

## Issue Brief – Loss of Incentive Funds as State Match

OFFICE OF RECOVERY SERVICES

NUMBERDHS-08-11

### LOSS OF INCENTIVE FUNDS AS STATE MATCH

The Office of Recovery Services (ORS) is requesting \$1,820,600 in general funds for FY 2008 to replace federal incentive funds previously allowed to be used as state match. In addition, ORS will be requesting \$606,800 for FY 2009 during the 2008 General Session since the federal policy change spans two state fiscal years.

### OBJECTIVE

“The mission of the Office of Recovery Services (ORS) is to serve children and families by promoting independence through responsible parenthood and to ensure public funds are used appropriately.”

### DISCUSSION AND ANALYSIS

The federal government pays 66 percent of the costs of the state child support programs and the state pays 34 percent. Transfers from Other Agencies, General Funds and federal Incentive funds may be used to meet the state match requirement.

#### *Federal Incentive Funds*

The Government Performance and Results Act of 1993 required federal programs to develop measurable goals. In response to this act, the Office of Child Support Enforcement and state partners established a strategic plan. Each state has the ability to earn incentive funds based on performance in five areas:

1. Establishing paternity;
2. Establishing support orders;
3. Collection of current support;
4. Collecting support in arrears; and
5. Cost effectiveness.

In the past, states receiving federal incentive funds were not only allowed to use the funds for child support programs but were also allowed to treat these funds like State dollars and use them as part of the 34 percent state match. The only stipulation was that the incentive funds had to be reinvested in Child Support Programs. Starting in FY 2008, the federal Budget Deficit Reduction Act of 2006 is disallowing the long standing practice of child support agencies (ORS) applying federal incentive awards toward matching funds. The state match needed to maintain the same level of support will be \$1,820,600 in FY 2008 and an additional \$606,800 for FY 2009.

#### *ORS Funding*

The appropriation for FY 2007 for ORS is shown in the following table:

<b>FY 2007 ORS Funding</b>		
<b>FY 2007 Revised Appropriation</b>		
General Funds	\$12,381,000	25.21%
Federal Child Support Enforcement IV-D	\$28,174,900	57.37%
Federal Incentive Funds	\$3,677,900	7.49%
Federal Title XIX (Medicaid requires a 50% match)	\$2,000,100	4.07%
Transfers from Other Agencies *	\$184,800	0.38%
Dedicated Credits (may not be used as match)	\$2,658,200	5.41%
Non-lapsing Balances** (may not be used as match)	\$37,400	0.08%
<b>Total</b>	<b>\$49,114,300</b>	
* The Transfers from Other Agencies is monies from the Administrative Courts for reimbursement of services performed by ORS relating to paternity and child support orders. This funding may be used as match to draw down federal funds.		
** The non-lapsing balances are for the eREP project.		

*Office of Recovery Services Duties*

Statutorily, in **UCA Section 62A-11-104**, ORS is required to provide the following services:

1. Provide child support services (establishing paternity and support orders);
2. Collect child support – ORS collects child support from non-custodial parents and disburses the monies to the custodial parent;
3. Collect money due DHS to offset expenditures – ORS collects money for other division in DHS such as expenditure for medical and living expenses from parents of children in state custody;
4. Work with the federal government to recover health and social service funds – Collection of medical reimbursement from responsible third parties to both reimburse and avoid state Medicaid costs;
5. Collect civil and criminal assessments, fines, fees and amounts awarded as restitution and reimbursable expenses owed to the state or any of its political subdivisions – ORS ;
6. Implement income withholding for collections of child support;
7. Establish and maintain the state case registry;
8. Contract with Workforce Services to establish and maintain a new hire registry;
9. ORS pursues medical and child support if recipient is on cash assistance and/or Medicaid;
10. Finance any costs incurred from collections, fees, General Fund appropriations, contracts and federal financial participation; and
11. Provide notice to non-custodial parent.

*Impact of the Loss of Incentive Funds as State Match*

- The implications of this change if state matching funds are not replaced will be an estimated reduction in federal funds of \$7.1 million in Title IV-D funds (\$5.3 million in FY 2008 and \$1.8 million in FY 2009).
- ORS is estimating that they will lose approximately 120 full time equivalent (FTE) employees or 25 percent of their staff (90 FTE in FY 2008 and 30 FTE in FY 2009), over the next two years if the loss of incentive funds as state match are not replaced.
- According to ORS, the loss of 90 FTEs will significantly impact their ability to provide services required by statute.
- Loss of staff will negatively impact ORS' IV-D Incentive Award.
- Because of a reduction in staff, ORS may be unable to meet minimum standards required by Title IV-D. This could result in a 1 to 5 percent penalty that will be imposed against the Department of Workforce Services' TANF grant.

The following table shows the impact of the reduction in federal funds and the loss of staff:

<b>FY 2008 Projected Impact with Reduction in federal funds and 90 FTE</b>				
<b>Description</b>	<b>General Fund</b>	<b>Federal Funds</b>	<b>Disbursement to</b>	
			<b>Parents</b>	<b>Total</b>
Child Support Collections		(\$2,206,600)	(\$22,311,200)	(\$24,517,800)
State Share of Collections	(\$994,700)			(\$994,700)
Other Divisions Share of Collections	(\$774,100)	(\$83,600)		(\$857,700)
Medicaid Collections	(\$1,066,200)	(\$2,610,400)		(\$3,676,600)
Medicaid Cost Avoidance	(\$6,141,800)	(\$15,036,800)		(\$21,178,600)
<b>Total</b>	<b>(\$8,976,800)</b>	<b>(\$19,937,400)</b>	<b>(\$22,311,200)</b>	<b>(\$51,225,400)</b>

There will be a similar impact in FY 2009.

**ORS Statistics**

In FY 2006, based on the statutory requirements, ORS provided the following services:

- Child support collections totaled \$167.7 million of which \$144.2 million was disbursed to custodial parents, \$18 million was disbursed to state and federal governments and \$5.5 million was transferred to other divisions in DHS to cover expenditures of children in state custody.
- Over \$23.4 million was collected on behalf of the Department of Health – ORS Collects medical reimbursements from responsible third parties to both reimburse and avoid state Medicaid costs
- Social Security and adults at the State Hospital collections totaled \$2.3 million
- \$2.5 million in fees were collected
- The State’s share of the collections returned to the General Fund was \$6.3 million
- The percentage of child support cases with support orders established was 85.2 percent
- Of the child support cases with support orders, 95.9 percent contain provisions for health insurance
- Paternity is an unresolved issue in 6 percent of all child support cases
- ORS verified insurance coverage on 113,438 Medicaid recipients creating a cost avoidance of over \$148.3 million in Medicaid costs - ORS pursues medical and child support if recipient is on cash assistance and/or Medicaid

**RECOMMENDATION**

It is the recommendation of the Analyst that the Office of Recovery Services receive an appropriation of \$1,820,600 in General Funds to offset the loss of incentive funds as state match and to maintain the same level of support. The additional appropriation will allow for the continuation of funding of the federal Child Support Enforcement Title IV-D and Incentive Funds which are used for child support programs.

<b>ORS Funding Recommendation</b>	
General Fund	\$2,427,400
General Fund - One-time	(\$606,800)
FY 2008 Total	<u>\$1,820,600</u>

By funding the total amount in FY 2008 of \$2,427,400 as ongoing and the amount needed for FY 2009 as one-time, the Legislature will not have to readdress this issue in the 2008 General Session.