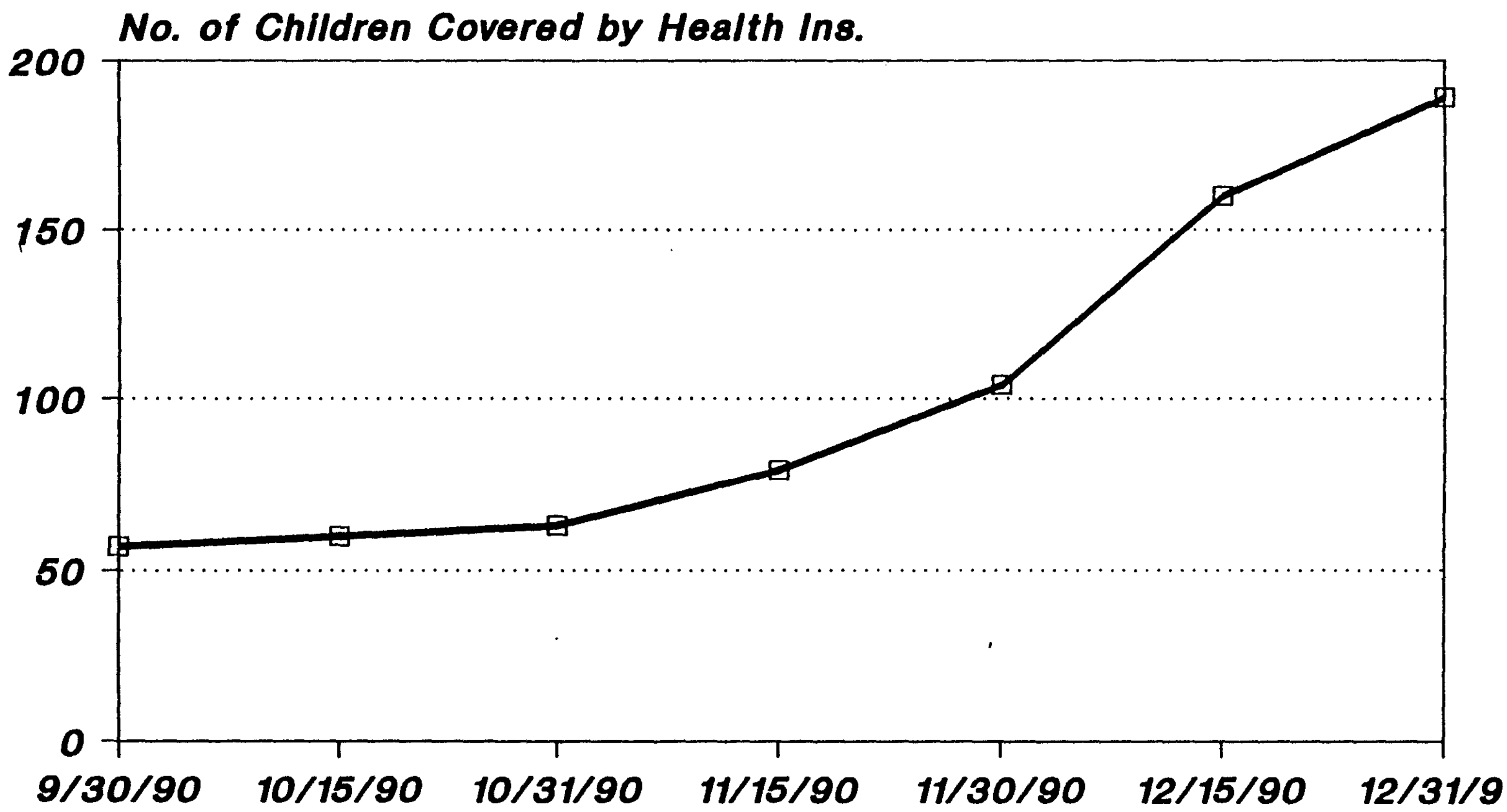


Child Support Enforcement Division
Total Collections
July - December, FY90 & FY91



2
1-23-91
Hum. Svc. Sub.

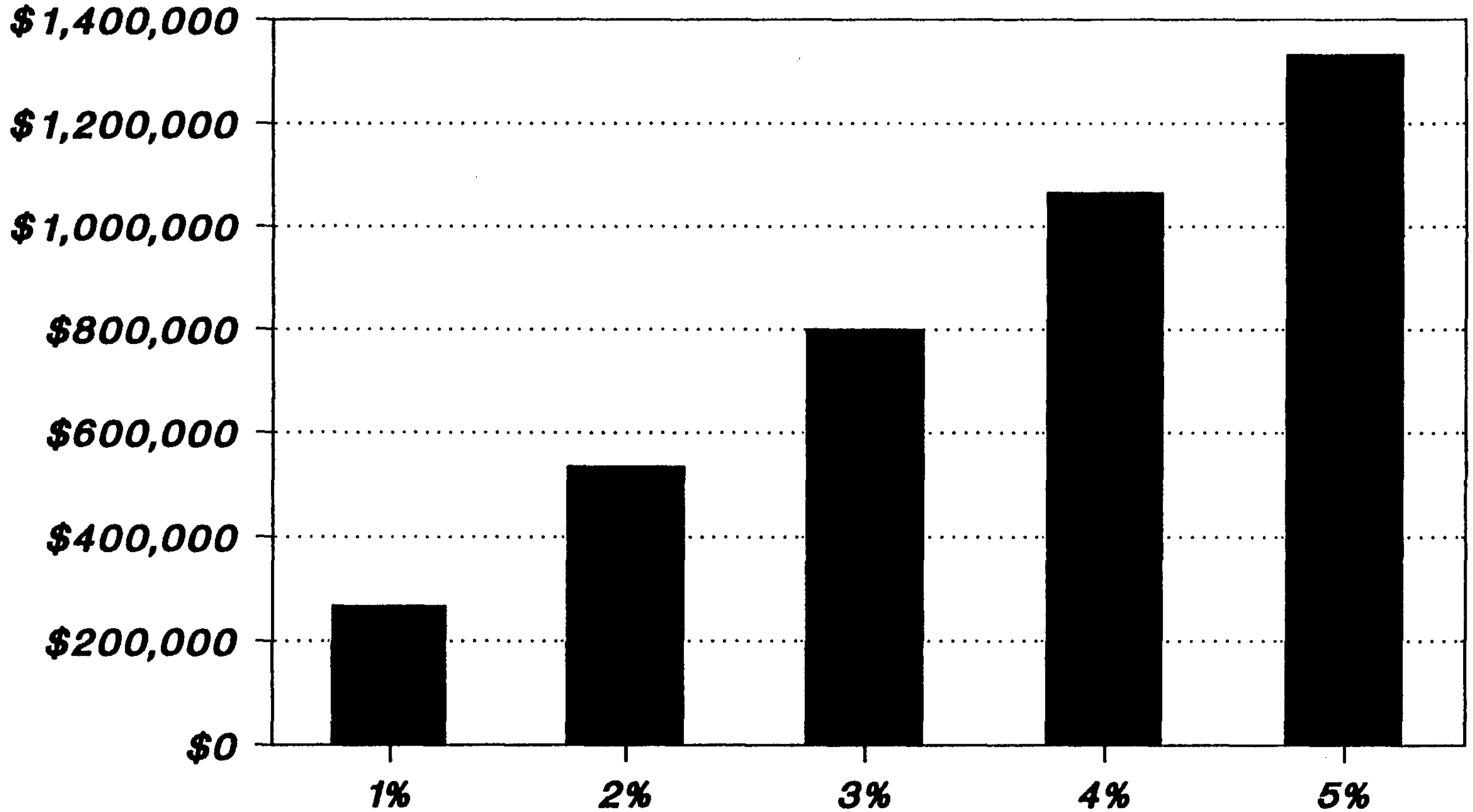
Child Support Enforcement Division
Medical Support Enforcement
CSED Referrals to TPL



Savings to Medicaid budget for 18 months: $1,522 X 189 = $287,658

Child Support Enforcement Division

Potential General Fund Cost of Audit Failure



Based on SFY 91 estimated federal financial participation in the Montana AFDC program of $26,650,080.

2
1-23-91
Human Serv. Sub.

CSED ENTERPRISE FUND CASH BALANCE LEDGER Updated: 01/10/91 02:34 PM
(06025 Funds Only)

EXHIBIT 3
DATE 1-23-91
Human Serv Subc

IE		SFY 1990	SFY 1991	SFY 1992	SFY 1993
	BEGINNING BALANCE:	$0	$500,000	$500,000	$350,000
	Net State Incent Withheld:	$559,304	$725,903	$833,702	$1,034,089
	Net FFY Reconciliation:	$102,513 <1	$121,410 <1	$0 <1>	$0
	FFY 1989 Reconciliation:	$131,632 <2	N/A	N/A	N/A
	Net State Incentives:	$793,449	$847,313	$833,702	$1,034,089
	State Share Collections:	$967,175	$1,353,476	$1,391,415	$1,473,425
	State Share Interest:	$38,446	$48,057	$48,588	$54,755
	State Share Fees:	$0	$15,980	$68,000	$85,000
2	TOTAL REVENUE:	$1,799,070	$2,264,826	$2,341,706	$2,647,269
3	Total Operating Cash:	$1,799,070	$2,764,826	$2,841,706	$2,997,269
	Pgm 5 (CSED) Cost:	$891,383	$1,138,294	<4$1,260,769	$1,249,875
	Pgm 9 (SEARCHS-CL) Cost:	$11,694	$38,350	$38,350	$38,338
	Pgm 9 (SEARCHS-ML) Cost:	$0	$0	$396,337	$124,975
	Pgm 4 Direct/Indirect Cost:	$68,243	$77,959	$103,219	$103,244
	Pgm 9 (OMAS Indirect) Cost:	$0	$14,000	$17,373	$17,373
	Pgm 8 (Audit Support) Cost:	$0	$7,654	$7,654	$7,639
	Pgm 7 (Medicaid) Cost:	$0	$0	$185,929	$328,494
4	TOTAL EXPENDITURES:	$971,320	$1,276,257	$2,009,631	$1,869,938
5	SUBTOTAL-NET AVLBLE CASH:	$827,750	$1,488,569	$832,075	$1,127,331
6	SURPLUS:	$327,750 <3	$988,569	$482,075	$777,331
7	END CASH BALANCE:	$500,000	$500,000	$350,000	$350,000
8	TOTAL BENEFIT/COST RATIO: [Ln 2 / Ln 4]	$1.85	$1.77	$1.17	$1.42
9	LFA BENEFIT/COST RATIO: (Ln 2-Intst-Fees) / Ln 4)]	$1.81	$1.72	$1.11	$1.34

FOOTNOTES

<1 This figure represents the difference between the amount federally pre-approved to be withheld as incentives for the Federal Fiscal Year based upon prior year estimates of federal benefit/cost) and the actual federal benefit/cost achieved. This reconciliation occurs in March of the following year. In SFYs 1992-1993, estimates of both actual and estimated incentives are assumed to be equal.

<2 This figure represents the reconciliation of incentives earned in FFY 1989 prior to the establishment of the Enterprise Fund but paid in March, 1990.

<3 This figure includes $225,341 already paid to the General Fund and $102,513 to be paid when the FFY 1990 federal incentive reconciliation is received.

<4 This figure includes a $119,000 State Share cost savings by the CSED.

ED ENTERPRISE FUND CASH BALANCE LEDGER Updated: 01/18/91 02:04 PM

(06025 Funds Only)

LINE#		SFY 1994	SFY 1995	SFY 1996	SFY 1997
1	BEGINNING BALANCE:	$350,000	$430,000	$437,000	$465,000
	Net State Incent Withheld:	$1,059,740	$1,106,428	$1,184,845	$1,268,805
	Net FFY Reconciliation:	$0	$0	$0	$0
	Net State Incentives:	$1,059,740	$1,106,428	$1,184,845	$1,268,805
	State Share Collections:	$1,454,581	$1,552,315	$1,657,921	$1,771,523
	State Share Interest:	$54,904	$58,057	$62,076	$66,390
	State Share Fees:	$48,769	$53,410	$58,521	$64,155
	TOTAL REVENUE:	$2,617,993	$2,770,210	$2,963,363	$3,170,873
	Total Operating Cash:	$2,967,993	$3,200,210	$3,400,363	$3,635,873
	Pgm 5 (CSED-CL) Cost:	$1,267,094	$1,292,436	$1,318,285	$1,344,651
	Pgm 5 (CSED-ML) Cost:	$0	$0	$78,522	$128,540
	Pgm 9 (SEARCHS-CL) Cost:	$313,548	$313,548	$313,548	$313,548
	Pgm 4 Direct/Indirect Cost:	$105,309	$107,415	$109,563	$111,755
	Pgm 9 (OMAS Indirect) Cost:	$17,720	$18,075	$18,436	$18,805
	Pgm 8 (Audit Support) Cost:	$0	$0	$0	$0
	Pgm 7 (Medicaid) Cost:	$0	$0	$0	$0
4	TOTAL EXPENDITURES:	$1,703,672	$1,731,475	$1,838,356	$1,917,299
5	SUBTOTAL-NET AVLBLE CASH:	$1,264,321	$1,468,735	$1,562,008	$1,718,574
6	SURPLUS:	$834,321	$1,031,735	$1,097,008	$1,232,574
7	END CASH BALANCE:	$430,000	$437,000	$465,000	$486,000
8	TOTAL BENEFIT/COST RATIO: [Ln 2 / Ln 4]	$1.54	$1.60	$1.61	$1.65

SE[illegible] ENTERPRISE FUND CASH BALANCE LEDGER   Updated: 01/18/91 02:04 PM   1-23-91

(06025 Funds Only)

LINE#		SFY 1998	SFY 1999	SFY 2000	SFY 2001
1	BEGINNING BALANCE:	$486,000	$508,000	$532,000	$557,000
	Net State Incent Withheld:	$1,439,226	$1,567,985	$1,678,995	$1,797,852
	Net FFY Reconciliation:	$0	$0	$0	$0
	Net State Incentives:	$1,439,226	$1,567,985	$1,678,995	$1,797,852
	State Share Collections:	$1,893,414	$2,024,004	$2,163,796	$2,313,364
	State Share Interest:	$72,773	$78,436	$83,913	$89,774
	State Share Fees:	$70,366	$77,218	$84,779	$93,127
2	TOTAL REVENUE:	$3,475,779	$3,747,643	$4,011,483	$4,294,117
3	Total Operating Cash:	$3,961,779	$4,255,643	$4,543,483	$4,851,117
	Pgm 5 (CSED-CL) Cost:	$1,371,544	$1,398,975	$1,426,954	$1,455,493
	Pgm 5 (CSED-ML) Cost:	$184,865	$245,189	$309,796	$378,991
	Pgm 9 (SEARCHS-CL) Cost:	$313,548	$313,548	$313,548	$313,548
	Pgm 4 Direct/Indirect Cost:	$19,181	$116,270	$118,595	$120,967
	Pgm 9 (OMAS Indirect) Cost:	$113,990	$19,565	$19,956	$20,355
	Pgm 8 (Audit Support) Cost:	$0	$0	$0	$0
	Pgm 7 (Medicaid) Cost:	$0	$0	$0	$0
4	TOTAL EXPENDITURES:	$2,003,128	$2,093,547	$2,188,850	$2,289,354
5	SUBTOTAL-NET AVLBLE CASH:	$1,958,651	$2,162,097	$2,354,633	$2,561,762
6	SURPLUS:	$1,450,651	$1,630,097	$1,797,633	$1,978,762
7	END CASH BALANCE:	$508,000	$532,000	$557,000	$583,000
8	TOTAL BENEFIT/COST RATIO: [Ln 2 / Ln 4]	$1.74	$1.79	$1.83	$1.88

CSED TEN YEAR PROJECTIONS

<u>ASSUMPTIONS</u> - 1/18/91

1. The automated system (SEARCHS) as proposed will be approved, developed and implemented through a privately operated facilities maintenance contract.

2. The overall CSED caseload will grow to 30,000 by 1994 and increase at the rate of 5% per year to a total of 43,000 by 2001.

3. Because of system implementation fewer staff will have to be added to the program (about 1/3 as many) but increased caseload will nevertheless create the demand for some increased staffing.*

   *This assumption is based on an <u>added</u> caseload of 250 per worker without an upgraded system and 375 per worker with the upgraded system. Currently caseload per worker is 357.

4. Expenditures will increase gradually because of added staff, operational and equipment costs.

5. Ending cash balances will vary according to estimated 1st quarter costs for each year and will be calculated at 125% of those estimated expenditures.

6. Inflation will increase costs at the rate of 2% per year.

7. NAFDC (in state) collections will increase at the rate of 13% per year.

8. NAFDC (interstate) collections will increase at the rate of 8% per year.

9. AFDC (in state) collections will increase at the rate of 8%* per year.

10. AFDC (interstate) collections will increase at the rate of 8%* per year.

    *AFDC obligations do not have the same potential for collection as do NAFDC debts.

11. Since federal AFDC cost effectiveness will increase steadily throughout the period from $1.46 in 1994 to $1.80 in 2001, AFDC incentives will increase from 6.5% of total AFDC collections in 1994 to 7.0% in 2001.

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1-23-91
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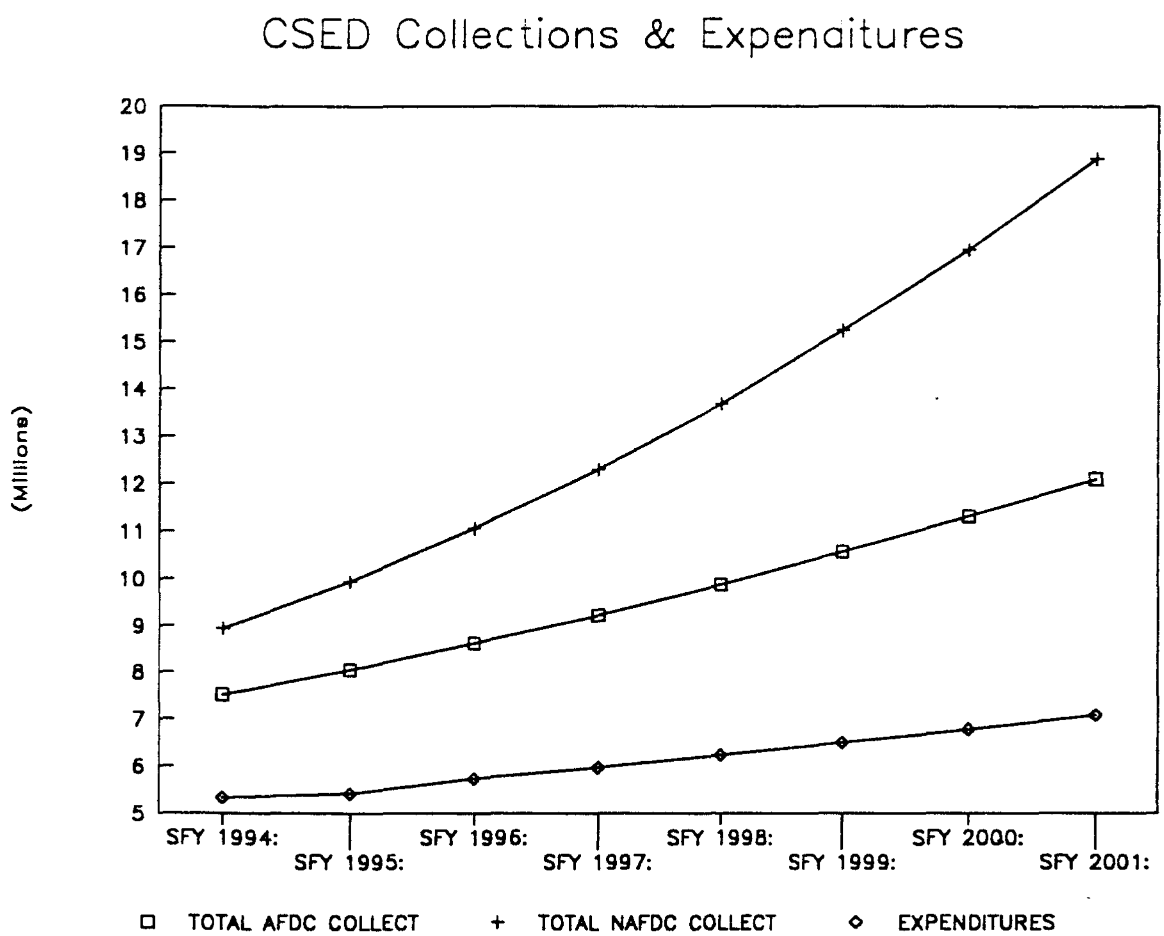
12. Since federal NAFDC cost effectiveness will increase during the period from $1.76 in 1994 to $2.84 in 2001, NAFDC incentives will increase from 7.0% in 1994 to 10.0% in 2001.

13. NAFDC incentives will remain capped at 115% of AFDC incentives throughout the period and will have effect on total revenues in the last several years.

14. Program cost effectiveness will be calculated by dividing all program revenues (including attributable incentives, cost recoveries and interest) by all program costs (excluding fund transfers to other programs not providing services directly or indirectly to the CSED).

15. Program cost effectiveness will increase steadily during the period from $1.54 in 1994 to $1.88 in 2001.


CSED Collections & Expenaitures
(Millions)
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
SFY 1994:
SFY 1995:
SFY 1996:
SFY 1997:
SFY 1998:
SFY 1999:
SFY 2000:
SFY 2001:
TOTAL AFDC COLLECT
TOTAL NAFDC COLLECT
EXPENDITURES

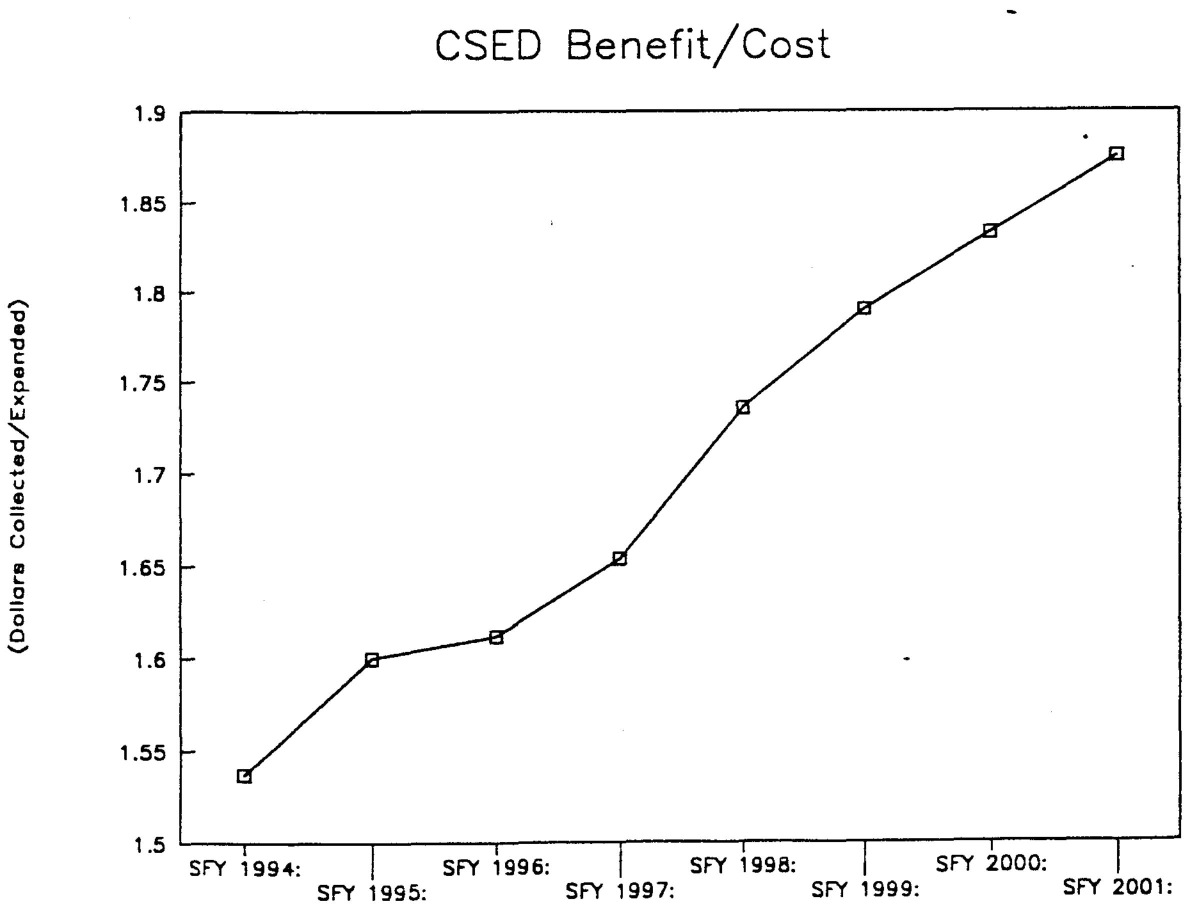

CSED Benefit/Cost
(Dollars Collected/Expended)
1.9
1.85
1.8
1.75
1.7
1.65
1.6
1.55
1.5
SFY 1994:
SFY 1995:
SFY 1996:
SFY 1997:
SFY 1998:
SFY 1999:
SFY 2000:
SFY 2001:

Exhibit #4
1-23-91
Human Serv
Subc.

EXHIBIT 4
DATE 1-23-91

6901 DEPT SOCIAL & REHAB SERVICES
05 CHILD SUPPORT ENFORCEMENT
00000

DATE : 01/08/91
TIME : 21/29/24
CURRENT LEVEL COMPARISONS

Budget Item	Actual Fiscal 1990	Executive Fiscal 1992	LFA Fiscal 1992	Difference Fiscal 1992	Executive Fiscal 1993	LFA Fiscal 1993	Difference Fiscal 1993
FTE	101.00	116.00	116.00	.00	116.00	116.00	.00
Personal Services	1,589,263	2,785,928	2,786,096	168-	2,781,446	2,781,643	197-
Operating Expenses	655,785	907,971	901,242	6,729	945,112	938,531	6,581
Equipment	350,097	51,765	51,765	0	6,329	6,329	0
Local Assistance	11,168	35,000	35,000	0	35,000	35,000	0
Total Expend.	$2,606,313	$3,780,664	$3,774,103	$6,561	$3,767,887	$3,761,503	$6,384
Fund Sources							
Federal Revenue Fund	1,714,929	2,517,664	2,513,334	4,330	2,515,841	2,511,628	4,213
Proprietary Fund	891,384	1,263,000	1,260,769	2,231	1,252,046	1,249,875	2,171
Total Funds	$2,606,313	$3,780,664	$3,774,103	$6,561	$3,767,887	$3,761,503	$6,384

PAGE REFERENCES:

LFA Current Level Analysis Reference: B-77
Executive Budget Summary Reference: 126
Executive Budget Narrative Reference: 46

EXECUTIVE AND LFA CURRENT LEVEL DIFFERENCES:

A current level base has not been established for this program. LFA Current Level should be the same as the Executive Budget Current Level. Differences in table primarily due to different inflation.

ISSUES:
1) Long-term role and scope of the child support enforcement program.
2) Revenue to expenditure ratios during the 1993 Biennium.
3) Fund balance requirement during the 1993 Biennium.

EXECUTIVE BUDGET MODIFICATIONS:

	Enterprise Account	Federal Funds	Total Funds
1) Contract for services	$256,115	$497,164	$753,279

VISITOR'S REGISTER

Human Services SUBCOMMITTEE

AGENCY(S) SRS DATE 1-23-91

DEPARTMENT

PLEASE PRINT

NAME	REPRESENTING DO NOT ABBREVIATE	SUP-PORT	OP-POSE
Jon Meredith	SRS-Child Support Enf. Div.	✓	
Mike Billings	SRS OMHS	✓	
Julia Robinson	SRS Director	✓	
Peter Blouke	SRS Director Dep	✓	
Dolly McMaster			

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT.
IF YOU HAVE WRITTEN COMMENTS, PLEASE GIVE A COPY TO THE SECRETARY.

FORM CS-33A
Rev. 1985