

**STATEMENT OF LOURDES R. PADILLA**

**SECRETARY**

**DEPARTMENT OF HUMAN SERVICES**

**BEFORE THE**

**HOUSE APPROPRIATIONS COMMITTEE**

**HEALTH AND SOCIAL SERVICES SUBCOMMITTEE**

**FY 2019 BUDGET**

**WEDNESDAY, JANUARY 31, 2018**



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**SENATE BUDGET AND TAXATION COMMITTEE**

**HEALTH AND HUMAN SERVICES SUBCOMMITTEE**

**FY 2019 BUDGET**

**THURSDAY, FEBRUARY 1, 2018**



Good afternoon Chairman Reznik and members of the Committee. Thank you for the opportunity to appear before you today to discuss the Department's budget request for our Office of Home Energy Programs. With me today are the Executive Director of the Family Investment Administration, Nicholette Smith-Bligen, Director of the Office of Home Energy Programs in the Family Investment Administration, Bill Freeman and the Department's Chief Financial Officer, Stafford Chipungu.

The Office of Home Energy Programs administers grants to make energy bills more affordable and to help with the prevention of loss or restoration of home energy service. The program achieves this through benefits paid for customers' electric and heating bills.

The Office of Home Energy Programs' electric benefit is comprised of two components; bill payment assistance to make monthly bills more affordable and arrearage retirement assistance to help customers pay past due bills. Electric benefits are funded through special ratepayer funds and the Strategic Energy Investment Fund.

The Office of Home Energy Programs' heating benefit assists customers with all types of heating, including electric, gas, propane, oil, kerosene, coal and wood. Benefits keep heating costs affordable for customers and help those low on or without heating fuel with expedited delivery of assistance during the winter season. Heating benefits are 100% funded through the federal Low Income Home Energy Assistance Program. OHEP's fiscal year 2019 budget allowance totals \$129,602,798, a decrease of 10% from the current fiscal year. Approximately \$68,675,164 million of this total comes from the federal LIHEAP block grant. The remaining

\$60,927,634 comes from special ratepayer funds and funding from the Strategic Energy Investment Fund. There are no general funds in the Office of Home Energy Programs budget allowance. We expect federal funding for Federal Fiscal Year 2018 to be \$74 million, which represents a 2.2% increase from the prior year allocation. As of January 10, 2018, we have received 90% of the total LIHEAP allocation equaling \$68.1 million in federal funds.

### **Office of Home Energy Programs Enrollment and Average Benefit Data**

The Office of Home Energy Programs provides critical benefits to thousands of households in Maryland and continues to target the benefits to the most vulnerable households. As of December 31, 2017:

- 53,190 households received a total of \$30.1 million in heating benefits with an average benefit of \$580, representing a \$29 increase compared to last year's average heating benefit;
- 52,794 households received a total of \$26.1 million in total electric bill assistance with an average benefit of \$495, which is flat when compared to last year's average electric benefit;
- 8,727 households received a total of \$7.8 million in electric arrearage retirement benefits with an average benefit of \$896, representing a \$7 increase compared to last year's arrearage benefit.

Applications for all benefits provided through OHEP are increasing following several consecutive years of decline. Applications increased by 7% this program year following a modest 1% increase last program year. This is an important measure of OHEP's continued development of enhanced outreach campaigns to ensure service to the most vulnerable

populations. The increase in applications is in part due to targeted mail-campaigns to Food Supplement Program and Medicaid-eligible seniors that have not applied for energy assistance. This increase also reflects the commitment of local administering agencies toward working with local nonprofits, Departments of Aging, and other entities serving similar populations to increase awareness and improve access.

### **Budget Impacts on the Program and its ability to serve customers**

The number of applicants served by the Office of Home Energy Programs to date is slightly lower this year compared to last due to the unseasonably warm temperatures in November and early December. To assist low-income Marylanders through the coldest months, the Office of Home Energy Programs has launched two targeted mail campaigns to high risk populations not currently associated with our programs:

1. Current Food Supplement Program recipients;
2. Medicaid-eligible seniors.

These mailings begin this month and will last through the remainder of the fiscal year.

We expect federal funding for FY 2019 to be \$68.9 million, in line with last year's allocation.

As of January 10, 2016, we have received \$64.8 million in federal funds.

This year, the program has been able to increase average benefits to its customers to reflect increases in energy costs, particularly those costs related to home heating by way of propane, oil, and natural gas.

### **Improvements in Customer Service**

Despite the increase in applications received, the number of households receiving benefits to date

is down approximately 6% compared to last year. This follows a decline of 5% in the number of households receiving benefits last year. OHEP is working to address the increase in the denial rate of applications. The percent of applications denied in 2014 was 21%. The denial rate has increased each year and reached 30% in 2017. Approximately 65% of application denials are for missing information. OHEP is working with the local administering agencies to improve communications with customers who submit incomplete applications to reduce the denial rate. Additionally, OHEP continues to simplify the application for benefits and is launching a streamlined redetermination process to simplify the application process for fixed-income seniors and the disabled.

The timely processing of applications is a key measure of customer service for OHEP. This year, the program continued to improve application processing times to ensure the timely delivery of benefits to customers in need. As of FY 2018, 96% of applications are processed within 55 days or less, compared to 89% in FY 2016. Focused efforts by the Department to provide local agencies better tools to manage their caseloads, as well as closer monitoring of application processing has led to improvements across all countable measures.

OHEP continues to work on launching the Supplemental Targeted Energy Program (STEP), which is a significant new initiative for the office. STEP will offer customers an incentive-based benefit contingent upon their participation in a series of financial planning educational services designed to improve long-term bill affordability, such as energy education, energy efficiency and self-sufficiency services. The incentive benefit is intended to make the utility bill affordable in the short-term while the customer actively works with us to resolve longer-term problems that

perpetuate a cycle of past due bills, turn-off notices, and energy crises. Administrative funds for the program will be federally funded and incentive benefits will be paid out of our existing allocation from the Strategic Energy Investment Fund (SEIF). During the course of the last year, OHEP worked to identify agencies to implement STEP in each jurisdiction and to build the infrastructure to seamlessly implement the program. I am happy to report that STEP is ready to launch following the promulgation of regulations regarding program eligibility.

This concludes my testimony. Thank you again for having me here today. I am happy to answer any questions you may have.

**Department of Human Services**  
**FY 2019 Budget Highlights**  
**Family Investment Administration**  
**Office of Home Energy Program (OHEP)**  
**NI00.06**

	<u>FY 2018</u> <u>Appropriation</u>	<u>FY 2019</u> <u>Allowance</u>	<u>Changes</u>
<b>I. FUNDING<sup>a</sup></b>			
General Funds	-	-	-
Special Funds	73,215,776	60,927,634	(12,288,142)
Federal Funds	70,869,385	68,675,164	(2,194,221)
Reim. Funds	-	-	-
Total	144,085,161	129,602,798	(14,482,363)
<b>II. PERSONNEL<sup>a</sup></b>			
Regular Positions:	14.87	14.87	0.00
Contractual Positions:	0.00	0.00	0.00
<b>III. MAJOR CHANGES (In Thousands)</b>			
<b>01 Salaries</b>			(1)
Decrease in Salaries due to Regular Earnings.			
<b>03 Communications</b>			2
Increase in Communications due to Postage, \$5K; Offset by Decrease in Regular Telephone Services, (\$3K).			
<b>04 Travel</b>			4
Increase in Travel due to In-State Travel-Business.			
<b>08 Contractual Services</b>			(14,383)
Decrease in Contractual Services due to Maryland Strategic Regional Greenhouse Gas Initiative (RGGI), (\$11,000K); Administrative Costs for Local Administrative Agencies, (\$1,405K); Maryland Energy Assistance Programs (MEAP), (\$1,242K); Electric Universal Service Program (EUSP), (\$498K); Call center Services, (\$237K); and Court Costs, (\$1K).			
<b>09 Supplies</b>			(106)
Decrease in Supplies due to Promotional Expenses, (\$117K); Offset by Increase in Printed Forms, \$9K; Office Supplies, \$1K; and Data Processing Supplies, \$1K.			
<b>13 Fixed Charges</b>			2
Increase in Fixed Charges due to Subscriptions and Dues.			
<b>Total</b>			<b>(14,482)</b>

<sup>a</sup> Reference Source: FY 2019 Maryland State Budget Book - Part II: 256.

**Department of Human Services  
Office of Home Energy Programs  
N00I0006**

**Response to Issues**

***Issue #1: DHS should discuss the impact of the redistribution of work on the functioning of the program and the planned timeline for filling the vacant positions.***

**Response to Issue**

In addition to providing overall program oversight, the Director is performing all daily fiscal and procurement functions and remaining staff is performing all other related OHEP duties. The Department is working to promptly fill the vacant OHEP PINs. It is expected that the positions will be filled no later than the end of April 2018.

***Issue #2: DHS should describe the implementation plans for the new benefit and the anticipated impact on households receiving benefits.***

**Response to Issue**

The gas arrearage program implements a much-needed benefit originally piloted with success by OHEP in 2007. The benefit is intended to assist households in becoming independent and eliminate the perpetual cycle of crisis in the gas market. OHEP works with approximately 11,000 households each year with a gas arrearage greater than \$200. Many of these households have been able to address their electric arrearages through EUSP Arrearage Retirement Assistance and their own payments but maintain a gas arrearage balance.

Many applicants have their regular Maryland Energy Assistance Program, or MEAP, benefit applied in a lump sum to their gas arrearage debt. This eliminates an opportunity to fully benefit from the Universal Service Protection Program (USPP) and prevents regular monthly reductions to help carry them through the high cost winter months through a budget billing option. Often these applicants reapply again in the new program year with termination notices that come from an inability to pay the continuing monthly bills once the MEAP benefit has been exhausted on existing balances.

The gas arrearage benefit aims to bring an applicant back to a zero balance on their gas account, allow for the application of the MEAP benefit on a monthly basis, and eliminate the annual cycle of crisis management. The gas benefit will apply the same rules as the EUSP Arrearage Retirement Assistance benefit for electricity, which is available once every seven years up to a maximum of \$2,000. Vulnerable population waivers will be in place for the gas arrearage benefit as is the case with EUSP Arrearage Retirement Assistance.

Administrative costs for the implementation of the gas arrearage benefit are minimal. Arrearage screening is already completed for electric costs and the OHEP Data System is already capable of determining and processing gas arrearage payments. Federal Low-Income Home Energy Assistance Program, or LIHEAP, funds will be used for this benefit, pending approval of the

State's LIHEAP Model Plan for FY 2019. Approximately \$5 million will be used for gas arrearages. This is based on a projected 11,000 eligible households with an average arrearage of \$443. Spending in FY 2018 is instructive that the funds will be readily available for this benefit.

Continuation of this benefit is dependent on the availability of federal LIHEAP funds and/or the successful outcome of the delivery of these services.

***Issue #3: OHEP should comment on how it plans to monitor spending levels to ensure that sufficient funds will be available to support benefit payments through the rest of the fiscal year.***

### **Response to Issue**

The Department agrees that the full impact of recent cold spells will not manifest itself on household energy burdens until March 2018 and beyond, which will result in additional requests for assistance. For context, during the first week of January, BGE recorded three of its top 10 highest natural gas customer-use days in the company's history. The record low temperatures combined with the clear increases in applications due to the enhanced OHEP outreach efforts of recent years will certainly increase spending.

Despite the anticipated increases in demand for energy assistance, OHEP is confident that sufficient benefits will be available through the end of the fiscal year. While benefit levels were increased for FY 2018, the increases-- particularly EUSP benefit increases-- were minimal to ensure the capacity to respond to such an increase.

OHEP monitors application intake and benefit processing on a daily basis. OHEP projects that spending for EUSP and MEAP will increase approximately 10% from FY 2017 levels based on current applications in the queue and projected new applications. If this projection holds, sufficient funds will be available through the rest of the fiscal year. The number of households receiving benefits would have to increase by 25% from FY 2017 for there to be insufficient funds this program year, and there is no indication of such a significant increase.

Should daily monitoring of applications and expenditures reveal the possibility of insufficient funds, OHEP is prepared to use modified benefit matrixes in the final months of the fiscal year that continue to address the immediate needs of customers while ensuring the availability of funds through the end of the year. Benefit level increases in recent years have been effective from a program results perspective. They also provide the opportunity to make adjustments without significant effects on households in crisis.

***Issue #4: DHS should comment on why these available funds were not included in the fiscal 2019 budget as introduced and its plans to use these funds as authorized under Chapter 777.***

### **Response to Issue**

The Department understands that these funds are available for the Energy Assistance Program. The funds were not included in the fiscal 2019 budget as introduced because the plan is to close 2018 and have a better picture of funding availability from all sources of funds. As we enter into 2019, we will bring in the needed funds by budget amendment. The funds will be used for bill

payments. As required by the amendment policy, the Legislature will have the opportunity to review the budget amendment before it is approved.

***Issue #5: DHS should discuss the long-term impact on the program if revenue remains as low as is currently forecasted in fiscal 2020.***

#### **Response to Issue**

Recent increases in Regional Greenhouse Gas Initiative auctions are encouraging. Should decreased revenues in the Strategic Energy Investment Fund continue beyond the current period, however, the Department will need to re-evaluate its allocation of resources across bill assistance, arrearage retirement, and heating assistance. Arrearage Retirement Assistance, which was supported by \$13,580,975 from the Strategic Energy Investment Fund in FY 2018, is the first benefit that would have to be adjusted. The \$2,000 maximum benefit for Arrearage Retirement would have to be adjusted accordingly.

***Issue #6: DHS should comment on the steps that it has taken, or plans to take, to improve its performance in the energy burden reduction index.***

#### **Response to Issue**

The Department is extensively involved in the ongoing refinement of the federal performance measures. OHEP staff serve on multiple HHS performance measures working groups and have testified before US Congressional committees as to the efficacy of the new HHS LIHEAP performance measures. Maryland is well-positioned to be a leader on using LIHEAP performance measures for improved benefit determination and targeting. The first year's data for the LIHEAP performance measures suggest that benefits are generally well-targeted. The data suggests, however, that benefits could be better targeted toward reducing energy burdens for those households with the highest energy burdens.

In order to address the low score on the energy burden reduction index, the Department immediately increased benefits for customers in subsidized housing. Historically, these customers received a significantly lower benefit, with the assumption that housing allowances addressed energy burdens. The data reveals, however, that households in subsidized housing have some of the most significant energy burdens regardless of other benefits received. Their high energy burden is largely an effect of the extremely low incomes of these customers. The Department increased benefits by 11% to the approximately 27,000 households receiving both a housing subsidy and OHEP benefits. This increase in benefits for subsidized housing recipients addresses the most significant driving factor in the energy burden reduction index.

The Department will continue to closely monitor the benefit targeting and energy burden reduction indexes to ensure benefit calculations are appropriately tailored to help households afford their home energy. OHEP has developed an energy burden calculation module within the OHEP Data System to allow for a full consideration of the energy burden for each household during the calculation of benefits.

**Department of Human Services  
Office of Home Energy Programs  
N00I0006**

**Response to Recommended Action**

**Recommendation #1**

Adopt committee narrative requesting information on application processing time. **(Page 4 and 24)**

**Response:** The Department concurs with the Analyst's recommendation.