Research Brief

January 2016 Publication #2016-01

Child Trends

An Introduction to Child Welfare Funding, and How States Use It

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INTRODUCTION

Child welfare agencies in the United States are charged with ensuring the safety, permanency, and well-being of children who have been abused or neglected, and those who are at risk of abuse or neglect. The services provided by states and by counties vary widely, and include services for children and families to prevent abuse and neglect, child protective services such as family assessments and investigations, providing payments and supports for out of home placements such as foster care or kinship care, and adoption and guardianship services and supports for children and families.

How child welfare agencies pay for those services varies, too. In state fiscal year (SFY) 2012, the year for which the most recent funding information is available, states spent more than $28.2 billion, from federal, state, and local sources, on child welfare activities. Of that amount, about $12.7 billion were federal funds, and of those federal funds, nearly $6.5 billion were from Title IV-E.[1] Title IV-E of the Social Security Act is the largest federal funding stream for child welfare activities. States can apply for Title IV-E waivers, which allow them to use IV-E funds more flexibly.

This report examines key child welfare financing decisions, based on interviews with child welfare agency officials in 10 states (Colorado, Florida, Illinois, Indiana, Massachusetts, Michigan, Ohio, Texas, Utah, and Wisconsin) about the hows, whys, challenges, and successes of their child welfare financing structures and decisions. We selected states that represent a significant proportion of the total national child welfare expenditures and have a current or previously approved Title IV-E waiver. Their strategies and concerns can inform state and federal discussions on how to ensure that the children, youth, and families involved in the child welfare system are safe and healthy.

KEY FINDINGS

Early in 2015, we conducted telephone interviews with state-level child welfare fiscal leaders. We asked them about the fiscal decision-making process, the impetus for any significant changes to their financing over the years, why each of

1 Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2012. http://www.childtrends.org/wp-content/uploads/2014/09/SFY-2012-Report-for-Posting-July2015.pdf

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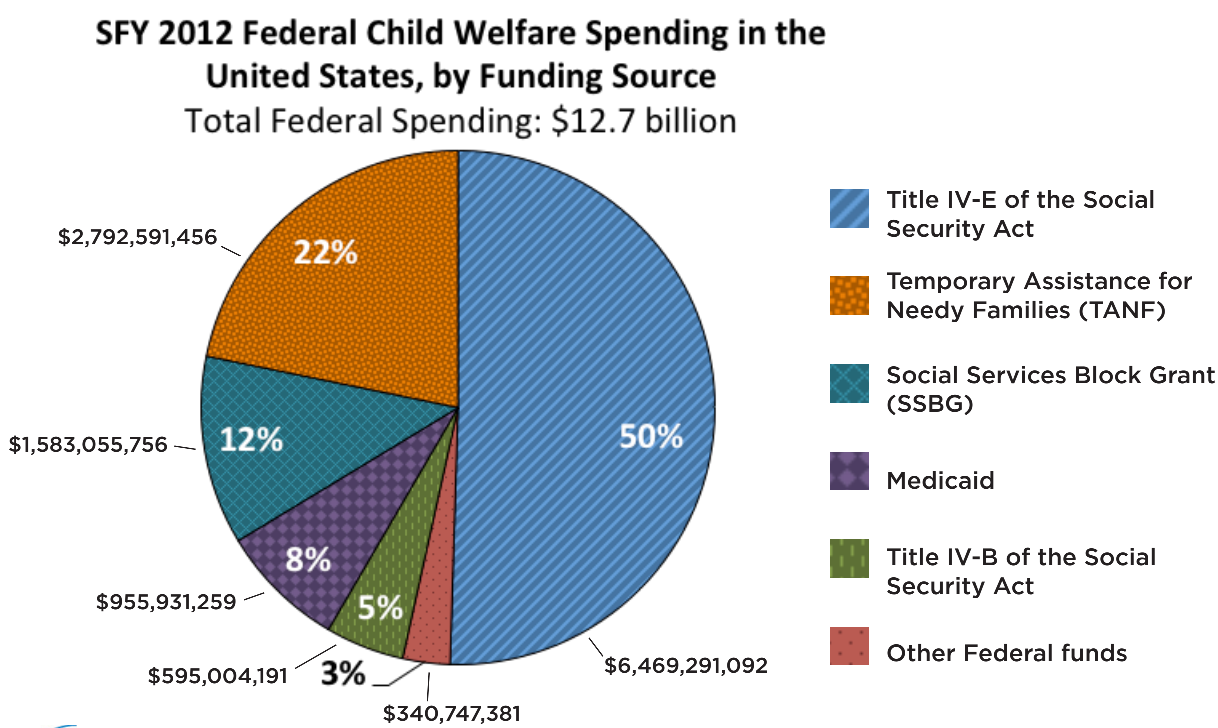
their states decided to pursue Title IV-E waivers, and the challenges and opportunities they see in child welfare financing in their states. We learned:

- The **limitations of federal funding** – both the amount and the restrictions placed on how the funds can be used – pose challenges to policymakers and child welfare agency decision-makers as they decide how best to allocate funds to meet the best interest of each child and family facing abuse or neglect or at serious risk of either.
- Many factors contribute to **shifts in state child welfare financing,** including the state economy, media attention, class action lawsuits, and strong leadership and vision from the agency head, legislature, or governor.
- State policymakers and decision-makers have invested in **new and innovative methods to support vulnerable children and families.** Five state leaders specifically noted, as key priorities, using research-based strategies and supports that keep children with their families, preventing their removal from their homes. Several state leaders mentioned prioritizing increasing supports for older youth as they transition out of foster care.
- State child welfare agency state decision-makers reported that the **flexibility of Title IV-E waivers** helps reduce some of the challenges they face accessing federal money for vulnerable children in their states.

WHERE DOES THE MONEY COME FROM?

Funding for child welfare services, supports, and programs comes from a combination of federal and state or local dollars. Historically, about half of annual child welfare expenditures ($12.7 billion out of $28.2 billion in SFY 2012) have been from federal sources, and our most recent estimates predict similar ratios for SFY 2014. While the remaining half of child welfare expenditures come from state and local sources (10.9 billion and $4.6 billion respectively, in SFY 2012), much more is known about expenditures of federal dollars, due to the highly regulated nature of the funding streams.



With respect to the major categories of federal child welfare funding, **Title IV-E of the Social Security Act remains the largest source,** and consistently accounts for around half (nearly $6.5 billion in SFY 2012) of federal dollars spent by child welfare agencies. Funds accessed through the Temporary Assistance for Needy Families (TANF) program (nearly $2.8 billion in SFY 2012[2]) have represented the second-largest federal funding stream for over 10 years, despite being a non-dedicated funding source for child welfare spending (i.e., it is not exclusively for use by child welfare agencies). Preliminary estimates for SFY 2014 indicate that these TANF funding rates may actually be increasing.

Title IV-B of the Social Security Act has two components: Subpart 1 is a discretionary grant program that funds a range of child welfare services, and Subpart 2 has both capped entitlement and discretionary components to primarily fund family support, family preservation, time limited reunification, and adoption promotion activities. States spent approximately $595 million in Title IV-B dollars on child welfare in SFY 2012.

The Social Services Block Grant (SSBG) is a flexible source of federal funds provided to states in support of a diverse set of five overarching policy goals, including preventing or remedying child abuse. In SFY 2012, states spent nearly $1.6 billion in SSBG funds for child welfare activities (including TANF funds transferred to SSBG). In that same period, states spent nearly $956 million in Medicaid dollars for child welfare services.[3]

HOW DO STATES MAKE DECISIONS ABOUT WHICH FUNDING SOURCE TO USE?

Not surprisingly, state policymakers and child welfare agency decision-makers overwhelmingly reported wanting programmatic priorities to guide their decision making. Once they have mapped their vision for child welfare services, they figure out the best way to fund those services. However, even with the best interest of the child at the center of their planning, leaders are still bound by complex factors when determining the funding sources for their programs and services. They identified several of those factors:

- **The specific requirements of individual grants or funding sources** are the main driver in selecting a funding source. Each of the federal funding sources available to state and county child welfare agencies has its own requirements for use.

- **The state of the greater economy** plays a role in funding decisions, at times forcing states to shift service priorities or reduce services—particularly during the recent recession.

- **Media attention** about child fatalities can lead to changes in overall agency priorities, or an increase in services and supports to certain populations of children and families. When leaders prioritize a need in response to a crisis, finding new ways to access or use existing funding sources is key.

- **Class action lawsuits** brought on behalf of a group of children against the child welfare agency or the state governor can lead to court-ordered changes in service or staffing. Child welfare agencies may make financing decisions based on the specific requirements of a class action settlement or judgment.

- **Strong vision and leadership** from the agency, governor, and/or legislature also drive child welfare financing decisions, including what services, initiatives, or innovations are pursued.

2 This excludes TANF dollars transferred to the Social Security Block Grant, which are captured in the SSBG category.

3 Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2012. http://www.childtrends.org/wp-content/uploads/2014/09/SFY-2012-Report-for-Posting-July2015.pdf

- **The alignment of vision and direction in partnering agencies,** such as Medicaid and TANF, can lead to easier coordination of funds and services.

A few other areas were mentioned by states as having caused shifts in the ways officials decide to fund their child welfare services: financial shifts to make course corrections after a federal or state audit; the influx of, and subsequent end of, American Recovery and Reinvestment Act of 2009 (ARRA) funds; shifts in the child welfare agency governance or leadership structure; and/or shifts in how other agencies use funding sources that are also available to child welfare, such as Medicaid or TANF.

State spotlight: In **Massachusetts**, the child welfare agency first makes decisions about what services and supports are needed in the state. Once those have been decided, the state considered which funding streams are appropriate to pay for the services.

State spotlight: In **Texas**, the child welfare agency has several champions on the state legislature, including on the appropriations and finance committees, who help facilitate adequate funding.

WHAT CHALLENGES DO STATES DESCRIBE IN ACCESSING FEDERAL FUNDS TO ACHIEVE THEIR GOALS?

As described above, there are various federal funding streams available to help states finance their child welfare activities. Individual child welfare programs and services may also have varying levels of state and county funds available to them, each with its own criteria for use.

Accessing these federal funds has created several challenges for states in the past. For example, leaders indicated that they **do not have sufficient control over how to spend the federal money,** and are unable to spend it in the way they deem best for their children, due to federal requirements. Another challenge mentioned is that federal funds **do not cover a wide enough variety of services/needs**. For example, Title IV-E funds do not cover investigation or child abuse hotlines or other key parts of the child welfare agencies' duties. Finally, leaders described the federal requirements for accessing funding as **burdensome and time-consuming**. A few leaders also told us that there is not sufficient state funding to offer all of the services and supports they would like to provide to vulnerable children and families.

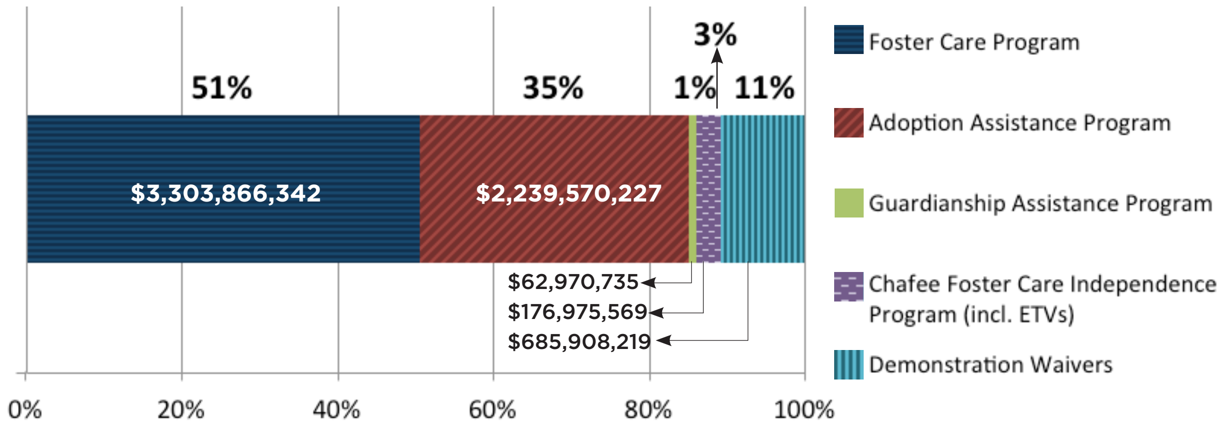
WHAT IS TITLE IV-E, AND WHY IS IT SUCH A CRITICAL ISSUE?

Title IV-E of the Social Security Act is the largest federal funding stream for child welfare activities. Of $12.7 billion in federal funds for child welfare in SFY 2012, nearly $6.5 billion were from Title IV-E. The funding stream supports foster care, adoption assistance, and guardianship assistance programs; states receive a level of reimbursements from the federal government for eligible claims. It also includes the Chafee Foster Care Independence Program, a capped entitlement for which states are entitled to reimbursement for claims it submits to the federal government, up to a certain level.[4]

4 Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2012. http://www.childtrends.org/wp-content/uploads/2014/09/SFY-2012-Report-for-Posting-July2015.pdf

SFY 2012 Title IV-E Spending in the United States, by category

Total Title IV-E Expenditures: $6,469,291,092



Although Title IV-E provides the majority of federal funds to child welfare programs across the country, leaders did note some challenges accessing these dollars. To be eligible for the Title IV-E Foster Care Program, the vehicle through which states receive Title IV-E funds for children in foster care, children must:

- be in out-of-home placements,
- have been removed from families that are considered "needy" (based on measures in place in 1996 under the Aid to Families with Dependent Children (AFDC) program),
- have entered care through a judicial determination or voluntary placement, and
- be in licensed or approved foster care placements.[5]

State leaders noted that **these requirements disqualify many of the children that are in foster care** in their states from being eligible for federal financial support through Title IV-E. For example, in **Illinois**, leaders reported that the AFDC financial criteria results in many of their children in foster care being ineligible for federal reimbursement through Title IV-E. In **Michigan**, the limitations of Title IV-E eligibility create a significant challenge, requiring time and financial investments for educating workers and courts to determine eligibility based on the 1996 AFDC criteria—time and money that could be spent on children and families.

The eligibility criteria also preclude reimbursements when children are not removed from their homes, but still receive services from the child welfare agency. For example, Illinois noted that Title IV-E does not support investigations of potential child maltreatment or hotlines to alert the child welfare agency of children potentially in need of protection. Although these are critical components of the child welfare agency's work, they are not supported by Title IV-E funds.

5 Federal, State, and Local Spending to Address Child Abuse and Neglect in SFY 2012. http://www.childtrends.org/wp-content/uploads/2014/09/SFY-2012-Report-for-Posting-July2015.pdf

A SPACE FOR INNOVATION: THE TITLE IV-E WAIVER, AND HOW IT HAS HELPED STATES

Child Welfare Waiver Demonstrations (*waivers*) give states the opportunity to use federal IV-E funds more flexibly, as a strategy for piloting innovative approaches to child welfare service delivery and financing.[6] Waivers were first offered as an option to states in 1994, when Section 1130 of the Social Security Act gave the U.S. Department of Health and Human Services (HHS) the authority to approve demonstration projects for which states can waive certain requirements of Title IV-E. Waivers, generally received for a 5-year term with the possibility of extension, allow state child welfare policymakers and leaders to design and demonstrate a wide range of approaches to broaden their services and improve outcomes in the areas of safety, permanency, and well-being. As of December 2015, 28 states, the District of Columbia, and one tribe are currently implementing waivers.

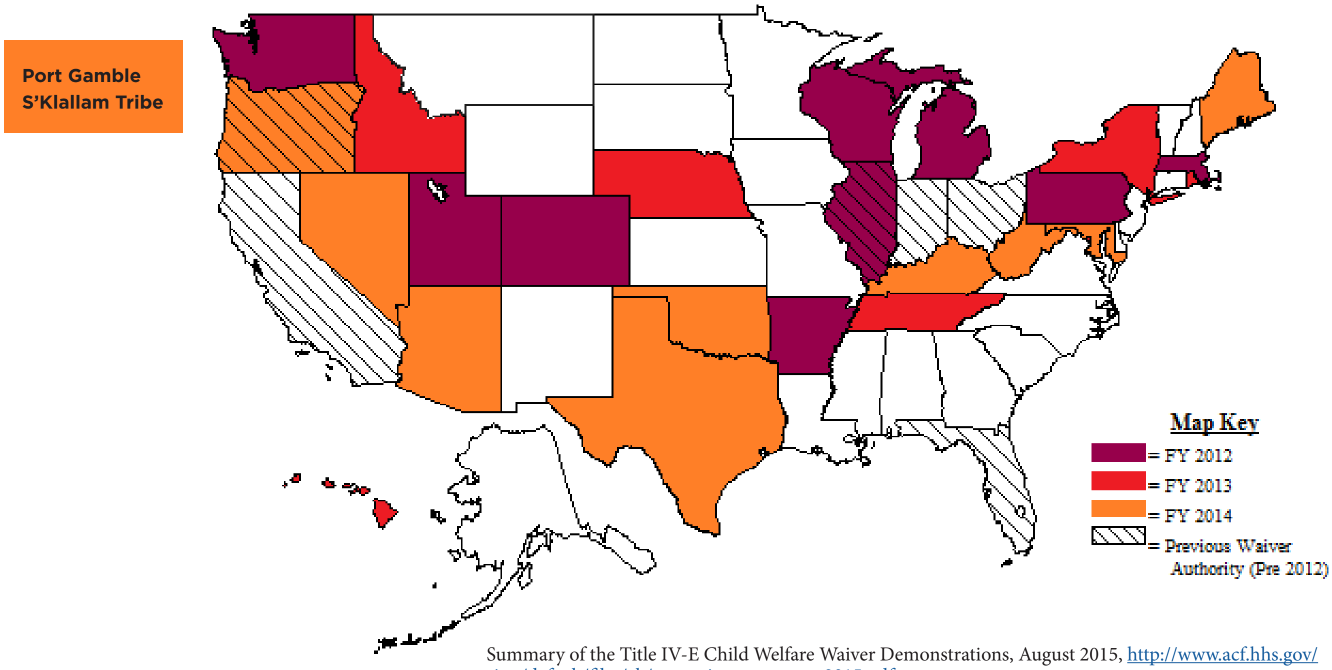
Each of the interviewed states has a current or previously approved Title IV-E waiver. We asked each state how and why it decided to go through the waiver application process. **States pursued this round of waivers for a variety of reasons.** Their main drivers included:

- the child welfare agency wanting to pursue new initiatives;
- state policymakers encouraging, or state legislation requiring, the pursuit of a waiver;
- the decline of Title IV-E revenue in the state due to AFDC eligibility criteria; and
- a positive previous experience with waivers.

State leaders shared the benefits of having a Title IV-E waiver. The waivers give them **flexible funding,** allowing them to explore new interventions and expand services. One state noted that it also **delinked eligibility from the AFDC eligibility criteria,** allowing for easier administration of funds. Finally, state leaders appreciated that the waivers let the federal government see how useful flexibility can be, and **may lead to a positive change in federal financing.** In addition to improving financing structure, the required evaluations for waiver innovation may help the federal government and states **learn more about what works** for their most vulnerable children and families.

6 http://www.childwelfarepolicy.org/resources?id=0006

Active Title IV-E Child Welfare Waiver Demonstrations



Summary of the Title IV-E Child Welfare Waiver Demonstrations, August 2015, http://www.acf.hhs.gov/sites/default/files/cb/cw_waiver_summary2015.pdf

Child welfare agency leaders also noted several concerns or challenges with the IV-E waivers. These include the capped allocation, which may lead to challenges with funding availability if a state has a significant increase in out-of-home placements. Leaders also worry about how they may fund these new initiatives when their five-year time limit and any approved extensions for the waiver are over. Implementation of the waiver can be a challenge for states that already have a strained or over-worked agency. States also noted struggling to fully implement new services or programs in rural counties, where service providers may be limited or geographically sparse.

State spotlight: Florida's Title IV-E waiver allows the state greater flexibility to leverage efforts to increase permanency, reunification, and in-home stabilization. Without the waiver, Florida would not have been able to support its strategies to decrease the out-of-home care population. Officials believe that the flexibility also allows policymakers and other decision makers to explore new ideas and strategies, without needing to operate in the traditional budgetary framework.

BEST PRACTICES

Finding enough money to provide necessary services is always a challenge for states. State leaders who work in the child welfare system face an extra set of barriers: the significant needs of vulnerable children and families, particularly those in crisis; limited federal and state funds; and the potential for high-impact negative media attention. We asked leaders what advice or insight they would offer to other states that would help them achieve similar successes with their child welfare financing structure.

Decide what children and families need first, then work with the appropriate fiscal parties to secure financing. Leaders stressed that the work of identifying local needs and developing specific strategies and goals was a critical first step in upholding their duty. Once those are in place, the agency can work with its internal fiscal staff and other agency partners to find funds. One interviewee described their state's first step as defining a clear vision for the agency, and once that has been established, aligning state policies, practice, and financing. Another state recommended focusing on the agency's core mission when money is tight, so the core mission is always funded.

Several states shared their current areas of focus or goals, and how they have funded them or adjusted to support their need for funding:

- **Ohio** committed to providing flexible funding supports for all counties as they transitioned to and implemented a Differential Response system—which provides two pathways for responding to accepted reports of child abuse and neglect. Both Differential Response pathways are intended to focus on families' strengths, rather than their weaknesses. Ohio provided funding via a combination of general revenue and private funding from Casey Family Programs. As counties completed various Differential Response implementation activities, they received incentive funds that were to be reinvested into their county's Differential Response system. Funds were reinvested for needed community services and hard goods for families (food, diapers, cleaning supplies, laundry items, appliances, etc.), or professional development activities to support staff in making the shift to Differential Response. Ohio continues to invest resources in developing casework tools and supervisory supports. The state's investments aim to strengthen fidelity to the model, promote continued development of the skills needed to use best practices, and increase the sustainability of the Differential Response system.

- **Indiana** focuses on areas of greatest need and opportunity, and continues to develop its program to prevent the need for entry into foster care. For example, with its Children's Mental Health Initiative, Indiana has attempted to secure mental health treatment for youth as a support strategy to keep them in their homes and out of the child welfare system. Even if families are not Medicaid-eligible or do not have adequate insurance, the state tries to get them outpatient services, and inpatient services when warranted. Indiana has successfully done this without formal court intervention being necessary in many situations.

- **Michigan** described its child welfare system as having a clear vision for how it supports children and families, that is supported by all county and agency partners. This ensures that everyone is working from one platform, and aligning their policies, programs, and funding to coordinate systems. To support that vision, Michigan has incorporated the most recent research on topics such as trauma into their work.

- As **Utah** began preparing for its Title IV-E waiver, the need to enhance program administrative capacity to implement the waiver became apparent. Utah reviewed and, where appropriate, shifted other federal funds to increase capacity to create a team to lead the waiver. Staff roles were redefined to ensure that the agency had key project employees in the appropriate roles.

Child welfare agencies have the challenging, but essential, task of protecting and supporting vulnerable children and their families. That task is complicated by the fact that the children and families in the child welfare system have important health, educational, and economic needs as well, which fall under the purview—and sometimes the finances—of other agencies.

States discussed partnerships with foundations and other public agencies as sources for securing additional resources to test and evaluate new approaches.

- **Colorado** has recently partnered with the Annie E. Casey Foundation and Casey Family Programs to address congregate care issues, use of kin as placement, educational stability for children in foster care, and achieving permanency for all children and youth, including reinstatement of parental rights. Officials suggest that all states should collaborate and partner with any entities that can help them work most effectively with their unique populations.
- **Michigan** has been able to flexibly and creatively work with the TANF agency to use its TANF funds to ensure it is supporting families as much as possible. For example, it uses TANF funds for prevention services and adoption assistance.
- **Wisconsin** has partnered with its state Medicaid agency to implement a specialized Medicaid program. The program provides coordinated and comprehensive care to children in out-of-home care. Its approach reflects the unique needs of these children, through a medical screen within two days of entering out-of-home care, a full medical assessment within 30 days, and more frequent checkups.

ADDITIONAL RESOURCES

- **Interested in understanding the breakdown of funding sources in your state?** The State Child Welfare Policy Database houses state-level data about child welfare financing: http://www.childwelfarepolicy.org/maps/state
- **Interested in learning more about the requirements of the individual federal funding sources?** See Appendix I of the SFY 2012 child welfare financing survey report: http://www.childtrends.org/?publications=14383
- **Interested in a closer look at federal, state, and local spending from SFY 2012?** See the SFY 2012 child welfare financing survey http://www.childtrends.org/?publications=14383. Researchers are surveying states now about their SFY 2014 spending, and a report on those numbers is forthcoming in 2016.
- **Interested in learning more about Title IV-E waivers?** See the Children's Bureau's website on waivers http://www.acf.hhs.gov/programs/cb/programs/child-welfare-waivers and this report from Casey Family Programs-*Federal finance reform: Lessons learned from Title IV-E waiver demonstration projects* (http://www.ctfalliance.org/library/lessons_learned_waivers-8.pdf).

ACKNOWLEDGMENTS

We would like to thank the agency leaders who shared their insights and experiences with us. We are also grateful for the input and review of Margie Hunt and Anthony Williams, from Casey Family Programs, and August Aldebot-Green, Kerry DeVooght, Garet Fryar, John Lingan, and Karin Malm, from Child Trends. We would like to thank Casey Family Programs for their generous financial support.

We'd love to hear your thoughts on this publication. Has it helped you or your organization? Email us at feedback@childtrends.org

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