



Child Welfare Policy Brief

Child Welfare Financing Reform: The Limits of Flexibility and the Need for New Resources

California Child Advocates for Change is a coalition of California's leading child welfare advocacy organizations that have united to inform conversations about federal foster care reform.

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Introduction

There are significant flaws in the way the federal government currently funds our nation's child welfare systems. Over the past decade, there has been a developing consensus about the need to reform the fiscal role of the federal government to ensure that state child welfare systems respond effectively to the needs of at-risk children and families.

Under the current financing structure, the Title IV-E foster care entitlement is limited by an antiquated “look back” rule that ties a foster child's eligibility for federal funding to income guidelines not updated since 1996. This illogical rule has steadily reduced the number of foster children eligible for federal support over the past two decades. Meanwhile, dedicated federal funding for prevention, early intervention, and family reunification services mainly comes from capped and/or discretionary programs, which provide an inadequate, fixed level of funding regardless of the number of children and families who need these supports.

While there is nearly unanimous agreement about the problems underlying the federal financing structure, there is not consensus about solutions. Some advocates and policymakers suggest that reform can be achieved in a cost-neutral manner by simply allowing state child welfare systems the flexibility to use their current Title IV-E foster care funds to serve children across the continuum of care. But California's experience suggests that cost-neutral reform proposals that expand the flexibility of funds without increasing overall funding are not only unrealistic, but could be harmful to children.

Illogical and Outdated Eligibility Rules Continue to Reduce Federal Investment in Foster Care

Since its creation in 1980, the Social Security Act's Title IV-E¹ foster care entitlement has been the main source of federal support for the costs of caring for children in state foster care systems. Under the Title IV-E foster care program, the federal government provides states with reimbursement for a portion of foster care maintenance payments (e.g. room and board) paid on behalf of eligible children who are in foster care, as well as for a portion of costs related to program administration (e.g. case planning and management), data collection and training.² Additionally, close to one-third of Title IV-E funding is spent on ongoing assistance payments to support children who have achieved permanency via adoption or guardianship.³



Federal funding for child welfare is antiquated and in need of reform.

The program is an open-ended entitlement, meaning that the program is not capped and that all children who meet eligibility criteria for the program are entitled to funding and legal protections. However, eligibility has always been restricted to children from families with very low income in order to control costs. More specifically, Title IV-E foster care eligibility is linked to the income eligibility criteria of the federal Aid to Families with Dependent Children (AFDC) program.⁴

Congress eliminated AFDC in 1996, replacing it with a block grant called Temporary Assistance for Needy Families (TANF).⁵ However the income eligibility rules for Title IV-E foster care perplexingly remain tied to the AFDC program despite its elimination. As a result, each year fewer foster children nationwide are eligible for the Title IV-E foster care entitlement because eligibility for federal funding depends on 20-year-old income and resource limits that have never been adjusted for inflation. This “look back” causes significant and ongoing federal disinvestment in all state foster care systems.⁶ In fact, the percentage of children in foster care who met Title IV-E eligibility criteria declined from 67 percent in 2000 to 55 percent in 2010,⁷ and in 2013 fewer than half of all children in foster care were estimated to meet Title IV-E foster care eligibility criteria.⁸ States must cover the full cost of caring for foster children who are not Title IV-E eligible using state or local dollars or other federal funding streams that are not dedicated to foster care, such as TANF.

The Title IV-E foster care entitlement should be enhanced, not dismantled

Despite its diminishing coverage, the Title IV-E foster care program provides critical support for state child welfare systems, and any proposed reform should enhance, not dismantle, it. As noted above, Title IV-E provides needed financial support to protect our most vulnerable children and youth, those who are abused and neglected and must enter foster care due to serious safety concerns. The fact that Title IV-E is an entitlement buffers it from cuts when the political and/or fiscal climates shift. For example, in 2011 when Congress attempted to reduce the federal deficit by enacting across-the-board spending cuts known as sequestration,⁹ Title IV-E was exempted. In comparison, discretionary child welfare programs were slashed.¹⁰

Title IV-E also has an identifiable population of beneficiaries, which helps preserve political support. Other federal programs that fund a wider range of services to a broader population are more vulnerable to budget cuts because their purpose and beneficiaries are less clear. For example, over time the Social Services Block Grant (SSBG), a flexible pot of funding distributed to states to support a wide range of social programs, has been cut by over \$1 billion per year.¹¹ It has also been labeled “duplicative”¹² by some policymakers and threatened with elimination.¹³

Given the importance of Title IV-E and problems with declining eligibility, the solution should be obvious: the “look back” should be eliminated. A recent Government Accountability Office (GAO)¹⁴ study highlighted more than a dozen different ways to do this. Advocates and policymakers should prioritize solving the growing fiscal dilemma created by the “look back” while preserving Title IV-E’s entitlement status.

Funding for prevention, early intervention and post-permanency services should be expanded without diverting critical funding from foster children

In addition to addressing the Title IV-E “look back”, it is critical to expand federal funding for prevention, early intervention, family reunification and post-permanency services. There is no child welfare funding stream that provides an entitlement to such services,¹⁵ making it especially difficult for states to identify adequate funding to provide services to at-risk children and families, including those whose children can remain safely at home with support. To provide needed services and supports, states must rely on a variety of federal funding streams, including those not “dedicated” solely to child welfare purposes. Many of these

funding streams have capped allocations that are inadequate to begin with and/or are discretionary in nature, which leaves them vulnerable to political considerations and fiscal austerity measures including cuts through the annual appropriations process as well as the aforementioned sequestration.¹⁶ For example, funding for programs authorized by Title IV-B of the Social Security Act, the primary source of “dedicated” federal funding to support child welfare services, was subject to sequestration and decreased by almost nine percent from 2012 to 2015.¹⁷ (See side bar on federal funding streams commonly used to support child welfare).

Federal Funding Streams Commonly Used to Support Child Welfare				
Program ¹⁸	Major eligible child welfare-related services	Structure	Dedicated Child Welfare Program?	Program's 2015 funding level ¹⁹
Title IV-E Foster Care	Foster care maintenance payments, administration, and training	Open-ended Entitlement	Yes	\$4.67 billion
Title IV-E Adoption Assistance	Placement and support of children adopted out of foster care	Open-ended Entitlement	Yes	\$2.47 billion
Title IV-E Kinship/Guardianship Assistance	Ongoing supervision and care of foster children by relative legal guardians	Open-ended Entitlement	Yes	\$101 million
Title IV-E Chafee Foster Care Independence Program	Independent living and self-sufficiency support for transition age foster youth	Mandatory	Yes	\$140 million
Title IV-B Child Welfare Services	Prevention & early intervention, foster care and adoption	Discretionary	Yes	\$269 million
Title IV-B Promoting Safe & Stable Families	Family support, family preservation, time-limited family reunification, adoption promotion & support	Mandatory + discretionary	Yes	\$381 million
Child Abuse Prevention and Treatment Act (CAPTA) programs	Child protective services, prevention and early intervention, training	Discretionary	Yes	\$94 million
Temporary Assistance for Needy Families (TANF)	Financial support for caregivers of children in needy families	Mandatory	No	\$16.48 billion
Social Services Block Grant (SSBG)	Broad range including protective services, foster care, case management, prevention and intervention, adoption, independent living	Mandatory	No	\$1.576 billion
Medicaid	Health, mental health, and behavioral health services	Open-ended Entitlement	No	\$378.9 billion
Maternal, Infant, and Early Childhood Home Visiting Program	Parenting support services for pregnant women, expectant fathers, and new parents of at-risk children	Mandatory	No	\$430 million

Expanding federal resources to support prevention, early intervention, and aftercare is absolutely critical, but this expansion should not come at the expense of children who cannot remain safely at home and need the protections of the foster care system. On the whole, the system is underfunded, making it impossible to redirect funds from one purpose to another within the child welfare system without undermining the states' ability to meet the broad needs of all children in their systems. The challenges of cost-neutral child welfare reform are illustrated by the experience of many states, including California, with Title IV-E waivers.

Lessons from Title IV-E Waivers and the Perils of Cost-Neutral Reform

In 1994, Congress passed legislation giving the U.S. Department of Health and Human Services (HHS) the authority to approve time-limited demonstration projects in which states can use Title IV-E foster care funding more flexibly with the goal of generating data about innovative and effective child welfare practices.²⁰ All waiver demonstrations were required to be cost neutral to the federal government.²¹

Some waivers tested a “flexible funding/capped IV-E allocation” model, in which the state or county does not draw down the federal share of foster care payments on a per-child basis as they would under IV-E. Rather, these waiver states and counties receive a negotiated lump sum that they are able to use flexibly to address stated goals. Waiver jurisdictions must continue to serve children in foster care while they test new programs and policies intended to prevent foster care entries, aid in reunification, or facilitate permanency through adoption or guardianship. The theory underlying capped allocation waivers is that the cost of new in-home prevention, early intervention, reunification and permanency services will be offset by savings from reducing foster care caseloads.²²

However, the results of the waiver evaluations do not show that fiscal flexibility alone, without also investing new resources, is effective in reducing foster care caseloads without jeopardizing child safety or quality of care. California's experience with capped allocation waiver demonstration projects can provide valuable lessons to policymakers considering broader child welfare reforms.

Lessons from California's Capped Allocation Project

California and two of its counties, Alameda and Los Angeles Counties, began implementing a five-year Title IV-E Child Welfare Demonstration Project in 2007, known as the Capped Allocation Project (“CAP”).²³ The two counties participating in the CAP chose to trade the guaranteed Title IV-E foster care entitlement for the flexibility to receive a capped allocation of federal funds to spend on a broader range of child welfare services. The stated purpose of the CAP was to develop and implement “alternative services to foster care to bring about better outcomes for children and families.”²⁴

In order to stay within their capped allocations and generate reinvestment savings that could be redeployed to test new strategies, participating counties had to reduce total costs by (1) lowering the number of children entering foster care; (2) reducing the length of time children stay in foster care; and/or (3) reducing the per-case cost of operating the foster care system (e.g. by reducing the use of higher-cost placements such as group homes).²⁵ But the fiscal challenge to the waiver counties was lessened because they negotiated an allocation methodology that gave them more money under the CAP than they would have received without the waiver.²⁶ This revenue enhancement assisted the waiver counties in funding service alternatives to foster care at the onset of the CAP, without first having to generate reinvestment savings.²⁷

Yet even with this fiscal ‘bonus’ at the front end of the waiver period, the Los Angeles County Department of Children and Family Services (DCFS) generated no reinvestment savings in the third and fourth years of the CAP.²⁸ This raises serious doubts that new upfront and post-permanency services can be offset

solely by reduced foster care costs. The experience of Los Angeles County was not unique; other capped allocation demonstration waivers had similar difficulties with cost neutrality.²⁹ Generating sufficient savings to offset the costs of new services by reducing foster care costs may be particularly difficult in states and counties that have already experienced significant caseload reductions over the past two decades³⁰ and/or already significantly reduced their use of more restrictive, congregate care settings.

More importantly, the waiver evaluation showed mixed results on child safety, permanence and well-being outcome indicators. In Alameda County, the final evaluation report found that “indicators were mixed,” while in Los Angeles it was “difficult to suggest that the indicators and outcomes were doing better.”³¹ Both jurisdictions succeeded in reducing their foster care caseloads during their participation in the CAP. However, these declines had begun prior to the CAP and also occurred in other California counties during the same time period, making it hard to know if this caseload decline was caused by the CAP.³²

Moreover, the evaluation data show the potential perils of creating fiscal incentives for caseload reduction. In Los Angeles, while four out of five child safety indicators were trending in the desired direction before the CAP, only two of these indicators continued to trend in the desired direction during the CAP years.³³ Of great concern is that Los Angeles County had a 15 percent increase in children re-entering foster care after being reunified with their parents during the CAP years.³⁴ This data calls into question whether the pressure to reduce foster care costs and caseloads in a capped allocation environment may cause children to be diverted from foster care despite serious safety concerns or to be reunified before their families are prepared to ensure their safety.³⁵

In Alameda County, the DCFS significantly reduced foster care entries and placed more children with kinship guardians during the CAP years,³⁶ but it saw a reversal of previously positive trends in other areas. Two indicators related to placement stability for children in foster care stopped trending in the desired direction during the CAP years, as did three indicators related to exits to permanency.³⁷ Additionally, while there was a decrease in the use of more restrictive placement types for children in foster care, there was an increase in the percentage of runaways.³⁸

The mixed results of California’s “capped allocation” waiver and difficulty tying waiver-funded services directly to changes in child welfare outcomes³⁹ should raise doubts about whether these waivers provide a workable model for comprehensive child welfare finance reform.

Conclusion

As Congress weighs proposals to reconfigure the federal child welfare financing structure, policymakers should be aware that increasing flexibility, as provided under the Title IV-E Waivers, will not alone lead to improved outcomes. Implementing a capped allocation model on a permanent basis would also jeopardize long-term funding for child welfare, as block grants are politically vulnerable and can easily be cut in periods of fiscal austerity. The Title IV-E foster care entitlement, by contrast, provides guaranteed funding and critical protections to all eligible children. Reform efforts should focus on strengthening, expanding, and potentially replicating Title IV-E, not undermining or replacing it.

Comprehensive child welfare finance reform cannot be responsibly undertaken in a budget neutral manner. The system is already too under-resourced, after years of federal disinvestment, to be able to withstand the diversion of funds from one subgroup of at-risk children to another. Advocates and policymakers should push for new federal resources to bolster prevention, early intervention, reunification and post-permanency services and supports, without undermining federal support for the full continuum of care in state child welfare systems.

Footnotes

1. Title IV-E of the Social Security Act was created by the 1980 Adoption Assistance and Child Welfare Act (P.L. 96-272). In addition to the foster care entitlement program, Title IV-E also encompasses the Adoption Assistance Program, Kinship Guardianship Assistance, Chafee Foster Care Independence Program, Chafee Education and Training Vouchers, Adoption and Legal Guardianship Incentive Payments and Tribal technical assistance.
2. For more information on Title IV-E, see Emilie Stoltzfus, “Child Welfare: A Detailed Overview of Program Eligibility and Funding for Foster Care, Adoption Assistance and Kinship Guardianship Assistance under Title IV-E of the Social Security.” Congressional Research Service (Oct. 2012), http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/R42792_gb.pdf
3. Ibid.
4. In order to be eligible for AFDC, a child must be deemed “deprived” of parental support and must meet the “need standard” in their state’s AFDC state plan. Ibid. at 13.
5. Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193), commonly referred to as the “welfare reform” law.
6. Committee on Ways and Means, “Green Book: Child Welfare Introduction and Overview.” U.S. House of Representatives (2014), <http://greenbook.waysandmeans.house.gov/2014-green-book/chapter-11-child-welfare/introduction-and-overview>.
7. Kerry DeVooght, Hope Cooper, “Child Welfare Financing in the United States.” State Policy Advocacy and Reform Center (Feb. 2012), <https://childwelfaresparc.files.wordpress.com/2013/02/child-welfare-financing-in-the-united-states-final.pdf>.
8. See Emilie Stoltzfus, “Child Welfare: An Overview of Federal Programs and Their Current Funding.” Congressional Research Service (Jan. 2015), at 13, <https://www.fas.org/sgp/crs/misc/R43458.pdf> (“Nationally, there are about 400,000 children in foster care on a given day, and during FY2013 there were fewer than 159,000 children receiving Title IV-E foster care maintenance payments in an average month. This suggests that less than half of all children in foster care met federal Title IV-E foster care eligibility criteria.”)
9. The spending cuts were put in place through the Budget Control Act of 2011 (P.L. 112-25).
10. Emilie Stoltzfus, “Child Welfare: An Overview of Federal Programs and Their Current Funding.” Congressional Research Service (Jan. 2015), at 3, <https://www.fas.org/sgp/crs/misc/R43458.pdf>
11. Funding for SSBG peaked at \$2.8 billion; the program is now authorized at just \$1.7 billion and, after sequestration was imposed, was cut below \$1.6 billion. LaDonna Pavetti, Ife Floyd, “Eliminating Social Services Block Grant Would Weaken Services for Vulnerable Children, Adults, and Disabled.” Center on Budget and Policy Priorities (April 2016), at 2-3, <http://www.cbpp.org/sites/default/files/atoms/files/5-3-12bud.pdf>
12. Ibid at 2.
13. Since 2012 the U.S. House of Representatives has been proposing to eliminate SSBG in its annual budget resolution
14. U.S. Government Accountability Office, “Summary of Proposals to Address Income Eligibility Requirement for Federal Foster Care Reimbursement.” GAO 13-323R (Mar. 2013), <http://www.gao.gov/assets/660/653299.pdf>
15. Title IV-E does not authorize reimbursement for the costs of social services (e.g. counseling or tutoring) that children may need while in care or after achieving permanency, with the exception of authorizing capped entitlement funding to states specifically for services to youth who either “age out” of foster care or are expected to age out of foster care. Emilie Stoltzfus, “Child Welfare: A Detailed Overview of Program Eligibility and Funding for Foster Care, Adoption Assistance and Kinship Guardianship Assistance under Title IV-E of the Social Security.” Congressional Research Service (Oct. 2012), at 9, http://greenbook.waysandmeans.house.gov/sites/greenbook.waysandmeans.house.gov/files/2012/R42792_gb.pdf
16. The following programs were among those subjected to sequestration cuts via the Budget Control Act of 2011(P.L. 112-25): Promoting Safe and Stable Families; Stephanie Tubbs Jones Child Welfare Services; Chafee Educational and Training Vouchers; Family Connections Grants; Child Welfare Research, Demonstrations, and Training; the Child Abuse Prevention and Treatment Act (CAPTA) programs; the Victims of Child Abuse Act (VOCA) programs; Adoption Incentives; Adoption Opportunities; Abandoned Infants Assistance; Social Services Block Grant (SSBG); Maternal, Infant, and Early Childhood Home Visiting Program.
17. Emilie Stoltzfus, “Child Welfare: An Overview of Federal Programs and Their Current Funding.” Congressional Research Service (Jan. 2015), at 1, <https://www.fas.org/sgp/crs/misc/R43458.pdf> (noting that funding for Title IV-B decreased from \$729,807,000 in fiscal year 2012 to \$664,299,000 in fiscal year 2015, representing a nearly 9% decrease).
18. For more information on many of these funding streams from a child-welfare perspective, see Kerry DeVooght, Hope Cooper, “Child Welfare Financing in the United States.” State Policy Advocacy and Reform Center (Feb. 2012), <https://childwelfaresparc.files.wordpress.com/2013/02/child-welfare-financing-in-the-united-states-final.pdf>.
19. U.S. Office of Management and Budget, “Department of Health and Human Services Appendix, Budget of the United States Government, Fiscal Year 2017,” <https://www.gpo.gov/fdsys/pkg/BUDGET-2017-APP/pdf/BUDGET-2017-APP-1-11.pdf>
20. James Bell Associates, “Summary of the Title IV-E Child Welfare Demonstrations.” Prepared for Children’s Bureau, ACYF, ACF, U.S. DHHS (Mar. 2012), http://www.acf.hhs.gov/sites/default/files/cb/summary_demo2012.pdf

21. Ibid. *See also* Children's Bureau, "Commonly Asked Questions About Cost Neutrality." Administration for Children and Families (Jun. 2012), <http://www.acf.hhs.gov/cb/resource/commonly-asked-questions-about-cost-neutrality>
22. James Bell Associates, "Summary of the Title IV-E Child Welfare Demonstrations." Prepared for Children's Bureau, ACYF, ACF, U.S. DHHS (Mar. 2012), http://www.acf.hhs.gov/sites/default/files/cb/summary_demo2012.pdf
23. California's CAP began as a 5-year demonstration project on July 1, 2007, with Alameda and Los Angeles Counties. While the project was scheduled to end as of June 30, 2012, the counties received three short-term bridge extensions through September 30, 2014. On September 29, 2014, the federal government approved a 5-year extension through September 30, 2019, that expanded the project to 7 additional counties. This policy brief focuses on findings from the California's original CAP demonstration project from 2007-2012. More information on the current waiver demonstration is available through the California Department of Social Services at <http://www.childsworld.ca.gov/pg1333.htm>.
24. Charlie Ferguson, Laurel Duchowny, "State of California Title IV-E Child Welfare Wavier Demonstration Capped Allocation Project Final Evaluation Report." Submitted to the California Department of Social Services (Dec. 2012), at 10, <http://www.childsworld.ca.gov/res/pdf/FinalEvaluationReport.pdf>
25. Ibid. at 8, 12.
26. Ibid. at 2. ("If different years of expenditure data had been used (e.g., years when caseload expenditures were lower), then the CAP would have been a less attractive opportunity.")
27. Ibid. at 13.
28. Ibid. at 106-108.
29. James Bell Associates, "Summary of the Title IV-E Child Welfare Demonstrations." Prepared for Children's Bureau, ACYF, ACF, U.S. DHHS (Mar. 2012), at 11, http://www.acf.hhs.gov/sites/default/files/cb/summary_demo2012.pdf (noting that, "the provision of waiver-funded services and supports to non-IV-E-eligible children heightens the risk of failing the cost neutrality requirement of the waiver.")
30. *See* California Child Advocates for Change, "Are There Too Many Children in Foster Care?" April 2006, <http://stepupforkin.org/wp-content/uploads/2016/06/Foster-Care-Policy-Brief-Too-Many-Children.pdf>.
31. Charlie Ferguson, Laurel Duchowny, "State of California Title IV-E Child Welfare Wavier Demonstration Capped Allocation Project Final Evaluation Report." Submitted to the California Department of Social Services (Dec. 2012), at 146.
32. Ibid. at 127.
33. Ibid. at 135.
34. County of Los Angeles, "Title IV-E Waiver." Department of Children and Family Services and Probation Department (Jun. 2011), at 12, http://lacdfs.org/TitleIVE/documents/TitleIV-EWaiver_6_8_11.pdf.
35. *See* Charlie Ferguson, Laurel Duchowny, "State of California Title IV-E Child Welfare Wavier Demonstration Capped Allocation Project Final Evaluation Report." Submitted to the California Department of Social Services (Dec. 2012), at 168 ("The model was not without tension however, with concerns expressed that maybe the funding mode—or the desire for reinvestment savings—was driving policy and practice decisions in ways that were not always in the best interest of children.")
36. Alameda County DCFS experienced a 47 percent decline in entries between 2006 (pre-CAP) and 2011. Additionally exits to the Kinship Guardianship Assistance Payment program increased from 3.3 percent the year before the CAP started to 12.2% in the fourth year of the CAP. Ibid. at 126.
37. Ibid. at 137, 138.
38. Ibid. at 146.
39. While the waiver evaluations have identified possible trends in outcomes, "definitive correlations between waiver-funded services and key child welfare outcomes are difficult to discern." James Bell Associates, "Summary of the Title IV-E Child Welfare Demonstrations." Prepared for Children's Bureau, ACYF, ACF, U.S. DHHS (Mar. 2012), at p. 8. *See also* Charlie Ferguson, Laurel Duchowny, "State of California Title IV-E Child Welfare Wavier Demonstration Capped Allocation Project Final Evaluation Report." Submitted to the California Department of Social Services (Dec. 2012), at 123. ("As previously stated, it cannot be said that changes observed in the patterns of outcomes of the participating counties post-CAP as compared to their pre-CAP pattern of outcomes were caused by the CAP. It is impossible to attribute changes to participating in the CAP, absent comparison counties undergoing the same scope of data-collecting activities as the participating counties. The descriptive nature of the analysis itself presents challenges. To some extent, the process is subjective. Although attempts have been made to strengthen the interpretations by triangulating different types of information about the same indicator, they are still open to alternative interpretations.").