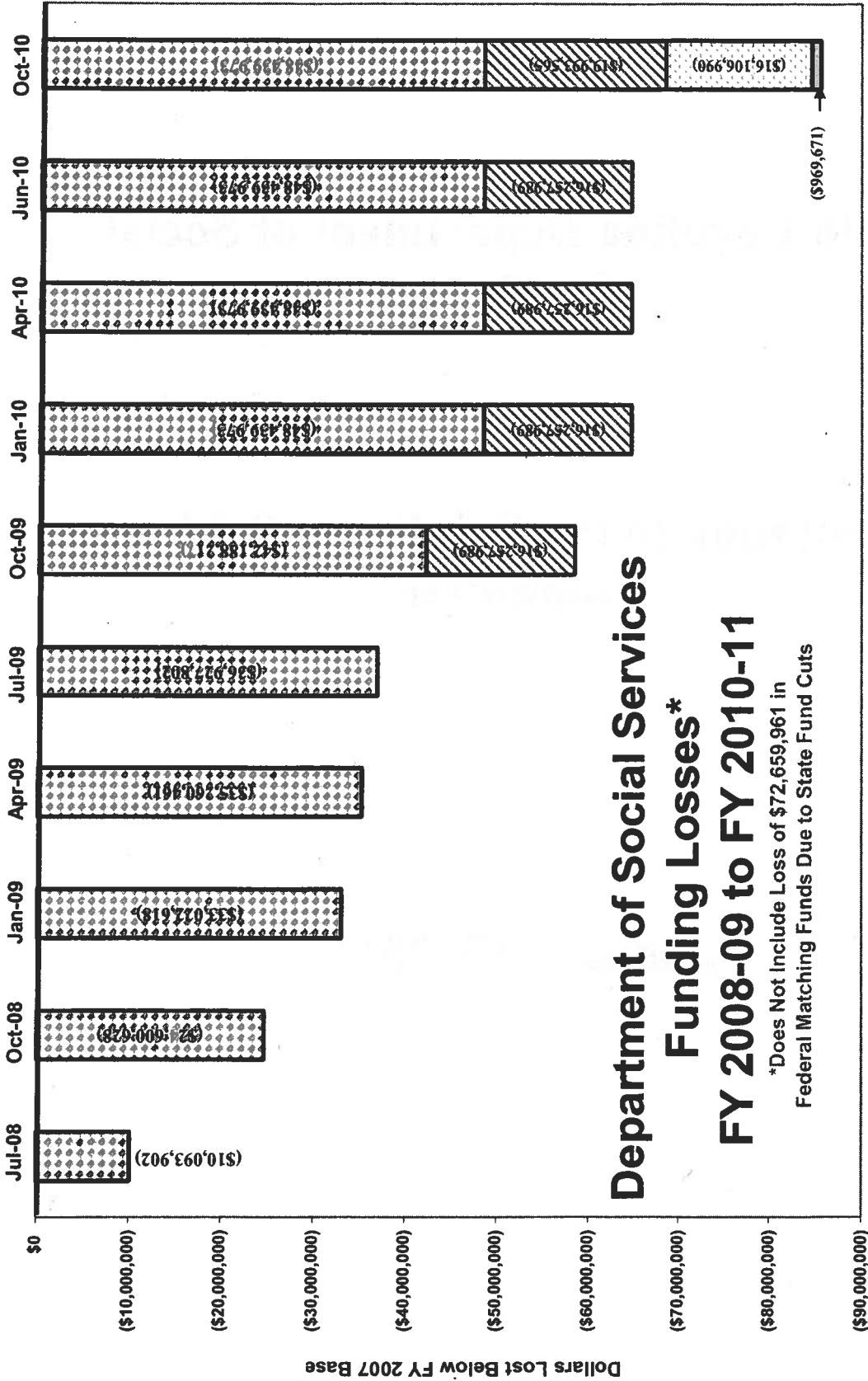


**South Carolina Department of Social  
Services**

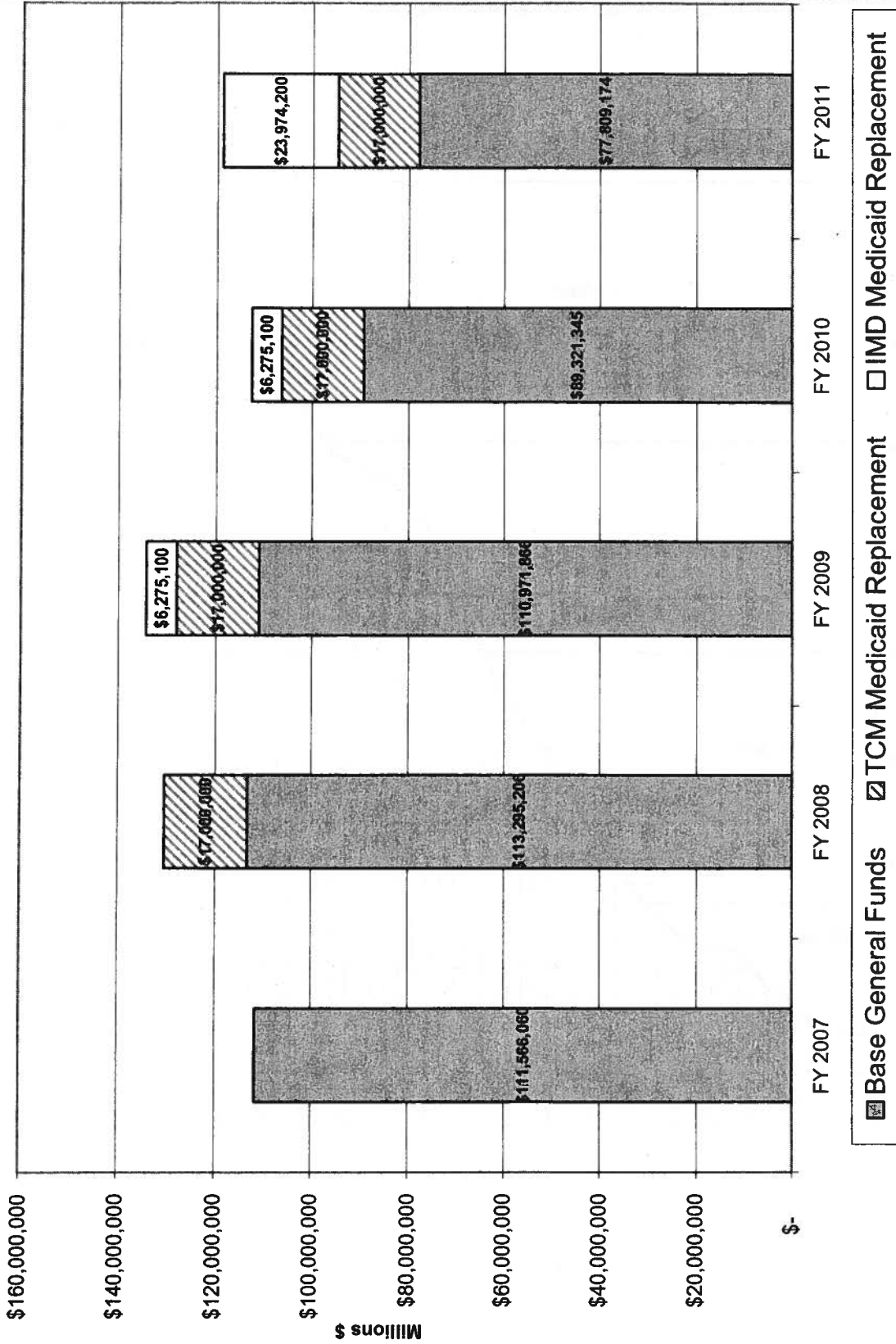
**Presentation to the Full Ways & Means  
Committee**

**January 13, 2011**

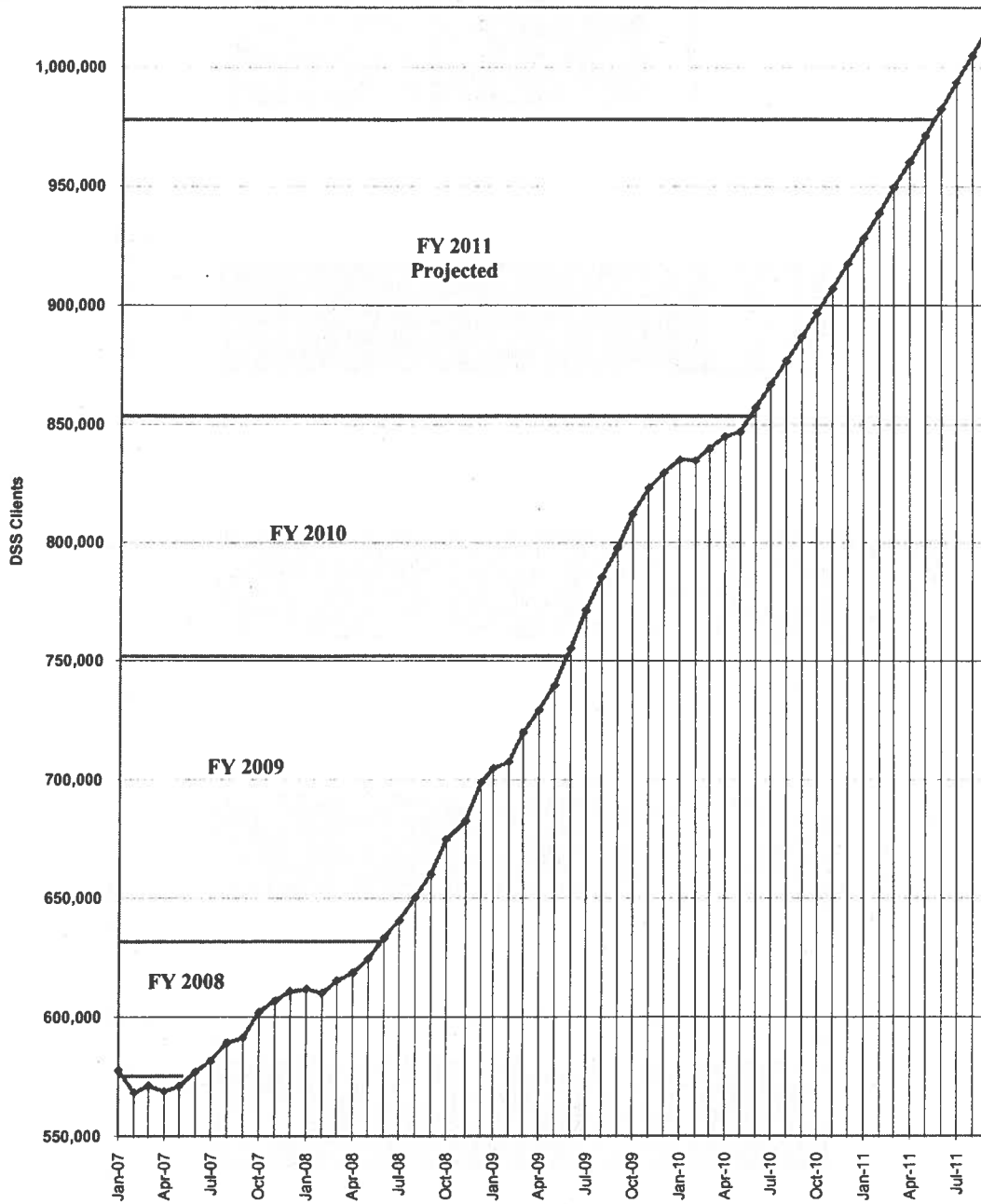


State Funds  
  TANF Cont. Fund  
  TANF Stimulus  
  CSE Incentive

**Department of Social Services  
Distribution of Recurring State General Funds**



**Department of Social Services Clients  
January 2007 to September 2011**



# Deficit Reduction Plan

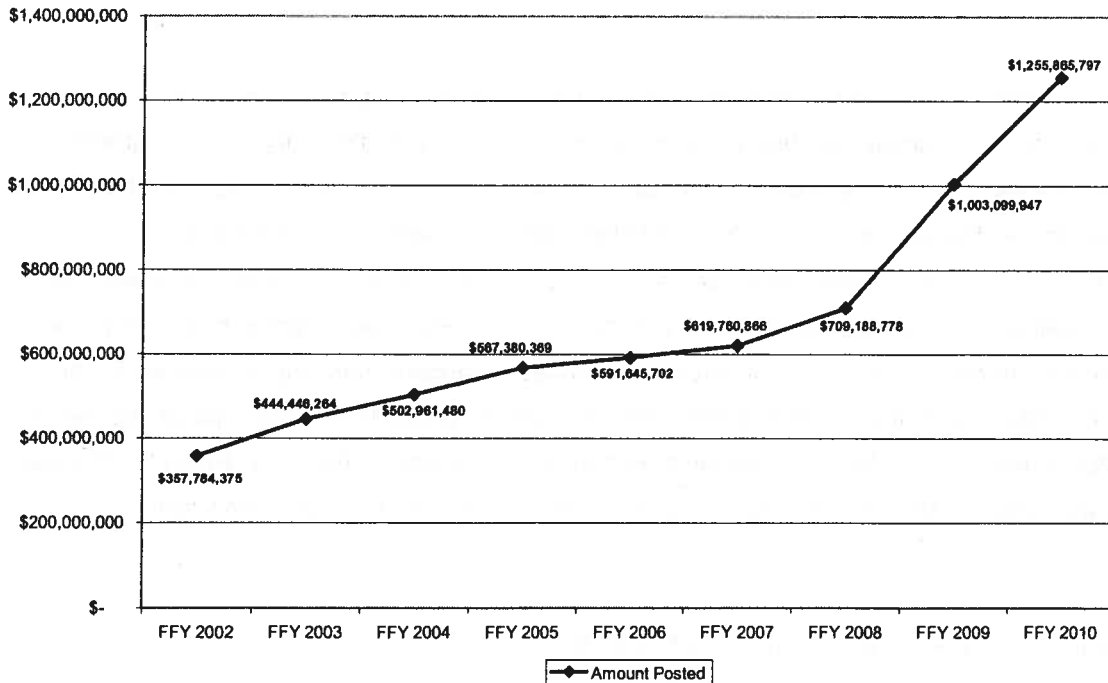
## Executive Summary

November 24, 2010

The Department of Social Services (DSS) provides for the critical needs of the state's poorest and most vulnerable citizens delivering services that are the core functions of government. It is where people turn in times of need and distress. Since its creation in 1937, the mission of the Department has expanded to include the following mandated programs: the Child Protection System (protection services, family services, foster care, adoption and independent living); Adult Protective Services; Family Independence (FI) our client preparation and job placement services; Supplemental Nutrition and Assistance Program (SNAP), formerly the Food Stamp Program; Child Support Enforcement Services; and Child Care Licensing and Regulatory Services.

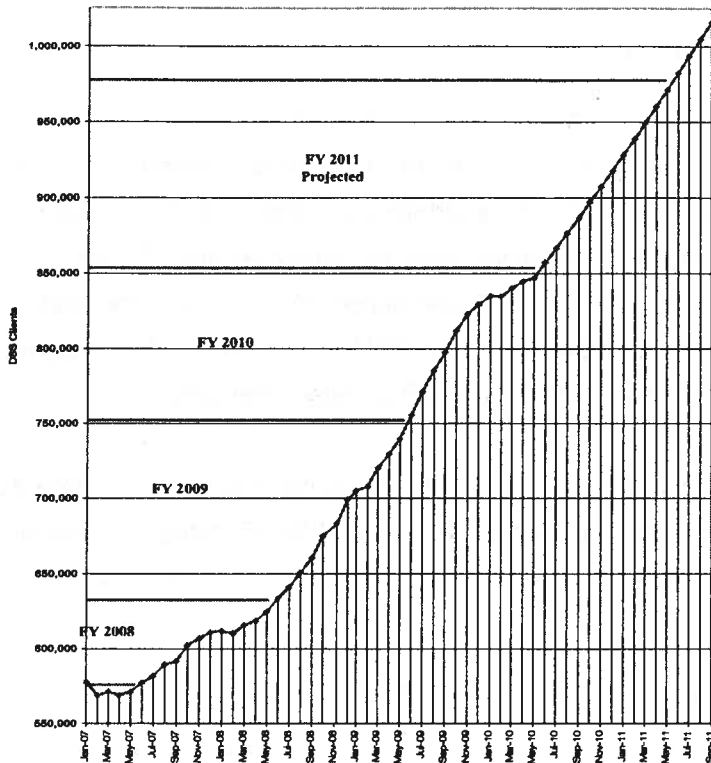
DSS is projected to serve 1.25 million citizens or one in four South Carolinians this fiscal year in one or more of its programs. DSS also has a profound economic impact on the state. The federal SNAP benefits to eligible applicants account for an infusion of \$1.26 billion dollars into the economy at the local level. The chart below graphically depicts the dramatic effect of SNAP.

Direct Economic Impact to South Carolina Retailers from DSS Food Stamps (SNAP)



The rapid growth of the number of South Carolinians in need of DSS' services has accelerated since the downturn in the economy that began in 2007. This explosion of need is illustrated in the "hockey stick" demand curve of the graph below.

**Department of Social Services Clients  
January 2007 to September 2011**



While the SNAP (Food Stamps) and Family Independence benefits are federally supported, the unparalleled growth of the programs over the recent past has put considerable strain on the DSS budget. This growth is a result of high state unemployment and has continued despite the fact that South Carolina has one of the most austere welfare programs in the United States. Family Independence is particularly vulnerable to increased demand because FI is funded through the Temporary Assistance to Needy Families (TANF), a federal block grant established in 1996 and capped at \$99.9 million annually. The constant dollar value of this block grant has been eroded by the inflation of the past 14 years. Increased caseloads resulting in increased cost of federally mandated benefits means those TANF dollars are no longer available to undergird programs serving abused and neglected children. Consequently, expenditures for the programs of the Child Protection System must be paid from state funds. DSS does not have adequate state funds to cover the program's cost.

**Potential Shortfall**

DSS projects a net shortfall of \$28.8 million at the end of SFY 2011.

**Causes of the Deficit**

*Lack of Congressional Action – TANF Reauthorization.* The amount of the TANF block grant has not increased since 1996. States have raised this issue with Congress and asked that, to compensate for inflation, additional federal funds be added to the block grant when it is reauthorized. In addition, many states are also asking that

any new funds added to the block grant be allocated to states based on the number of people in poverty in the state. The current method is based on the amount of federal welfare funds each state received in 1996.

Congress was scheduled to reauthorize the TANF Block Grant prior to October 1, 2010, but passed a continuing resolution instead. If Congress acts to reauthorize TANF at a higher level, our projected deficit could be reduced. However, members of the South Carolina delegation say they cannot predict when or if reauthorization will take place.

*Lack of Congressional Action: Loss of the TANF Contingency Fund.* In addition to the TANF Block Grant, South Carolina was one of two states (the other is Tennessee) that were eligible to access the federal TANF Contingency Fund. Since 2003 this fund provided \$19.9 million to South Carolina annually to be used in the Family Independence program or Child Protection System if the funds were not needed for monetary stipends.

When the national recession hit, most states became eligible for this \$2.5 billion fund for the first time. As a result, the fund was quickly depleted and South Carolina was notified in September 2009 that the fund was fully exhausted. Rather than receiving the \$19.9 million as expected, the state received \$10.7 million in 2010. The loss of these federal funds was an additional budget cut for DSS. This federal fiscal year, while Congress replenished the fund through a continuing resolution in September 2010, they failed to fully fund the program. South Carolina will receive a maximum of \$5 million this year – another cut to the agency.

*Caseloads.* Since the beginning of the recession, there have been substantial increases in the number of South Carolinians eligible for services. Families who were able to manage their expenses by working two or more jobs, have, for the first time, found themselves unable to manage. More than one million individuals will receive DSS services this year.

While the monetary benefits associated with the Supplemental Nutrition Assistance Program (SNAP) are restricted for use in this program only, funding for the TANF Program can be used to fund other programs that benefit families. In South Carolina as in many other states, TANF helps to fund the programs of the Child Protection System. In 2010 the use of TANF for the Child Protection System has been restricted by the need to use all TANF funds to pay for increased benefit costs as a result of increased caseload. This reduction in TANF funding came at the same time federal requirements for the Child Protection System increased substantially exposing the state to penalties (See Section 3 for the state's reliance on federal funds).

*State budget reductions.* DSS also has experienced \$48.5 million in budget reductions over the past three years. These cuts, combined with the additional loss of about \$72.6 million in federal matching funds, has meant that all non-mandated services and programs had to be eliminated or greatly reduced due to lack of funding. Budget cuts were taken with the safety of children and vulnerable adults as the first priority. Mandated programs must also operate at the minimally required level by state and federal statute.

### **Options for Reducing the Deficit**

The Department of Social Services has implemented numerous cost-saving initiatives over the last several years. As a result of these cost-saving initiatives, all non-mandated services have been cut. DSS has reduced costs in the overall administration of the agency as well as in services provided to the citizens of the state. Sections 5 and 10 of this document outline the details of this process and illustrate the depth and breadth of the impact the loss of state and federal funds has had on the programs. These sections show reductions of \$53 million and do not reflect an additional \$23 million in non-recurring costs absorbed by DSS. Without adequate funding or staffing, the agency is falling behind on its effort to meet all the state and federal standards and to meet the expectation of citizens of South Carolina.

Based on the work that has been done to reduce the agency's expenditures, it is clear that DSS cannot make sufficient reductions to overcome the shortfall of state funds. We cannot stop providing services mandated by state law without legislative action. We cannot further reduce effort in federally funded programs without risking penalties and termination of funding. DSS programs cannot be delivered without staff who interact with clients and other members of the community daily, so even minimally compliant services require employees in direct services and employees in support of their work. In any case, because of the size of the deficit, elimination of the entire DSS workforce would be insufficient to close the gap. Viable options for reducing expenditures are limited and are not without serious repercussions.

**Reduce TANF Stipends Effective February 1, 2011:** The greatest impact to the DSS budget aside from the loss of state funds has been the growth of the TANF caseload. It has grown by 54.4 percent since 2007 and has caused an increase in expenditures of almost \$20 million annually. While the monetary stipends associated with the program's requirements are limited compared to almost all other states, the only option to further reduce spending is reducing client benefits by 20 percent. This will result in a monthly benefit reduction from \$270 per month to \$216 per month for the average TANF client. To receive this benefit, the client must be at work or in an approved job training activity for 30 hours per week each week, and to facilitate this, the agency will continue to provide the client with an array of job readiness services. This option will reduce assistance to South Carolina's neediest parents and children.

**Work to Eliminate the Child Support System Penalty:** South Carolina has been required by the federal government to pay penalties for failure to complete the federally mandated automated child support enforcement system and has been assessed federal penalties since 1998. These federal penalties are and have been counterproductive to our child support program which currently is fully engaged in the completion of this large scale automation project. Hewlett Packard is the vendor for this project. Federal penalties greatly diminish the state's capacity to complete the project because state funds required for paying them are needed to pay the penalty and to fund the final stages of the development of the project.

These state funds could also be used to fund the Child Protection System. The penalty for SFY11 needs to be eliminated with the assistance of Congressional action.



**Sustainability Plan**

The agency has recently implemented several projects designed to enhance the viability of the agency in on-going years (See Section 7).

Project REAP (Responsibility, Employment and Payback) is the newest of these programs and is scheduled to be implemented in January 2011. Project REAP ensures that recipients of the state's resources utilize them according to a Family Responsibility Plan and are individually accountable for their actions. Project REAP has a new school - engagement component for parents.

Over the past two years, the Department has been implementing the "2010 Initiative" designed to streamline the business practices of the agency while improving client services. This is a significant reform that has enabled the agency to modernize its Family Independence and SNAP delivery systems so that it is not paper and staff driven, but is client-centric and supported by technology. This program provides online assistance for eligible clients needing DSS services, thus reducing DSS office visits, transportation, and administrative costs.

Finally, with the leadership of the Duke Endowment, and in partnership with the Association of Children's Homes and Family Services, the agency has begun a process for reforming the Child Protection System in South Carolina that is intended to leverage community resources to assist families and connect foster children to adults if no adoptive family is found. This eight month long process has provided meaningful dialogue about how to streamline services and maximize resources.

**Consequences of Not Recognizing the Deficit**

Since many of the items presented for consideration in this Deficit Reduction Plan require action from the General Assembly or Congress, the agency has prepared a discussion of the consequences to the state in the event that the deficit is not recognized and sufficient reductions are not possible. DSS projects that its ability to reimburse providers for services rendered will cease to exist on April 13, 2011.

## Summary Analysis of DSS FY2011 Potential Deficit

### DSS FY 2010-11 Projected Deficit

Title	Non-restricted Funds	Restricted Use Funds	Total Funds*
<b>Revenue</b>			
State General Funds	119,735,992	-	119,735,992
Federal - Temporary Assistance For Needy Families (TANF) Block Grant	99,967,824	-	99,967,824
Federal - Temporary Assistance For Needy Families (TANF) Contingency Fund	5,000,000	-	5,000,000
Federal - Child Care and Development Block Grant	-	47,916,638	47,916,638
Federal - Child Support Enforcement	-	32,952,528	32,952,528
Federal - Social Services Block Grant	33,870,860	-	33,870,860
Federal - Foster Care Title IV-E	-	35,252,461	35,252,461
Federal - Adoption Assistance	-	16,007,130	16,007,130
Federal - Other Federal Grants	-	127,980,640	127,980,640
Earmarked - Allocations from State Agencies	8,076,312	8,200,000	16,276,312
Earmarked - Other Earmarked Revenue	9,907,703	10,918,811	20,826,514
<b>Total Revenue</b>	<b>276,558,691</b>	<b>279,228,208</b>	<b>555,786,899</b>
<b>Expenses</b>			
Administration and County Support			58,531,741
Children's Services			10,597,909
Child Protection			33,054,710
Foster Care			57,959,200
Emotionally Disturbed Child			42,216,806
Adoptions			30,019,227
Adult Protective Services			7,482,075
Economic Services			161,944,576
Child Support Enforcement			36,647,784
Domestic Violence			4,104,317
Child Care			105,437,990
Pass Through Funds			1,093,944
Employer Contributions			44,334,516
<b>Total Expenses</b>			<b>593,424,795</b>
<b>Projected Ending Balance</b>			<b>(37,737,896)</b>
<b>Additional Actions Currently Being Implemented</b>			
Further Elimination of Contracts			3,619,854
Maximize IV-E for Therapeutic Foster Care Board Payments			650,000
Child Support Debit Card Implemented 1/15/11			79,517
Targeted Case Management for Adult Protective Services			400,000
Projected FMAP from Medicaid (\$2 M Pending)			-
Increase IV-E for Child and Adult Protective Services System			270,000
TANF Stipend Reduction of 20% over 5 months FY11.			3,800,000
<b>Total Additional Actions</b>			<b>8,819,371</b>
<b>Adjusted Projected Ending Balance</b>			<b>(28,818,525)</b>

\*Note: Does not include Supplemental Nutrition Assistance Program stipends or Child Support Enforcement System development and penalties. Funding for the Child Support Enforcement System is restricted in accordance with FY 2011 Provisos 26.19 and 90.18.

# **Child Support Enforcement System**

## **Why must South Carolina develop an automated Child Support Enforcement System?**

All states have been required to develop a system that meets federal guidelines.

## **What are the components of the new system?**

South Carolina is unique in its strong interdependence between the state Child Support Enforcement program and the state's Family Court System. Both organizations collect child support and enforce child support orders and complement each other in this work. As much as one day per week of the Family Court docket time statewide is devoted to child support enforcement. Under SC law, DSS Child Support Enforcement Division, the family courts and the Clerks of Court collect child support and enforce child support orders. Child Support Enforcement System (CSES) and the Judicial Department's Family Court Case Management System (FCCMS) require a comprehensive development and implementation solution to meet the optimum business model for South Carolina. Current DSS and Clerk of Court automated child support systems cannot simply be linked together in order to satisfy federal certification requirements. The application code for CSES and the Judicial Department's FCCMS is being built based on user-defined requirements from DSS, Judicial Department and Family Court staff gathered through extensive design sessions. The system must also interface with the TANF system and the child welfare automated system, along with 154 other systems housed in other agencies.

## **What are the Federal requirements for the system?**

In order to be certified, a State's automated CSES must be comprehensive, operate statewide, and meet the standards of efficiency and effectiveness and the principles of any integrated system as set forth by the US Department of Health and Human Services, Administration for Children and Families. It must also have a centralized State Disbursement Unit to process all child support collections and payments.

## **What will the system do?**

- The system will replace 47 separate systems used to oversee child support collection and disbursement (46 county operations plus the Department of Social Services). All business processes will be standardized and one set of data will be used for managing and reporting.
- All parts of child support wage withholdings and collections will be centralized making it easier on businesses to meet their reporting mandates.

## **What is the status of the system?**

- The State entered into a contract with Saber Corporation in August 2007. Hewlett Packard bought out Saber and took over the project 18 months ago. Upon taking over the project HP discovered more complexities in the project than original contract would have indicated. HP extended its estimation of project deployment to September 2012.
- In November, the State and HP successfully completed negotiations for this extension wherein HP pays all federal penalties association with the project and contributes hardware to the project to offset state costs. This negotiation reduced DSS's 2012 budget request from \$53.1 million to \$8.5 million in recurring funds and \$2 million in non-recurring funds as the final budget request for the project

## FY 2011-12 Budget Request

**Priority #1 Protecting South Carolina's Children from Abuse and Neglect**

Recurring \$43,357,637

**Priority #2 Federally Mandated Child Support Enforcement System/SDU**

Recurring \$8,549,655

Nonrecurring \$2,000,000

**Priority #3 Medicaid Replacement for Therapeutic Foster Care**

Recurring \$4,000,000

**Priority #4 Unfunded Mandated Health and Dental Increases**

Recurring \$1,255,637

**Total FY 2011-12 Request**

Recurring \$57,162,929

Nonrecurring \$2,000,000

FTE's 3.00

**Proviso Request:**

- Delete 26.22 DSS: Teen Pregnancy Prevention
- Delete 26.24 DSS: Day Care Facility Supervision Ratios
- Delete 26.27 DSS: Child Care Center Provisional License Extension
- Continue All remaining provisos unchanged for FY 2011-12