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# California's Child Support Enforcement Program

## Executive Summary


The child support enforcement program has as its primary purpose the collection of child support payments for custodial parents. The state provides child support enforcement services to parents receiving Aid to Families with Dependent Children (AFDC) and, on request, to non-AFDC parents. Collections made on behalf of persons receiving AFDC offset a portion of the public costs of the AFDC grants.

In California, the child support program is administered by county district attorneys, under the general supervision of the State Department of Social Services (DSS). Most of the costs of the program are funded by the federal and county levels of government, but the savings accrue primarily to the federal government and the state. As a result, the program provides a significant savings — an estimated $106 million in 1991-92 — to the state through the reductions in AFDC grant expenditures.

California's performance with respect to its "recoupment rate" — the percentage of AFDC grant expenditures recovered through child support collections — is below average when compared to other states, even after adjusting for differences in AFDC grant levels.

California counties also have wide variations in their recoupment rates. We were able to compare the counties on the basis of their administrative spending on the AFDC component of their child support programs, using an index of "administrative effort." We

found that administrative effort — administrative expenses as a percent of grant expenditures — is a significant factor in explaining the variation among the counties in their AFDC recoupment rates.

While this finding indicates a correlation between child support collections (as reflected in recoupment rates) and program costs (as measured by the index of administrative effort), it does not show how these variables interact to produce the net fiscal effect of the program on the state and the counties.

We found that, because of the manner in which the program is administered and funded, counties have a fiscal incentive to hold spending down to relatively low levels, even though increased spending is likely to be cost-beneficial from a *statewide* perspective. More specifically, we found evidence that *marginal* increases in spending — particularly in relatively efficient counties — are likely to result in net savings to the state as well as to the state and the counties when viewed as a combined unit.

We conclude, therefore, that the child support enforcement program could be improved by changing the existing set of incentives that affect decision making on program funding. To accomplish this, we present two options for the Legislature. Under the first option, the responsibility for administration and funding of the program would be transferred from the counties to the state. In the second option, the state would provide a state-funded incentive payment to augment program funding, based on each county's efficiency as measured by the ratio of the marginal increase in child support collections to the marginal increase in administrative costs.

Clearly, child support enforcement is more than simply a means of raising revenue for the state. A better understanding of how spending decisions are made, however, can result in program changes that improve its effectiveness, both from the fiscal perspective of the state and the programmatic perspective of the families that receive these services.

## Introduction

In recent years, child support enforcement has attracted considerable attention at the state and federal levels of government. This is due, in part, to the program's potential for shifting a significant amount of the costs of public assistance provided to custodial parents and their children from the government to the noncustodial parents.

In this report, we describe the child support enforcement program and its funding system, analyze the factors that determine program effectiveness and the fiscal impact of the program on the state and the counties, and conclude with the presentation of two options for improving the performance of the program.

## Background

All children are legally entitled to support from both parents. Single parents seeking child support may do so through the courts or through private agreements. Federal law requires the states to provide child support enforcement services to anyone requesting these services, regardless of his or her income. In California, the DSS oversees administration of the child support enforcement program, but the state has assigned to the county district attorneys the responsibility for local administration. Child support enforcement services are provided to families receiving public assistance through the AFDC Program and, on request, to non-AFDC families.

The type of services provided will vary with the needs of the family. In some cases, it is necessary to locate an absent parent, establish paternity, establish a court order for support, enforce the order, and collect and distribute payments. In other cases, an order has already been established — perhaps through divorce proceedings — but it may still be necessary to locate the parent and collect the required support. Currently, the county district attorneys in California provide child support enforcement services to about one million custodial parents, including both welfare and nonwelfare cases.

From a fiscal as well as policy perspective, it is important to note that almost all AFDC families have a living absent parent. Only a small percentage of these absent parents, however, are providing child support, and many of those who do so are not current in their payments. This is particularly relevant to the government because collections made by the state on behalf of recipients of AFDC offset the governmental costs of the AFDC grant, less $50 per month which is distributed directly to the recipient.

## Fiscal Components

The child support enforcement program in California has three fiscal components: (1) administrative costs, (2) welfare recoupments, and (3) incentive payments.

*Administrative Costs.* The vast majority of administrative funds for the program are spent by the counties. They will spend about $236 million in the current year, with the federal government picking up two-thirds of the costs and the counties almost all of the remainder. (As discussed below, these county costs are, on the whole, offset completely by other savings.) The state also has administrative costs — about $22 million in 1991-92 — of which the federal government paid about three-fourths and the state one-fourth. (The federal government pays for 66 percent of most costs and 90 percent of certain costs, including development of a statewide automation project.)

*Welfare Recoupments.* As a result of the counties' enforcement efforts, increased support payments to AFDC families reduce the grant expenditures. These savings are shared by the federal, state, and county governments, according to how the cost of AFDC grant payments are distributed among them — generally 50 percent federal, 47.5 percent state, and 2.5 percent county (in accordance with recent "realignment" changes).

*Incentive Payments.* Counties receive incentive payments from the state and the federal government designed to encourage them to maximize collections. Generally, these incentive payments are based on each county's child support collections. The federal government allocates to the states an incentive payment based on a percentage of AFDC and non-AFDC collections, with the percentage (usually 6 percent to 6.5 percent for California) varying according to the state's ratio of collections to program costs. In California, the state supplements these funds and distributes the combined federal and state incentive payments to counties based on a specified percentage of total AFDC and non-AFDC collections.

Pursuant to Ch 1647/90 (AB 1033, Wright), the counties will receive up to 11 percent of total collections in 1992-93, increasing annually by 1 percent through 1995-96 (to a 14 percent maximum). The actual amount that counties receive will consist of a minimum "base" rate and an additional percentage depending on their *compliance* with state and federal regulations and *performance* against certain benchmarks. Table 1 summarizes this revised system for distributing incentive payments.

Table 1

**Combined State and Federal Child Support Program Incentive Payments to Counties[a] 1992-93 through 1995-96**

| Year | Base Rate | Compliance Rate | Performance Rate | Total |
|---|---|---|---|---|
| 1992-93 | 9 % | 2 % | — | 11 % |
| 1993-94 | 8 | 3 | 1 % | 12 |
| 1994-95 | 7 | 4 | 2 | 13 |
| 1995-96 | 6 | 5 | 3 | 14 |

[a] Applied to total child support collections (AFDC and non-AFDC).

## Fiscal Impact of Program

Table 2 summarizes the net fiscal impact of these various components on each level of government in 1991-92. The table indicates that the impact varies significantly:

- *State.* The state is the big winner (net General Fund savings of $106 million), as it receives almost half of all welfare recoupments, yet incurs relatively small costs (primarily for incentive payments).

- *Federal Government.* By contrast, the federal government is the big fiscal loser, as it will spend $76 million more in 1991-92 in program costs than it will receive in the form of grant savings.
- *Counties.* In the aggregate, California counties realize a savings ($9.6 million) from the program. They will spend about $76 million of their own money this year on enforcement efforts, yet these costs will be more than offset by incentive payments and recoupments. It is important to note, however, that the net effect of the program can vary significantly by county (as we discuss below).

Table 2

**Child Support Enforcement Program Net Fiscal Impact 1991-92[a] (in thousands)**

| | General Fund | Federal Funds | County Funds | Total |
|---|---|---|---|---|
| ***Program costs:*** | | | | |
| County administration | $1,014 | $158,981 | $76,193 | $236,188 |
| State administration | 5,257 | 16,815 | — | 22,072 |
| Incentive payments | 27,022 | 43,841 | -70,913 | — |
| ***Savings:*** | | | | |
| Welfare recoupments | -139,506 | -143,186 | -14,860 | -297,552 |
| **Net fiscal impact** | **-$106,163** | **$76,451** | **-$9,580** | **-$39,292** |

[a] Estimated.

# How Does California's Child Support Enforcement Program Compare With Other States?

## A Comparison of Recoupment Rates

One way of assessing California's performance in its child support enforcement program is to compare it with other states. The most comprehensive rating of this kind is published by the Human Resources Subcommittee of the House Ways and Means Committee. In its most recent "Child Support Enforcement Report Card," based on federal fiscal year (FFY) 1989 data, California ranked 48th among the 50 states.

The Ways and Means Committee report relies on a variety of measures to derive its ranking. Some of these measures, and the reliability of the data on which they are based, have been subject to criticism. While much of this criticism is justified, we believe that one of these measures — the AFDC recoupment rate — can, with one significant modification, provide a useful comparison of the states' performance in the AFDC component of their child support programs.

The AFDC recoupment rate is the percentage of a state's total AFDC grants recovered through child support enforcement services on behalf of AFDC recipients. We emphasize this measure because (1) it is a direct measure of the output — collections — of the program, whereas most of the other yardsticks are measures of program inputs, (2) it reflects the direct fiscal savings to government (especially for the state) that are derived from the program, and (3) the data are reliable. (This measure does not, however, measure the *cost-effectiveness* of enforcement efforts. We discuss measures that do later in the piece.)

*In FFY 89, the states' recoupment rates ranged from a high of 33.2 percent in Idaho to 3.8 percent in Arizona, with California ranking 48th at 5.9 percent.* One problem in comparing the states' AFDC recoupment rates, as the House Ways and Means Committee report does, is that the basis of the measure — AFDC grant expenditures — is affected by the variation among the states in average grant levels, a factor that is generally independent of the other component of the recoupment measure, child support collections. This places California at a disadvantage in such comparisons because the state's average AFDC grant is second highest in the nation.

In order to compensate for this, we adjusted the states' recoupment rates in FFY 89 to account for the differences in average grants (using California as the reference point). As a result, California's ranking rises to 31st among the 50 states. As Table 3 shows, California ranked 5th among the 10 largest states in FFY 89, after adjusting for the grant differentials. We note, however, that the adjusted rate of Michigan (the highest-performing state) is still significantly higher than California's — almost twice as much.

Table 3

**AFDC Recoupment Rates of the 10 Largest States Actual and Adjusted for AFDC Grant Differentials Federal Fiscal Year 1989**

| | Recoupment Rate | Average Grant/Case | Adjusted Recoupment Rate* |
|---|---|---|---|
| Michigan | 13.6% | $482 | 10.7% |
| New Jersey | 13.9 | 358 | 8.1 |
| Pennsylvania | 13.2 | 352 | 7.6 |
| North Carolina | 18.9 | 238 | 7.4 |
| **California** | **5.9** | **611** | **5.9** |
| New York | 6.0 | 532 | 5.2 |
| Ohio | 9.6 | 310 | 4.9 |
| Florida | 11.2 | 249 | 4.6 |
| Illinois | 5.3 | 317 | 2.7 |
| Texas | 9.4 | 169 | 2.6 |

* Adjusted for differences in average grant, using California as the reference point.

## What Accounts for Superior Performance By Other States?

Answering this question is made difficult by (1) our lack of detailed knowledge on the operations of other states and (2) the lack of reliability, for purposes of comparison, of some of the data reported by the states. In an attempt to gain some insight in this area, we reviewed the child support enforcement programs in Wisconsin and Michigan, two states that have recoupment rates that are almost twice that of California, after adjusting for grant differentials.

With respect to administrative procedures (such as specific enforcement techniques and the level of automation), we cannot point to anything that might have led to the higher recoupment rates reported by Wisconsin and Michigan. As to organizational structure, Wisconsin permits each county to select its administering agency at the local level, but state officials believe that the resulting lack of uniformity is disadvantageous rather than beneficial. Michigan has a more uniform local organizational structure, but divides functional and funding responsibility at the local level along three lines: the state-funded county departments of social services, county-funded prosecuting attorneys, and county-funded "Friends of the Court."

The Friend of the Court in Michigan is a court-appointed employee who works exclusively on child support cases and is empowered to conduct hearings and recommend awards based on the state guideline. Program administrators believe that this helps to expedite the process. In California, court commissioners and referees can perform a similar function, but the use of these personnel for child support cases is not widespread. Currently, three counties — Los Angeles, Orange, and Santa Clara — use at least one commissioner or referee exclusively for child support.

Expenditure data indicate that both Wisconsin and Michigan allocate relatively more resources (in relation to their AFDC cases and expenditures) to the AFDC component of their child support programs than does California. This may be an important factor in explaining the differences in performance. We can hypothesize that the additional resources translate into lower caseloads for local case workers, but caseload data are not sufficiently reliable to verify this. From an organizational standpoint, it is also important to recognize that in Michigan the state has more (although not total) control over funding decisions for administration of the program than does the state in California.

## Differences in Performance Among California's Counties

Just as the states differ significantly in their performance, so do California's 58 counties. Table 4 ranks the counties by their AFDC recoupment rates in 1990-91, after adjusting for differences in their average AFDC grant levels per case. (While maximum AFDC grants are the same statewide for a given family size, counties can have different *average* grant levels due to different average family sizes and income levels.) *As the table shows, the adjusted recoupment rates ranged from 17.7 percent in Napa County to 3.6 percent in Mono and Los Angeles Counties.*

### "Administrative Effort" Explains Much of the Intercounty Differences

In an effort to account for these differences, we updated, refined, and expanded a statistical analysis of data on child support enforcement that we presented in the *Analysis of the 1990 Budget Bill* (please see pp. 707-710). In that analysis, we devised a method of measuring a county's "administrative effort," expressed as the ratio of total spending on the child support program to total expenditures for AFDC-Family Group (AFDC-FG) grants. We chose AFDC-FG grant expenditures as the base because it provided a way to differentiate between the counties in terms of the scope of their task in collecting child support for AFDC families. We found that administrative effort was an important factor in determining the counties' performance, explaining 40 percent of the variation among the counties in their AFDC recoupment rates in 1988-89.

Table 4

**Child Support Enforcement Program AFDC Recoupment Rates[a] 1990-91**

| County | | County | |
|---|---|---|---|
| Napa | 17.7% | Santa Cruz | 9.8% |
| Ventura | 15.2 | Tehama | 9.7 |
| El Dorado | 15.1 | San Francisco | 9.5 |
| Plumas | 14.6 | Stanislaus | 9.4 |
| Inyo | 14.5 | Marin | 9.4 |
| Sierra | 14.4 | Contra Costa | 9.1 |
| Santa Barbara | 13.8 | San Mateo | 8.7 |
| Sonoma | 13.7 | Orange | 8.6 |
| Sutter | 13.2 | Santa Clara | 8.2 |
| San Luis Obispo | 13.2 | Trinity | 8.1 |
| Colusa | 13.0 | Calaveras | 7.9 |
| Merced | 12.5 | Tulare | 7.8 |
| Shasta | 12.4 | Solano | 7.6 |
| Yolo | 12.4 | Alpine | 7.5 |
| Kings | 12.4 | Kern | 7.4 |
| Mariposa | 12.3 | Lake | 7.3 |
| Nevada | 12.2 | Imperial | 7.3 |
| Placer | 12.0 | Riverside | 7.2 |
| Monterey | 11.9 | Lassen | 7.1 |
| Del Norte | 11.6 | Alameda | 6.9 |
| Mendocino | 11.4 | San Bernardino | 6.7 |
| Tuolumne | 11.2 | San Joaquin | 6.3 |
| San Benito | 11.1 | Modoc | 6.1 |
| Glenn | 10.8 | Yuba | 6.0 |
| Siskiyou | 10.7 | San Diego | 5.9 |
| Humboldt | 10.6 | Amador | 5.1 |
| Butte | 10.4 | Sacramento | 4.3 |
| Madera | 10.4 | Mono | 3.6 |
| Fresno | 9.9 | Los Angeles | 3.6 |

[a] Adjusted for AFDC average grant differentials, using the unweighted statewide average as the reference point.

In updating and modifying this analysis, we used 1990-91 data and revised our measure of administrative effort by substituting administrative spending on the AFDC component of the program for total administrative spending, so that both variables — administrative effort and recoupment rate — correspond to the AFDC part of the program.

We also adjusted recoupment rates and administrative effort to compensate for the differences between the counties in their average AFDC grants per case. The results confirmed our earlier finding: administrative effort explained 44 percent of the variation in recoupment rates.[1]

We also tested a variety of other variables in order to see if we could add to the explanation of variation in recoupment rates and to determine if administrative effort remained an important variable when controlling for the effects of other factors. These included several demographic variables that, according to some program administrators, might have an effect on the ability to collect child support: unemployment rate, percentage of out-of-wedlock births, degree of urbanization, percentage of Blacks and Hispanics in the AFDC caseload, percentage of AFDC recipients in the county's population, and the growth trend of AFDC cases in the county. The results showed that these variables either were statistically insignificant or added very little to the explanation of variation in recoupment rates. Administrative effort, however, retained its explanatory power when including these other variables in the analysis.

The importance of administrative effort is illustrated in Table 5, which shows that counties in the top quartile in recoupment rates expended, on average, 2.4 times as much administrative effort as did the counties in the bottom quartile.

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[1] In this and subsequent regression analyses, we excluded the 10 smallest counties because they are susceptible to volatile changes that can distort the results. For example, if a county has an unusually high level of administrative spending in a particular year, compared to all other counties, it will have a disproportionately strong influence on the results of the analysis.

Table 5

**Child Support Enforcement Program**
**Administrative Effort of High- and Low-Performing Counties**
**1990-91**

| High-Performing Counties (Top Quartile) | | | Low-Performing Counties (Bottom Quartile) | | |
|---|---|---|---|---|---|
| County | AFDC Recoupment Rate[a] | Administrative Effort[a] | County | AFDC Recoupment Rate[a] | Administrative Effort[a] |
| Napa | 17.7% | 7.9% | Lake | 7.3% | 3.7% |
| Ventura | 15.2 | 9.0 | Imperial | 7.3 | 2.8 |
| El Dorado | 15.1 | 10.5 | Riverside | 7.2 | 3.6 |
| Plumas | 14.6 | 8.0 | Lassen | 7.1 | 1.7 |
| Inyo | 14.5 | 9.0 | Alameda | 6.9 | 3.0 |
| Sierra | 14.4 | 16.6 | San Bernardino | 6.7 | 1.9 |
| Santa Barbara | 13.8 | 8.3 | San Joaquin | 6.3 | 1.6 |
| Sonoma | 13.7 | 6.2 | Modoc | 6.1 | 6.6 |
| Sutter | 13.2 | 8.8 | Yuba | 6.0 | 2.6 |
| San Luis Obispo | 13.2 | 5.9 | San Diego | 5.9 | 2.4 |
| Colusa | 13.0 | 5.6 | Amador | 5.1 | 7.7 |
| Merced | 12.5 | 2.5 | Sacramento | 4.3 | 2.3 |
| Shasta | 12.4 | 4.9 | Mono | 3.6 | 3.1 |
| Yolo | 12.4 | 4.3 | Los Angeles | 3.6 | 1.9 |
| **Unweighted average** | **13.9%** | **7.7%** | **Unweighted average** | **5.9%** | **3.2%** |

[a] Adjusted for differentials in average grants.

## Other Factors

If administrative effort — an indication of the level of resources allocated to the program — explains about half of the variation in recoupment rates, what accounts for the other half? Statistical analysis of the demographic variables yields very little. We suspect, however, that managerial ability plays an important role. We do not have a good way to measure this trait, although there is a commonly used measure of efficiency of operations — the ratio of child support collections to program costs — which reflects one aspect of managerial ability. Table 6 ranks the counties on the basis of their AFDC collections per dollar of administrative expenditures in the AFDC component of the program in 1990-91.

Table 6

## Child Support Enforcement Program AFDC Collections per Dollar of AFDC Administrative Expenditures 1990-91

| County | Collections/ Costs | County | Collections/ Costs |
|---|---|---|---|
| Merced | $4.92 | Sonoma | $2.21 |
| Mendocino | 4.63 | Kern | 2.15 |
| Lassen | 4.08 | Mariposa | 2.03 |
| Humboldt | 4.07 | Riverside | 2.01 |
| San Joaquin | 3.88 | Trinity | 1.96 |
| San Bernardino | 3.59 | Lake | 1.96 |
| Madera | 3.46 | Santa Cruz | 1.93 |
| Fresno | 3.21 | Sacramento | 1.89 |
| Tuolumne | 3.21 | Placer | 1.88 |
| Monterey | 3.07 | Los Angeles | 1.85 |
| Tulare | 2.96 | Plumas | 1.84 |
| Yolo | 2.85 | Orange | 1.78 |
| Butte | 2.82 | Contra Costa | 1.73 |
| Kings | 2.82 | Del Norte | 1.69 |
| Siskiyou | 2.60 | Ventura | 1.69 |
| Imperial | 2.58 | Santa Barbara | 1.67 |
| Tehama | 2.55 | San Francisco | 1.62 |
| Shasta | 2.54 | Santa Clara | 1.61 |
| San Diego | 2.51 | Inyo | 1.60 |
| Solano | 2.47 | Nevada | 1.51 |
| San Benito | 2.40 | Sutter | 1.50 |
| Stanislaus | 2.36 | El Dorado | 1.43 |
| Yuba | 2.34 | San Mateo | 1.34 |
| Colusa | 2.33 | Mono | 1.13 |
| Glenn | 2.29 | Modoc | 0.92 |
| Alameda | 2.28 | Sierra | 0.87 |
| Calaveras | 2.26 | Marin | 0.84 |
| Napa | 2.25 | Amador | 0.66 |
| San Luis Obispo | 2.24 | Alpine | 0.28 |

Two caveats about the table are important. First, the ratios represent a return on a dollar of administrative spending from *all* levels of government. They do not tell you what a particular level (say, the county) receives for a dollar of spending. (This is discussed in the next section.) Second, the ratios are *average*, not *marginal* figures. For instance, in Merced County the average return from every dollar in public spending on enforcement was $4.92, which may suggest that each *additional* enforcement dollar would return as much. However, it is likely that the county's *first* dollars spent on enforcement were aimed at the most productive cases and that subsequent spending returned less and less. It may be, for instance, that the *last* dollar spent on enforcement returned less than a dollar, meaning that it was not a good investment from a fiscal perspective.

## Would Additional Spending on Child Support Enforcement Be Cost-Effective?

Up to this point, we have emphasized recoupment rates as an indication of program performance. As a measure of child support collections, recoupment rates are particularly important to the federal and state governments, which primarily benefit from the offsets to their AFDC grant expenditures. We need to consider, however, the public costs of operating the program as well as the AFDC grant savings. As we have seen, there is a strong relationship between collections, as indicated by recoupment rates, and program costs, as reflected in our index of administrative effort. We turn now to an analysis of how these variables interact to produce the *net fiscal impact* of the program on the government, particularly the state and the counties.

*Clearly, the state is the primary fiscal beneficiary from additional spending on child support enforcement.* This occurs because administrative costs are borne almost entirely by the federal and county governments and yet the state and federal governments share most of the benefits from additional AFDC collections through offsets to AFDC grants (even after accounting for the incentive payments). The effect on the counties, however, is less clear. On the whole, the program has yielded net savings to the counties in past years, but this has not necessarily been true for all counties. Furthermore, even in those counties that made money overall, their spending "at the margin" may not have a return large enough to cover these costs.

We examined the statewide totals for changes in collections and expenditures between 1987-88 and 1990-91 and found that — at the margin — an additional dollar of expenditures (from all sources) was accompanied by an increase of $3 in total collections (divided about equally between AFDC and non-AFDC collections). Based on these data, we developed three hypothetical scenarios that most counties are probably facing: marginal collections/marginal costs ratios of $2/$1, $3/$1, and $4/$1. Table 7 shows the net fiscal impact on the state, the county, and the state and county combined as total enforcement expenditures are increased by each $1 under these three scenarios.

Table 7

**Net Costs (Savings) From $1 Increase In Spending Under Three Marginal Collections/Costs[a] Scenarios**

| | Federal | County | State | County/State |
|---|---|---|---|---|
| **Scenario 1: Collections/Costs Ratio = $2/$1** | | | | |
| **Expenditures:** | | | | |
| Administration | $.66 | $.34 | — | $.34 |
| Incentive payments | .13 | — | $.07 | .07 |
| **Revenues:** | | | | |
| Incentive payments | — | (.20) | — | (.20) |
| AFDC grant savings | (.50) | (.02) | (.48) | (.50) |
| **Net fiscal impact** | **$.29** | **$.12** | **($.41)** | **($.29)** |
| **Scenario 2: Collections/Costs Ratio = $3/$1** | | | | |
| **Expenditures:** | | | | |
| Administration | $.66 | $.34 | — | $.34 |
| Incentive payments | .20 | — | $.10 | .10 |
| **Revenues:** | | | | |
| Incentive payments | — | (.30) | — | (.30) |
| AFDC grant savings | (.75) | (.04) | (.71) | (.75) |
| **Net fiscal impact** | **$.11** | **—** | **($.61)** | **($.61)** |
| **Scenario 3: Collections/Costs Ratio = $4/$1** | | | | |
| **Expenditures:** | | | | |
| Administration | $.66 | $.34 | — | $.34 |
| Incentive payments | .26 | — | $.14 | .14 |
| **Revenues:** | | | | |
| Incentive payments | — | (.40) | — | (.40) |
| AFDC grant savings | (1.00) | (.05) | (.95) | (1.00) |
| **Net fiscal impact** | **($.08)** | **($.11)** | **($.81)** | **($.92)** |

[a] Ratio of increase in AFDC and non-AFDC collections (net of $50 disregard payments) to increase in total administrative costs.

*As the table shows, the state and the combined state and county governments benefit from additional spending under all three scenarios* (that is, all the "net fiscal impact" numbers in the last two columns are in parentheses — meaning savings). For instance, the state makes money under all three scenarios (either 41 cents, 61 cents, or 81 cents on each additional dollar's worth of enforcement effort). The *county,* however, shows a clear fiscal benefit only in the case where the marginal collections to marginal costs ratio is above the $3 to $1 ratio. If a county based its decisions solely on fiscal grounds and found itself in the situation where the ratio was at the $2 to $1 level, it would rationally decide *not* to make the additional expenditure. *It is important to note that, from a fiscal perspective, such a decision would be suboptimal from the combined state/county perspective.* This is because the state and counties combined make a net savings of 29 cents on each additional enforcement dollar expended.

Clearly, counties do not always base decisions on the level of child support enforcement solely according to their calculations of the fiscal impact. It would be surprising, however, if these key fiscal considerations were not important in the counties' decision-making process. In this connection, we note that program administrators frequently told us that they were encouraged or instructed to operate a "no-cost" program.

## Net Fiscal Impact on Counties

In order to gain additional insight into explaining a county's willingness to commit resources to its child support enforcement program, we reviewed the program's fiscal impact on the counties in 1990-91. Table 8 ranks the counties on the basis of their "profitability" — net revenues or costs as a percent of the county's share of expenditures. It shows, for instance, that Lassen County made money equal to 130 percent of the amount it spent on child support enforcement, whereas Alpine County had net costs equal to 81 percent of its enforcement expenditures.

Table 8

**Child Support Enforcement Program Net County Costs (Revenues) as Percent of County Expenditures 1990-91**

| County | | County | |
|---|---|---|---|
| Lassen | (130.2%) | Contra Costa | (10.5%) |
| Merced | (122.4) | Lake | (10.2) |
| Humboldt | (110.4) | Sonoma | (9.8) |
| Mendocino | (105.0) | Mariposa | (8.8) |
| San Bernardino | (88.4) | Solano | (5.4) |
| San Joaquin | (82.4) | Plumas | (3.6) |
| Madera | (73.4) | Del Norte | (1.3) |
| Napa | (73.3) | Santa Cruz | 2.9 |
| San Diego | (57.6) | Sacramento | 4.0 |
| Fresno | (56.6) | Orange | 5.0 |
| Tuolumne | (54.9) | Mono | 6.3 |
| Siskiyou | (38.7) | Placer | 6.6 |
| Imperial | (38.1) | Trinity | 7.9 |
| Butte | (37.6) | Los Angeles | 9.0 |
| Yolo | (37.4) | Ventura | 12.1 |
| Tulare | (36.3) | San Luis Obispo | 12.8 |
| San Benito | (36.2) | Nevada | 18.6 |
| Kings | (36.0) | Santa Barbara | 19.0 |
| Shasta | (34.2) | Sutter | 20.2 |
| Calaveras | (33.6) | Inyo | 22.1 |
| Tehama | (31.5) | Santa Clara | 25.9 |
| Yuba | (23.8) | El Dorado | 26.1 |
| Stanislaus | (21.7) | San Mateo | 28.4 |
| Glenn | (20.2) | San Francisco | 30.0 |
| Colusa | (18.6) | Amador | 30.5 |
| Kern | (17.9) | Sierra | 31.2 |
| Monterey | (16.5) | Modoc | 35.0 |
| Riverside | (16.1) | Marin | 41.4 |
| Alameda | (10.8) | Alpine | 81.4 |

In analyzing the counties' "profitability," there is a fairly strong *inverse* relationship between net profitability and administrative effort. This relationship suggests that, in spite of the existing set of incentive payments designed to encourage collections, counties apparently do not have a strong fiscal incentive to commit relatively high levels of resources to the program.[2]

A review of the counties in terms of their combined state/county profitability indicates that all but one of the counties realized a net savings. Thus, even relatively inefficient counties contributed to the state's net savings from the program.

We can get a better idea of the program's potential for yielding additional savings by returning to our analysis of marginal increases in collections and costs. If we assume a $3 to $1 ratio of marginal collections to marginal costs, the combined state and county savings (in AFDC grant offsets and federal incentive payments) amount to about $2.70 for every $1 of state/county administrative costs. Thus, for every $10 million in additional enforcement spending, the state and counties would make $27 million, for a net savings of $17 million.

## How Can the State Improve Its Child Support Enforcement Program?

In the preceding analysis, we found that additional spending is likely to lead to more effectiveness in the child support program and additional savings to the state. There is also evidence, however, that — from the counties' fiscal perspective — these additional commitments often do not benefit the county, which has control over program funding decisions. *If anything, the existing funding system seems to provide an incentive for counties to hold spending down.* We conclude, therefore, that it would be in the interest of the state if the Legislature were to initiate changes in the program in order to effect an increase

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[2] The amount of profit a county can divert to its general fund is limited to its savings in AFDC grant expenditures. State law requires the counties to spend their incentive payments on the child support program. (An Auditor General report in 1989, however, indicated that counties were not properly restricting their excess revenue.)

in its cost-effectiveness. In this section, we present two alternatives for revising the state's system of administering and funding the child support enforcement program.

## Option 1: State Administration of the Child Support Program

Under this option, legislation would be enacted to provide that the state assume administrative control of the program, thereby making the state rather than the counties responsible for the decisions that affect program performance. Assumption of control of the program's funding would eliminate the problems discussed above that can result when the agency that has control over resource allocation decisions views these decisions from a fiscal perspective which differs substantially from the state's. Thus, the state would be able to allocate resources to the program according to a statewide perspective, based on the Legislature's policy decisions with respect to fiscal and other benefits associated with the delivery of child support enforcement services to AFDC and non-AFDC parents.

If the Legislature should decide to adopt this policy, we believe that it would be prudent to proceed by funding an implementation study to address the many implementation issues that would have to be resolved prior to state assumption of the program. We estimate that such a study would cost from $75,000 to $100,000.

## Option 2: Collections/Costs Incentive Payment

Under this option, the state would add an additional state-funded incentive payment to augment program funding, based on each county's efficiency as measured by the ratio of the *marginal* increase in child support collections to the marginal increase in administrative costs. This would add funds where they would generate the greatest increase in collections. The incentive payment should be provided on the condition that it supplement, and not supplant, existing expenditures by the county. In addition, the payment should be "matched" by an increase in county expenditures.[3]

There are many different formulas that could be devised to provide these additional incentive payments to counties. In order to implement this option, the Legislature would have to explore these alternatives carefully prior to selecting a specific approach.

## Conclusion

Child support enforcement is, of course, more than simply a means of raising revenue for the state. The provision of an adequate level of support for children stands as the fundamental rationale for the program. Nevertheless, focusing on the program's net fiscal impacts can lead both to improved program effectiveness *and* additional savings to the state.

The existing system of administering and funding the child support enforcement program provides a set of fiscal incentives which result in decisions that are counter-productive from a statewide perspective. We believe that this problem can best be addressed by adopting one of the options that we present for revising the manner in which the program is funded. The first option — state administration — would permit the greatest degree of state control and facilitate an optimal allocation of resources to maximize net revenues. The second option — a new incentive payment — would facilitate the efficient use of limited resources that might be made available for program expansion.

Under either option, however, the state should commit to a higher level of investment in the child support program, a difficult course to take in the midst of a period of tight fiscal constraints. We believe,

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[3] This process would be dynamic rather than static. As noted above, we would expect the county's collections to costs ratio to decline as expenditures increase.

however, that such an investment would ultimately lead to a significant increase in savings to the state and thereby prove to be cost-effective in the long run.

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