



Federal Bill Would Reduce California's Child Support Incentive Funds

California's child support enforcement program assists families by locating absent parents, establishing paternity, obtaining and enforcing child support orders, and collecting payments pursuant to the orders. These services are provided to custodial parents receiving Temporary Assistance for Needy Families (TANF) and, on request, to non-TANF parents. Child support enforcement is administered by the 58 county district attorneys under the supervision of the state Department of Social Services (DSS).

In addition to picking up two-thirds of county administrative expenditures, the federal government makes incentive payments to states, designed to encourage them to collect child support. California passes the federal incentive payments to the counties along with additional state incentive payments. In the current state fiscal year (1997-98), counties are expected to receive \$192 million (\$81 million federal) in incentive payments. These funds are used to supplement other federal, county, and state funds to administer the program.

As discussed in more detail below, a proposed change in the federal formula which

allocates funding to the states would significantly reduce these incentive payments to California.

The Current Federal Incentive System

The amount of federal incentive payments provided to a state is the product of an *incentive rate*—a percentage amount that varies, depending on a particular performance measure—multiplied by the amount collected for child support (the *collections base*). The current federal incentive formula gives each state from 6 percent to 10 percent of its child support collections from absent parents whose children receive TANF, plus 6 percent to 10 percent of its non-TANF collections. The non-TANF incentive payments are limited by a cap of 115 percent of the incentive payments earned for TANF collections. The actual incentive rate (within the 6 percent to 10 percent range) depends on each state's ratio of child support collections to administrative costs. In federal fiscal year (FFY) 1996, California earned the minimum 6 percent on its TANF and non-TANF collections.

Cal Update

The Proposed Federal Incentive System

In response to the provisions of the federal welfare reform act—the Personal Responsibility and Work Opportunity Reconciliation Act of 1996—the Secretary of Health and Human Services recently proposed a new performance-based incentive system for child support enforcement. A bill passed by the House and currently in the Senate—H.R. 2487—contains the basic structure of the Secretary’s proposal. The bill would change both the collections base and the incentive rate used in calculating federal incentive payments. Two additional child support enforcement bills have been introduced in the Senate; each has essentially the same incentive structure as contained in H.R. 2487.

The New Collections Base. Currently, TANF and non-TANF collections are weighted equally when determining the collections base. The new collections base would be the sum of collections on behalf of families who have never received TANF, plus *twice* the sum of collections on behalf of current and former TANF recipients. Thus, this change would tend to give more weight to TANF collections, compared to the existing system. The new formula would also remove the existing 115 percent cap which, as noted above, limits the amount of non-TANF incentive payments. This change would tend to give more weight to non-TANF collections, but would benefit only those states that have relatively high levels of such collections.

The New Incentive Rate. The incentive rate proposed in H.R. 2487 would be a function of five performance measures:

- **Paternity Establishment.** The state may use either of two specified measures.

- **Support Order Establishment.** The percentage of cases in which there is a support order.
- **Current Support Collections.** The percentage of total current support owed that is collected.
- **Arrearage Collections.** The percentage of cases with arrearages in which past-due support is collected and paid to the family or the state.
- **Cost-Effectiveness.** Total collections divided by total administrative expenditures.

How the Incentive System Would Work. A state could receive a maximum incentive payment of 2.21 percent of its collections base. The exact amount of a state’s incentive payment would depend on its level of performance and rate of improvement in each criterion, according to a specified schedule.

Implementation. The new formula would be phased-in over three years. In FFY 2000, one-third of the state’s incentives would be based on the new formula and two-thirds on the current formula. In FFY 2001, two-thirds would be based on the new formula and one-third on the current one. In FFY 2002, only the new formula would be used.

Impact of the Proposed Incentive System

Figure 1 reports the federal incentives earned in FFY 1996 under the current incentive formula for the ten states receiving the largest incentive payments, compared to what these states would have received under the incentive system proposed in H.R. 2487. It shows that California’s incentive payment would fall from \$66.8 million under the current system (17 percent of the nationwide total) to \$24.5 million under the proposed system (6 percent of the nationwide total), based on data and certain

Cal Update

assumptions provided by the DSS. Thus, the state would have received \$42.3 million less than the amount actually allocated under the existing system.

This reduction of \$42.3 million in incentive payments is the net impact of three components. First, changing the performance-based incentive rate would have reduced California's incentive payments by \$22 million, if the proposed system had been in effect in FFY 1996. Although California would earn the maximum incentive rate for paternity establishment, the state would earn no incentives for support order establishment, current support collections, and arrearage collections, and it would earn only 40 percent of the maximum incentive rate for cost-effectiveness. Based on FFY 1996 performance, California's incentive rate "score" would be below 44 other states.

Second, the removal of the 115 percent cap on non-TANF incentive payments would have reduced California's incentive payments by \$22.1 million. Removal of the cap favors states that process a larger share of their non-TANF cases through their state child support programs. In California, non-TANF custodial parents can choose not to use the services of the county district attorney. In contrast, Michigan, Ohio, and Pennsylvania—three states that gain significantly under the proposed incentive system—require that *all* child support payments be disbursed through their state child support enforcement systems.

Third, weighting current and former TANF collections more heavily than collections on behalf of families who have never received TANF would have *increased* California's incentive payments

by \$1.8 million. In this instance, the relatively high percentage of TANF collections in California's child support enforcement program works to the state's advantage, but the fiscal impact is small compared to the two prior negative factors.

Figure 1

**Federal Incentive Payments Under Current Law and H.R. 2487
Ten Largest States^a
Federal Fiscal Year 1996**

(Dollars in Millions)

State	Current Law		H.R. 2487		Difference	
	Amount	Percent of Nationwide Total	Amount	Percent of Nationwide Total	Amount	Percent
California	\$66.8	16.8%	\$24.5	6.2%	-\$42.3	-63.3%
New York	25.6	6.4	15.9	4.0	-9.8	-38.1
Michigan	23.9	6.0	33.8	8.5	9.9	41.6
Pennsylvania	18.0	4.5	41.3	10.4	23.3	129.0
Ohio	16.4	4.1	39.9	10.0	23.5	143.6
Washington	16.0	4.0	19.3	4.8	3.3	20.5
Florida	13.9	3.5	7.4	1.9	-6.5	-46.6
Texas	13.7	3.4	16.2	4.1	2.5	18.1
Wisconsin	12.4	3.1	20.2	5.1	7.8	62.6
New Jersey	12.4	3.1	20.9	5.3	8.6	69.1

^a As measured by amount of incentive payments.

Cal Update

Effectiveness of the Proposed System

The federal welfare reform act provides that the new incentive payment system shall be designed so as to be fiscally neutral when initially implemented, with respect to the total amount of federal funds distributed to the states. As we have shown, however, the distribution of funds *among* the states would *not* be fiscally neutral under the proposed changes, based on FFY 1996 data.

While this is an important finding, it does not tell us whether the proposed changes would accomplish the primary goal of the proposal: to increase child support collections. To shed some light on this, we conducted a series of statistical analyses, using data from the 58 counties in California.

In our analysis, the only variables we found to be statistically significant in explaining differences in collections among the counties were (1) overall administrative expenditures per case on the program, and (2) cost-effectiveness, as measured by the ratio of collections to administrative costs. Besides cost-effectiveness, we found no statistically significant relationship between the proposed performance variables and collections. Moreover, cost-effectiveness was much less important than administrative expenditures in explaining the variation in collections. This is because some counties that were good performers on the cost-effective-

ness scale were relatively low performers in terms of collections. In other words, their cost-effectiveness was more a function of holding down spending than increasing collections.

While we recognize that the proposed performance variables are important components of the child support enforcement process, we also note that they are only part of a network of elements in that process. The issue is whether collections will be enhanced by giving program administrators a fiscal incentive to place greater weight on particular components of the process than they might otherwise; or whether the administrators should be left to make their resource allocation decisions without bias. Our findings suggest that the latter course may be the wiser. Thus, in devising an incentive payment formula we suggest that consideration be given to alternatives that place more weight on the principal outcome measure—collections—or some combination of collections and administrative effort, rather than on specific input variables.

We will explore this issue in greater detail in our *Analysis of the 1998-99 Budget Bill* (scheduled for release in February 1998), in response to the requirements of Chapter 926, Statutes of 1997 (SB 936, Burton).

Contact—David Mancuso, Health and Social Services Section—(916) 445-6061

On November 20, 1997, the Legislative Analyst's Office released its report entitled *California's Fiscal Outlook*. The report contains updated forecasts of California's economy, state revenues, and expenditures for fiscal years 1997-98 through 1999-00. Information on how to obtain copies of the report is provided below.

California Update is published monthly—except January and February—by the Legislative Analyst's Office (LAO). The LAO is a nonpartisan office which provides fiscal and policy information and advice to the Legislature. The Legislative Analyst's Office is located at 925 L Street, Suite 1000, Sacramento, CA 95814. To request publications call (916) 445-2375. Reports are also available on the LAO's World Wide Web page at <http://www.lao.ca.gov>.