

State Financing of Child Support Enforcement Programs

Final Report

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**Assistant Secretary for Planning and Evaluation
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Prepared by:

**Michael E. Fishman
Kristin Dybdal
The Lewin Group, Inc.**

**John Tapogna
ECONorthwest**

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EXECUTIVE SUMMARY

Background on the Financing of State Child Support Enforcement Programs

The primary goal of the Child Support Enforcement (CSE) program, established in 1975 under Title IV-D of the Social Security Act, is to ensure that children are supported financially by both parents.¹ The CSE program is a shared undertaking involving Federal, State, and local efforts. While the Federal Government plays a prominent role in setting program standards and policy, evaluating state performance, and providing technical assistance and training to states, states assume basic responsibilities related to program administration. State CSE agencies (or IV-D agencies) work directly with families and/or through local administrative agencies and family and domestic courts to: (1) locate parents; (2) establish paternity; (3) establish child support obligations; and (4) enforce child support orders.

Child support enforcement activities conducted by states under the IV-D program are financed by several streams of revenue. Federal Financial Participation, or FFP, is the largest stream of program revenue. The Federal government reimburses states for 66 percent of allowable child support outlays. Higher matching rates exist for activities such as management information systems development and blood testing in paternity cases.

States finance the remaining 34 percent (or the State share) of CSE expenditures. How states finance their share of the cost of program activities is the subject of this report. There are four types of funding streams that contribute to a greater or lesser degree, depending on the state, to the financing of the State share:

- **State and Local Government Appropriations**
- **Federal Incentive Payments.** Under current law, each State receives Federal incentive payments based on the ratio of collections to administrative expenditures (cost-effectiveness) equal to at least six percent of total child support collections.² The structure and level of these Federal incentive payments will change dramatically as the provisions of the Child Support Performance and Incentive Act of 1998 (H.R. 3130) are phased-in beginning October 1, 1999. Under H.R. 3130, a state's annual incentive payments will be based on its paternity establishment, support order, current and arrearage collections, and cost-effectiveness performance levels. Further, as H.R. 3130 provides for a fixed annual payment pool for states (adjusted each year for inflation), each state's annual incentive payments will depend on other states' performance levels in these areas. H.R. 3130 also requires that Federal incentive payments be used for IV-D purposes exclusively.
- **State Share of Retained TANF Collections.** When families apply for the Temporary Assistance for Needy Families (TANF) program, the custodial parent assigns to the State the

¹ As stated on the Office of Child Support Enforcement's internet home page.

² Under the current Federal incentive payments formula, a State can receive up to 10 percent of TANF and non-TANF child support collections as it increases its ratio of collections to administrative costs; non-welfare incentive payments are capped at 115 percent of welfare incentive payments for each state.

right to child support obligations collected while the family is receiving welfare benefits.³ States retain a share of these TANF-related child support collections, returning a share of collections to the Federal Government.⁴

- **User Charges and Fees.** Several States generate a small amount of program revenue by levying application fees as well as fees for Federal and State tax refund offset and paternity testing services.

Study Purpose and Design

In light of the great latitude States now have in designing assistance programs for families with dependent children under welfare reform, both Congress and the Administration have pointed to the need to simplify the complex financing structure of the CSE program. For example, in the President's Fiscal Year 1999 Budget, the Administration stated that it would "hold a dialogue with the stakeholders of the child support program to look at ways to address these [financing] problems and, working with Congress, [would] prepare legislation." The Administration considered detailed information related to the State and local financing of CSE programs across the country critical to understanding the impact of any changes in Federal financing policy on the structure of the CSE program. The overall purpose of this study was to examine the relationship between the Federal CSE program financing structure and the resources allocated to the CSE program at the State and local level by providing factual information on the financing of the CSE program. Our study addressed the following primary study topics:

- What are the various sources of funding for the State and local share of IV-D expenditures? What share of the expenditures does each source represent?
- How is the State share of retained TANF collections allocated at the State and local level?
- How are Federal incentive payments allocated at the State and local level?

In addition, we investigated the extent to which State CSE programs employ cost recovery mechanisms such as user charges and fees and how these funds are used. We also examined the extent to which states "pass-through" child support collections to families who receive public assistance, disregard child support payments in determining TANF benefit levels, or utilize "fill-the-gap" policies. Lastly, we explored whether states were anticipating significant changes to their CSE financing structures in light of: (1) the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA); (2) rapidly declining TANF rolls; (3) the movement toward centralized collections; and (4) H.R. 3130 and the new Federal incentives provision.

Our analysis does not capture State and local resources devoted to child support enforcement activities that are not claimed for Federal matching purposes under the IV-D program. It is

³ States may also pursue child support arrears after the family leaves welfare to pay for TANF benefits previously paid to the family. However, under the Personal Responsibility and Work Reconciliation Act (PRWORA) of 1996, families who are no longer receiving public assistance will have priority over the State in the distribution of child support arrears.

⁴ The Federal reimbursement rate for Medicaid benefit costs, the Federal Medical Assistance Percentage (FMAP), is used to calculate the Federal share of TANF collections retained by states.

equally silent in describing how states utilize the retained TANF collections that are distributed to State and local TANF programs (IV-A programs), except to the extent that these monies are passed on to families.

We collected information through telephone contacts with State IV-D Directors and/or IV-D fiscal staff in every state and the District of Columbia. In a limited number of states with complicated financing structures, we expanded our discussions to include State-level staff outside of the IV-D program such as State Budget Officers, State Human Service Finance Officers, and State legislative finance analysts as well as County IV-D Program Administrators and fiscal staff. Our study *approximates* a point-in-time analysis for FFY 1997, but it is based on state information from several different time periods, including FFY 1997, SFY 1997, and SFY 1998. Please note that this information may not reflect current State CSE financing structures if significant changes have been made by states since our analysis in the summer and fall of 1998.

Study Results

State and local CSE financing structures are complex. Most programs utilize at least three different funding sources to finance the State and local share of CSE expenditures. In many states, complex intergovernmental financing arrangements exist among the State CSE agency, County and other local administrative agencies, and the family and domestic court system. Twelve states reported having County-administered programs, including: Arizona, California, Colorado, Indiana, Michigan, Minnesota, Nevada, New Jersey, New York, North Carolina, North Dakota, and Ohio. However, 29 states reported having some degree of county-level financial participation in the CSE program.

State and local CSE financing structures are diverse. States and localities mix funding sources in a variety of ways. In 25 states, some combination of general revenue fund appropriations and earmarked Federal incentive payments finance the State and local share of IV-D program costs. Twelve states utilize some combination of general revenue fund appropriations, earmarked Federal incentive payments, and retained TANF collections. Ten states — Colorado, Connecticut, Delaware, Indiana, Kansas, New Jersey, New York, Rhode Island, South Dakota, and Virginia — rely solely upon State and or County general revenue fund appropriations to finance their CSE programs. Four states — Illinois, Kentucky, Oklahoma, and Texas — appropriate little to no general revenue funds and rely upon Federal incentive payments and the State share of retained TANF collections to fund their share of program costs.

While the mix of funding sources for each state is different, financing for the State and local share of child support expenditures for the nation as a whole comes from State general fund appropriations (42%), Federal incentive payments (25%), the State share of retained TANF collections (15%), and County general fund appropriations (9%). Overall, fees and other cost recoveries finance a negligible proportion (2%) of State and local shares of child support expenditures. While a significant proportion of State and local CSE expenditures are financed with State and County general fund appropriations, in many cases, non-earmarked CSE revenues flowing into State and County treasuries more than offset these appropriations.

Nationally, 74% of Federal incentive payments are earmarked for the CSE program and 26% of the State share of retained TANF collections are earmarked for the CSE program at the State- and local-level. In most states, the largest proportion of the State share of retained TANF collections is returned to the IV-A program.

We derived three approaches to estimating whether the CSE program represents a net investment or savings to states; these three views of CSE program investment or savings fall along a continuum. On one end of this continuum, states as a group appear to reap large net savings from the program; on the other end of this continuum, states as a group appear to make a substantial net investment in the program.

The first approach to estimating State CSE program investment or savings compares all program revenues (excluding FFP) flowing into states and localities, irrespective of administering entity, to the State and local share of CSE expenditures. Using this approach, net program savings across all levels of government totaled \$486 million for our time period of analysis. Twenty-one State programs were net investors in the CSE program, 29 were net savers, and one broke even.

Given that nearly half of the states operate pass-through or fill-the-gap programs, the second approach to estimating State CSE program investment or savings – consistent with historical presentations in the U.S. House Ways and Means Green Book – excludes State payments to families from total program revenues. After excluding these State payments to families, net program savings across all levels of government drops by roughly 38%, to \$301 million. Using this approach, 25 State programs were net investors in the CSE program, 25 were net savers, and one broke even.

The last approach to estimating State CSE program investment or savings is from the perspective of the IV-D program and counts as revenue only amounts that lawmakers earmark to the IV-D program. Here, the difference between the State and local share of IV-D expenditures and the portion of CSE revenues that are directly earmarked for the IV-D program is the amount of general/special revenue funds appropriated to the IV-D program through the legislative process in states and counties. General/special funds appropriations totaled roughly \$671 million for our time period of analysis. Some of these State and County appropriations are offset indirectly by non-earmarked retained TANF collections and Federal incentive payments.

Seventeen states anticipate significant changes to their financing structures as a result of declining TANF caseloads and uncertain incentive funding streams under the Child Support Performance and Incentive Act of 1998 (H.R. 3130). States that anticipate such financing changes rely to a greater extent upon Federal incentive payments and the State share of retained TANF collections to fund their programs than do states that do not anticipate financing changes. Although we found that the financing changes proposed or enacted recently by states are generally consistent with past practice within the program, the effects of PRWORA and H.R. 3130 have not yet fully materialized.

In the body of this report, we present in further detail background on the financing of State CSE programs and the purpose of this study (Section I); our issues framework, information collection strategy, and time period of analysis (Section II); the results of our fact-finding effort related to

each of our primary and secondary study topics (Section III); and our major findings (Section IV). Lastly, within several appendices to this report, we provide sources of existing information related to this topic as well as State-specific program financing information for the reader's reference.