F: CS Fmg

FACSIMILE TRANSMISSION

ADMINISTRATION FOR CHILDREN AND FAMILIES
OFFICE OF THE ASSISTANT SECRETARY
370 L'ENFANT PROMENADE, S.W.
WASHINGTON, D.C. 20447

DATE:
Name: Diana Fortuna
Telephone: 456-7431
Fax:
Number of Pages (excluding cover):

cc Cynthia
✓ LF Andrea

FROM: JAIME KENDALL

Telephone: (202) 401-9227
Fax: (202) 401-4678

MESSAGE:

Hi Diana –
OCSE is making some small changes to timeline - but this will give you an idea. Give me a call next week when you want to talk.
Have a nice weekend –
Jaime

DRAFT 7\08\98

TIMELINE FOR CONSULTATIONS

- Complete Administration level conversations to assure agreement on process and options.

MONTH 1: (July 1998)

- Contact all appropriate organizations and Hill staff to inform them about the consultation process. Revise consultation process as necessary depending upon comments on process.

Process:

Hill staff: Make courtesy calls to congressional staff:

Ron Haskins, Subcommittee on Human Resources and counterpart.

Doug Steiger and Dennis Smith, Senate Finance Committee

Lead: ASL

Advocates: In the form of personal telephone calls:

Center for Law and Social Policy
National Women's Law Center
Center for Budget and Policy Priorities
National Partnership
Children's Defense Fund
ACES ??
Children's Rights Council

Lead: Joan Lombardi, OCSE Senior Staff

State Organizations:

APWA

NCSL
NGA
NACO

Lead: Jim Ivery, David Siegel

Task Order Questions:

Clasp
NGA
NCSL
APWA
NACO
Ron Haskins

Lead: Linda Mellgren

IV-D Directors - **Lead:** Anne Donovan, Paul Legler

Early-July

- Work with Jerry Fay, President of the IV-D Directors' Association, to get States to designate one State Representative from each of the ten regions to represent the other States in the region.

  Lead: Anne Donovan, Paul Legler, Betsy Matheson

Mid-July

- The IV-D Directors' meeting on July 20 may be an appropriate forum for a general discussion with all IV-D Directors, followed by a separate meeting with state designees.

  Lead: David Siegel, Betsy Matheson

End of the week of July 20:

- Preliminary discussion of issues with advocates in the form of a 2-3 hour meeting.

  Lead: John Monahan, Joan Lombardi, Senior OCSE staff

- Preliminary discussion of issues with key interested Hill staff. Will include a discussion of the task order contract.

Key Hill Staff:

Ron Haskins
Doug Steiger
Dennis Smith
Barbara Pryor
Others

Lead: ASL with OCSE

Month 2 (August)

- Follow-up meeting with IV-D representatives. This could be done in conjunction with the National Child Support Enforcement Association (NCSEA) Annual Conference which will be held in Washington on August 3, 4 & 5. Ongoing teleconferences with IV-D representatives will continue throughout the month of August as necessary.

  Lead: Anne Donovan, Paul Legler, Betsy Matheson

- Preliminary discussion of issues with NCSL, NGA and National Association of Counties following the NCSEA meeting.

  Lead: Joan Lombardi, John Monahan and senior OCSE staff.

- Host discussion at State Human Service Finance Officers Annual Conference (the annual conference of the National Association of State Human Services Finance Officers is scheduled for August 9-14, 1998 in Boise, Idaho).

Months 3 - 7 (September '98 - January '99)

- Ongoing teleconferences with IV-D representatives will continue as necessary.
- Host interactive consultation meeting with IV-D representatives, advocates, state organizations and key hill staff.
- Ongoing refinement of internal administration discussion on development of options based upon information gathered at various meetings.

Month 8 (February)

- Final meeting with IV-D representatives to reach consensus if possible.
- Internal Administration discussion on development of options.

Month 9 (March)

- Hold at least two additional discussions with advocates.
- Hold at least two additional discussions with State organizations- NGA, NCSL & APWA
- Discussion with Hill staff
- Continued Internal Administration discussion on development of options.

Month 10 (April)

- Draft proposed legislation, if any.

State Financing of Child Support Enforcement Programs

Purpose

The purpose of this task order is to provide basic information on State financing of child support enforcement programs. This is a quick turn-around study which will provide key information that is needed to inform an anticipated up-coming debate involving the Department, OMB and Congress on possible changes to the Federal-State financing structure of the Child Support Enforcement Program. The project will provide information for Administration use within three months, and a longer, written report within six months. The chief product of this task order will be a description of child support financing issues across States, including information on how States finance the non-Federal share of administrative expenses and how they use such sources of child support revenues as Federal incentive payments, and the State share of child support collections in TANF cases.

Background

The Federal Government has a strong interest in ensuring that the national child support system is effective. Funding of the Child Support Enforcement (CSE) program, however, is complicated. States get Federal payments to cover program costs at several different matching rates. States also get Federal incentive payments, levy user fees, and keep a portion of TANF-related collections (returning a portion to the Federal Government). In terms of total dollars, States receive a net benefit from the program. In 1996, for example, the CSE program cost the Federal Government $1.2 billion, while States retained $407 million in excess of their costs.

The current structure of child support financing is a legacy of the old Aid to Families with Dependent Children (AFDC) program. When it was established, the child support enforcement program was essentially a program for welfare families, collections for whom were to offset the cost of the cash benefits the families received. States and the Federal Government, which shared in the costs of funding AFDC, retained proportional shares of collections in welfare cases. Since 1975, however, the CSE program has served an increasing number of families who are not on welfare, and these families now greatly outnumber welfare families in the CSE caseload. In 1996, child support collections for non-welfare families totaled $9.2 billion, compared to $2.9 billion for families on welfare. TANF-related collections, a significant source of state CSE financing is derived, therefore, from families which now make up a minority of the program's caseload.

In addition, the policy changes under welfare reform potentially have significant implications for child support financing. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), at once, increases the rewards to States for reducing TANF caseloads and, on the child support side, maintains rewards for maximizing collections in TANF cases. As welfare rolls drop, States lose a source of child support funding on which they already rely disproportionately.

PRWORA also requires States to share all child support collections with the Federal Government, eliminating the "$50 pass through" policy which allowed

States to calculate the Federal share after subtracting the first $50 of child support collections passed on to families. The need to share the full amount of collections may serve as a disincentive for States to pass through child support to families; about half of States have already eliminated the $50 pass-through since the passage of PRWORA. The requirement to share TANF-related collections with the Federal Government may also create an unintended incentive for States to serve needy families through programs funded only with State dollars. Spending on "State-only" programs counts under the TANF maintenance-of-effort requirement, but child support collections on behalf of these families do not need to be shared with the Federal Government.

Over the last several years, both the Administration and Congress have pointed to the need to re-examine the financing structure of the CSE program. In the FY 1999 President's Budget, the Administration stated that it will "hold a dialogue with the stakeholders of the child support program to look at ways to address these problems and, working with Congress, will prepare legislation." This task order will inform these discussions and the development of any resulting legislation by providing information which is critical to understanding the impact of any proposed changes in Federal policy.

Federal financing aside, States construct their financing for their child support enforcement programs in many different ways, and incentive payments and the State share of child support collections on TANF cases are used differently in different States. For example, in some States, the source of the non-Federal share of administrative expenses is entirely general fund appropriations. In others, it is essentially Federal incentive payments earned in the prior fiscal year, passed through the State or county general fund. States differ in the extent to which local jurisdictions contribute to child support funding, and to the extent that localities receive a share of incentive payments or TANF collections.

This task order would provide a basic description of State child support financing across the country. There are several existing and on-going studies which provide some knowledge about child support financing issues. These studies in themselves, however, do not provide a complete picture of how child support funds flow in different states, nor do they explain state financing in sufficient detail for national-level policy discussions. This task order would pull together what is known from these existing studies, filling in whatever new information is needed. The task order would tell us how States use their share of child support collections in TANF cases, how they use Federal incentive payments, and the sources of funds for the non-Federal share of administrative expenses. The study would also verify and update information on such State policies as the pass-through of child support collections to TANF families, disregards of child support payments in determination of TANF benefit levels, "fill-the-gap" policies, and fees or user charges.

Project Management

Responsibility for project management will be shared by two Co-Task Order Monitors (TMs), one from the Office of the Assistant Secretary for Planning and Evaluation (ASPE) and one from the Office of Child Support Enforcement (OCSE). The TMs will work with the contractor to identify child support enforcement experts and will review products as needed. In addition, there will be significant involvement in the project by staff from the Administration of Children and Families (ACF), and the Office of the Assistant Secretary for Management and Budget (ASMB).

Advance Approval for Dissemination of Project Information Prior to Contract Completion

The contractor shall not release or disclose, verbally or in writing, information pertaining to the results or findings of work (including data collection, analyses, draft or final papers and reports) for the period of the task order without obtaining prior written approval in advance (minimum 21 days prior to release) and in writing specifying: who or what is generating the request for advance information; when and how project results/information would be released; and what information would be released. Failure to receive information from the TMs does not constitute approval for releasing information.

Deliverables

The contractor shall submit one camera ready copy and five copies of each final deliverable identified in the task order. In addition, a digital copy of the final report shall be delivered on 3½" disks formatted in the DOS (FAT) format. The text, tables, and any charts or other graphics shall be organized and formatted as described in the following paragraphs.

Text may be formatted in any of the commonly available word processing programs marketed by the IBM®, Corel®, or Microsoft® corporations. Lengthy documents should be organized into several parts and a separate file should be provided for each part. Lengthy files (more than 100K) should be avoided if possible.

The title page, table of contents, and other front matter shall be in a separate file. File names should contain consecutive numbers that correspond to the numerical labels used in the printed version. For example, Chapter 4, Figure 2 can be rendered as C4F2.gif. Where compatibility with earlier versions of the software is in doubt, files shall be delivered in the penultimate version of the software.

Graphic figures such as bar and line charts, diagrams, and other drawings shall be delivered in the GIF (Graphics Interchange Format) or the JPEG (Joint Photographic Experts Group) format. Even though the graphical elements may have been merged with the text to form a single file for printing purposes, each graphical image shall be delivered as a separate file on the disk and must not embedded in a word processing, spreadsheet, slide show or other composite file.

Tasks

This task order is on a very fast track. The basic information on state child support financing will be collected, synthesized, and presented in a briefing to Department officials within three months. A longer, written report will follow within six months.

Task 1.0 Prepare Issue Framework and Information Collection Strategy

Subtask 1.1 The contractor shall meet with the TMs and others in the Department to discuss key issues in State financing of child support enforcement and related study questions. The contractor shall prepare an outline of key issues in advance of the meeting which will include, at a minimum, major policy issues and a review of existing sources of State-level information on child support financing.

Subtask 1.2 The contractor will meet with experts in the area of State child support financing to discuss key financing issues, related study questions, and potential sources of State-level information. These experts will include appropriate individuals from non-governmental organizations who are knowledgeable about child support financing issues, including APWA, NaCO, NCSL, NGA, the National Child Support Enforcement Association (NCSEA), the National Association of State Budget Officers, the National Association of State Human Service Finance Officers, Center on Law and Social Policy, Center on Budget and Policy Priorities, the National Women's Law Center, and the Children's Defense Fund. The contractor shall work with the TMs to identify these experts.

Subtask 1.3 The contractor shall conduct a literature review and shall investigate existing sources of state-level information.

Subtask 1.4 The contractor shall prepare a briefing memo laying out an issue framework to guide the collection of information and an information collection strategy. The document will identify the chief issues of inquiry, subparts to these issues, related study questions, an information collection strategy and data sources to be used. The contractor shall submit a draft document to the TMs for review and shall revise the study questions and the information collection strategy based on their comments.

Task 2.0 Collect and Synthesize Information

Task 2.1 The contractor shall attend the child support financing consultations convened by ACF and OCSE and scheduled to take place in July and August 1998. The contractor shall use these group meetings to learn more about significant State financing issues.

Task 2.2 The contractor shall use regional meetings of State child support enforcement program directors and State budget officers, and other meetings identified by the TMs to meet informally with individuals who are knowledgeable about State child support financing.

Task 2.3 The contractor will clarify and fill in any gaps in information gathered through the literature review, the consultations, the regional meetings of State policy officials through telephone conversations with individual State-level policy-makers.

Task 2.4 The contractor shall analyze and synthesize the information collected to address the study questions.

Task 3.0 Brief Department Officials

Subtask 3.1 The contractor shall brief the TMs and other Department officials on significant findings of the study. This briefing will cover, at a minimum, how States use their share of child support collections in TANF cases, how they use Federal incentive payments, and the sources of funds for the non-Federal share of administrative expenses. Secondary level information such as State policies on pass-through of child support collections to TANF families, disregards of child support payments in determination of TANF benefit levels, and fees or user charges may be omitted from this briefing, but included in the final written report to allow more time for collection of information on these topics.

The briefing package shall contain a summary of findings; a brief description of the information collection strategy; and pertinent charts, tables or graphs. The contractor shall prepare and duplicate all briefing materials. Briefing materials require prior approval by the TMs.

Task 4.0 Final Written Report

Subtask 4.1 The contractor shall prepare a written report which will include an explanation of how the study's findings address policy-relevant issues. The contractor shall provide the TMs a draft of the final report for review.

Subtask 4.2 The contractor shall revise final report as instructed by the TMs.

SCHEDULE OF DELIVERABLES

TASK #	DELIVERABLE	DATE AFTER AWARD
1.1	Meeting with TMs	1 week
1.4	Draft Issues Framework and Information Collection Strategy	4 weeks
	Final Issues Framework and Information Collection Strategy	5 weeks
3.1	Draft Briefing Materials	12 weeks
	Revised Materials	13 weeks
	Departmental Briefing	14 weeks
5.1	Draft Report	20 weeks
5.2	Final Report	24-26 weeks

MEMORANDUM

Date: June 18, 1998

To: John Monahan

From : Vicki Turetsky

Re: Child Support Funding Issues

This memo is an outline of my state-by-state analysis of IV-D collections per case, costs per case,[1] and cases per FTE. I will get you a draft paper and charts next week. I also am sending over a copy of the Urban Institute study and their unpublished data on child support funding.

The data suggests that program investment -- funding and staff -- may be closely related to program performance. The data supports the conclusion that most child support programs may be substantially underfunded and understaffed, and that performance may improve with increased investment.

It is clear from the data that states have made different policy and funding choices affecting their cost, staffing, and collection ratios. Some states, such as Indiana, maximize state revenues and generated large state "profits" by focusing their collection efforts on current welfare cases. Other states, such as Michigan,concentrate on non-welfare cases, boosting cost-effectiveness. Other states, such as Virginia, have applied their collection efforts evenly across the entire caseload. Still other states, such as Pennsylvania, have expanded their child support program to encompass all or most child support orders entered within the state.

- **State performance, cost, and staffing levels vary substantially.** In 1995, state collection rates ranged from 10 percent to 40 percent, with a 19 percent national average. State costs per case ranged from $30 to $356, with a national average of $135. State staffing levels ranged from 1073 cases per FTE to 170 cases per FTE, with a national average of 373.

- **Staffing levels are closely related to program costs.** The number of total staff employed by state and local child support programs is closely correlated to the cost per case. With few exceptions, states with higher costs had more staff, while states with lower costs had fewer staff.

- **Performance is tied to funding and staff.** Three-fourths of states with *below average* costs and staffing ratios had *below average* collection rates in 1995. Every state in the *bottom quintile* for both cost and staff had a collection rate in the *bottom quintile*. Conversely, three-fourths of states with *above average* cost and staffing ratios had *above average* collection rates.

[1] Costs per case exclude APD expenditures reimbursed at the enhanced 90 percent rate.

All but one state in the *top quintile* for both cost and staff (Utah) had a collection rate in the *top quintile*, and every state had an *above average* collection rate.

- **The top performers were better funded and staffed.** Seven states with collection rates in the *top quintile* had *above average* cost and staffing ratios. Only two states with a collection rate in the top quintile (Wisconsin and South Dakota), had both cost and staffing ratios that were below average. States in the top performance quintile spent an average of $180 per case and had 286 cases per FTE.

- **States with the lowest collection rates had fewer program resources.** Similarly, 7 states with collection rates in the *bottom quintile* had *below average* cost and staffing ratios. Only one state with a collection rate in the bottom quintile (Arizona), had above average cost and staffing ratios. States in the bottom performance quintile averaged $112 per case and had 460 cases per FTE.

- **Performance, funding, and staffing often followed similar trends.** Although more analysis is needed, state-by-state data for 1991 through 1995 suggests that collection, cost, and staffing ratios increased or decreased at the same time in about two-thirds of the states. In about a quarter of states, collection rates went up as funding and staffing levels went up. In another quarter of states, collection rates went down as funding and staffing levels went down. In an additional half-dozen states, collection, cost, and staffing ratios declined during the early years, but increased in the later years.[2]

A comparison of IV-D and AFDC administrative costs also suggests that the IV-D program may be under funded. Nationally, IV-D administrative costs were less than half of AFDC administrative costs in 1995. Nationwide, states spent $380 per AFDC recipient child, while they spent only $135 per IV-D case.[3] While the programs are not completely comparable, a case can be made that a well-run child support program requires more intensive case work than states typically provide. The disparity in costs was greater in states with lower cost and collection rates than in states with higher cost and collection rates. IV-D administrative costs were roughly equivalent to AFDC administrative costs in five states with relatively high collection rates and costs.[4]

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[2] This last pattern is consistent with general caseload trends. IV-D cases increased rapidly between 1991 and 1994, but growth slowed ma
94 and 1995.

[3] To compare 1995 AFDC and IV-D cost per case data, I divided AFDC administrative costs/children recipients and IV-D expenditures (
nced APD costs)/case. This calculation resulted in $380/AFDC child recipient compared to $135/IV-D case, a 2.8 ratio. Without subtractir
wide systems costs, the IV-D cost per case was $157, a 2.4 ratio. Guyer, Miller, and Garfinkel (1995) suggest, based on HHS estimates, tha
1.4 fathers for every AFDC case (using 1998 and 1992 data). *Using the Office of Child Support Enforcement Data to Rank the States: A
ionary Note* (1995). Current AFDC/FC cases in the IV-D caseload amounted to 7.9 million, 1.6 times the number of AFDC cases in 1995.
an average of 1.9 recipient children per AFDC case in 1995, with 4.9 million AFDC cases and 9.3 million recipient children. HHS, *Aid to
ilies with Dependent Children: The Baseline* (June 1998). Although a more refined conversion factor could be used, use of recipient childre
FDC denominator and AFDC/FC cases in the IV-D denominator allows for a rough comparison of administrative costs between AFDC and
. If a 1.4 conversion factor were used, the IV-D cost (less enhanced APD costs)/case would be $145, and the ratio of AFDC to IV-D
nistrative costs would be 2.6.

[4] Maine, West Virginia, Hawaii, Vermont, and Kansas

Unpublished data from the Urban Institute indicates that state spending in the child support program varies considerably, after taking into account fiscal capacity and child poverty levels.[5] I compared the Urban Institute data with IV-D cost per case data to determine how many states in the top and bottom quintiles for costs per case were paying commensurately with their ability. The data indicates that the amount of money a state invests in its child support program is not closely related to its ability to fund the program or to the proportion of poor children that it serves.

- **States with the highest IV-D costs per case invested more in the program relative to their fiscal capacity.** All but three states in the top quintile for cost per case spent more than the national median, after taking into account their fiscal capacity. Five states were in the top quintile for state investment relative to capacity.

- **States with the highest costs per case invested more relative to their child poverty.** All but one state in the top quintile for cost per case (Massachusetts) spent more than the national median, after taking into account their child poverty rate. Seven states were in the top quintile for state investment relative to child poverty.

- **States with the lowest costs per case generally had the ability to invest more.** The Urban Institute found that all but one state in the bottom quintile for cost per case (Mississippi), were below the national median in the amount of money they spent on their child support program relative to their fiscal capacity. Three states were in the bottom quintile for state investment relative to capacity.

- **States with the lowest costs per case generally had the highest child poverty rates.** Every state in the bottom quintile for cost per case was below the national median in state child support spending relative to their child poverty. Seven states were in the bottom quintile for state investment relative to child poverty.

The data also supports the conclusion that financing mechanisms that allow some states to retain substantial "profits" sometimes rewards performance, but just as often rewards miserly investment. In addition, the current distribution of welfare collections according to a reverse FMAP rate appears to short-change poorer states. In 1995, three-fourths of states made a "profit" from the child support program, that is, the state share of revenues exceeded the state share of costs. The remaining one-fourth had a "deficit," that is, the state share of costs exceeded the state share of revenues.

- **Some of the states with the largest "profits" have the worst performance and investment levels.** Of the ten states with the largest profits, five had below average collection rates. Three of these states-- Rhode Island, Indiana, and California--are in the bottom quintile for collection rates. In addition, Rhode Island, Indiana, and Michigan are in the bottom quintiles for cost and

[5] In a recent study, the Urban Institute analyzed states' fiscal capacity, child poverty rates, fiscal effort, and spending levels in federally-f ren's programs. The study concluded that many states with low fiscal capacities also have high child poverty rates. The study also conclud fiscal effort is not closely related to fiscal capacity, but is inversely related to child poverty rates. The District of Columbia was not include . *See* Douglas, Toby and Kimura Flores, *Federal and State Funding of Children's Programs* (March 1998).

staff. These states had very low costs per case; more welfare cases and fewer non-welfare cases; lower FMAP rates; and lower family payments.

- **Other states with large "profits" are top performers.** Of the ten states with the largest profits, five had above average collection rates. Three states -- Pennsylvania, Maine, and South Dakota-- are in the top quintile for collections. These states had larger welfare collections and sometimes lower costs, along with fewer non-welfare cases; lower FMAP rates; and lower family payments.

- **Most states with the largest "deficits" are poorer states.** Of the ten states with the largest "deficits," five had below average and five had above average collection rates. Five states had above average and five had below average spending and staff. Most states had a larger proportion of non-welfare cases than welfare cases. Most states had below average cost-effectiveness ratios. Most states had higher FMAP rates and higher family payments, both characteristics of poorer states. Most states are "low ability" states in the Urban Institute study --states with low fiscal capacity and high child poverty.[6]

[6] The Urban Institute developed an index that combines the state's per capita income and its child poverty levels to determine "high-ability -ability" states by comparing each state's level of personal income relative to the proportion of poor children in the state.

Cynthia --

Here is HHS's proposal for what we could share with states on child support financing. It's interesting. It's very general, and yet encompasses or suggests what OMB is thinking of. It also puts other ideas on the table. I kind of like it. I suspect OMB thinks it's too general on their idea, and they don't like putting other ideas on the table. What do you think?

Diana

DRAFT

Major Options for Child Support Enforcement Financing

The Administration will consult with its Stakeholders on three major options for financing child support enforcement. These options are not exclusive of each other and elements of these options can be combined in various ways.

1. **Maximizing Performance Option.** There are currently two major sources of Federal funds for the child support program, a Federal match for administrative expenditures (66%) and incentives funds paid to States. Assuming that H.R. 3130 is passed and signed by the President, the incentives will be paid to States based upon State performance. The Federal share of expenditures is currently approximately $2.3 billion and the incentives are $.4 billion. Under the Maximizing Performance Option, the proportion of the total financing for the child support enforcement program which is based upon State performance would be increased. The proportion that is based upon the Federal match would be reduced or eliminated to make the total financing change cost neutral. Such a change could be phased-in.

2. **Maximizing Simplicity Option.** Currently, TANF recipients must assign their right to child support collections to the State when they apply for assistance. Child support collections in TANF cases are still split between the Federal and State governments based upon the FMAP rate, even though the major welfare program has become a block grant program. Some people believe that this may encourage States to set up separate State programs and thereby divert child support collections from the Federal government. Under the Maximizing Simplicity option, the financing for the child support program would be changed so that States retain all assigned TANF collections. Alternatively, the State share would be based upon a simpler split, rather than the FMAP, such as a 50/50 split. In order to make this cost neutral, (a) the Federal match could either be reduced, either on a varying State basis, or on a uniform national basis, or (b) savings offsets would have to be identified elsewhere.

3. **Maximizing Payments to Families Option.** Currently, child support collections for TANF recipients are paid to the State (with certain limited exceptions in some States). TANF recipients receive "welfare payments", not "child support". Arguably, all child support payments ought to go to families, even if the family is on welfare, and welfare payments would supplement child support, not visa/versa. Under the Maximizing Payments to Families option all child support payments (or alternatively, a minimum amount) would be paid or "passed through" to TANF recipients. A disregard of the child support payments from income could be either mandated or a State option. In addition, other policies to maximize payments to families, such as eliminating the tax refund offset exception to the "Family First" distribution policy, could also be adopted. If this option is to be cost neutral, savings offsets would have to be identified elsewhere.

FAX COVER

Income Maintenance Branch
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

To: Barbara

Organization:

Fax Number:

From: Edwin

Date/Time:

Number of Pages: Cover + ________

Notes: Attached, please find a marked-up version of HHS's draft CSE discussion paper. We have not yet shared our mark-up with HHS.

page 1 lays out the process for the stakeholder consultation
page 2-3 lays out general questions for stakeholders
page 4 lays out three general approaches for stakeholder consideration
page 5-7 lays out three internal options that we will continue to develop on a parallel track with the consultation process

Please let us know if you have any changes to make to this document before we share it with HHS.

Income Maintenance Fax Number: (202) 395-0851
Voice Confirmation: (202) 395-4686

DRAFT -- WORKING DOCUMENT -- DRAFT -- WORKING DOCUMENT -- DRAFT

Child Support Enforcement Financing

I. Goals

? o Serve all children in IV-D program, including incentives to adequately serve poor children.

? o ~~Support national system, while maintaining~~ Maximize flexibility for State programs, while supporting the Federal role in advancing the national interest in Child Support

o Create proper incentives for States & fams?

o *Prevent ~~wholesale~~ systematic diversion of child support collections to State-only programs under TANF*

o Maximize cost effective program operations, including program simplification where needed

II. Process

A. Develop parameters and options

o Stakeholder consultation

o Seek outside contractor assistance with issue analysis ?

o Internal development of options (ongoing adjustments as information from contractors and consultations is considered)

B. ~~Finalize proposal and share with above stakeholders~~ Develop proposal for Administration Submission to Congress. no doubt?

III. Stakeholder Consultation

Two-phase approach:

o Consult with key stakeholders on critical questions

  o IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)

  o *Human Service* Directors

  o State, Federal, and advocacy representatives

  o Key Congressional staff

  ~~o~~ (APWA, NGA, NACO and NCSL)

o Seek input from stakeholders on ~~principal policy option~~ general approach

— As the non-TANF IV-D caseload grows and the average income of families served increases, how have access issues changed? What are the current impediments to receiving IV-D services?

— How can financial incentives be structured in order to raise the total number of children served and not just shift non-IV-D cases into the IV-D system?

Consultation Questions

1. Incentive Effect

--What funding mechanism for the child support program would create the right incentives to serve children?

--Under the current funding structure, what are the incentives to serve some subgroups of families over others?

--What subgroups are currently underserved and what incentives would serve them better?

--How do the various program funding streams serve other program interests? at the State and local as well as Federal levels.

--How can the funding system be structured to ensure that child support payments benefit children to the maximum extent possible?

2. Federal/State Investment

— How can the child support program help its non poor families better appreciate the value of services rendered so that they would be more willing to support a portion of their child support enforcement costs?

--To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

--What is the current level of non-Federal investment in the CSE program and how can we create incentives for increasing such investments?

--Does the ability of some States/*localities* ~~to~~ receive more *in Federal funding plus the state share of TANF collections* than they expend on the program structure serve as an incentive to improving services and increasing support to families?

--Does the existing financing structure fairly balance Federal and State/*local* investments in the program?

3. Administrative Simplicity and Program Flexibility

--What aspects of the current funding structure are administratively complicated or burdensome?

--Does the current incentive structure *support appropriate State/local* innovations in CSE?

--What would States/*localities* change about the current funding structure if they could change anything?

--What changes in the current funding structure would help States/*localities* better integrate their CSE and TANF program ~~without diminishing services to~~ while continuing to serve *non-TANF populations*?

— What types of activities are the State share of program savings currently spent on?

— What impact has the high effective match rate had on the ability of States to effectively manage their child support programs?

4. *External Issues*

--What changes about the current funding structure would advocates recommend if they could change anything?

--How would any funding change affect the way child support enforcement services are provided to children and families?

--How will funding changes fit into the historical context of the program and within the past six years of increased federal presence and direction, including PRWORA?

--How would any funding changes be viewed by the general public and by the media?

DRAFT

Major ~~Options~~ Approaches for Child Support Enforcement Financing

The Administration will consult with its Stakeholders on three major ~~options~~ approaches for financing child support enforcement. These options are not exclusive of each other ~~and~~ -- it is more likely that any final option would combine multiple elements of these approaches elements of these ~~options~~ approaches can be combined in various ways.

1. **~~Maximizing~~ Performance ~~Option~~ Incentives approaches.** There are currently two major sources of Federal funds for the child support program, a Federal match for administrative expenditures (66%) and incentives funds paid to States. Assuming that H.R. 3130 is passed and signed by the President, the incentives will be paid to States based upon State performance. The Federal share of expenditures is currently approximately $2.3 billion and the incentives are $.4 billion. Under ~~the Maximizing Performance Option~~ the "performance" approach, the proportion of the total financing for the child support enforcement program which is based upon State performance would be increased. The proportion that is based upon the Federal match would be reduced ~~or eliminated~~ to make the total financing change cost neutral. Such a change could be phased-in.

2. **~~Maximizing~~ Simplicity ~~Option~~.** Currently, TANF recipients must assign their right to child support collections to the State when they apply for assistance. Child support collections in TANF cases are still split between the Federal and State governments based upon the FMAP rate, even though the major welfare program has become a block grant program. Some people believe that this may encourage States to set up separate State programs and thereby divert child support collections from the Federal government. Under ~~the Maximizing Simplicity option~~ the "simplicity" approach, the financing for the child support program would be changed so that States retain all assigned TANF collections. Alternatively, the State share would be based upon a simpler split, rather than the FMAP, such as a ~~50/50 split~~ flat split that represented a weighted average of current rates or a modified split that gave more to States. In order to make this cost neutral, (a) the Federal match could either be reduced, either on a varying State basis, or on a uniform national basis, or (b) savings offsets would have to be identified ~~elsewhere~~.

3. **~~Maximizing~~ Payments to Families ~~Option~~.** Currently, child support collections for TANF recipients are paid to the State (with certain limited exceptions in some States). TANF recipients receive "welfare payments", not "child support". Arguably, all child support payments ought to go to families, even if the family is on welfare, and welfare payments would supplement child support, not visa/versa. Under ~~the Maximizing Payments to Families option~~ the "payments to families" approach, all child support payments (or alternatively, a minimum amount) would be paid or "passed through" to TANF recipients. A disregard of the child support payments from income could be either mandated or a State option. In addition, other policies to maximize payments to families, such as eliminating the tax refund offset exception to the "Family First" distribution policy, could also be adopted. If this option is to be cost neutral, savings offsets would have to be identified. ~~elsewhere~~

Allows States to increase child support resources at a faster rate if they increase TANF collections over baseline levels.

OPTION 1:

States would retain all assigned collections, eliminating any Federal share. Budget baseline would be reduced by an equal amount. States that improved TANF-related collections over estimated levels would retain additional collections.

Matching rates would vary by State with the average Federal funding rate reduced to about 25% to maintain cost neutrality. Total federal participation would be at about 40% including CSE incentive funds. Could include MOE provision.

PROS:

- Provides States with an added incentive to collect support on behalf of families receiving assistance
- Controls administrative costs
- Eliminates potential for loss of Federal revenue in State-only programs under TANF*
- Better reflects the funding structure of the TANF program by eliminating division of TANF-related collections into State and Federal shares

CONS:

- ~~Penalizes the~~ Reduces resources to States that are most successful in moving families off TANF because they will absorb the full impact of reduced TANF collections
- Creates incentive for States to focus on TANF cases instead of non-TANF families. The ~~thus overshadowing~~ new *performance bonus incentive formula* increases incentives to serve non-TANF families
- ~~Creates incentive for States to focus on least costly cases with greatest chance of immediate pay-off~~ this is already the case under C.L.
- Could reduce the size of some State programs
- Reduced FFP could ~~harm Federal/State partnership and~~ weaken justification for extensive Federal requirement to standardize IV-D program *to support interstate child support enforcement*
- Complex political and programmatic consequences as a result of reduced direct Federal investment
- ~~Funding complexity would increase under formula~~ this point is made in the next bullet
- *Creates disparities among States' FFP rates depending, in part, upon unrelated factors such as State implementation of welfare reform and whether a State is high or low TANF benefit States.*

Option 1a:

States would retain all assigned collections, eliminating any Federal share. *Require that x percent of TANF-related collections be passed through to families.* In order to offset part of the increase in resources to State CSE programs, reduce FFP to effective match rate of 52 percent (in FY97, Federal match rate of 40 percent) and offset other payments to States.

PROS:

- O Provides States with an added incentive to collect support on behalf of families receiving assistance.
- O *Gets more money to poor families by requiring some pass through to TANF families and by adding overall new resources to the IV-D system for this purpose.*
- O Controls administrative costs.
- O Eliminates potential for loss of Federal revenue in State-only programs under TANF.
- O Allows States to increase child support resources at a faster rate if they increase TANF collections over baseline levels.
- O Better reflects the funding strucutre of the TANF program by eliminating division of TANF-related collections into State and Federal shares.

CONS:

- O Creates incentives for States to focus on TANF cases instead of non-TANF families. *The new performance bonus incentive formula increases incentives to serve non-TANF families.*
- O Reduced FFP could weaken justification for extensive Federal requirement to standardize IV-D program to support interstate child support enforcement.
- O Complex political and programmatic consequences as a result of reduced direct Federal investment.
- O Creates differential financial impact on States.

OPTION 2:

Reduce FFP to 50 percent (saving @$500 million) and use savings to increase incentives pool, raising pool to @$1 billion. Phase-in beginning in some future year;

Triggered State-only fix, under which, using existing authority under section 452(a)(4), Federal auditors evaluate State-only programs to identify a pattern of diversion of child support collections which otherwise would be TANF collections. State penalty would be an amount equal to the total amount of diverted support collections (rather than what would have been the Federal share); and

Eliminate use of FMAP to determine Federal/State share of collections. Alternatively, use 50/50 split to parallel equal split on administrative costs (could be cost neutral within pkg. by adjusting increased incentives)

Pros:

- o This approach meets all 5 goals
- o Ties more funding of State programs to performance by increasing incentives pool
- o Requires States to bear equal share of administrative costs, using a phased in approach
- o Supports fix to State-only programs only if there is evidence of State intent to divert TANF cases with collections
- o Replaces irrational tie to FMAP in determining the State/Federal share of collections with more logical 50/50 split, which mirrors proposed Federal share of administrative costs

Cons:

- o Would require oversight/Federal audits to identify State-only programs which are intended to divert collections which would otherwise be TANF collections
- o Could frustrate improvement in poorest performing states
- o Continues multiple financing streams
- o Creates differential financial impact on States
- o Under new incentive formula, may divert more funds away from IV-D activities

4/9/98

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Child Support Enforcement Financing

dont hv poor beh.

I. Goals

- o Serve all children in IV-D program, including poor children

the federal role in assuring child support collections

- o Support ~~national system,~~ while maintaining flexibility for State programs

Lo, and Feds must pay

- o Create proper incentives *for States, localities, parents and all additional stakeholders*
- o Prevent *systematic* diversion of child support collections to State-only programs under TANF
- o Maximize cost effective program operations *and effective program management*

- • *Promote financing simplification where appropriate*

II. Process

A. Develop parameters and options

- o Stakeholder consultation
- o Seek outside contractor assistance with issue analysis
- o Internal development of options (ongoing adjustments as information from contractors and consultations is considered)

May not be budget neutral in end

B. ~~Finalize proposal with stakeholders~~

C. The Administration, working with Congress, will prepare legislation

III. Stakeholder Consultation

Two-phase approach:

- o Consult with key stakeholders on critical questions
  - o IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)
  - o Human Service Directors

  - State *(including APWA, NGA, NACO and NCSL),* Federal, and advocacy representatives
  - Key Congressional staff

- Seek input from stakeholders on *general approach*

Consultation Questions

1. Incentive Effect

--What funding mechanism for the child support program would create the right incentives to serve children?

--Under the current funding structure, what are the incentives to serve some subgroups of families over others?

- *As the non-TANF caseload grows and the average income of families served may increase, what are the current impediments to receiving IV-D services?* for whom

--What subgroups are currently underserved and what incentives would serve them better?

- *How can the program be structured in order to raise the total number of children ~~served?~~* who receive child support both in and out of the IV-D system?

--How do the various program funding streams serve other program interests *at the State and local as well as the Federal levels?*

--How can the funding system be structured to ensure that child support payments benefit children to the maximum extent possible?

- *Does the current law regarding payment of a portion of the CSE costs by families ~~serve the best interests of children and the child support program?~~ If not, what alternatives would better accomplish program goals?*
balance the commitment to serve families with their ability to pay for services?

2. Federal/State Investment

--To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

--What is the current level of non-Federal investment in the CSE program and how can we create incentives for increasing such investments?

-- Some States/localities receive more in Federal funding plus the state share of TANF collections than they expend on the program structure. *Does this* serve as an incentive to improving services and increasing support to families? *In addition, what types of activities are these funds currently spent on?*

--Does the existing financing structure fairly balance Federal and State/local investments in the program?

- *What impact has the high effective match rate had on the ability of States to ~~achieve the goals of the~~ child support programs?*
effectively manage their

3. Administrative Simplicity and Program Flexibility

--What aspects of the current funding structure are administratively complicated or burdensome?

--Does the current incentive structure support appropriate State/local innovations in CSE?

--What would States/localities change about the current funding structure if they could change anything?

--What changes in the current funding structure would help States/localities better integrate their CSE and TANF program *while continuing to provide high quality services to* non-TANF populations?

4. External Issues

--What changes about the current funding structure would advocates recommend if they could change anything?

--How would any funding change affect the way child support enforcement services are provided to children and families?

--How will funding changes fit into the historical context of the program and within the past six years of increased federal presence and direction, including PRWORA?

--How would any funding changes be viewed by the general public and by the media?

Major Approaches for Child Support Enforcement Financing

The Administration will consult with its Stakeholders on three major approaches for financing child support enforcement. These approaches are not exclusive of each other and elements of these approaches can be combined in various ways.

Incentives
1. **~~Maximizing Performance~~ Approach.** There are currently two major sources of Federal funds for the child support program, a Federal match for administrative expenditures (66%) and incentives funds paid to States. Assuming that H.R. 3130 is passed and signed by the President, the incentives will be paid to States based upon State performance. The Federal share of expenditures is currently approximately $2.3 billion and the incentives are $.4 billion. Under the "~~Maximizing Performance~~ Incentives Approach", the proportion of the total financing for the child support enforcement program which is based upon State performance would be increased. The proportion that is based upon the Federal match would be reduced to make the total financing change cost neutral. Such a change could be phased-in.

2. **~~Maximizing~~ Simplicity Approach.** Currently, TANF recipients must assign their right to child support collections to the State when they apply for assistance. Child support collections in TANF cases are still split between the Federal and State governments based upon the FMAP rate, even though the major welfare program has become a block grant program. Some people believe that this may encourage States to set up separate State programs and thereby divert child support collections from the Federal government. Under the ~~"Maximizing~~ "Simplicity Approach," the financing for the child support program would be changed so that States retain all assigned TANF collections. Alternatively, the State share would be based upon a simpler split, rather than the FMAP. In order to make this cost neutral, (a) the Federal match could either be reduced, either on a varying State basis, or on a uniform national basis, or (b) savings offsets would have to be identified.

3. **~~Maximizing~~ Payments to Families Approach.** Currently, child support collections for TANF recipients are paid to the State (with certain limited exceptions in some States). TANF recipients receive "welfare payments", not "child support". Arguably, all child support payments ought to go to families, even if the family is on welfare, and welfare payments would supplement child support, not visa/versa. Under the ~~"Maximizing~~ "Payments to Families Approach" all child support payments (or alternatively, a minimum amount) would be paid or "passed through" to TANF recipients. A disregard of the child support payments from income could be either mandated or a State option. In addition, other policies to maximize payments to families, such as eliminating the tax refund offset exception to the "Family First" distribution policy, could also be adopted. If this Approach is to be cost neutral, savings offsets would have to be identified.

POSSIBLE AGENDA
CSE FINANCING MEETING 4/20/98

I. General review of where we are
- Includes a discussion of what staff level work has been done, some of the issues we have encountered.

II. Review of goals and questions

III. Review of General Approaches

IV. Staff Process -- next steps for staff level
- Discussion to determine agreement on whether further options development is needed, what other clearance steps need to take place before external process can begin.

V. Consultation Process-- next steps for planning the consultation process
- Discussion on how/who/what is part of consultation process
- Discussion of possibility of external analysis
- Agreement on rough timeline for various components of consultation process.

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TIMELINE FOR CONSULTATIONS

Complete Administration level conversations to assure agreement on process and options. This process will include consideration of the timing of the Child Support Incentives Legislation.

Month 1

1. Contact all appropriate organizations and Hill staff to inform them about the consultation process. Revise consultation process as necessary depending upon comments on process.

Month 2-3

1. Work with President of the IV-D Directors Association to get States to designate one State Representative from each of the ten Regions to represent the other States in the Region. We will attempt to include representatives of the IV-D Directors in as many other consultations with other organizations as appropriate and acceptable to the other organizations.

2. Preliminary discussion of issues with advocates, including CDF, NPWF, NWLC, CBPP, CLASP, and others.

3. Preliminary discussion with key Hill staff.

4. Discuss the commissioning of papers with outside groups and request as appropriate.

Month 4-5

1. First meeting with IV-D representatives. This could be done in conjunction with conferences in the Washington, D.C. area.

2. Preliminary discussion of issues at meetings in the area.

3. Preliminary discussion of issues with NCSL, NGA, and National Association of Counties.

4. Internal Administration discussion on development of options.

Month 6-7

1. HHS hosts interactive consultation meeting with IV-D representatives, advocates, and key hill staff.

2. Second meeting with IV-D representatives.

3. Host discussion at State Human Service Finance Officers Annual Conference.

Month 8-9

1. Third meeting with IV-D representatives. (Attempt to reach consensus, if possible).

2. Internal Administration discussion on development of options.

Month 10-11

1. Hold at least two addition discussions with advocates.

2. Hold at least two additional discussions with State Organizations - NGA, NCSL, & APWA.

3. Discussions with Hill Staff.

4. Internal Administration discussion on development of options.

Month 12

1. Draft proposed legislation, if any.

cc Cynthia – For 4pm meeting. Handwritten edits are OMB's, Italics are changes HHS has made per OMB. –Diana

4/9/98

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Child Support Enforcement Financing

I. **Goals**

Why can't we say nat'l system? -DF

- o Serve all children in IV-D program, including poor children
- o Support ~~national system,~~ the Federal role in assuring child support collections while maintaining flexibility for State programs
- o Create proper incentives *for States, localities, parents and all additional stakeholders*
- o Prevent *systemtic* diversion of child support collections to State-only programs under TANF
- o Maximize cost effective program operations and effective program management

- *Promote financing simplification where appropriate*

II. **Process**

A. Develop parameters and options

- o Stakeholder consultation
- o Seek outside contractor assistance with issue analysis
- o Internal development of options (ongoing adjustments as information from contractors and consultations is considered)

B. Finalize proposal ~~and share~~ with stakeholders

C. The Administration, working with Congress, will prepare legislation

III. **Stakeholder Consultation**

Two-phase approach:

- o Consult with key stakeholders on critical questions
  - o IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)
  - o Human Service Directors

- State *(including APWA, NGA, NACO and NCSL)*, Federal, and advocacy representatives
- Key Congressional staff

- Seek input from stakeholders on *general approach*

Consultation Questions

1. Incentive Effect

--What funding mechanism for the child support program would create the right incentives to serve children?

--Under the current funding structure, what are the incentives to serve some subgroups of families over others?

- *As the non-TANF caseload grows and the average income of families served may increase, what are the current impediments to receiving IV-D services?*

--What subgroups are currently underserved and what incentives would serve them better?

- *How can the program be structured in order to raise the total number of children ~~served?~~* who receive child support both in and out of the IV-D system?

--How do the various program funding streams serve other program interests *at the State and local as well as the Federal levels?*

--How can the funding system be structured to ensure that child support payments benefit children to the maximum extent possible?

- *Does the current law regarding payment of a portion of the CSE costs by families ~~serve the best interests of children and the child support program?~~ If not, what alternatives would better accomplish program goals?* balance the commitment to serve families with their ability to pay for services?

2. Federal/State Investment

--To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

--What is the current level of non-Federal investment in the CSE program and how can we create incentives for increasing such investments?

-- Some States/localities receive more in Federal funding plus the state share of TANF collections than they expend on the program structure. *Does this* serve as an incentive to improving services and increasing support to families? *In addition, what types of activities are these funds currently spent on?*

--Does the existing financing structure fairly balance Federal and State/local investments in the program?

- *What impact has the high effective match rate had on the ability of States to ~~achieve the goals of the~~ child support programs?*
  effectively manage their

3. Administrative Simplicity and Program Flexibility

   --What aspects of the current funding structure are administratively complicated or burdensome?

   --Does the current incentive structure support appropriate State/local innovations in CSE?

   --What would States/localities change about the current funding structure if they could change anything?

   --What changes in the current funding structure would help States/localities better integrate their CSE and TANF program *while continuing to provide high quality services to* non-TANF populations?

4. External Issues

   --What changes about the current funding structure would advocates recommend if they could change anything?

   --How would any funding change affect the way child support enforcement services are provided to children and families?

   --How will funding changes fit into the historical context of the program and within the past six years of increased federal presence and direction, including PRWORA?

   --How would any funding changes be viewed by the general public and by the media?

Major Approaches for Child Support Enforcement Financing

?

The Administration will consult with its Stakeholders on four major approaches for financing child support enforcement. These approaches are not exclusive of each other and elements of these approaches can be combined in various ways.

Incentives

1. ~~Maximizing Performance~~ Approach. There are currently two major sources of Federal funds for the child support program, a Federal match for administrative expenditures (66%) and incentives funds paid to States. Assuming that H.R. 3130 is passed and signed by the President, the incentives will be paid to States based upon State performance. The Federal share of expenditures is currently approximately $2.3 billion and the incentives are $.4 billion. Under the "Incentives ~~"Maximizing Performance~~ Approach", the proportion of the total financing for the child support enforcement program which is based upon State performance would be increased. The proportion that is based upon the Federal match would be reduced to make the total financing change cost neutral. Such a change could be phased-in.

2. ~~Maximizing~~ Simplicity Approach. Currently, TANF recipients must assign their right to child support collections to the State when they apply for assistance. Child support collections in TANF cases are still split between the Federal and State governments based upon the FMAP rate, even though the major welfare program has become a block grant program. Some people believe that this may encourage States to set up separate State programs and thereby divert child support collections from the Federal government. Under the "~~Maximizing~~ Simplicity Approach," the financing for the child support program would be changed so that States retain all assigned TANF collections. Alternatively, the State share would be based upon a simpler split, rather than the FMAP. In order to make this cost neutral, (a) the Federal match could either be reduced, either on a varying State basis, or on a uniform national basis, or (b) savings offsets would have to be identified. ~~elsewhere.~~

3. ~~Maximizing~~ Payments to Families Approach. Currently, child support collections for TANF recipients are paid to the State (with certain limited exceptions in some States). TANF recipients receive "welfare payments", not "child support". Arguably, all child support payments ought to go to families, even if the family is on welfare, and welfare payments would supplement child support, not visa/versa. Under the "~~Maximizing~~ Payments to Families Approach" all child support payments (or alternatively, a minimum amount) would be paid or "passed through" to TANF recipients. A disregard of the child support payments from income could be either mandated or a State option. In addition, other policies to maximize payments to families, such as eliminating the tax refund offset exception to the "Family First" distribution policy, could also be adopted. If this Approach is to be cost neutral, savings offsets would have to be identified. ~~elsewhere.~~

OMB's goals: S-O; focus on TANF (why)
— New bill focused less on TANF — uncaps incentive for non TANF
What is existing incentive on TANF vs non-TANF?

S-O: No need to share w/feds

TANF Collections

Non TANF → Families

① State ~~Fed~~ $1.5m

Costs

Match rate down to 25% ave.

⇒ TANF collections declining

⇒ TANF vs non-TANF
⇒ Diff by state

② FFP 66% → 50%
$500m svgs to increase incentives pool to $1b
Weird S-O fix
Collections split 50/50, not acc to FMAP
— Cost neutral? how — Educ [illegible]

③ Again, states keep all collections (costs $1.5b?)
Match rates to 52%
Rest from elsewhere (TANF an option)
Diff: helps states doing a gd job + dings others

FAX COVER

Income Maintenance Branch
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Raises offended States make money on this (off poorest fams)

To: Diana

Organization:

Fax Number: 67431

From: Edwin

Date/Time:

Option I
1) John no #s general
2) Other ideas
— more $ to kids
— more to families

Number of Pages: Cover + ______

Option II – Perfect one of Edwin's options

Notes:

Here's our "3rd option" to go at the end of the draft CSE paper. I haven't shared this yet with HHS. Please let me know what you think.

Income Maintenance Fax Number: (202) 395-0851
Voice Confirmation: (202) 395-4686

Option 3:

States would retain all assigned collections, eliminating any Federal share. In order to offset part of the increase in resources to State CSE programs, reduce FFP to effective match rate of 52 percent (in FY97, Federal match rate of 40 percent) and offset other payments to States.

? How TANF??

PROS:

O Provides States with an added incentive to collect support on behalf of families receiving assistance.

O Creates new flexibility for States to pass through collections to TANF families by allowing States use of 100% of collections, and by adding overall new resources to the IV-D system.

how

O Controls administrative costs.

O Eliminates potential for loss of Federal revenue in State-only programs under TANF.

O Allows States to increase child support resources at a faster rate if they increase TANF collections over baseline levels.

O Better reflects the funding strucutre of the TANF program by eliminating division of TANF-related collections into State and Federal shares.

CONS:

O Reduces resources to States that are most successful in moving families off TANF becuase they will absorb the full impact of reduced TANF collections.

O Creates incentives for States to focus on TANF cases instead of non-TANF families, thereby balancing new performance bonus incentive formula. ?

O Reduced FFP could weaken justification for extensive Federal requirement to standardize IV-D program to support interstate child support enforcement.

O Complex political and programmatic consequences as a result of reduced direct Federal investment.

O Creates differential financial impact on States.

FAX COVER

Income Maintenance Branch
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

To: Diana Fortuna

Organization:

Fax Number: 67431

From: Edwin Lau

Date/Time:

Number of Pages: Cover + ________

Notes: As I mentioned to you on your voicemail, this draft came out of our last staff-level mtg. with HHS. We will be revising it, adding an option, and discussing today at 2pm.

Income Maintenance Fax Number: (202) 395-0851
Voice Confirmation: (202) 395-4686

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Child Support Enforcement Financing

I. Goals

- Serve all children in IV D program
- Support national system, while maintaining flexibility for State programs
- Create proper incentives -?
- Eliminate financial incentives for diverting collections through the creation of State-only programs
- Maximize cost effective program operations

Sharing collections is a disincentive to pass thru

II. Process

A. Develop parameters and options

- Stakeholder consultation
- Seek outside contractor assistance with issue analysis
- Internal development of options (ongoing adjustments as information from contractors and consultations is considered)

B. Finalize proposal and share with above stakeholders

III. Stakeholder Consultation

Two-phase approach:

- Consult with key stakeholders on critical questions
    - IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)
    - IV-A Directors
    - State, Federal, and advocacy representatives
    - Key Congressional staff
    - APWA, NGA, NACO and NCSL
- Seek input from stakeholders on principal policy option

Consultation Questions

1. Incentive Effect

--What funding mechanism for the child support program would create the right incentives to serve children?

--Under the current funding structure, what are the incentives to serve some subgroups of families over others?

--What subgroups are currently underserved and what incentives would serve them better?

--How do the various program funding streams serve other program interests?

--How can the funding system be structured to ensure that child support payments benefit children to the maximum extent possible?

2. Federal/State Investment

--To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

--What is the current level of non-Federal investment in the CSE program and how can we create incentives for increasing such investments?

--Does the ability of some States to receive more funding than they expend on the program structure serve as an incentive to improving services and increasing support to families?

--Does the existing financing structure fairly balance Federal and State investments in the program?

3. Administrative Simplicity and Program Flexibility

--What aspects of the current funding structure are administratively complicated or burdensome?

--Does the current incentive structure interfere with State innovations in CSE?

--What would States change about the current funding structure if they could change anything?

--What changes in the current funding structure would help States better integrate their CSE and TANF program?

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OPTION 1:

States would retain all assigned collections, eliminating any Federal share. Budget baseline would be reduced by an equal amount. States that improved TANF-related collections over estimated levels would retain additional collections.

Matching rates would ~~vary by State~~ with the average Federal funding rate reduced to about 25% to maintain cost neutrality. Total federal participation would be at about 40% including CSE incentive funds. Could include MOE provision.

PROS:

- o Provides States with an added incentive to collect support on behalf of families receiving assistance
- o Controls administrative costs
- o Eliminates potential for loss of Federal revenue in State-only programs under TANF*
- o Better reflects the funding structure of the TANF program by eliminating division of TANF-related collections into State and Federal shares
- o Provides States greater flexibility to pass collections on to TANF families

CONS:

- o Penalizes the States that are most successful in moving families off TANF because they will absorb the full impact of reduced TANF collections
- o Creates incentive for States to focus on TANF cases instead of non-TANF families *
- o Creates incentive for States to focus on least costly cases with greatest chance of immediate pay-off so what
- o Could reduce the size of State programs ?
- o Reduced FFP could harm Federal/State partnership and weaken justification for extensive Federal requirement to standardize IV-D program
- o Complex political and programmatic consequences as a result of reduced Federal investment
- o Funding complexity would increase under formula

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OPTION 2:

Reduce FFP to 50 percent (saving @$500 million) and use savings to increase incentives pool, raising pool to @$1 billion. Phase-in beginning in some future year;

Triggered State-only fix, under which, using existing authority under section 452(a)(4), Federal auditors evaluate State-only programs to identify a pattern of diversion of child support collections which otherwise would be TANF collections. State penalty would be an amount equal to the total amount of diverted support collections (rather than what would have been the Federal share); and

Eliminate use of FMAP to determine Federal/State share of collections. Alternatively, use 50/50 split to parallel equal split on administrative costs (could be cost neutral within pkg. by adjusting increased incentives)

Pros:

- This approach meets all 5 goals
- Ties more funding of State programs to performance by increasing incentives pool
- Requires States to bear equal share of administrative costs, using a phased in approach
- Supports fix to State-only programs only if there is evidence of State intent to divert TANF cases with collections
- Replaces irrational tie to FMAP in determining the State/Federal share of collections with more logical 50/50 split, which mirrors proposed Federal share of administrative costs

Cons:

- Would require oversight/Federal audits to identify State-only programs which are intended to divert collections which would otherwise be TANF collections
- Could frustrate improvement in poorest performing states
- Continues multiple financing streams

CSE Financing

Now
80% computer
66% adm
90% pat

Budget
66%

Edwin Lau 02/12/98 05:50:29 PM

Record Type: Record

To: Cynthia A. Rice/OPD/EOP, Emil E. Parker/OPD/EOP, Emily Bromberg/WHO/EOP, Barbara Chow/OMB/EOP

cc: Barry White/OMB/EOP, Keith J. Fontenot/OMB/EOP, Matthew McKearn/OMB/EOP, Sandra Yamin/OMB/EOP

Subject: opener for CSE dialogue

The following is a one-pager on simplifying the child support funding structure which reflects the commitment in the Budget to examine this issue and to propose legislation. It assumes enactment of the other CSE legislative proposals in the Budget: 1) conform paternity testing match to the administrative match rate; and 2) repeal the hold harmless provision.

Please let us know what you think of this proposal and your thoughts on next steps for bring HHS and others into the process. We would like to meet on this early next week.

Cost-neutral swap

Collections | TANF | Non-TANF

leg_prop.wpd

Costs

Simplifying the Child Support Enforcement Funding Structure

The FY 1999 Budget lays out the current complexity of the Child Support Enforcement (CSE) funding structure as well as some of the unintended incentives for the creation of State-only programs. States currently get Federal payments covering administrative costs at several different matching rates. States also get Federal incentive payments, levy user fees, keep a portion of TANF-related collections, and return a portion to the Federal government. In addition to making some preliminary simplifications, the Budget promises to, "hold a dialogue with the stakeholders of the child support program to look at ways to address these problems" and to prepare legislation taking into account these findings.

Towards this end, we are looking for a proposal that: 1) simplifies the CSE funding structure; 2) gives State CSE programs greater flexibility; 3) eliminates financial incentives for the creation of State-only programs; 4) does not decrease the amount of child support collected; 5) maintains critical interstate processes and standards; and 6) is cost neutral.

The following proposal provides a basis for discussion with stakeholders. It would be cost-neutral and would further simplify the child support financing structure into an 1) open-ended grant, and 2) incentive funds:

- States would be allowed to keep all TANF collections (including the Federal share);

- The current incentive payment structure would be maintained, with formula modifications consistent with the Administration's report on incentive funding;

- The Federal administrative match to States would be adjusted by the estimated amount of the Federal share of collections that States would now be able to keep, resulting in a **cost-neutral swap**. Using State specific estimates?

In FY 1999, the Federal-share of collections should be equal to about 39 percent of estimated CSE costs.

Compared to 57% now

39/57 = 76?

Allowing States to keep all TANF collections (both State and Federal shares) would provide almost 76 percent of the resources necessary to support their estimated FY 1999 administrative costs.

This proposal would provide open-ended Federal financial participation that would cover 39 percent of costs in FY 1999, including both the administrative grant, enhanced ADP funds, and incentive funds. By FY 2003, Federal support would grow to an estimated effective match rate of 44 percent as the result of estimated increases in incentive payments. When Federal payments are combined with all TANF collections and existing State user fees, total resources for CSE would provide about 108 percent of anticipated child support costs in FY 1999.

state spending?

This proposal would not decrease expected CSE resources available to States. It would simplify the flow of funds and better reflect the new relationship between the Federal and State governments estab-lished in welfare reform. This proposal would give States additional flexibility to design their own CSE programs, including passing through the full amount of child support to families. In addition, it would increase the incentives for States to serve TANF cases by more than doubling the amount that they would get to keep if they increased TANF-related collections. Finally, it would eliminate the incentive for States to create State-only programs solely to increase their share of TANF collections. States would still be able to set up State-only programs at no additional cost to the Federal government.

→ pu dates TANF

66% $2b $1.5b adm fed share
+500m incentive

still have - Computer 80% (was 90%) (capped @ $400m)

Incentive - paid back from

97 $1.1 b st
1.5 b Feds → $500m

formula - base amt + TANF/non-TANF
↓
115% cap
Now

Effic ratio →

Shaw-Levin - further complicates incentives,
but got new factors - pat est -
- capped in Shaw-Levin

budget gets nds of 90% pat est - lab tests

OMB: too much non-TANF

ID: MAR 17'98 3:03 No.004 P.01

FAX COVER

Income Maintenance Branch
Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

To: ~~Audrey~~ Diana

Organization:

Fax Number: 67431

From: Edwin

Date/Time:

Number of Pages: Cover + ______

Notes:

1st round of edits

Income Maintenance Fax Number: (202) 395-0851
Voice Confirmation: (202) 395-4686

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Child Support Enforcement Financing

I. Goals

- ~~Maximize collections for all children~~ Serve all children in IV-D program
- Support national system, while maintaining flexibility for State programs
- Simplify/rationalize funding
- Create proper incentives
- ~~Protect Federal investment~~ Eliminate financial incentives for the creation of State-only programs
- Maximize cost effective program operations

II. Process

A) Develop parameters and options

- Stakeholder consultation
- Seek outside contractor assistance with issue analysis
- Internal development of options (ongoing adjustments as information from contractors and consultations is considered)

B) ~~o~~ Finalize proposal and share with above stakeholders

III. Stakeholder Consultation

Two-phase approach:

- Consult with key stakeholders on critical questions
  - IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)
  - State, Federal, and advocacy representatives
  - Key Congressional staff
  - APWA, NGA, NACO and NCSL
- Seek input from stakeholders on principal policy option

Consultation Questions

1. What funding mechanism for the child support program would create the right incentives to serve ~~maximize collections to~~ all children? How do the various program funding streams serve other program interests? How can the funding system be structured to ensure that child support payments benefit children to the maximum extent possible?

2. To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

3. Does the ability of some States to receive more funding from incentives and their share of collections than they expend on the IV-D program under the existing financing structure serve as an incentive to improving services and increasing support to families? Does the existing financing structure fairly balance Federal and State investments in the program?

~~Edwin will provide additional q's Monday~~

- Under the current funding structure, what are the incentives to serve some subgroups of families over others (TANF v. non-TANF; easier to serve v. more difficult to serve)? And what incentives would help serve them better?
- What subgroups are currently underserved?
- What is the current level of State investment in the CSE program?
- What aspects of the current funding structure are administratively complicated or burdensome?
- Does the current funding structure interfere with any State innovations in CSE?
- What would States change about the current funding structure if they could change anything they wanted?
- What changes in the current funding structure would help States better integrate their CSE & TANF programs?

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OPTION 1: States would retain all assigned collections, eliminating any Federal share. Budget baseline would be reduced by an equal amount. (It appears that the Federal funding rate would have to be reduced to approximately 25% to maintain cost neutrality.) Total federal participation would be at about 40% including CSE incentive funds. There would be no cap on Federal funding.

PROS:

- o Simplifies program funding streams
- o Provides States with an added incentive to collect support on behalf of families receiving assistance
- o Controls administrative costs
- o Eliminates potential for lost of Federal revenue in State-only programs under TANF*
- o Better reflects the funding structure of the TANF program by eliminating arbitory division of TANF-related collections into State and Federal shares

CONS:

- o Penalizes the States that are most successful in moving families off TANF because they will absorb the full impact of reduced TANF collections
- o Creates incentive for States to focus on ~~easiest to work~~ TANF cases instead of ~~, to detriment of~~ non-TANF families ~~(ignoring the cost-avoidance benefit of providing services to the working poor) or more difficult/costly TANF cases and thus undermines Administration's goal to ensure parental responsibility for all children~~
- o Would require a legislative proposal, including changes ~~extensive changes in statute and appropriation process, including~~ to incentives and set-aside funding sources and distribution
- o ~~Drastic reduction in~~ Would reduce Federal share of expenditures from 66 to 25%. could reduce the size of some State programs.
- o Reduced FFP ~~would cause irreparable harm to Federal/State partnership and seriously~~ could weaken justification for extensive Federal requirements to standardize IV-D program, especially in interstate cases.
- o ~~Ignores~~ May lead to intrastate political and programmatic consequences as the result of ~~of the~~ reduced Federal investment ~~and loss of influence on State legislative decisions impacting IV-D program.~~

- o States that improved TANF-related collections over estimated levels would be able to keep all of the additional collections.
- o Gives States greater flexibility to pass collections on to TANF families. why more $?
- o Reduced FFP may lead to greater State financial investment in CSE, potentially resulting in improved State management and oversight.

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OPTION 2:

Reduce FFP to 50 percent (saving @$500 million) and use savings to increase incentives pool, raising pool to @$1 billion. Phase-in beginning in some future year;

Triggered State-only fix, under which, using existing authority under section 452(a)(4), Federal auditors evaluate State-only programs to identify a pattern of diversion of child support collections which otherwise would be TANF collections. State penalty would be an amount equal to the total amount of diverted support collections (rather than what would have been the Federal share); and

Eliminate use of FMAP to determine Federal/State share of collections. Alternatively, use 50/50 split to parallel equal split on administrative costs (cost neutral overall but involves some minor redistribution among States)

Pros:

- This approach meets all 5 goals
- Ties more funding of State programs to performance by increasing incentives pool
- Requires States to bear equal share of administrative costs, using a phased in approach
- Supports fix to State-only programs only if there is evidence of State intent to divert TANF cases with collections
- Replaces irrational tie to FMAP in determining the State/Federal share of collections with more logical 50/50 split, which mirrors proposed Federal share of administrative costs

Cons:

- Would require oversight/Federal audits to identify State-only programs which are intended to divert collections which would otherwise be TANF collections
- Continues multiple financing streams

DRAFT -- WORKING DOCUMENT -- DRAFT -- WORKING DOCUMENT -- DRAFT

Impact of State-only programs on Child Support*

- TANF collections have leveled off and are expected to rise just slightly over the next five years, rising from $2,580m in fy98 to 2,838m in fy2003, with the net federal share (after incentives) rising from $1,022m to $1,087m.

- Child support collection data suggests that this leveling off is attributable mostly to TANF caseload reductions. At the same time, other factors, including stronger enforcement efforts, have offset much of the reduction in caseloads. In fact, collections for <u>all cases</u> actually increased from $387 in fy96 to $443 in fy97 and collections from <u>paying cases</u> increased from $3038 to $3301.

- Last year, CBO and HHS budgets assumed a relatively modest decrease in TANF collections attributable to State-only programs, from 2.5 percent of TANF collections in fy 98 to 10 percent in the out years. Based upon current information, even those modest projections appear to be too high.

- In 1997, seventeen states chose to fund programs with separate State dollars. The amount spent was $206 million out of nearly $9 billion in State MOE. Fifty-four percent was spent on child care. Most of the rest was spent to assist two parent families or qualified legal immigrants. These are not the type of cases where there is much, if any, loss of TANF collections.

- One welfare budget expert stated that the present loss of TANF collections due to State-only programs is "infinitesimal". For a variety of reasons (NPRM, State budget considerations, lack of State creativity), States are not setting up State-only programs to the extent many experts predicted a year ago.

- Last year the Administration issued guidance to States on the TANF program which included a warning not to set up State-only programs as a means to keep all TANF collections. Congress issued similar warnings. By all accounts, that guidance had a chilling effect on States and convinced States considering that route not to do so.

- The auditors for the child support program are monitoring State conduct for loss of TANF collections due to State-only programs. To date, they have not seen evidence of such State action.

- The issue of State-only programs has additionally been addressed in the proposed TANF regulations. There are penalty implications if States divert families into separate State program under a pattern resulting in a loss of the Federal share of collections.

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Characteristics of Potential Funding Mechanisms

Collections:

- Impacts incentives to work non-revenue producing cases
- Flexible State use
- Impacts incentives for parents to cooperate and pay support

Incentives:

- Impacts performance

FFP:

- Impacts partnership and ability to control nationwide standards
- Impacts State investment

FAX COVER

Income Maintenance Branch

Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

To: Diana Fortuna

Organization:

Fax Number: 67431

From: Edwin Lau

Date/Time:

Number of Pages: Cover +

Notes: please let me know when you are free tomorrow.

Betsy Matheson
Ann Donovan
Mary Cohen
Lauren
Mary

Income Maintenance Fax Number: (202) 395-0851
Voice Confirmation: (202) 395-4686

ADMINISTRATION FOR CHILDREN AND FAMILIES

Office of Legislative Affairs and Budget

FAX

Date: 3-16

Number of pages including cover sheet: 6

To: Edwin Lau

Phone:

Fax phone: 395-0851

CC:

From: Mary Cohen

Phone: 401-5175

Fax phone: 401-4562

REMARKS: ☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please comment

Attached are some "working papers" for our discussion of child support financing. We look forward to talking to you about these + having your input.

I'm still waiting for OCSE to give me the data we agreed to share. I'll call you before the 3:10 conf call just to touch base.

370 L'Enfant Promenade, S.W., Washington, D.C. 20447

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Child Support Enforcement Financing

I. Goals

- o Maximize collections for all children
- o Support national system
- o Simplify/rationalize funding
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- o Protect Federal investment
- o Maximize cost effective program operations

II. Process

- o Stakeholder consultation
- o Seek outside contractor assistance with issue analysis
- o Internal development of options (ongoing adjustments as information from contractors and consultations is considered)
- o Finalize proposal and share with above stakeholders

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Two-phase approach:

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  - o Key Congressional staff
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- o Seek input from stakeholders on principal policy option

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1. What funding mechanism for the child support program would maximize collections to children? How do the various program funding streams serve other program interests? How can the funding system be structured to ensure that child support payments benefit children to the maximum extend possible?

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Edwin will provide additional q's Monday

DRAFT -- WORKING DOCUMENT -- DRAFT -- WORKING DOCUMENT -- DRAFT

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PROS:

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- o Provides States with an incentive to collect support on behalf of families receiving assistance
- o Controls administrative costs
- o Eliminates potential for lost of Federal revenue in State-only programs under TANF*

CONS:

- o Penalizes the States that are most successful in moving families off TANF because they will absorb the full impact of reduced TANF collections
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- o Would require extensive changes in statute and appropriation process, including to incentives and set-aside funding sources and distribution
- o Drastic reduction in Federal share of expenditures from 66 to 25% could reduce the size of some State programs.
- o Reduced FFP would cause irreparable harm to Federal/State partnership and seriously weaken justification for extensive Federal requirements to standardize IV-D program, especially in interstate cases.
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<u>Cons:</u>

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- Continues multiple financing streams

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- One welfare budget expert stated that the present loss of TANF collections due to State-only programs is "infinitesimal". For a variety of reasons (NPRM, State budget considerations, lack of State creativity), States are not setting up State-only programs to the extent many experts predicted a year ago.

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- The issue of State-only programs has additionally been addressed in the proposed TANF regulations. There are penalty implications if States divert families into separate State program under a pattern resulting in a loss of the Federal share of collections.

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Characteristics of Potential Funding Mechanisms

Collections:

- Impacts incentives to work non-revenue producing cases
- Flexible State use
- Impacts incentives for parents to cooperate and pay support

Incentives:

- Impacts performance

FFP:

- Impacts partnership and ability to control nationwide standards
- Impacts State investment

CS Financing

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Paper 20th - Fri
meet again week of
March 23rd

Child Support Enforcement Financing

Stakeholders Dialogue

Consultation Process

Two-phase approach:

- o Introduce critical questions to key stakeholders to initiate discussion and generate ideas
- o Seek input from stakeholders on principal policy option

Stakeholder Consultation Strategy

1. Meet to discuss critical questions (either jointly or separately) with:
   - o IV-D Directors (contact IV-D Directors to designate one IV-D Director representative per Federal Region)
   - o State, Federal, and advocacy representatives
   - o Key Congressional staff
   - o APWA, NGA, NACO and NCSL
2. Seek outside contractor assistance with issue analysis
3. Finalize proposal and share with above stakeholders

Consultation Questions

1. What funding mechanism for the child support program would maximize collections to children? How do the various program funding streams serve other program interests?
2. To what extent does States' ability to set up separate State assistance programs under TANF undermine the Federal share of child support collections and what action, if any, is needed to protect the Federal investment in the program?

3/12

3. Does the ability of some States to receive more funding from incentives and their share of collections then they expend on the IV-D program under the existing financing structure serve as an incentive to improving services and increasing support to families? Does the existing financing structure fairly balance Federal and State investments in the program?

transfer poverty rate and has enabled more people to leave welfare for work. Thus, fewer individuals have had to rely on safety net programs to pull themselves out of poverty.

Efficiency in Reducing Poverty: The poverty gap is the amount by which the incomes of all poor people fall below the poverty line. "Efficiency" in reducing poverty is defined as the percentage of Government benefits of a particular type (e.g., social insurance programs) that help cut the poverty gap. For example, if $1 out of every $2 in Category A helps cut the poverty gap, the "efficiency" of Category A is 50 percent.

Before counting Government benefits, the poverty gap was $194.5 billion in 1995. Benefits from Government programs cut it by $135 billion, or 69 percent. Of the $135 billion cut, social insurance programs accounted for $90 billion, means-tested benefits for $43 billion, and Federal tax provisions for $2 billion.

All told, according to Census Bureau data, social insurance benefits totaled $338 billion in 1995. Thus, 26 percent of their funding (the $90 billion, above) helped cut the poverty gap. Means-tested benefits totaled $78 billion, according to Census data. Thus, 56 percent of the funding (the $43 billion, above) helped cut the poverty gap.

The evidence is clear: whether measured by their impact on poverty gaps, or on moving families out of poverty, income security programs largely succeed. Social insurance programs play the largest role in cutting poverty, but means-tested programs—targeted more narrowly on the poor—are more efficient.

Employee Retirement Benefits

Federal Employee Retirement Benefits: The Civil Service Retirement and Disability Program provides a defined benefit pension for 1.8 million Federal civilian employees and 800,000 U.S. Postal Service employees. In 1997, the program paid $42 billion in benefits to 1.7 million retirees and 600,000 survivors. Along with the defined benefit, employees can participate in a defined contribution plan—the Thrift Savings Plan (TSP). Employees hired since 1983 are also covered by Social Security. (For a discussion of military retirement programs, see Chapter 26, "Veterans Benefits and Services.")

Private Pensions: The Pension and Welfare Benefits Administration (PWBA) establishes and enforces safeguards to protect the roughly $3.5 trillion in pension assets. The Pension Benefit Guaranty Corporation (PBGC) protects the pension benefits of nearly 42 million workers and retirees who earn traditional (i.e., "defined benefit") pensions. Through its early warning program, PBGC also works with solvent companies to more fully fund their pension promises, protecting the benefits of 1.2 million people in 1996 alone. To encourage retirement savings, the President signed legislation in 1996 that establishes a new, simplified pension plan for small businesses.

In 1999, the PWBA will:

- reduce, to 12 percent, the percentage of employee benefit plan audits that do not comply with professional accounting and auditing standards, compared to 1996; and
- increase, by 2.5 percent, the number of fiduciary investigations closed in which plan assets are restored, compared to 1996.

Tax Treatment of Retirement Savings: The Federal Government encourages retirement savings by providing income tax benefits. Generally, earnings devoted to workplace pension plans and to many individual retirement accounts (IRAs) are exempt from taxes when earned and ordinarily are taxed only in retirement, when lower tax rates usually prevail. Moreover, taxpayers can defer taxes on the interest and other gains that add value of these retirement accounts, including all forms of IRAs. These tax incentives amount to $84 billion a year—one of the three largest sets of preferences in the income-tax system.

Child Support Enforcement Financing: The Federal Government has a strong interest in ensuring that the national child support system is effective. Funding of the Child Support Enforcement (CSE) program, however, remains complicated. States get Federal payments to cover administrative costs at several different matching rates. States also get Federal incentive payments, levy user fees, and a portion of TANF-related collections, and return a portion to the Federal Government.

Federal retention of TANF-related payments is a legacy of the old AFDC program in which States and the Federal Government shared in funding AFDC and, thus, in collecting child support for AFDC recipients. With welfare reform, States have great freedom to design assistance for families with dependent children. States, however, must continue to share a portion of child support collections with the Federal Government. The need to share collections may serve as a disincentive for States to pass through the full amount of child support to families, and it creates an unintended incentive for States to serve needy families through programs funded only with State dollars. Spending on these "State-only" programs continues to count under the TANF maintenance-of-effort requirement, but child support collections on behalf of these families do not need to be shared with the Federal Government.

The Administration will hold a dialogue with the stakeholders of the child support program to look at ways to address these problems and, working with Congress, will prepare legislation. The budget takes a first step towards simplifying the child support funding structure by 1) conforming the match rate for paternity testing with the basic administrative match rate; and 2) repealing the hold harmless provision established under the welfare reform law.

Under current law, States have resources equal to about 110 percent of the amount that they spend on their State Child Support programs. The proposed changes would reduce the State windfall by less than two percent of program costs and save the Federal Government about $300 million over five years.

Finally, the Administration supports cost-neutral changes to the pending Child Support Incentives legislation, as the Department of Health and Human Services proposed in its 1997 report to Congress, mandated by the welfare reform law.

Allocation of Administrative Costs Among Welfare Programs: The budget proposes to address projected Federal cost increases in Food Stamps and Medicaid that arise from changes in the way States charge costs to the Federal Government to administer these programs as well as TANF.

Before welfare reform, States charged most common costs of the three programs to AFDC. With TANF—which consolidated cash welfare assistance and related programs and limited the amount of funds that could go for administrative purposes—many States have sought to charge fewer of their expenses to TANF and more to Food Stamps and Medicaid, which still provide open-ended matching funds for State administrative costs.

To date, HHS has not approved State requests to change their cost allocation plans in order to increase administrative reimbursements under Food Stamp and Medicaid. Neither the Administration nor Congress envisioned such cost increases—which would exceed a projected $500 million a year—in crafting welfare reform.

In 1999, the Administration plans to let States change their cost allocation plans to charge more of their common administrative costs to Food Stamps and Medicaid. But to prevent Federal costs from rising, the budget proposes Food Stamp and Medicaid changes that would cover the costs. Specifically, it would cut the matching rates for administrative costs in Food Stamps and Medicaid from 50 percent to 47 percent.