Fiscal Year 2027 Operating Budget
Overview - N00
Response to Department of Legislative Services Analysis

Senate Budget and Taxation Committee
Health and Human Services
Senator Cory McCray
February 5, 2026

House Appropriations Committee
Health and Social Services
Delegate Emily Shetty
February 11, 2026

Honorable Chair and members of the Subcommittee, my name is Rafael López, and I serve as the Secretary of the Maryland Department of Human Services (DHS). On behalf of DHS, I thank Governor Moore, Lieutenant Governor Miller, the Department of Budget and Management (DBM), and the Budget Committees for their support. We are also grateful to the Department of Legislative Services Analysts Suveksha Bhujel, Connor Brown, and Tonya Zimmerman for their analysis and assistance leading up to today's hearing. Joining me at the table is Chief Financial Officer Roman Napoli. We have senior members of our leadership team, including directors of our local departments of social services, present in the audience as well.

We are honored to serve more than one million Marylanders to empower them and to unlock opportunities. We serve to ensure all can reach their full potential by helping with preventive and supportive services, economic assistance, and meaningful connections to employment development and career opportunities.

Our team consists of our nearly 6,000 employees across the state, who are supported by our many partners in the communities we serve. Our 24 local departments of social services administer 80% of all activities in our $3.8 billion budget. The DHS budget is almost 70% federally funded. To do this work well, we must deploy these resources strategically. And to do this work well, we must hold ourselves accountable to a new standard of excellence and customer service.

We have made significant strides in reforming DHS to better serve Maryland families. An unprecedented number of young people in out-of-home care are living with kin, which research shows reduces trauma and improves well-being. We ended the decades-long practice of youth in DHS care staying in hotels and other unlicensed settings. Over 111,000 eligible Marylanders have accessed SNAP benefits through One Application, the new mobile-friendly one-stop-shop for benefits applications the Moore-Miller Administration launched in July. And we are deploying AI to streamline the work verification process for SNAP, made more onerous by the Trump Administration's H.R. 1.

We are making progress every day in service of the Governor's charge to leave no Marylander behind. That said, our work is far from done. We will not be satisfied until no Maryland family is worried about where their next meal will come from and every young person in Maryland is thriving in a loving home with family by blood or by choice.

We acknowledge that we continue to face major challenges to modernize DHS. We regularly discover deeply embedded issues across our teams, such as fragmented data reporting approaches or manual or outdated processes. To meet these challenges, we continue to invest in our people, policies, and practices. We have rebuilt our data teams in 2025, and this effort is beginning to develop the validated analysis that we and this committee need. We implemented a rigorous, centralized review process to eliminate reporting errors and refined our public dashboards to increase transparency. We have continued to define internal performance measures and to create the tools and practices required to proactively manage DHS performance metrics. We are also centralizing reports via cloud-based solutions, which streamlines the user experience and accelerates workforce access to quality data.

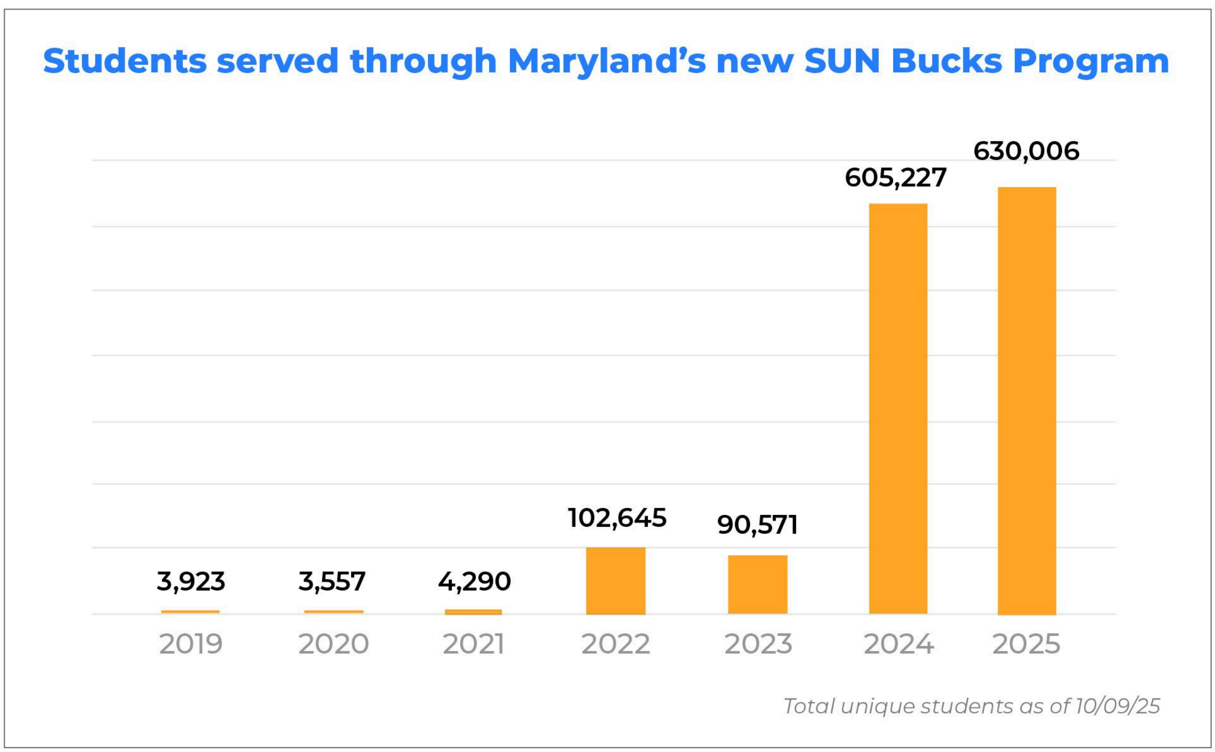
Over the past year and more, we have conducted a systematic rebuilding of our teams and functions, with a particular focus on our Office of Budget and Finance. We have empaneled a nearly completely new leadership team, led by Roman Napoli, an experienced and distinguished federal budgetary senior executive, as well as a deep and seasoned bench of budgetary professionals as we rapidly make the changes needed to steer DHS through the cruelty and unnecessary bureaucratic red tape created by the federal passage of H.R. 1 of 2025. In the past two months, we have hired a new Budget Director, Deputy Budget Director for Budget Operations, Deputy Budget Director for Cost Allocation and Revenue Management, and a new Senior Accounting Manager.

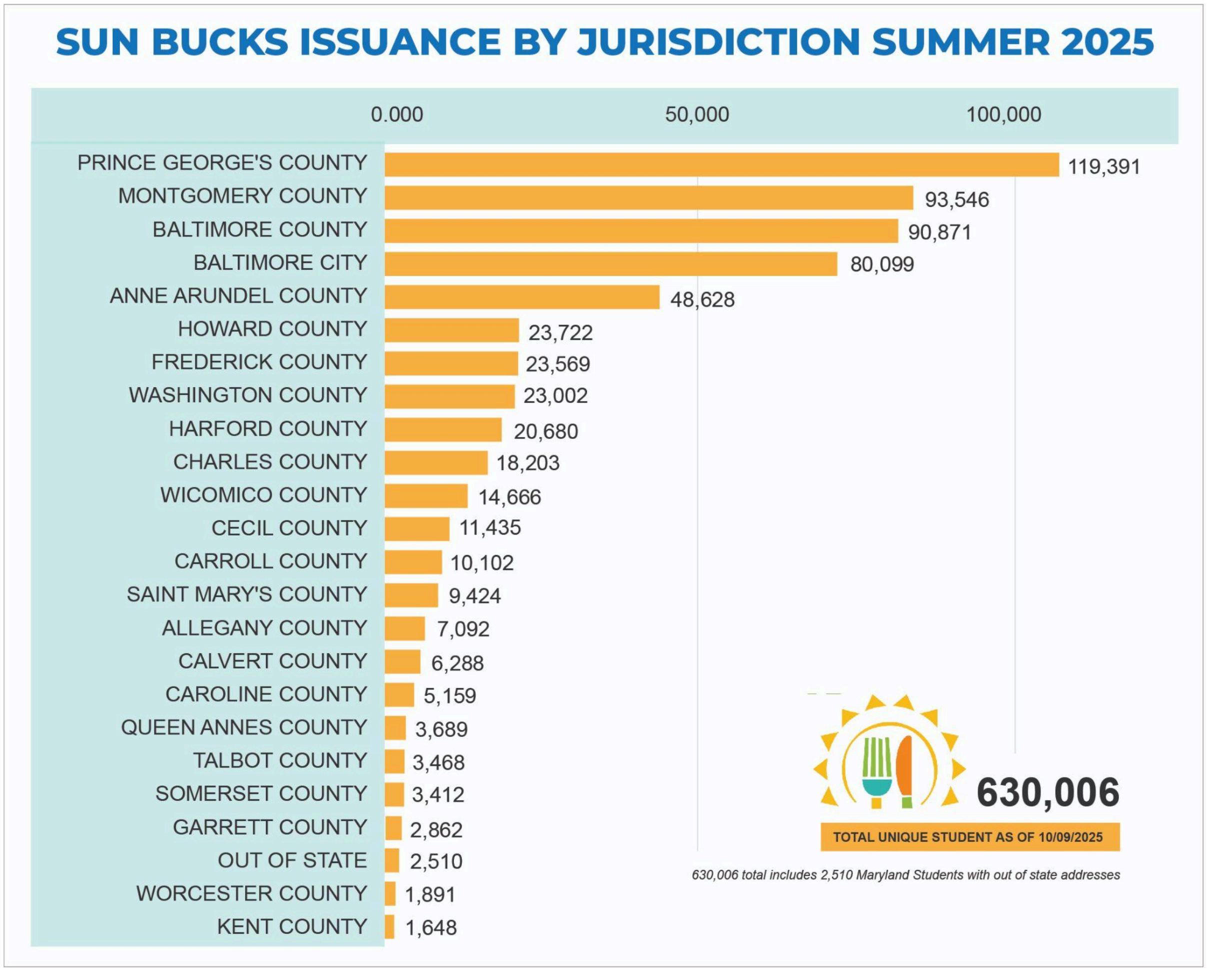
More broadly, we have continued to rebuild state government in a responsive and sustainable way. On January 1, 2023, we had a vacancy rate of 15.2%. By January 29, 2026, that rate was down to 7.09%, a decrease of 8.11%. In certain categories where we are exempted from the state fiscal year (FY) 2026 hiring freeze, we are even lower, such as 4.28% for Family Investment caseworkers and supervisors. While this represents significant progress, we know that we have more work to do to truly modernize our approaches, to work with integrity, and to leave no one behind.

Since 2023, these improvements in our operation have allowed us to lead urgently on the Moore-Miller Administration's priority of addressing poverty in our state. We will continue to build on this progress in the year ahead:

1. **SUN Bucks** - we made the largest investment in ending child poverty and child hunger in Maryland's history with an innovative state-federal partnership that provided over $75.5 million in federal summer nutrition benefits to more than 630,000 students in summer 2025, and over $71 million in summer 2024.

   The continued growth of the SUN Bucks program builds on the success of last year's innovative program. In summer 2025, the State launched an artificial intelligence (AI)-enabled chatbot tool that answered questions regarding SUN Bucks, developed in partnership with Code for America and No Kid Hungry. The tool had more than 45,000 interactions across over 16,000 unique users, and it provided support such as answers to frequently asked questions and an eligibility quiz designed to simplify ways Marylanders receive the information that they need to access and utilize SUN Bucks.





2. **Replacement of Stolen Benefits** - we were the first state in the nation to replace stolen benefits, first using federal funding and then state funding, to ensure that our customers do not unfairly suffer from global criminals. Since spring 2023, we have replaced over $47.4 million in stolen benefits and helped over 73,000 impacted households.

3. **Maryland Benefits -** in partnership with the Maryland Department of Health (MDH) and the Department of Information Technology (DOIT), we launched Maryland's first ever interagency online tool that was person-centered and mobile-first to help Marylanders check their eligibility in under 5 minutes for Medicaid, Supplemental Nutrition Assistance Program (SNAP), Emergency Assistance, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Home Energy Assistance benefits.

   We then leveraged the eligibility tool to launch Maryland's first ever unified benefits application ("the One Application") to make it easier for Marylanders to apply for and access the benefits they deserve in one place, at one time. Since July 2025, Marylanders have completed more than 220,000 applications for critical benefits through the Maryland Benefits One Application, a mobile-friendly tool that helps customers apply for vital benefits. The One Application provides a centralized and easy-to-use online location that allows Marylanders to apply for Medicaid, SNAP, Temporary Cash Assistance (TCA), WIC programming, and energy assistance in under 30 minutes.

4. **Family Matters** - by advocating for changes to Maryland's child welfare system through the General Assembly in 2024, DHS launched "Family Matters" in 2025 to promote kin-first practices across the State. As part of this change, we updated our policies and offered new kinship training to over 1,500 staff members across the state, including Local Department leadership and frontline child welfare workers and supervisors across child protection, out-of-home care, and family preservation services.

   We also launched two cohorts of Local Departments of Social Services to pilot interventions that enhance permanent family connections for older youth and strengthen kinship placements for youth in care: an Emerging Adults cohort of three jurisdictions (Baltimore County, Harford County, and Allegany County) and a kin-first cohort of five jurisdictions (Baltimore City, Washington County, Anne Arundel County, Prince George's County & Harford County). DHS' collaboration with Annie E. Casey Foundation has further helped integrate national best practices into a kin first approach to child welfare in Maryland. We streamlined kin-specific licensing to grow the number of kin caregivers and expand access to financial support—ensuring poverty is not a barrier to maintaining connections.

5. **Provider Rate Reform** – When we took office we found that out-of-home-care providers' services and their rates were not directly connected to the level of care they provided. In 2025, we changed that by beginning the first phase of a rate structure that better compensated providers offering innovative programming for youth with complex needs. We invested an initial $27 million in rate reform, continued in the state fiscal year (FY) 2026 budget, to help us reset our provider relationships. We increased our child placement agency capacity from 1,921 to 2,013 beds across the state, a net gain of 4.8%. We continue to implement provider rate reform, which had been stalled for over a decade previously.

6. **Reducing the SNAP Payment Error Rate** - The SNAP Payment Error Rate (PER) is a federal measure of how accurately states determine eligibility and benefit amounts by checking the number of under or overpayments. The Payment Error Rate is a quality control check on a state agency's administrative processes. **It is not a measure of customer fraud,** nor is it a measure of state fraud, waste, or abuse.

When the Moore-Miller Administration came into office, we inherited a **35.56%** SNAP Payment Error Rate, the second-highest in the nation. We've cut the rate by more than **60%**, down to **13.64%**.

DHS is committed to effectively and equitably distributing federal assistance benefits to all eligible Marylanders and has been proactively implementing measures to drive down error rate since 2023. We have systematically and diligently attached the key drivers of error rate: staff caseloads & turnover; system issues; and changes in federal policy. For more background information, please see this document.

7. **Building One #TeamDHS** - we have reset our relationships with our 24 local departments of social services and empowered them to better serve customers through clear direction, resolute support, and holding people accountable through our customer experience standards. This has also been part of our sustained effort to rebuild our relationships with external stakeholders, such as the Judiciary, the General Assembly, and community based organizations.

2026 Goals

As we look ahead to 2026, we will focus on four specific goals that further our 2025 successes and move us closer to delivering on the Governor's vision to leave no Marylander behind.

1. **Launch Year 3 of Maryland SUN Bucks to Feed 600,000+ Students During Summer Months:** In 2026, Maryland will continue initiatives ensuring students have access to the food they need when schools are closed. We will continue our inter-agency data-sharing efforts to enhance automatic enrollment across the state, ensuring the experience is simple, seamless, and swift.

2. **Expand our Family Matters Approach to Improve Youth Well-being:** We will continue to partner with Maryland families to prioritize kinship for youth, support kinship caregivers, and strengthen lifelong bonds. Promoting a holistic, kin-first culture has already increased kinship placements, creating momentum to lower the prevalence of aging out. As of December 2025, the number of youth living with kin has increased by more than 330 compared to before the kinship law took effect. The kinship placement rate has increased by 33% over that time period.

   The statewide rise in kinship placements coincides with a major success in licensing kinship caregivers and providing them with critical financial support. The percentage of kinship caregivers who are officially licensed by the state has soared from 25% in December 2024 to 86% as of December 2025. This increase ensures distribution of critical financial assistance, as kin caregivers are eligible for over double the monthly financial support if they are licensed.

This work will further our efforts to decrease DHS youth in pediatric hospital overstays and to keep youth out of hotels.

3. **Transition and deploy a new Chip-Based Electronic Benefits Transfer (EBT) Card in Summer 2026:** We are on track to be the second state, behind California, to implement Europay, Mastercard, and Visa (EMV) "chip and tap" technology when we complete the transition to a new EBT card vendor on July 1, 2026. This new technology will reduce stolen benefits from our customers. We assumed 80% effectiveness in preventing benefit thefts based on research from the private payment industry. More recently, California has reported a 83% reduction in stolen benefits with their EMV-enabled EBT card.

4. **Implement H.R. 1 (2025) to minimize harm to Marylanders and preserve lawful benefit access:** The SNAP program in Maryland serves approximately 680,000 hard working Marylanders, including 260,0000 children. H.R. 1 creates new eligibility obstacles and restrictions by subjecting up to 80,000 additional Marylanders to work requirements, reducing benefits value when the average monthly benefit payment per person per month is only $180, and excluding many New Marylanders from benefits entirely. It will also increase costs to the Maryland taxpayer, and impose draconian bureaucratic red tape. We intend to:

    a. Preserve Access: We will use every tool available to prevent procedural terminations and keep eligible Marylanders connected to benefits.

    b. Be Human-Centered: Building user-friendly tools and using plain language, focusing on the real-world impacts on our clients.

    c. Build Practical Solutions: Creating practical, data-driven solutions—like cross-agency workgroups—to reduce administrative burden.

    d. Work in Partnership: Working transparently with sister agencies and stakeholders to co-design strategies for the challenges ahead.

This FY2027 budget proposal was assembled in partnership with many of you and others who advocate tirelessly for the Marylanders we serve. We stand ready to work with you to deliver bold investments in a fiscally responsible way to make this Maryland's decade.

<u>Response to DLS Analysis</u>

1. ***DHS should discuss its efforts to reconcile its fiscal 2025 closeout and plans to improve its closeout processes to ensure that reporting to the Comptroller reflects actual expenditures. DLS will make a recommendation related to the reporting of closeout information in the analysis N00A01 – DHS – Administration.*** **(pg. 15 of the DLS Analysis)**

DHS Response: Improving the closeout process means improving the quality and accuracy of DHS financial reporting at every milestone of the fiscal year. Also, it means establishing clearer expectations about what data is available and what it says about DHS operations to our partners in DLS and DBM.

In FY2025, we implemented a new process to reconcile the programmatic caseload data with the cost allocation results on a quarterly basis. The updated process eliminated improper posting of expenditures to the incorrect fund in the financial management information system (FMIS). We are continuing to build on those efforts. Part of this has been the integration of a cost allocation software. The system became operational in December of 2024, and we have continued to work with the system to ensure that the allocation percentages are reviewed quarterly for accuracy and completeness, a critical step in preparing for closeout. A little more than one year into the process, we have improved the validity and reporting of our quarterly data. This year, we are working to integrate an even more detailed level of data at the object level into our cost allocations and improving our ability to track encumbrances.

Most critical to preventing errors that could jeopardize state funding, we now have the Cost Allocation and Resource Management Team draft each Journal Entry and then validate it through the Deputy CFO. This check and recheck process gives us far greater confidence in each transaction.

DHS also acknowledges that a number of specific discrepancies that DLS identified were often due to relatively small errors that after a certain point in the process cannot be corrected. Many of the numbers reported to the Comptroller earlier in the closeout process could not be updated when incorrect formulas were found or work was reviewed by numerous DHS, DBM, and DLS analysts. DHS is working to improve this kind of oversight so it occurs earlier in the process. We will prepare a number of key documents and reports in the “pre-closeout” phase so that final updates are made against accurately formulated documents.

Finally, on the closeout reporting, DHS has collected a list of all of the pertinent documents or templates that DLS requested throughout the process, even after the

JCR was submitted. These templates provided data in specific formats that were used in prior years and are familiar to the DLS analyst. Now that the JCR data is submitted and additional documentation provided, we are still working on answering any questions as they arise.

2. ***DHS should provide an update on the status of the recovery of accrued federal funds. DHS should also discuss its plans to address findings related to unresolved deficit balances.*** **(pg. 16 of the DLS Analysis)**

DHS Response: DHS makes every effort to recover every dollar owed to the people of Maryland for each grant that we receive from the federal government. The finding related to the accrued federal revenue is not unique to DHS and does not reflect any real or perceived harm to state funding. State rules tag all outstanding reimbursements with the same categorization that 60 days after the end of the state fiscal year, all reimbursements should be received. This is an exceedingly large challenge given three things. First, seventy percent of all DHS funding comes from the federal government, specifically through grants. The federal fiscal year ends 30 days after the State rule and reconciliation often doesn't occur for another 90 days after that. In essence, DHS has an additional up to 120 days to reconcile with the federal government for most of our grants.

Second, DHS must ultimately reconcile with the federal government. The federal government is obligated to pay all appropriate expenditures to the State. DHS has awards with multi-year appropriations, allowing us to reconcile down to the final cent. Third, there is no single report that can easily explain all of the complexity of reconciling with the federal government. The State may often be waiting on arrears from the federal government for longer than 60 days.

DHS takes the OLA findings for the federal reimbursement seriously and the other findings of the closeout report. As these findings were repeat findings, DHS has been working on the following corrective actions while we have engaged in others. Specifically, DHS will engage in the following:

- Monthly and Quarterly Adjustments (Ongoing from 2024)- DHS is now reviewing prior quarter reports and balances to report adjustments such as refunds or unreported activity during the current quarter allocation and reporting. This is a new process.

- Maximizing Federal Funding (Ongoing from 2024)- DHS will continue to work with the General Accounting Division and Department of Budget and Management to identify any uncollectable amounts and adjust the FMIS system accordingly. This proved successful for FY2025 closing, and shows DHS' commitment to fighting for funds regardless of the amount of the accrued funds.

- Coordinate Across Agencies (New)- DHS has been thankful for DBM's leadership in this area. DBM meets weekly with DHS to review processes and has convened agencies to jointly review and address shared audit findings. DHS will implement any new recommendations or guidance that these cross-agency efforts identify.

- Staff Critical Positions (New)- Every senior position in DHS/OBF was acting or new to their role for 2025 at the time of closeout reporting. This winter, DHS has hired a new Budget Director, Deputy Budget Director for Budget Operations, Deputy Budget Director for Cost Allocation and Revenue Management, and a new Senior Accounting Manager.

3. ***DHS should comment on how it is working to reconcile TANF expenditures for fiscal 2024 and 2025 to determine the availability of TANF in fiscal 2026 and 2027. DHS should also discuss how it will address any shortfalls that might occur following that reconciliation.*** **(pg. 20 of the DLS Analysis)**

DHS Response: DHS is prioritizing the reconciliation of TANF not only to address concerns about future available funding, but also to provide the State with protection against an unreliable federal partner at this time.

During the FY 2026 federal shutdown, DHS relied upon available prior year TANF balances to sustain critical programs like the Temporary Cash Assistance program. Thankfully, DHS had ensured that funding was available for this very outcome, and TANF-funded programs ran smoothly during the federal closure. Following the initial shutdown, DHS has remained exceedingly conservative in its approach. As we see now, another federal shutdown is possible, and the State has the TANF resources it needs to continue its programs.

Reconciliation remains important, especially because the federal government was significantly late in awarding the State's FY 2026 TANF award. The award was not made until 01/06/2026, over a month and a half after the end of the shutdown. To date, the federal government has not provided the quarter two award, leaving the State wondering if and when the remaining federal award will come. While we may face three more years of uncertain partnership with the federal government, the State is at a critical place with the management of our TANF resources.

We are combing through all of the files and documentation available to the Agency, going back to the prior Administration to ensure that they completed all required paperwork and drew down every dollar owed the State. Until that is complete, DHS will continue to wisely allocate the TANF dollars it does have and work to ensure that the federal government makes good on its FY 2026 commitments.