



# Anticipated Effects of the Deficit Reduction Act Provisions on Child Support Program Financing and Performance Summary of Data Analysis and IV-D Director Calls

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## Table of Contents

<b>OVERVIEW OF FINDINGS.....</b>	<b>I</b>
<b>I. INTRODUCTION .....</b>	<b>1</b>
<b>II. DATA ANALYSIS.....</b>	<b>2</b>
A. METHODOLOGY .....	2
B. KEY FINDINGS.....	4
1. <i>Role of Incentives in Financing of State CSE Programs.....</i>	<i>4</i>
2. <i>Projected Effects of Cut in Incentive Match on Current Collections and Order Establishment.....</i>	<i>7</i>
<b>III. SURVEY OF IV-D DIRECTORS.....</b>	<b>18</b>
A. METHODOLOGY .....	18
B. KEY FINDINGS.....	20
1. <i>Child Support Program Funding .....</i>	<i>20</i>
2. <i>Expected Actions if Incentive Funds not Replaced.....</i>	<i>23</i>
3. <i>Implementation of the DRA-Mandated Fee.....</i>	<i>28</i>
<b>IV. CONCLUSION.....</b>	<b>29</b>
<b>APPENDIX B: PROJECT FUNDERS .....</b>	<b>A-1</b>
<b>APPENDIX B: STATE SAMPLE.....</b>	<b>B-1</b>

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## OVERVIEW OF FINDINGS

The child support enforcement (CSE) program is a federal/state/local partnership to help families by promoting family self-sufficiency and child well-being. Approximately 25 percent of the nation's children receive child support services. The mission, as defined by the federal Office of Child Support Enforcement (OCSE), is to assure that assistance in obtaining support (both financial and medical) is available to children through locating parents, establishing paternity and support obligations, and enforcing those obligations. According to the OCSE strategic plan, child support is a "family-first" program that aims to ensure self-sufficiency by making child support a regular source of income.<sup>1</sup> Since the program's inception as Title IV-D of the Social Security Act, Congress, OCSE and the states have worked together to create a system of uniform service delivery across the nation.

In FY 2005, the federal government and states together spent \$5.4 billion on the program. In that same year, \$23 billion was collected; thus, more than \$4.50 was collected for each \$1 spent.<sup>2</sup> States finance 34 percent of program expenditures; the federal government finances 66 percent. In effect, \$1 of state funds generates \$2 of federal match. The four primary sources of state funding are state and local government appropriations, federal incentive payments, state share of retained TANF collections, and user charges and fees. The Deficit Reduction Act of 2005 (DRA) changed a key aspect of CSE program financing. States can no longer use federal incentive payments to draw down federal funds. As such, the value to an incentive dollar declined from \$3 (state dollar plus federal match) to \$1. Another notable DRA change was the requirement that state CSE programs charge non-assistance cases a fee if collections exceed \$500 annually.

The National Council of Child Support Directors (NCCSD) contracted with The Lewin Group and its subcontractor, ECONorthwest, to explore the potential implications of changes to federal financing of state CSE programs in the DRA. The project involved two tasks:

- **Data Analysis.** Using child support administrative data and economic and demographic information from the Census Bureau and other sources, the project team explored the potential effects of the DRA provision on use of incentives for state match on state performance in two areas: support order establishment and collections made on current support due. The methodology and findings are described in **Section II**.
- **Survey of IV-D Directors.** The project team had conversations with 28 state CSE directors about a number of DRA provisions, including the treatment of incentives for match purposes, adoption of (or increase in) the pass-through of collections to current assistance cases, and the mandatory fee for non-assistance cases that generate \$500 or more in collections per year. The directors described the extent to which they expect to make up the funding shortfalls and the potential implications of any loss in funding. The methodology and findings are described further in **Section III**.

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<sup>1</sup> Office of Child Support Enforcement Strategic Plan FY 2005-2009. Available on line at: [http://www.acf.hhs.gov/programs/cse/pubs/2004/Strategic\\_Plan\\_FY2005-2009.pdf](http://www.acf.hhs.gov/programs/cse/pubs/2004/Strategic_Plan_FY2005-2009.pdf)

<sup>2</sup> Office of Child Support Enforcement fact sheet. Available on line at: [http://www.acf.dhhs.gov/opa/fact\\_sheets/cse\\_factsheet.html](http://www.acf.dhhs.gov/opa/fact_sheets/cse_factsheet.html)

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The key analytic findings were:

**If states fail to restore the federal match on incentives, performance on order establishment and current collections would fall.** If states fail to fully replace the lost federal matching funds, the resulting reductions in CSE program expenditures would immediately affect performance on order establishment and current collections. Assuming states do not make up any of the lost federal match, we estimate the percent of cases with orders would fall by 10 percent nationwide. The percent of collections on current support due would decrease an estimated 4 percent nationally. Using the Congressional budget Office (CBO) assumption – that states would backfill half of the incentive amount formerly matched with federal funds – we estimate that cases with orders would decline by 5 percent and collections on current support due by 2 percent.

**Decreases in performance would vary by state.** Assuming states replace none of the unmatched incentive amount, decreases in order establishment would range from 5 to 18 percent; collections on current support would decline from 1 to 7 percent. Using the CBO assumption (50 percent backfill), the decrease in cases with orders would vary from 2 percent to 8 percent; the decline in collections would range from less than 1 percent to 3 percent. This variation is influenced by the extent to which states rely on incentive match to fund their programs, which in turn reflects state performance. These estimates represent short-term, point-in-time impacts. Over time, for example, we would expect weakened performance on order establishment would effect cash collections as well.

**Risk of weakened performance varies considerably by state. High performing states face the greatest risk of funding shortfalls and corresponding performance declines.** Because incentive funds will no longer be match-eligible, states that rely more on incentives for their match will have to identify more replacement funds to keep the program funded at a constant level. By their nature, incentive payments flow disproportionately to states with strong performance on five federal CSE measures.<sup>3</sup> Consequently, high performing states will systematically have to find larger replacement amounts than low performing states.

**Program expenditures are linked to performance after controlling for state-specific socio-economic factors.** There is an independent and statistically significant relationship between expenditures per case and performance on two key performance indicators: percent of cases with orders and share of current support collected. Higher expenditures per case are associated with better performance on both measures. Our models suggest expenditures per case has a stronger influence on support order establishment than it does on collections.

**The DRA changes could represent a substantial decrease in funding to state programs.** The proportion of state match comprised of incentives varies by state. Under DRA, this is no longer match-eligible. Each state – sometimes in conjunction with its counties or local jurisdictions – has to decide how much of the incentive-related match they will replace. Assuming the worst case scenario – that state programs do not replace any of the incentive-related match – the decrease in overall program expenditures will range from 5 to 36 percent.

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<sup>3</sup> Paternity establishment, cases with orders, collections on current support due, cases paying toward arrears, cost-effectiveness.

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Our interviews with 28 IV-D directors found:

**Strong support for the child support program exists within the executive branch in a majority of states interviewed.** The prognosis for replacing the federal match on incentives is affected by the impression of, and support for the child support program among key state staff. Of the 28 states interviewed, the executive branch had proposed full replacement of the lost federal match in 24 states. Although there appears to be strong support, directors acknowledge that the likelihood of full replacement remains uncertain. Some directors noted that full replacement was not only likely, but that the program funding base would be increased to guarantee increased funding in future years. More directors, though, expected full or near full replacement only for the current year and that the budget issue would need to be raised annually. Many directors expected much less than full replacement funding this year, and future year projections were even more uncertain.

**Weak economic and fiscal conditions and decentralization play a key role in states with less certain replacement rates.** Directors in states with less certain replacement prospects pointed to difficult budget climates and competition with health care and other priorities for limited resources. In addition, the future of county-administered programs was difficult to predict given that multiple county boards within a state would, independently, decide how to react to the lost federal dollars.

Among the directors who anticipate funding cuts or are uncertain about replacement:

- **Cuts are anticipated in labor-intensive services and initiatives.** In recommending cuts, directors would attempt to do the least harm to paternity and order establishment and the enforcement of cash support, including arrears. Put differently, most directors are still committed to strong performance on the federal government's five program indicators even though the fiscal incentive of doing so has been weakened by the DRA legislation. Consequently, functions that fall outside of basic automated establishment and enforcement activities would be candidates for cuts, including arrears collection initiatives, customer service call centers, employer initiatives, in-hospital paternity work, medical support enforcement, computer upgrades, employment services for non-custodial parents, intensive work with hard-to-serve clients, interstate cases, and adoption of distribution options.
- **Staff cuts through attrition, as vacant positions remain unfilled, would continue.** In the event of funding cuts, directors predict staffing cuts ranging from less than 10 percent to over 50 percent. Many directors also stated that staff development initiatives would be put on hold or cancelled (e.g., trainings, conferences).
- **Automated system and other technology enhancements would be delayed.** Before DRA, a number of states with outdated systems had plans for overhauls of or enhancements to their automated systems. A number of directors could point to specific Information Technology (IT) plans that have been postponed or abandoned as a result of the DRA legislation. More than one state indicated document imaging efforts would be put on hold.

**Effects of any funding cuts expected to worsen over time.** A number of directors, in the interviews, voiced concern of a "compounding effect" of performance reduction. That is, a

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performance decline in one year (e.g., fewer cases with orders) will accelerate in the future (e.g., fewer collections due to fewer orders established).

**Anticipated cuts are expected to affect all customers and related programs.** Directors noted that all customers will be affected, especially by staff cuts, should they occur. Most directors, however, expressed concern that current and former TANF cases will be most affected because they tend to be more labor intensive, and this in turn will affect these families' ability to leave or remain off TANF. Directors also noted that it was unlikely that their states would adopt DRA family-friendly provisions, such as the increased pass-through to public assistance recipients, in an uncertain funding environment, especially if retained collections are used to fund the state share of the program.

Directors also expressed concern about the effect of child support finance issues on related programs, such as TANF, Medicaid and Food Stamps. Declines in three key areas – paternity establishment, order establishment, and current collections – will not only hurt child support financing through lower incentive payments but could affect the TANF block grant as well. Directors also expect that failure to establish orders and make collections in a timely manner will affect TANF, Medicaid and Food Stamp caseloads negatively.

**Directors expect funding cuts will have interstate ramifications.** Directors note that a significant part of their caseloads involves the work of two or more states to establish, enforce and collect support. Many raised concerns in their interviews that, for this reason, widespread decline in performance could affect families and children beyond the states where funding cuts occur. For example, consider two states. State A replaces funding and maintains strong performance, but State B cuts back services due to funding shortfalls and performance declines. State A needs assistance from State B on interstate cases, but State B cut back staff on this labor-intensive unit. State A's performance is affected negatively as a result.

**Full replacement of the lost federal match on incentives may still represent a reduction in service in some states – relative to pre-DRA expectations.** A number of directors interviewed anticipated program *expansions* prior to DRA, particularly in IT-related areas and services targeted towards specific populations (e.g., incarcerated non-custodial parents). With the loss of federal match on incentives, directors and their departments may be willing to argue for replacing the lost federal matching dollars but in a number of cases have abandoned investments planned during the pre-DRA fiscal environment.

**Most programs (19) currently do not have user fees (other than minimal application fees).** Many directors noted potential benefits of the fee, including program revenue and instilling a sense of ownership in one's child support case. Directors, though, identified more drawbacks to the fee. All directors expected the cost of programming the statewide automated system would exceed the revenue generated from the fee, at least in the short-term. This occurs at a time when they are already facing budget cuts or foregoing other project enhancements. Some expressed concern that it will take money from low-income families; others fear it will drive customers – largely consistent payers – from the program, hurting not only child support program performance but families as well. One-fourth of the surveyed directors stated that their programs would not charge the fee and would pay the federal share out of program resources.

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## I. INTRODUCTION

The child support enforcement (CSE) program is a federal/state/local partnership to help families by promoting family self-sufficiency and child well-being. Approximately 25 percent of the nation's children receive child support services. The mission, as defined by the federal Office of Child Support Enforcement (OCSE), is to assure that assistance in obtaining support (both financial and medical) is available to children through locating parents, establishing paternity and support obligations, and enforcing those obligations. According to the OCSE strategic plan, child support is a "family-first" program that aims to ensure self-sufficiency by making child support a regular source of income.<sup>4</sup> In FY 2005, the federal government and states spent \$5.4 billion on the program. In that same year, \$23 billion was collected; more than \$4.50 was collected for each \$1 spent.<sup>5</sup>

Child support is an important source of income for families. In FY 2003, 90 percent of collections were distributed to families.<sup>6</sup> One study found that child support lifts approximately 500,000 children out of poverty each year.<sup>7</sup> The child support program also benefits the public by reducing public assistance costs. One study found that child support collected by the IV-D system results in an estimated \$1,950 million in reduced means-tested benefits for non-TANF families receiving support. The overall cost avoidance ration—the average reduction in transfer program benefits per dollar of child support—was .190 for IV-D non-TANF families. That is, each \$1 received by a IV-D non-TANF family results in an average benefit reduction of \$0.19 over five programs evaluated (TANF, Supplemental Security Income, Housing, Food Stamps, Medicaid).<sup>8</sup>

States finance 34 percent of program expenditures; the federal government finances 66 percent. In effect, \$1 of states funds generates \$2 of federal match. The four primary sources of state funding are state and local government appropriations, federal incentive payments, state share of retained TANF collections, and user charges and fees. The Deficit Reduction Act of 2005 (DRA) changed a key aspect of CSE program financing. States can no longer use federal incentive payments to draw down federal funds. As such, the value to an incentive dollar declined from \$3 (state dollar plus federal match) to \$1. Another notable DRA change was the requirement that state CSE programs charge non-assistance cases a fee if collections exceed \$500 annually.

The National Council of Child Support Directors (NCCSD) contracted with The Lewin Group and its subcontractor, ECONorthwest, to explore the potential implications of changes to federal financing of state CSE programs in the DRA. (See **Appendix A** for a list of project funders.) The project involved two tasks:

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<sup>4</sup> Office of Child Support Enforcement Strategic Plan FY 2005-2009.

<sup>5</sup> Office of Child Support Enforcement fact sheet.

<sup>6</sup> Office of Child Support Enforcement Strategic Plan FY 2005-2009.

<sup>7</sup> Sorensen, E. & C. Zibman (2000). Child Support Offers Some Protection Against Poverty. Available on line at: [http://newfederalism.urban.org/html/series\\_b/b10/b10.html](http://newfederalism.urban.org/html/series_b/b10/b10.html)

<sup>8</sup> Wheaton, L. (2003) Child Support Cost Avoidance in 1999, Final Report. Available on-line at: [http://www.acf.dhhs.gov/programs/cse/pubs/2003/reports/cost\\_avoidance/](http://www.acf.dhhs.gov/programs/cse/pubs/2003/reports/cost_avoidance/)

- **Data Analysis.** Using child support administrative data and economic and demographic information from the Census Bureau and other sources, the project team explored the potential effects of the DRA provision on use of incentives for state match on state performance in two areas: support order establishment and collections made on current support due. The methodology and findings are described in **Section II**.
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## II. DATA ANALYSIS

This section explores the potential effects of changes to federal financing of state child support enforcement (CSE) programs in the DRA. It discusses how states’ funding of their CSE programs may change due to the loss of federal matching funds for incentives, the factors influencing state performance on two incentive measures (support orders established and current collections), and projected changes to performance in these two areas as a result of the elimination of federal matching funds for incentives.

### A. Methodology

This section examines the relationship between program financing and state performance to explore the potential effects of the elimination of the match for incentive funds on state CSE programs. For a previous OCSE project, the team developed regression models exploring the effect of state demographic and economic variables on the five federal performance measures used to calculate states’ incentive payments. The study consisted of estimating the direct relationships between variables that measure child support performance and various economic and demographic variables that help explain variations in performance.<sup>9</sup> We identified multivariate regression analysis as the technique best suited for this type of study. This statistical technique generates estimates of the independent effect of a variety of factors on performance—while holding other characteristics constant. If designed properly with reliable data, a regression analysis provides the estimated relationship between an independent (explanatory) variable and a given performance indicator. *Exhibit II.1* shows the independent variables used in the models and their sources.

**Exhibit II.1: Model Variables**

Variable	Description	Source
Expenditures per Case	This variable reflects states’ total CSE program expenditures divided by the IV-D caseload. We hypothesized that higher expenditures per case would be associated with better performance on the order establishment and current collections measures.	OCSE

<sup>9</sup> Tapogna, J., Gardiner, K., Barnow, B., Fishman, M., and P. Nikolov. *Study of State Demographic and Economic Variables and their Impact on the Performance-Based Child Support Incentive System*, prepared for the Department of Health and Human Services Office of Child Support Enforcement, June 2002.



Variable	Description	Source
Per Capita Personal Income	This variable measures average annual income of each state's non-institutionalized resident. We hypothesized that lower per capita personal income—evidence of a less robust economy—would result in lower performance on the current collections measure.	American Community Survey
Three-year Poverty Rate	This variable measures the average percentage of each state's population living below the poverty line for the previous three years. We hypothesized that higher poverty rates would be associated with lower performance on the order establishment measure	Current Population Survey
Percent Males 20-64 Not Employed	This variable measures the proportion of all men between 20 and 64 years of age who are not employed. This variable also accounts for individuals who are not working, including those not counted under the unemployment rate. It is intended to capture economic conditions facing non-custodial parents (NCPs), the overwhelming majority of whom are men. As a proxy for the ability of NCPs to get employment, we expected that higher rates of men who are not employed would be associated with lower performance on the collections measure.	American Community Survey
Percent TANF Case Heads Under Age 30	This variable measures the percentage of TANF Heads of Households in each state that are less than 30 years of age. We hypothesized that a greater proportion of young TANF case heads would be associated with lower performance on the collections measure.	Federal Office of Family Assistance
Population Stability	This variable reflects the percentage of the population in each state living in the same house as one year prior. A more transient population is likely to make it more difficult for states to locate NCPs and therefore establish and enforce orders. As such, we hypothesized that a higher population stability percentage would be associated with higher performance on both performance measures.	American Community Survey
Program Universality	This variable measures the percentage of each state's IV-D caseload that is currently on TANF. Research suggests that TANF cases are more difficult to work. We hypothesized a greater proportion of cases that are current TANF recipients will result in lower performance on the order establishment and current collections measures.	Federal Office of Child Support Enforcement
Percent Population Living in Urban Areas	This variable measures the percentage of each state's population living in an urban area. We hypothesized that a higher share of states' populations living in urban areas would be associated with lower performance on both measures.	2000 Census
Judicial or Administrative Order Establishment Process	A taxonomy developed for OCSE under a previous contract ranks each state based on its process. <sup>10</sup> States ranged from 4 (highly administrative process) to 16 (highly judicial process). Given the added complexity of a judicial process, we hypothesized that a lower score would have a positive association with states' order establishment percentages.	Taxonomy Developed by The Lewin Group
Year Variables	The analysis pooled three years of data to provide a larger sample size. We included variables in the regression models to account for the data from different years. Given the overall increases in state performance over the previous years, it is important to account for any trends that transcend individual states' performance. If a model shows a year variable to be a significant determinant of performance, it reflects a broader trend in states' performance irrespective of the effect of the other variables. <sup>11</sup>	

<sup>10</sup> Gardiner, K., Tapogna, J., and M. Fishman. *Administrative and Judicial Processes for Establishment Child Support Orders*, prepared for the Department of Health and Human Services Office of Child Support Enforcement, June 2002.

<sup>11</sup> To capture the effect of different years, the models use "dummy variables" for each year. For example, the FY 2003 variable is coded as 1 if the data for that observation is from FY 2003. Otherwise, the FY 2003 variable is coded as 0. It is important to note that, as an indicator variable, the models only include variables for FY 2003 and FY 2004. Treating FY 2005 as the baseline, these variables help account for any difference attributed to the fact that the observation did not occur in FY 2005.

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The study found a significant relationship between program financing and state performance. The findings showed a significant and negative relationship between the number of IV-D cases per full-time equivalent (FTE) staff and performance on both measures. In other words, higher worker caseloads are associated with lower order establishment and current collection rates. The models showed similar results when we replaced the case per FTE variable with a different program finance-related variable: average expenditures per case (in this case, increased expenditures per case was associated with increases in performance).

The project team updated these models with more recent data in an attempt to explore the effects of the DRA changes on the performance of state CSE programs. In particular we updated two models to estimate the effect of changes in program expenditures on state performance on two incentive measures: (1) support order establishment and (2) collections on current support due. We used expenditures per case rather than cases per FTE because we could adjust it based on projected changes in expenditures. To increase our sample size, we pooled three years of data (FY 2003-FY 2005).<sup>12</sup>

## **B. Key Findings**

This section describes how states' funding of CSE programs may change due to the loss of federal matching funds for incentives, the factors influencing state performance on two incentive measures, and projected changes to overall support order establishment and collections on current support as a result of the elimination of federal matching funds for incentives.

### **1. Role of Incentives in Financing of State CSE Programs**

State CSE programs vary in the extent to which they rely on incentives and the corresponding federal match to fund their programs. *Exhibit II.2* shows total amount of state funds used to draw down federal match (including incentives), each state's FY 2004 incentive payment, the percent of state match made up of incentives, and the decrease in overall expenditures if no new states funds were available to replace the lost matching funds. Nationally, incentives represent 25 percent of all funds used to draw down federal match.<sup>13</sup> However, there is substantial variation across states in the proportion of the state share financed by incentives (from 7 percent to 54 percent). This variation may be due to a number of factors, such as poor state performance on incentive measures (thus low incentive payments) or higher appropriations from state legislatures. Similarly, the decrease in expenditures assuming no new state outlays ranges from 5 percent to 36 percent.

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<sup>12</sup> Note, at the time we conducted our analysis, OCSE had not released finalized program number for FY 2004 and FY 2005. All variables based on OCSE data are taken from preliminary reports made available on OCSE's website. It is important to note that the preliminary numbers (including state performance) are based on unaudited numbers. A failed audit would likely impact the results.

<sup>13</sup> In FY 2004, the total incentive pool was \$454 million. The total amount of incentives in *Table 1* equals \$450.5 million because, for the purposes of our analysis, we have excluded Guam, Puerto Rico, and the Virgin Islands.

## Exhibit II.2: Role of Incentives in Federal Matching Funds (FY 2004)

State	State Match Total (\$)	Incentive Payment (\$)	Percent of Match made up of Incentives	Decrease in Expenditures Assuming No New State Outlays
Alabama	21,208,582	3,923,947	18.5%	-12.2%
Alaska	7,102,571	1,934,767	27.2%	-18.0%
Arizona	21,090,774	4,992,036	23.7%	-15.6%
Arkansas	13,927,113	3,361,187	24.1%	-15.9%
California	366,730,274	43,917,140	12.0%	-7.9%
Colorado	23,742,424	4,833,238	20.4%	-13.4%
Connecticut	25,990,802	3,455,259	13.3%	-8.8%
Delaware	8,004,112	1,265,209	15.8%	-10.4%
Dist. of Col.	5,580,705	597,907	10.7%	-7.1%
Florida	82,494,823	25,086,327	30.4%	-20.1%
Georgia	37,822,598	10,574,394	28.0%	-18.5%
Hawaii	3,373,865	1,566,788	46.4%	-30.6%
Idaho	6,941,059	2,335,547	33.6%	-22.2%
Illinois	58,727,033	8,440,244	14.4%	-9.5%
Indiana	22,128,285	7,080,909	32.0%	-21.1%
Iowa	17,902,989	7,247,439	40.5%	-26.7%
Kansas	16,597,695	3,306,309	19.9%	-13.1%
Kentucky	19,302,643	7,627,918	39.5%	-26.1%
Louisiana	20,101,029	5,878,940	29.2%	-19.3%
Maine	8,194,383	2,339,228	28.5%	-18.8%
Maryland	34,126,478	5,478,845	16.1%	-10.6%
Massachusetts	32,156,593	9,168,115	28.5%	-18.8%
Michigan	90,839,410	29,072,933	32.0%	-21.1%
Minnesota	48,590,298	13,048,434	26.9%	-17.7%
Mississippi	8,223,232	3,246,021	39.5%	-26.1%
Missouri	29,638,072	10,525,886	35.5%	-23.4%
Montana	4,542,248	1,061,120	23.4%	-15.4%
Nebraska	15,117,429	3,635,367	24.0%	-15.9%
Nevada	13,769,069	1,355,443	9.8%	-6.5%
New Hampshire	5,523,293	1,803,991	32.7%	-21.6%
New Jersey	63,169,319	16,335,761	25.9%	-17.1%
New Mexico	13,159,936	970,705	7.4%	-4.9%
New York	110,375,591	26,298,854	23.8%	-15.7%
North Carolina	38,634,423	12,807,092	33.1%	-21.9%
North Dakota	3,933,047	1,542,418	39.2%	-25.9%
Ohio	104,145,868	30,840,835	29.6%	-19.5%
Oklahoma	15,872,725	3,437,279	21.7%	-14.3%
Oregon	17,794,012	5,956,034	33.5%	-22.1%
Pennsylvania	68,716,713	26,532,361	38.6%	-25.5%
Rhode Island	3,995,227	1,270,822	31.8%	-21.0%
South Carolina	12,030,640	3,605,396	30.0%	-19.8%
South Dakota	2,813,141	1,517,780	54.0%	-35.6%
Tennessee	27,234,530	7,766,731	28.5%	-18.8%
Texas	91,057,357	35,018,030	38.5%	-25.4%
Utah	12,523,833	3,677,929	29.4%	-19.4%
Vermont	4,133,421	1,197,334	29.0%	-19.1%
Virginia	29,217,028	10,673,373	36.5%	-24.1%
Washington	47,353,751	13,445,851	28.4%	-18.7%
West Virginia	12,977,147	3,775,411	29.1%	-19.2%
Wisconsin	34,843,819	14,529,242	41.7%	-27.5%
Wyoming	3,530,011	1,180,509	33.4%	-22.1%
U.S.	1,787,001,420	450,540,638	25.2%	-16.6%

The difference in how states finance their CSE programs may affect states' ability to make up the funding shortfall as a result of no longer receiving matching funds for their incentive payments.

For example, consider the assumption used by the Congressional Budget Office (CBO) in its cost estimate for DRA. CBO assumed that "increased state spending would avoid half of the reduction in total spending that would occur if states were to make no change."<sup>14</sup> In other words, CBO assumed that states would backfill half of the incentive amount formerly matched with federal funds in determining federal savings and impact on collections. The example in *Exhibit II.3* uses actual data from two states to demonstrate the varying implications of the cut in match based on states' reliance on incentives.

### Exhibit II.3: Comparison of Two States' Financing

	Total Expenditures	State Match	Incentive Payment	Percent of Match made up of incentives	Increase In State Funding Need to meet CBO Assumptions
State X	\$202 million	\$68.7 million	\$26.5 million	38.6%	20.8%
State Y	\$173 million	\$58.7 million	\$8.4 million	14.4%	5.5%

Despite a relatively small difference in expenditures between the two states, incentive payments compose a much higher share of funding in State X; incentives made up 39 percent of State X's match, compared to only 14 percent for State Y. As such, there is a substantial difference in the amount of new state funds that would be necessary if each state were to make up 50 percent of the shortfall caused by the elimination of the incentive match. State X would have to increase state outlays by over 20 percent, while State Y would only need to find enough new funds to support an increase of slightly less than 6 percent.

The differences in incentive payments between the two states in the above example highlights the role of state performance on the incentive measures in program financing. As demonstrated below, states that rely most heavily on incentive payments are typically higher performing states.

*Exhibit II.4* categorizes states based on the increases in state outlays for FY 2004 expected under CBO's assumptions. Based on these categories, it shows average state performance on the incentive measures for order establishment and current collections. It also includes a calculation that summarizes performance on all five of the incentive measures.<sup>15</sup>

<sup>14</sup> Congressional Budget Office Cost Estimate: Reconciliation Recommendations of the House Committee on Ways and Means. October 28, 2005. <http://www.cbo.gov/ftpdocs/68xx/doc6821/WMrecon.pdf>

<sup>15</sup> We created a weighted overall applicable percentage for each state, and took the average of this value for states that fell into each of our four categories. The first three performance measures, paternity establishment percentage, cases with orders, and collections on current support due are weighted at 100 percent. The other two, collections on past support due and cost effectiveness are weighted at 75 percent. This weighting scheme is mandated under the Child Support Performance Incentive Act (CSPIA).

## Exhibit II.4: Average State Performance by Projected Increase in State Funding (FY 2004)

Increase in State Outlays Needed for 50% Back-fill	Number of States	Average % of Match Made up of Incentives	Average Performance-Order Establishment	Average Performance-Current Collections	Overall Performance on Incentive Measures
Less than 10 Percent	12	15.0%	66	53	66
10-20 Percent	30	29.4%	78	59	84
20 Percent or Greater	9	42.0%	78	63	87

This Exhibit shows that states that perform better (and earn higher incentive payments) would need to increase outlays at a higher rate relative to states that do not perform as strongly. In order to make up 50 percent of the funding shortfall caused by the elimination of the incentive match, 12 states would have to increase outlays by less than 10 percent. Among these states, average performance on the cases with orders and current collections measures was 66 percent and 53 percent, respectively. Among the nine states that would require that greatest funding increase to generate a 50 percent backfill, the average performance was at least 10 percentage points higher for both measures. Similar trends emerge when looking at the overall performance of states in the three categories. Those states least reliant on incentives performed an average of 10 percentage points poorer than those states with greater projected increases in state outlays.

### **2. Projected Effects of Cut in Incentive Match on Current Collections and Order Establishment**

The previous section demonstrated that the elimination of the federal match on incentives will not have a uniform effect across states. Those that are more reliant on incentive payments (typically higher performing states) will need to replace a greater amount. This section explores the potential impact of the lost federal funds on state performance in two areas: cases with orders and current collections. First, however, it describes the regression methods.

#### *a. Regression Results*

As noted above, a previous Lewin/ECONorthwest project explored the effects of economic and demographic factors on the five performance measures used to calculate states' incentive payments. Using regression analysis, this previous work demonstrated a strong link between program financing and states' performance on the support order establishment and current collections measures. In this section, we describe the results of updated versions of these regression models.

As discussed in the Methodology section, regression analysis is a useful tool for understanding the relationship between a dependent variable (i.e., state performance) and multiple independent variables (i.e., the economic and demographic variables) that, taken together, help explain variations in the dependent variable. A regression model allows us to generate statistical estimates of the independent effect on performance of different factors – while holding other characteristics constant.

For example, consider the way in which regression analysis helps explain the relationship between support order establishment and two independent variables: (1) the percent of a state's population living in urban areas and (2) state poverty rates. One might hypothesize that states

with a more urban population would have more difficulty in establishing child support orders (this is true). Similarly, it is reasonable to hypothesize that states with high poverty rates are more likely to have lower performance (also true). However, it is also true that, nationally, states with a higher proportion of the population living in an urban area are more likely to have lower poverty rates. When both of these variables are included in a regression model, we see that, even when accounting for variation across states in their poverty rate, a higher percentage of the population living in an urban area has a demonstrable negative impact on state performance. Similarly, states with lower poverty rates perform well on the order establishment measure, even when taking into account the effect of urbanicity.

As we describe below, the relationships between program and state performance were similar to the results from the previous studies. Higher expenditures per case have a statistically significant positive impact on states' performance on both the order establishment and current collections measures. This means that the likelihood that the relationship between the dependent variable (performance on cases with orders or current collections) and the independent variable (in this case, expenditures per case) is real and not due to chance. A "p value" of 1 percent means that there is a 1 percent probability that the relationship between the variables is due to chance.

i) Cases with Orders

*Exhibit II.5* shows the regression results for the support order establishment measure. It indicates that there is a significant relationship between states' performance on the support order establishment incentive measure and a number of the independent variables in the model.<sup>16</sup>

**Exhibit II.5: Regression Results: Support Order Establishment  
(Pooled Data FY 2003-2005)**

Variable	Coefficient
Intercept	62.29328**
Three Year Poverty Rate	-1.02685**
Expenditures Per Case	0.12570**
Judicial/Administrative	-0.80208**
Population Stability	0.36028
Percent of Caseload on TANF	-0.35287**
FY 2003	-3.38434*
FY 2004	-1.50950
Percent Urban	-0.22804**
Expenditures Per Case Squared	-0.00014**

\*\*\* Indicates p-value less than 1 percent

\*\* Indicates p-value less than 5 percent

\* Indicates p-value less than 10 percent

<sup>16</sup> Statistical significance is determined by the p-value, a value that indicates the likelihood that the relationship between the independent and dependent variables is real as opposed to being due to sampling error. For example, a p-value of .20 indicates that there is a 20 percent chance that the observed difference is random and not an accurate reflection on the real relationship between the two variables. Researchers typically consider a p-value of less than .05 to indicate a statistically significant relationship.

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As expected, we found a significant, positive relationship between states' expenditures per case and support order establishment. That is, decreased expenditures per case are associated with weaker establishment performance – holding other factors constant.<sup>17</sup>

While the relationship between expenditures per case and the dependent variable is significant, the coefficient is smaller than those for the other independent variables with statistically significant relationships. The regression coefficients in the table can be used to calculate the increase in the independent variable needed to generate a one percent increase in performance. For example, the expenditures per case coefficient (0.12570) indicates that an increase in expenditures per case of 7.96 results in a 1 percentage point increase in performance.

Eight variables had statistically significant relationships with performance on order establishment.

The following variables had a significant negative relationship with the dependent variable:

- Three year poverty rate;
- More judicial establishment process;<sup>18</sup>
- Percent of CSE caseload currently on TANF; and
- Percent of population living in urban areas.

In each case, the effect of a higher value for each of these variables results in a decrease in performance.

The strength of these relationships suggests economic and demographic factors drive state performance on order establishment. Consider the example of the variable capturing the percent of the CSE caseload on TANF. Given research findings on the relative difficulty in establishing orders for TANF cases, it is not surprising that states with a higher proportion of TANF cases are likely to have a lower order establishment percentage.

It is also important to note the significance of the FY 2003 variable. As noted in the Methodology section, the year variables allow the model to account for any broader trends in state performance from year to year. The significance of the FY 2003 variable indicates an overall improvement in states' performance in the subsequent years. This reflects a broader national trend of improved state performance. For example, average order establishment percentage increased from 72 in FY 2003 to 75 in FY 2005.<sup>19</sup>

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<sup>17</sup> The significance of another expenditure-related variable--expenditures per case "squared"--simply indicates that relationship between expenditures and performance is not perfectly linear. Put differently, the impact on performance of moving from \$200 to \$300 per case is slightly different than moving from \$300 to \$400 per case.

<sup>18</sup> A higher score suggests a more judicial system.

<sup>19</sup> Staff in one state noted that high performing states are already receiving fewer incentive dollars because formerly low-performing states are beginning to improve performance, and under the capped incentive pool, a state could improve performance and still not receive higher incentive payments.

ii) Current Collections

*Exhibit II.6* details the results of the model for collections on current support due.

**Exhibit II.6: Regression Results: Collections on Current Support Due  
(Pooled Data FY 2003-2005)**

Variable	Coefficient
Intercept	-32.48315**
Per Capita Personal Income	0.00000
Ratio of Males 20-64 Not Employed	-0.65182***
Percent of TANF Recipients Under 30	-0.26949***
Expenditures Per Case	0.03821**
Percent of Caseload on TANF	-0.29463***
Population Stability	1.49299***
FY 2003	-2.86646***
FY 2004	-1.38785
Percent Urban	-0.07139***
Expenditures Per Case Squared	-0.00004*

\*\*\* Indicates p-value less than 1 percent

\*\* Indicates p-value less than 5 percent

\* Indicates p-value less than 10 percent

As with the previous model, the sign and significance of the expenditures per case variable conform to expectations. Expenditures per case is positively related to strong performance on the current collections measure.

However, the coefficient for the variable is substantially smaller in this model compared to the one for support order establishment. As noted above, when estimating the effect of expenditures per case on order establishment, an increase of \$7.96 expended per case is necessary to generate a 1 percentage point increase in order establishment percentage. In comparison, a \$26.17 increase in expenditures per case is necessary to generate that same 1 percentage point increase on the current collections measure.

In other words, our models suggest expenditures per case more strongly influences support order establishment than collections. This may not be surprising given the extent to which order establishment tends to be more labor intensive than collections, which utilizes automated enforcement mechanisms for many cases. However, as the directors noted during the telephone interviews (see **Section III**), there is a rippling effect that is not captured in a point-in-time estimate. That is, as fewer orders are established, collections are expected to decline in the future.

The results for the other independent variables in the current collection model again confirm the relative influence of the other economic and demographic variables on state performance. The following variables had a statistically significant negative relationship with the dependent variable:

- Percent of males between 20 and 64 not employed;



- 
- Percent of TANF recipients under 30;
  - Percent of population living in an urban area; and
  - FY 2003 variable (again, higher values in each case are associated with lower performance on the current collections measure).

Unlike the previous model, the population stability variable is shown to be a significant determinant of the dependent variable; a more stable population results in greater collections on current support due. Further, the population stability variable has a far stronger impact on performance than any of the other economic or demographic variables. It is logical that states in which a greater proportion of the population has not moved to a different state in the previous year are likely to collect a higher percentage of current support due. States can only collect support from non-custodial parents if CSE agencies can locate obligors, and a more transient population makes this much more difficult and resource intensive.

The significance of the FY 2003 variable in this model again reflects the overall trend in improved state performance in recent years.<sup>20</sup>

#### *b. Impact of Changes on State Performance*

Using the regression results presented above, we are able to project changes in state performance based on decreases in expenditures per case. This subsection presents the state-level results from these projections and discusses the implications of the results.

##### *i) Development of Projections and Funding Scenarios*

We projected changes in performance for four scenarios: no restoration of incentive-related match (that is, no “backfill”), and partial replacement of match (25 percent, 50 percent, and 75 percent).

In interpreting the results from the scenarios, it is important to keep in mind how states differ in terms of the proportion of state match that comes from incentives (see *Exhibit II.2* above). Replacing 50 percent of incentive-related match in a state where incentives make up 40 percent of match will likely be more difficult than replacing 50 percent in a state where incentives make up 15 percent of match.

Some caveats are in order. First, we use the regression results to project changes in performance for FY 2004. This is the most recent year for which final incentive data necessary to run the calculations are available.<sup>21</sup> Second, we assume that “denominators” of the performance measures do not change; that is, the number of open cases and total amount due are static. Third, these projections do not take into account the effects of other DRA changes (i.e., changes

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<sup>20</sup> While not as pronounced as it was for order establishment, the national average for performance on the current collections measure increased by 1.5 percentage points between FY 2003 and FY 2005.

<sup>21</sup> OCSE has not publicly released finalized data on incentives for FY 2005. It has released preliminary figures for collections and performance that can be used to calculate states’ incentive payments. However, until finalized audit results are released, actual incentive payment numbers are unavailable.

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in distribution rules, mandatory three-year updates on child support orders, annual fees, and additional enforcement mechanisms).

ii) Projected Changes in State Performance

For each of the four funding scenarios, we calculated the expected change in each state's expenditures per case. Using the regression coefficients for expenditure-related variables from the regression models, we project the effect this change in funding will have on state performance.

*Exhibit II.7* depicts the projected change in states' support order establishment percentage for four scenarios: no replacement of funds, 25 percent replacement, 50 percent replacement, and 75 percent replacement. These results hold constant all other independent variables from the regression models.<sup>22</sup>

Under the "no backfill" scenario (states replace none of the incentive-related match), cases with orders will decline by 10 percent nationally. In 2004, there were 11.6 million child support orders established nationwide. Under this scenario, the number of cases with orders would fall by almost 1.2 million. At the state level, the decline in cases with orders ranges from a high of 18 percent to a low of 5 percent. The state at the higher end would see cases with orders decline by over 35,000.

As states replace more incentive-related match, the effect on cases with orders lessens. If states were to replace 50 percent of incentive-related match, cases with orders would fall 5 percent nationally (568,000 cases). At the state level, the decline would range from a high of 8 percent to a low of 3 percent.

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<sup>22</sup> The projections in this section are based on both the *expenditures per case* and *expenditures per case squared* coefficients. This ensures that the projections take into account the non-linear relationship between a change in expenditures per case and the dependent variable.

**Exhibit II.7: Projected Change in Performance on the Support Order Establishment Measure Under Four Scenarios (FY 2004)**

State	Percent Change In Support Order Establishment Percentage			
	Zero Back-fill	25% Back-fill	50% Back-fill	75% Back-fill
Alabama	-5.7%	-4.2%	-2.8%	-1.4%
Alaska	-12.7%	-9.3%	-6.1%	-3.0%
Arizona	-7.3%	-5.4%	-3.6%	-1.8%
Arkansas	-8.6%	-6.4%	-4.2%	-2.1%
California	-8.0%	-5.9%	-3.9%	-1.9%
Colorado	-10.6%	-7.8%	-5.1%	-2.5%
Connecticut	-6.1%	-4.6%	-3.0%	-1.5%
Delaware	-8.1%	-6.0%	-4.0%	-2.0%
Dist. of Col.	-4.6%	-3.4%	-2.3%	-1.1%
Florida	-13.6%	-10.0%	-6.5%	-3.2%
Georgia	-7.7%	-5.7%	-3.8%	-1.9%
Hawaii	-6.9%	-5.1%	-3.4%	-1.7%
Idaho	-8.0%	-5.9%	-3.9%	-1.9%
Illinois	-6.4%	-4.8%	-3.2%	-1.6%
Indiana	-7.8%	-5.8%	-3.8%	-1.9%
Iowa	-12.3%	-9.0%	-5.9%	-2.9%
Kansas	-8.8%	-6.5%	-4.3%	-2.1%
Kentucky	-8.1%	-6.0%	-4.0%	-2.0%
Louisiana	-7.6%	-5.7%	-3.7%	-1.8%
Maine	-10.6%	-7.8%	-5.1%	-2.5%
Maryland	-6.7%	-5.0%	-3.3%	-1.6%
Massachusetts	-12.6%	-9.3%	-6.1%	-3.0%
Michigan	-9.8%	-7.2%	-4.7%	-2.3%
Minnesota	-17.7%	-13.0%	-8.4%	-4.1%
Mississippi	-5.3%	-3.9%	-2.6%	-1.3%
Missouri	-8.8%	-6.5%	-4.3%	-2.1%
Montana	-7.7%	-5.7%	-3.8%	-1.9%
Nebraska	-12.2%	-9.0%	-5.9%	-2.9%
Nevada	-5.1%	-3.8%	-2.5%	-1.2%
New Hampshire	-15.9%	-11.6%	-7.6%	-3.7%
New Jersey	-15.1%	-11.1%	-7.2%	-3.5%
New Mexico	-6.1%	-4.5%	-3.0%	-1.5%
New York	-9.7%	-7.2%	-4.7%	-2.3%
North Carolina	-10.3%	-7.6%	-5.0%	-2.5%
North Dakota	-11.8%	-8.7%	-5.7%	-2.8%
Ohio	-12.0%	-8.8%	-5.8%	-2.8%
Oklahoma	-8.3%	-6.2%	-4.1%	-2.0%
Oregon	-9.1%	-6.7%	-4.4%	-2.2%
Pennsylvania	-14.9%	-10.9%	-7.1%	-3.5%
Rhode Island	-9.0%	-6.7%	-4.4%	-2.2%
South Carolina	-5.7%	-4.3%	-2.8%	-1.4%
South Dakota	-9.7%	-7.2%	-4.7%	-2.3%
Tennessee	-9.0%	-6.7%	-4.4%	-2.2%
Texas	-12.7%	-9.3%	-6.1%	-3.0%
Utah	-15.6%	-11.4%	-7.4%	-3.6%
Vermont	-15.6%	-11.4%	-7.4%	-3.6%
Virginia	-9.4%	-6.9%	-4.6%	-2.2%
Washington	-12.0%	-8.8%	-5.8%	-2.8%
West Virginia	-10.6%	-7.8%	-5.1%	-2.5%
Wisconsin	-13.9%	-10.2%	-6.7%	-3.3%
Wyoming	-9.4%	-6.9%	-4.5%	-2.2%
Total	-10.1%	-7.5%	-4.9%	-2.4%

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*Exhibit II.8* repeats the exercise but focuses on changes in states' current collections percentage based on the same four funding scenarios.

Nationally, we project a 4 percent decrease in current collections under the "no backfill" scenario. If states do not replace any incentive-related match, current collections would decrease by approximately \$680 million per year. At the state level, the decline in cases with orders ranges from slightly less than 1 percent to almost 7 percent.

With 25 percent of incentives backfilled, the decrease would range from slightly less than 1 percent to 5 percent. If states make up half the expected loss, declines in performance would range from one-half of one percent to 3 percent. Even if states made up 75 percent of the lost match, the resulting reduction in expenditures would translate into an annual \$161 million decrease in collections nationally.

**Exhibit II.8: Projected Change in Performance on the Current Collections Measure Under Four Scenarios (FY 2004)**

State	Percent Change In Collections on Current Support Due			
	Zero Back-fill	25% Back-fill	50% Back-fill	75% Back-fill
Alabama	-2.5%	-1.8%	-1.2%	-0.6%
Alaska	-6.1%	-4.5%	-2.9%	-1.4%
Arizona	-3.6%	-2.7%	-1.8%	-0.9%
Arkansas	-3.8%	-2.8%	-1.8%	-0.9%
California	-4.0%	-2.9%	-1.9%	-1.0%
Colorado	-5.0%	-3.7%	-2.4%	-1.2%
Connecticut	-2.3%	-1.7%	-1.1%	-0.6%
Delaware	-3.0%	-2.2%	-1.4%	-0.7%
Dist. of Col.	-0.9%	-0.7%	-0.5%	-0.2%
Florida	-5.1%	-3.8%	-2.5%	-1.2%
Georgia	-3.2%	-2.4%	-1.6%	-0.8%
Hawaii	-2.3%	-1.7%	-1.1%	-0.6%
Idaho	-3.4%	-2.6%	-1.7%	-0.8%
Illinois	-2.0%	-1.5%	-1.0%	-0.5%
Indiana	-3.3%	-2.5%	-1.6%	-0.8%
Iowa	-5.2%	-3.9%	-2.5%	-1.2%
Kansas	-3.6%	-2.7%	-1.8%	-0.9%
Kentucky	-3.4%	-2.5%	-1.7%	-0.8%
Louisiana	-3.0%	-2.2%	-1.4%	-0.7%
Maine	-5.2%	-3.8%	-2.5%	-1.2%
Maryland	-2.5%	-1.8%	-1.2%	-0.6%
Massachusetts	-4.6%	-3.4%	-2.2%	-1.1%
Michigan	-3.7%	-2.7%	-1.8%	-0.9%
Minnesota	-6.3%	-4.6%	-3.0%	-1.5%
Mississippi	-1.6%	-1.2%	-0.8%	-0.4%
Missouri	-4.1%	-3.0%	-2.0%	-1.0%
Montana	-3.4%	-2.5%	-1.7%	-0.8%
Nebraska	-4.4%	-3.2%	-2.1%	-1.0%
Nevada	-1.8%	-1.3%	-0.9%	-0.4%
New Hampshire	-6.1%	-4.5%	-2.9%	-1.4%
New Jersey	-5.7%	-4.2%	-2.7%	-1.3%
New Mexico	-2.0%	-1.5%	-1.0%	-0.5%
New York	-3.7%	-2.7%	-1.8%	-0.9%
North Carolina	-4.0%	-2.9%	-1.9%	-0.9%
North Dakota	-4.3%	-3.2%	-2.1%	-1.0%
Ohio	-3.9%	-2.8%	-1.9%	-0.9%
Oklahoma	-3.6%	-2.7%	-1.8%	-0.9%
Oregon	-3.2%	-2.3%	-1.5%	-0.8%
Pennsylvania	-5.2%	-3.8%	-2.5%	-1.2%
Rhode Island	-2.3%	-1.7%	-1.1%	-0.6%
South Carolina	-2.6%	-1.9%	-1.3%	-0.6%
South Dakota	-4.1%	-3.0%	-2.0%	-1.0%
Tennessee	-3.2%	-2.4%	-1.6%	-0.8%
Texas	-5.3%	-3.9%	-2.5%	-1.2%
Utah	-6.8%	-5.0%	-3.2%	-1.6%
Vermont	-6.4%	-4.7%	-3.0%	-1.5%
Virginia	-4.0%	-2.9%	-1.9%	-1.0%
Washington	-5.2%	-3.8%	-2.5%	-1.2%
West Virginia	-4.3%	-3.2%	-2.1%	-1.0%
Wisconsin	-5.1%	-3.8%	-2.5%	-1.2%
Wyoming	-4.2%	-3.1%	-2.0%	-1.0%
Total	-4.2%	-3.1%	-2.0%	-1.0%

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### iii) Implications of State-Level Projections

The results presented above have substantial implications in terms of changes in the funding and operation of state CSE programs. Two key points can be taken from this analysis:

- The elimination of federal match for incentives puts higher performing states at the greatest disadvantage; and
- Other economic and demographic factors besides program funding have strong influences on program performance.

As seen in *Exhibit II.4*, states in which incentive payments comprise a higher proportion of the state match will have to make the largest increases in state outlays in order to restore program funding to pre-DRA levels. Similarly, *Exhibit II.9* shows the projected change in performance for the two measures (assuming a 50 percent backfill) along with the percent of state match that was made up of incentives.

The variation in expected decrease in performance on the current collections and support order establishment measures is closely linked to the extent to which states rely on incentives to fund their programs. Specifically, states that are most reliant on incentives face a greater risk of decreased performance. The above table, sorted by the percentage of state match that was made up of incentives in FY 2004, helps demonstrate this relationship. For example, the projected decrease in order establishment for the 10 states with the highest percentage of their match coming from incentives is 5 percent, while the average for the 10 lowest is 3 percent.

To further demonstrate this relationship, we also ran correlations between the percentage of a state's match that is made up of incentives and the projected change in state performance on the two measures in question. A statistical calculation of correlation measures the association between two variables. In comparing the values for two variables – in this case, performance and the percent of state match from incentives – the correlation coefficient indicates the strength (i.e., how closely the values of the two variables are linked) and direction (i.e., whether a lower value of the first variable is associated with a higher or lower value for the second) of the relationship.

**Exhibit II.9: Projected Change in Performance and Reliance on Incentives for Match (FY 2004)**

State	Projected Percent Change in Performance with 50% Back-Fill		Percent of Match Made Up of Incentives
	Order Establishment	Current Collections	
New Mexico	-3.0%	-1.0%	7.4%
Nevada	-2.5%	-0.9%	9.8%
Dist. of Col.	-2.3%	-0.5%	10.7%
California	-3.9%	-1.9%	12.0%
Connecticut	-3.0%	-1.1%	13.3%
Illinois	-3.2%	-1.0%	14.4%
Delaware	-4.0%	-1.4%	15.8%
Maryland	-3.3%	-1.2%	16.1%
Alabama	-2.8%	-1.2%	18.5%
Kansas	-4.3%	-1.8%	19.9%
Colorado	-5.1%	-2.4%	20.4%
Oklahoma	-4.1%	-1.8%	21.7%
Montana	-3.8%	-1.7%	23.4%
Arizona	-3.6%	-1.8%	23.7%
New York	-4.7%	-1.8%	23.8%
Nebraska	-5.9%	-2.1%	24.0%
Arkansas	-4.2%	-1.8%	24.1%
New Jersey	-7.2%	-2.7%	25.9%
Minnesota	-8.4%	-3.0%	26.9%
Alaska	-6.1%	-2.9%	27.2%
Georgia	-3.8%	-1.6%	28.0%
Washington	-5.8%	-2.5%	28.4%
Maine	-5.1%	-2.5%	28.5%
Massachusetts	-6.1%	-2.2%	28.5%
Tennessee	-4.4%	-1.6%	28.5%
Vermont	-7.4%	-3.0%	29.0%
West Virginia	-5.1%	-2.1%	29.1%
Louisiana	-3.7%	-1.4%	29.2%
Utah	-7.4%	-3.2%	29.4%
Ohio	-5.8%	-1.9%	29.6%
South Carolina	-2.8%	-1.3%	30.0%
Florida	-6.5%	-2.5%	30.4%
Rhode Island	-4.4%	-1.1%	31.8%
Indiana	-3.8%	-1.6%	32.0%
Michigan	-4.7%	-1.8%	32.0%
New Hampshire	-7.6%	-2.9%	32.7%
North Carolina	-5.0%	-1.9%	33.1%
Wyoming	-4.5%	-2.0%	33.4%
Oregon	-4.4%	-1.5%	33.5%
Idaho	-3.9%	-1.7%	33.6%
Missouri	-4.3%	-2.0%	35.5%
Virginia	-4.6%	-1.9%	36.5%
Texas	-6.1%	-2.5%	38.5%
Pennsylvania	-7.1%	-2.5%	38.6%
North Dakota	-5.7%	-2.1%	39.2%
Kentucky	-4.0%	-1.7%	39.5%
Mississippi	-2.6%	-0.8%	39.5%
Iowa	-5.9%	-2.5%	40.5%
Wisconsin	-6.7%	-2.5%	41.7%
Hawaii	-3.4%	-1.1%	46.4%
South Dakota	-4.7%	-2.0%	54.0%
Total	-4.9%	-2.0%	25.2%

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For both incentive measures, the results supported the pattern seen in the above table. They showed a statistically significant negative relationship between the projected decrease in performance and the percentage of states' match that is made up of incentives.<sup>23</sup> In other words, states that were more reliant on incentive funds to draw down federal match typically had a greater projected decrease in performance.

The regression results presented earlier offer some insight as to why a decrease in expenditures yields a smaller change in collections than it does for order establishment. As noted many of the other independent variables in the model were found to have a strong effect on the current collections measure. Our interviews with CSE directors offered evidence that states may mitigate short-term effects on collections by eliminating more labor-intensive services and initiatives. When pressed on areas of likely cuts, a number of directors pointed to medical support enforcement, client call centers, employment training services for non-custodial parents, and other programs.

However, these projections only account for the initial impacts of any funding cut. Over the long term, potential reductions in expenditures could have larger impacts, especially considering the relationship between the different functions of child support agencies. For example, initial drops in order establishment will likely translate into future decreases in collections. While initial cuts may have minimal impacts on the existing infrastructure of states' automated systems, lack of new funds to support and maintain these systems will reduce their value as an effective mechanism for collections.

### III. SURVEY OF IV-D DIRECTORS

The project team interviewed 28 child support directors regarding the effects of a number of provisions of DRA. This includes treatment of incentives for match purposes, adoption of (or increase in) the pass-through of collections to current assistance cases, and the mandatory fee for non-assistance cases that generate \$500 or more in collections per year. Participation in the survey was voluntary, so the results are not nationally representative. That said, key characteristics of interviewed states (i.e., performance indicators and TANF share of caseload) are similar to the U.S. average.

#### A. Methodology

Alisha Griffin, the New Jersey IV-D director and NCCSD president, invited directors to participate in a survey of the potential or likely effects of the DRA on program financing and operations. Twenty-eight directors volunteered to participate. **Appendix B** lists the states included in the study. Ideally, the project team would have included all states in the study. Directors who did not volunteer to participate provided a number of reasons: Some were unable to do so because they were new to the position (e.g., the state executive branch changed hands in the November 2006 election); some were not able to speak to the issues for one or more reasons (e.g., politically sensitive topic); still others declined to participate because they have

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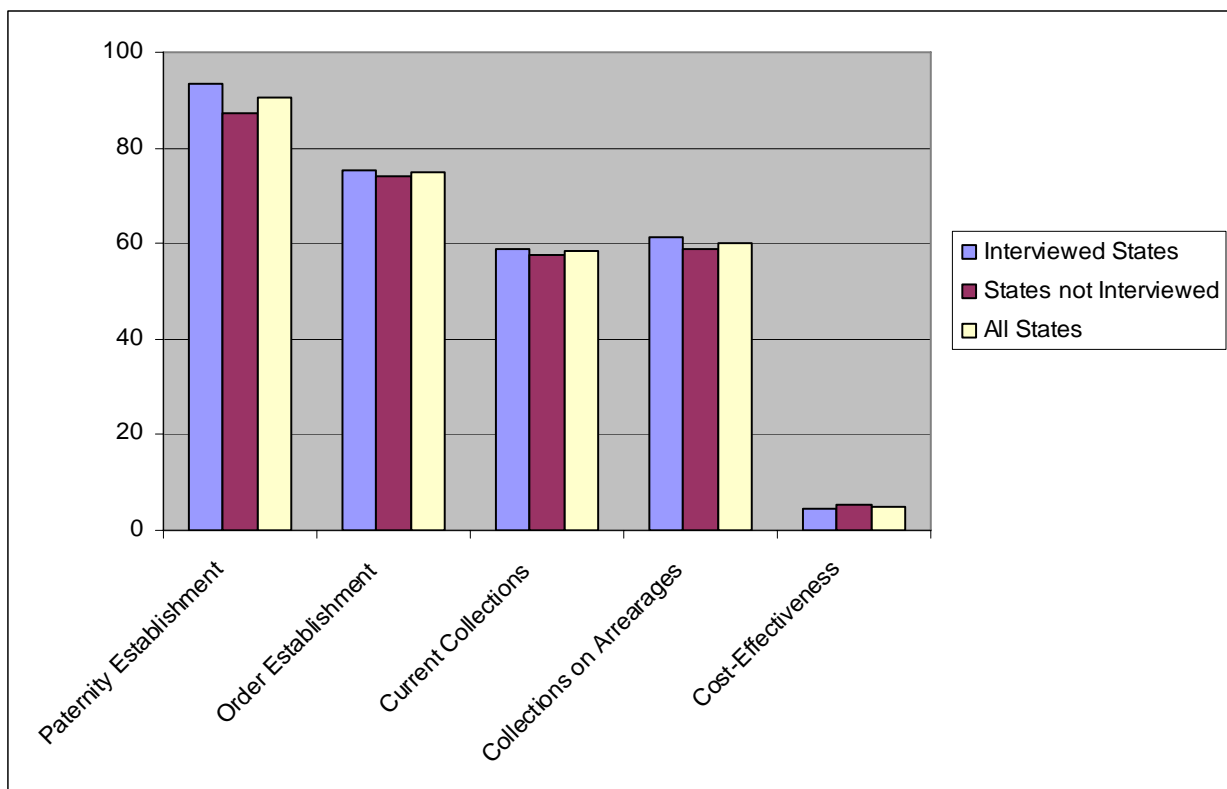
<sup>23</sup> For support order establishment, the Pearson correlation coefficient is -0.364 (p-value of 0.0086); for current collections it is -0.345 (p-value of 0.0132). These results use the projected decrease from the zero back-fill scenario. The results are almost identical for the other three scenarios.



already addressed funding issues and do not foresee any problems. Regardless of the reasons, the states not included in the study likely differ from the 28 described below in observable (e.g., larger, county-based states) and unobservable (e.g., political sensitivities) ways. Thus, it is important to keep in mind that the comments summarized below do not reflect all state experiences.

The 28 states surveyed have approximately 66 percent of the total child support caseload nationwide. The sample also includes a mix of state- and county-administered programs. *Exhibit III.1* shows average performance on the five incentive measures for the sample states as compared to the child support program nationwide. As it indicates, the 28 states are similar to those not surveyed and the average state; that is, they are not outliers.

**Exhibit III.1: Average Performance on Five Incentive Measures, FY 2004**



The survey states are similar in other ways. The percent of state match comprised of incentives is only slightly lower in the interview states than the non-interviewed ones (27 percent versus 30 percent). The groups have the same proportion of their caseloads on current assistance (16 percent).

While child support performance is comparable between interviewed and non-interviewed states, the voluntary nature of the survey means the findings should not be considered nationally representative.

Project team staff administered the survey via phone. Each survey took approximately 30 minutes and addressed the following topics:

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- State use of incentives (e.g., to draw down additional funds, whether passed through to counties);
  - Expected replacement rates (including primary obstacles);
  - Expected actions that will be taken if the incentive-related match is not fully replaced (e.g., service and/or staffing cuts, caseloads and parts of the state most likely affected, effect on planned initiatives);
  - Expected effects of staffing and/or service reductions (e.g., on customers, on agency performance, on the way the agency does business, on other state and federal programs); and
  - Expected effects of the DRA-mandated user fee (e.g., benefits of implementation, drawbacks, challenges, expected revenue).

## **B. Key Findings**

### **1. Child Support Program Funding**

#### *a. Incentives and other State-Match Sources*

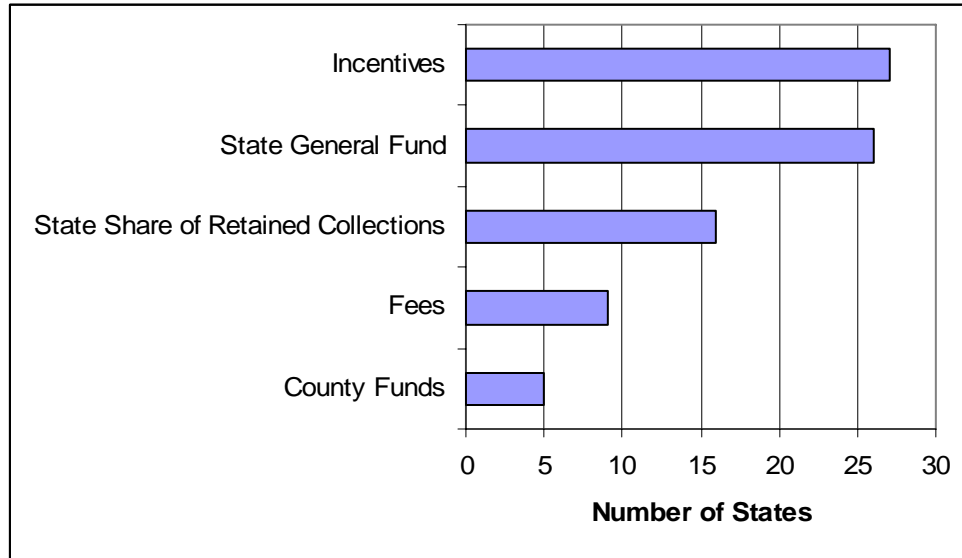
All but one director reported using incentives to draw down additional federal funds. In recent years, federal incentives – expressed as a share of the total state match – ranged from less than 10 percent to 69 percent in the interviewed states. Some states on the lower end of the spectrum noted that performance and audit-related issues negatively affected incentive amounts in years past. As a result, these states have already explored and secured alternate sources of state match.<sup>24</sup>

Aside from incentives, state match consists of state general funds, state share of retained TANF collections, county funds, and fees (see *Exhibit III.2*). Of these sources, general funds are the most prevalent. All but two directors (26) reported that state general funds contribute to state match. Sixteen directors cited state share of retained collections as a key match source. Fewer directors stated that county funds or fees contributed to match (five and nine states, respectively).

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<sup>24</sup> These two states were among five in which incentives made up less than 20 percent of state match. All five were below the national average in performance for at least three out of the five CSPIA measures.

### Exhibit III.2: Sources of State Match



Directors reported using incentive funds to support core services at the state and, in many instances, the local or county level. Half of the directors stated that some portion of incentives is passed through to counties or other local jurisdictions to support work in these offices. In some states, 100 percent of incentives are passed to counties to fund their core child support services (e.g., staff salaries). In fewer instances, programs earmark incentives for targeted improvements. This includes IT or programming (three states), support for a customer service center (one state), and county provision of non-core services (two states).

#### *b. State-Match Replacement Prospects*

A series of questions explored the expected replacement rates. These included the proportion of incentive-related state match expected to be replaced this year, the expected replacement source, the primary obstacles to replacing the funds, and the prospects for longer-term financial security (i.e., replacing funds beyond this year). Following all 28 interviews, the project team developed three categories of expected outcomes.

- **Category 1** directors were optimistic that most or the entire incentive-related match would be replaced with state resources. Some directors expected replacement funds only for this state fiscal year, while others stated that legislation included a request to increase the funding base of the program, thus eliminating the need to go before the legislature each year.
- **Category 2** directors had executive branch support for replacement but were less certain that state or local legislative bodies would support the proposal. Most of these directors expected that budget issues would surface annually.
- **Category 3** directors indicated no action will be taken to replace funds.

*Exhibit III.3* compares performance and program characteristics of the states in each of the three categories. As it shows, the largest difference emerges in order establishment, in which Category 1 states are eight percentage points higher than Category 3 states. Category 1 states also appear to be slightly more reliant on incentive funds for drawing down federal matching funds than Category 3 states (30 percent versus 24 percent). The Exhibit also shows the percent of states' child support caseload on public assistance. Category 3 states had a higher proportion of child support cases on TANF than the states with greater prospects for replacing lost funds (20 percent versus 17 percent).

**Exhibit III.3: Performance and Characteristics of Study States, by Category (FY 2004)**

	N	Paternity Establishment	Order Establishment	Current Collections	Collections on Arrearages	Cost-Effectiveness	Percent of Match from Incentives	TANF caseload as % of total caseload
All States	51	90.5	74.9	58.3	60.0	4.8	28.3	16.5
Study States	28	93.3	75.4	58.8	61.1	4.5	27.0	16.6
<i>Category 1</i>	14	92.0	78.8	59.9	62.7	4.7	29.6	16.7
<i>Category 2</i>	10	94.9	72.6	57.4	60.1	4.4	24.7	15.1
<i>Category 3</i>	4	94.0	70.6	58.6	58.4	4.4	24.0	20.2
Non-study States	23	87.2	71.2	57.6	58.7	5.2	29.7	16.4

i) Category 1: Likely 100% Replacement

**One half of the surveyed directors expect to replace all or most of the incentive-related state match this year (Category 1); all indicated the general fund was the primary source of replacement funds.** In 11 of the 14 states it is the *only* expected source. Other potential replacement sources are fees and trusts (mentioned each by one state). Although the directors expect that the incentive-related match will be backfilled, it is not assured. In some states, one house had passed a funding bill. In some, the house and senate had passed bills proposing different amounts. In others, the legislature had not yet taken action.

Most IV-D directors of states in this category believe prospects for funding in future years is good once the legislature acts. Roughly two-thirds of these directors (10) noted that an increase in the base funding amount will become the future year baseline. The remaining one-third, however, said that future year prospects are uncertain and that they expect annual budget battles, based on the state's fiscal health.

ii) Category 2: Replacement Proposed but Legislative Action less Certain

**One-third of surveyed directors expect to receive less than 100 percent of replacement funds or are uncertain about the legislative prospects of a funding bill (Category 2); all directors indicated the state general fund would be the primary source of replacement funding.** Three directors also stated that counties would likely need to approach their local boards for funding as well. Directors indicated a variety of reasons for uncertainty about funding prospects. In some states, legislation has not been introduced. One director noted that the multiple levels of approval needed to get a bill before the legislature made it difficult to predict whether any amount of incentive-related state match would be replaced (see below). In others, a bill is

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before the legislature but either prospects of passage are uncertain, or the amount of the backfill is less than 100 percent. Directors cited poor fiscal climates and/or competing budget priorities (e.g., expanding health care) as obstacles.

The directors in this category were less certain about future year funding. Only two stated that once increased funding is approved it will be reflected in future budgets. One noted that the budget issue will be resolved for two years and then need to be revisited. The others indicated that securing increased child support funding will be an annual issue.

**Layers of Approval.** The experience of one state director demonstrates the difficulty in securing executive branch approval for any new funding increase. The IV-D director hopes to replace 50 percent of the incentive-related state match with a general fund appropriation (the remainder would come from banked incentives). The department included the funding request in its budget. The next step is approval by a Division that is akin to the federal Office of Management and Budget. The Division determines what is included in the governor's budget. The Division denied the additional IV-D funding. The IV-D director and her Department-level supervisors appealed the decision and requested a hearing. If the funding request makes it into the governor's budget, it is likely to be approved. At this time, however, the budget does not contain the replacement funds.

iii) Category 3: No Replacement Currently Proposed

**Four surveyed directors do not expect to replace incentive-related match; unlike other categories, many directors in Category 3 expect to use state share of retained collections to help bridge the gap.** These directors cite weak economic and fiscal climates as barriers to getting replacement funding. Two directors are exploring whether retained collections can be used for some of the backfill, although both noted that TANF caseload declines make this a less reliable funding source. The two county-administered states in this category noted that incentives have traditionally been passed through to counties to fund their programs. Thus, the counties, to a large extent, will be responsible for replacing match (see below). None of the directors expect budget issues to be resolved in the next few years.

**Relying on County Funds.** In one state, 98 percent of incentives are passed to counties to administer the child support program through cooperative agreements with the state. Incentives have not been a large part of county program funding because the state has experienced issues with data reliability audits and performance, resulting in low incentive payments. County programs have to make their case to the local Boards of Commissioners. In the past, county boards have not provided all of the resources requested. In one large county, only one-tenth of the requested staff positions were funded by the Board. No county has yet informed the state that it cannot fund its program, but the IV-D director noted that some of the smaller ones might have more difficulty and might cease providing services (e.g., merging with a neighboring county or passing the caseload back to the state).

## **2. Expected Actions if Incentive Funds not Replaced**

The survey included a number of questions about the expected effects of any potential funding cuts on program services. The project team asked directors how such cuts would affect service delivery and agency staffing, and how these changes in turn would impact customers' experiences. Because states in Categories 2 and 3 are most likely to be affected by cuts, the discussion below focuses on comments by directors in these states. By and large they expressed similar themes.

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Directors of Category 1 states were asked to hypothesize about the nature of service and/or staff cuts. Their responses are not detailed below because cuts are not expected. However, it should be noted that although these directors are not predicting large service or staffing cuts, they do anticipate having to scale back planned initiatives and enhancements.

*a. Anticipated Cuts in Services and Staff*

**Directors stated that cuts would begin in labor-intensive services.** Specific service areas cited by directors include:

- Scaling back customer service centers;
- Delaying technological improvements (e.g., to statewide systems or beginning document imaging);
- Reducing labor-intensive medical support enforcement work (e.g., networking with hospitals and conducting in-depth investigations) and in-hospital paternity activities;
- Placing a lower priority on interstate cases;
- Modifying cases;
- Reducing or ending non-custodial parent workforce programs and law clinics; and
- Reducing or eliminating staff development and training activities (e.g., workshops, travel to conferences).

Directors also stated that **many planned initiatives would be postponed or cancelled.** This includes technological improvements (e.g., processes to submit court records electronically), efforts to collaborate with program partners at the state and local level (e.g., TANF, courts, foster care), advertising and public awareness campaigns, fatherhood initiatives, and customer service improvements. One director had planned to adopt new enforcement tools, such as joining the Child Support Lien Network and the Medical Support Consortium. Because these tools cost money, they will likely be tabled.

In considering where to cut, the federal performance indicators continue to play an important role despite the decreased value of (unmatched) performance-related payments.

*Delayed Initiatives: Two Views*

*Information Technology Upgrades.* One IV-D director stated that the current IT system is severely out of date. The state is planning to develop a web-based system and data warehouse to improve case tracking and program performance. Loss of the incentive-related match would stall these initiatives.

*Services for Low-Income Families.* One state program is rolling out an initiative that encourages low-income non-custodial parents with arrears to begin paying. This involves calling employed non-custodial parents, ensuring that their orders are accurate (i.e., reflect current income and modify if needed), and agreeing to forgive some arrears in return for regular payments. Any substantial cuts could delay implementation.

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**Directors also indicated staff would likely be cut.** Because staff is the primary agency resource, directors stated that reducing FTEs would be a last resort. Many directors note that workers are already operating with high caseloads in large part because past funding issues meant that vacancies went unfilled. To the extent possible, directors would cut staff through natural attrition (e.g., retirements, resignations to take new jobs). Depending on the size of the budget shortfall, however, some directors predicted it would not be enough. As one director noted, even in the absence of hiring more FTEs, staff-related costs rise as salaries grow through promotions and cost-of-living adjustments and benefits become more expensive. Some directors anticipate staffing cuts in the 20 percent to 30 percent range if incentive-related match is not backfilled. In county-administered states, cuts would be shared between state- and county-level staff or borne entirely by county-level staff if all incentives are passed through to the local level. One director in a county administered state indicated the worst case (albeit unlikely) scenario would be ceasing operations in some of the smaller counties that could no longer afford to provide services. These cases would be absorbed by neighboring counties or the state. One director could not estimate effects on staffing and services, and has formed a committee to look into options (see below).

*Determining the Nature of Cuts.* The child support division in one state convened a committee to evaluate the impact of the anticipated loss of funding on staffing and services. Staff reallocations and service reductions are almost certain, given the magnitude of the funding shortfall, but the details will not be available until the committee completes its work in Summer 2007.

Finally, **directors expect a shift in the way the agency does business in the future.** Even if staff levels remained constant, directors predict that rising caseloads and strained budgets will result in a program that provides fewer personalized services and relies more on technological solutions. For example, interaction with customers is expected to become more automated. One state is considering a web-based application to reduce call volume and redirect customers to other sources of information. Others are scaling back call center operations. Some directors also expect core procedures will increasingly be automated. One director, for instance, said that much enforcement work – particularly around arrears – is staff-intensive. To take one example, rather than doing mass automated license revocations, staff work one-on-one with non-custodial parents in arrears to set up a payment plan and use revocation as a last resort. As cases per FTE grow, this level of personalized service will be more difficult.

*b. Anticipated Effects on Customers*

The directors felt very strongly that failure to replace the incentive-related portion of state match would have severe consequences for customers. Many directors noted that the child support program in their states has worked hard to change its image to a family-friendly agency, which includes providing customer service and being more proactive in identifying problems before they become major issues. As noted above, staff-intensive services are likely to be scaled back in the event of funding loss. Directors also expect that funding shortfalls would affect the roll-out of some DRA-related family-friendly provisions, such as passing through a larger share of collections to families currently on public assistance.

**Directors disagree about which caseload types will be most affected, but agree that efforts in labor-intensive cases will be reduced.** The project team asked directors whether customers or

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particular caseloads would be affected more than others if incentive-related match is not restored. As noted above, directors in Category 2 and 3 states generally predicted that cases per FTE will rise due to an inability to fill vacancies, staffing cuts, or a combination of both; this in turn will affect the level of interaction between staff and customers. Staff would have less time to focus on customer service functions and the program would likely move toward automated service solutions, such as voice-activated phone systems or websites. One director noted that more computer savvy customers will likely be able to navigate websites or phone systems, but those with less education or less self-efficacy will have difficulties.

To the extent that directors identified cases that would be most affected by the cuts, they generally discussed harder-to-serve ones, although all types of cases were cited (see below). These cases were deemed in need of more labor-intensive service at each step of the process, from locate to order establishment to enforcement. Some directors expect that working harder-to-serve cases will be avoided in favor of the easier establishment and enforcement ones. Some directors stated that arrears cases are particularly labor-intensive. Other directors noted that more attention would be focused on current and former TANF cases because states can retain some or all of these collections.

*Which Cases Will Be Most Affected? Three Directors, Three Views*

*Never Assistance Cases:* They use the call center disproportionately and expect a higher level of service.

*Former Assistance Cases:* They have the most erratic payments and require the most intensive level of services, especially in terms of enforcement.

*Current Assistance Cases:* They require a greater time commitment, especially in the locate and paternity establishment phase. Often these customers are unwilling participants in the program (this is especially common with medical support only cases).

**The effect of funding cuts on DRA family-friendly provisions is unclear.** The project team asked directors if the inability to match incentive funds would affect the pass-through of child support collections to public assistance recipients (i.e., either passing through some portion of collections for the first time or increasing the amount of the pass-through). More than half of the directors in Category 2 or 3 states expected that failure to backfill incentive-related match would have a detrimental effect on the pass-through provision. Some of these directors stated that adopting the pass through is politically complex to begin with, and requires securing support from a variety of state actors; any funding issues could scuttle plans. Others stated that the programs will need to keep the state share of collections to help fund the program.

Three directors did not think the funding issues would affect the pass-through plans. Three were uncertain.



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### *Two Views on the Pass-Through*

*Tabling the Pass-Through.* One director stated that the decision to forego the pass-through was closely tied to the matched incentive issue. The state does not currently pass-through any collections; retained collections go into the general fund. Although advocates are pressing the agency and the state to change the policy, the legislature will likely be “cold to the idea.” The director noted that the state legislature will be reluctant to adopt a pass-through because, from its perspective, it is already contributing extra funds to replace the incentive-related part of the match.

*Additional State Revenue.* The director of a program that currently passes through the first \$50 of collections to current assistance cases noted that the state expects to gain resources as a result of the DRA provision. Prior to DRA, states had to pay the federal share of collections passed through to families. However, under the new rules, states no longer have to pay the federal share of the pass-through. As a result, this state expects to increase retained collections substantially.

### *c. Anticipated Effects on Program Performance*

**Directors expect performance will suffer if funding is not replaced.** All 14 directors in Category 2 and 3 states expect all or some performance areas will suffer but did not quantify the effect. Over half of the directors expect across-the-board performance reductions in four of the five areas measured for incentives (paternity establishment, order establishment, collections on current support due and cases paying towards arrears). Directors also returned to the issue of labor-intensive activities. Some stated that the labor intensive tasks – primarily those related to medical support enforcement and arrearages – would be most hurt. Areas that rely on automated processes (e.g., wage withholding) were not expected to be affected as much. Three directors were unsure how performance would be affected.

A number of directors indicated that changes in performance would not occur immediately. Rather, cases coming into the system would be most affected. If staff work larger and larger caseloads, as directors predict if incentive-related match is not replaced, each step in the process would take longer – from locate to order establishment to enforcement.

**It may be difficult to establish orders within mandated timeframes.** Another theme was timeliness. A number of directors voiced concern that as cases per FTE rise, cases would not be processed within federally-mandated timeframes. Aside from federal requirements, some directors noted the customer will be adversely affected if agencies are slower to establish and enforce orders. Some lower-income customers “on the bubble” may seek public assistance or revert back to it.

**Directors expressed concern about the effect of child support finance issues on related programs.** While few states have conducted formal cost avoidance studies, all envisioned that declining child support program performance due to funding issues would negatively affect related programs, including TANF, Medicaid and Food Stamps. Some directors were particularly worried that declines in performance in three key areas – paternity establishment, order establishment and collections on current support due – would not only affect future child support program incentive payments but could hurt the state TANF block grants as well. Nine

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of 14 Category 2 and 3 state directors expect that TANF, Medicaid and Food Stamp caseloads would rise if families do not get support in a timely manner, although generally they did not quantify the magnitude of the program effect. (A few states used “back of the envelope” calculations to quantify costs to other programs – see below). In addition to increasing the caseloads of partner programs, one director stated that less child support income could result in higher benefits payments for other programs (e.g., Food Stamps benefits per family will increase as income declines).

### Estimating the Effects on Other Programs

One director used TRIM model estimates to predict that TANF and Medicaid costs would increase in his state by \$4.6 million annually if the incentive-related match was not backfilled.

### **3. Implementation of the DRA-Mandated Fee**

Finally, the project team asked directors about the DRA-mandated user fee, including its benefits and drawbacks, and implementation issues. For most states, user fees (other than minimal application fees) are somewhat rare. Nine directors stated that their programs had fees in place prior to the DRA. These include fees for specific services (e.g., modifications, locate only, filing fees), annual fees for non-IV-D cases, and fees levied on collections for non-public assistance cases.

**Directors noted that the primary benefit of the DRA user fee is program revenue.** Twelve directors stated that fees will produce more program revenue. Estimates of state-retained revenue ranged from about \$200,000 to several million dollars, depending on the size of the caseload.<sup>25</sup> Some directors noted that \$25 is a reasonable amount to pay in return for services. A number of directors also stated that fees increase a sense of ownership. As a result, customers are expected to be more cooperative with child support staff. Fees also create the impression that people who can afford to do so contribute to the cost of services.

**Directors expressed concern about potential negative effects of a mandatory fee.** The most commonly cited concern is that fees take money away from low-income families. Many directors also voiced concern that the fee would drive away customers – particularly those associated with the easiest-to-work cases. Some potential customers will opt not to apply for services, which in turn could have a negative effect on family income. At the same time, some current customers might close their cases. One director noted that some customers sign up for IV-D services as part of their divorce decree to simplify their lives. Many of these cases not only bolster child support program performance, they support the mission of the child support program by generating reliable payments to families. They may choose to leave the system rather than pay the fee.

For these and other reasons, seven directors indicated that they have proposed or plan to propose paying the federal share of the fee out of program revenue. Interestingly, three of the

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<sup>25</sup> Fees are considered income and are reported on Form OCSE 396A as offsets to administrative costs of the program. As such, they reduce the amount eligible for Federal Financial Participation. Thus, while fees increase program revenue, they also reduce federal matching funds.

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four Category 3 state directors (those that expect no incentive-related match will be backfilled) are in this group. One stated that the fee will cost the state \$1.3 million annually.

**Directors stated that the fee will be challenging to implement.** Regardless of whether they thought the fee was a net benefit or cost to the child support program, the directors stated that programming the automated system to identify cases and assess fees will be difficult. Most estimated that the cost of implementation will far exceed the revenue gained, at least in the short term. Several directors also suggested there will be a public relations task. As one director stated, “the child support program will need to explain to customers why they need to pay for something that up to this point was free from their perspective.” Finally, a few directors noted that they will need to “sell” the fee concept to their state legislatures and governors who might perceive it as a tax on customers.

#### IV. CONCLUSION

This study used child support administrative data and interviews with IV-D directors to explore the potential implications of changes to federal financing of state CSE programs in the DRA.

The statistical analysis found:

- The average child support enforcement program would face a 17 percent budget cut if state and local governments did not restore the lost federal resources. Individual state impacts range from 5 percent to 36 percent.
- If states fail to restore the federal match, performance on order establishment and current collections would fall. Assuming partial (50 percent) replacement, order establishment declines will range from 3 percent to 8 percent. Current collection declines will range from less than 1 percent to 3 percent. Regardless of the amount of replacement funds, high performing states face the greatest risk of funding shortfalls and corresponding performance declines.

The interviews found:

- There is strong support for child support in the executive branch of most states. Over half of directors hoped to receive full or near full replacement funding this year; prospects for out-years are uncertain. Directors in states with weak fiscal climates, decentralized IV-D programs, or both, were least certain of replacement funding.
- In the event of failure to replace funding, directors would curtail funding for:
  - Hard-to-serve, labor-intensive cases (e.g., low-income families, interstate cases)
  - Activities that fall outside of automated establishment and enforcement functions (e.g., customer service call centers, employment and training services for non-custodial parents, medical support enforcement)
  - Family-friendly DRA initiatives (e.g., pass-through)

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- Planned enhancements to automated systems
  - The effects of funding cuts would worsen over time (i.e., performance declines in cases with orders will affect future collections).

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## APPENDIX A: PROJECT FUNDERS

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The following organizations interested in the well-being of families and committed to an effective national Child Support Enforcement program provided funding for the research in this report:

- Association of Child Support Attorneys of Los Angeles County
- California Child Support Directors Association
- Eastern Regional Interstate Child Support Association
- Illinois Family Support Enforcement Association
- Michigan Family Support Association
- Minnesota Family Support and Recovery Council
- National Council of Child Support Directors
- National Child Support Enforcement Association
- Nebraska Child Support Enforcement Association
- Ohio CSEA Directors Association
- Western Interstate Child Support Enforcement Council
- Wisconsin Child Support Enforcement Association

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**APPENDIX B: STATE SAMPLE**

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There were 24 participating states:

Arizona  
Arkansas  
California  
Colorado  
Florida  
Georgia  
Illinois  
Louisiana  
Maine  
Maryland  
Michigan  
Minnesota  
Nebraska  
Nevada  
New Jersey  
New Mexico  
North Carolina  
North Dakota  
Ohio  
Oklahoma  
Oregon  
Rhode Island  
South Dakota  
Texas  
Vermont  
Virginia  
Washington  
West Virginia