

MEMORANDUM



JOINT BUDGET COMMITTEE

TO Members of the Joint Budget Committee
FROM Robin J. Smart, JBC Staff (303-866-4955)
DATE March 14, 2017
SUBJECT Division of Child Welfare, Department Indirect Costs

The Department of Human Service's R6 Department Indirect Costs budget request includes an adjustment to the federal funds that will be available in the FY 2017-18 child welfare block allocations to counties. While the request did not include a specific decrease in the federal funds appropriation (included for informational purposes) in the Child Welfare Services line item in the Long Bill, it did indicate that \$5.7 million federal funds would be withheld from the Child Welfare Block Allocation, thereby reducing the amount of funding available to each county for child welfare administration and services.

R6 DEPARTMENT INDIRECT COSTS (DIVISION OF CHILD WELFARE ONLY)

REQUEST: The Department request includes a policy change requiring that federal funds for child welfare services be held out of the total amount available for allocation to counties prior to the allocation. For the past several years, the indirect costs have been covered by under-expenditures in the Child Welfare Services line item or across the Division of Child Welfare after the county close-out or Department year-end process is complete for each fiscal year.

RECOMMENDATION: JBC staff recommends the following:

- Approval of an increase in the General Fund appropriation to line items in the Division of Child Welfare that fund county block allocations by \$4,955,837 to offset the reduction in federal funds that is required to pay for child welfare indirect costs.
 - This increase in General Fund is partially offset by the reduction of \$3,909,272 General Fund used in the calculation of the Department's indirect cost pool as detailed in JBC staff's March 14, 2017 figure setting presentation.
 - Though adjustments to the Indirect Cost Assessment (new line item), Child Welfare Services, County Level Child Welfare Staffing, and Family and Children's Programs line items may be made in subsequent fiscal years to account for changes in the indirect cost pool, JBC staff will not recommend any offset for these adjustments in future fiscal years.
 - JBC staff requests permission to make adjustments to the appropriation to the Child Welfare Services, County Level Child Welfare Staffing, Family and Children's Programs, and Indirect Cost Assessment (new line item) line items to reflect committee action on outstanding common policy items.
- Discontinuing Long Bill Footnote 40 that allows the Department to transfer funds among all line items in the Division of Child Welfare, as it does not support the efforts to create transparency concerning the use of funds appropriated to the Division of Child Welfare. JBC staff recommends that the Department submit supplemental budget requests in order to transfer funds between line items in the Division of Child Welfare to true-up appropriations and improve accountability and transparency in the Division's budget and the use of General Fund.

ANALYSIS

MITIGATION OF INDIRECT COST ASSESSMENT ON CHILD WELFARE SERVICES

Colorado’s child welfare system is funded through appropriations made to the Department of Human Services and subsequently allocated to counties through allocation formulas developed by the Child Welfare Allocations Committee. These allocations are made to counties in the form of three block grants, the largest of which is the Child Welfare Block Grant from funds appropriated to the Child Welfare Services line item in the Division of Child Welfare. Use of these funds is statutorily identified and the block allocation is funded with state and federal dollars up to 80.0 percent. Two additional block allocations are provided to counties in the form of the Core Services Block and the County Staffing Block, from the Family and Children’s Programs and County Level Child Welfare Staffing line items, respectively. Because these block allocations are capped, a county is responsible for the state’s share as well as its own share for every dollar it spends above its annual allocation. Because a significant portion of the appropriation to the Division of Child Welfare is from federal funds identified in the Department’s federal cost allocation plan, the Division shares in the indirect cost responsibility.

Indirect Cost Assessment. As opposed to recommending approval of the Department’s request to simply hold the indirect costs out of the total amount available for allocation to counties, JBC staff has recommended the creation of a new Indirect Cost Assessment line item in the Division of Child Welfare Long Bill section for the purpose of specifically identifying the amount of indirect costs for which the Division is responsible. This will require that the Long Bill appropriation to line items in the Division of Child Welfare be reduced by the necessary amount to cover indirect costs. The Division of Child Welfare is responsible for 17.7 percent of the Department’s indirect cost pool.

Based on the Long Bill indirect cost plan developed by JBC staff and the Department, the estimated amount of indirect costs attributable to the Division is \$10,253,026 total funds, including \$96,003 cash funds, \$469,234 reappropriated funds, and \$9,687,789 federal funds. As identified in Long Bill letter notes, a portion of the Division’s indirect cost responsibility is already accounted for (\$4,799,355 total funds, including \$96,033 cash funds, \$469,234 reappropriated funds, and \$4,234,088 federal funds). As a result, the actual reduction in the appropriation to the Child Welfare Services is less than the Division’s total indirect cost assessment. The impact of the indirect cost assessment on Division of Child Welfare line items is a reduction of \$5,453,671 federal funds, including \$5,030,851 from Title IV-E of the Social Security Act and \$422,820 from Title XX Social Services Block Grant.

INDIRECT COST ASSESSMENT, DIVISION OF CHILD WELFARE					
	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS
Division of Child Welfare responsibility	\$10,687,256	\$0	\$451,525	\$472,871	\$9,762,860
Indirect costs accounted for in Long Bill letter notes	5,233,585	0	451,525	472,871	4,309,189
Amount to be applied to Child Welfare Services line item	\$5,453,671	\$0	\$0	\$0	\$5,453,671

Based on percentages determined from the FY 2016-17 Long Bill, JBC staff calculated the following line item breakdown for these indirect costs:

FEDERAL FUNDS INDIRECT COST ASSESSMENT, DIVISION OF CHILD WELFARE (BY LINE ITEM)							
LINE ITEM	TITLE IV-E OF THE SOCIAL SECURITY ACT	PERCENT OF TOTAL	INDIRECT COST ASSESSMENT	TITLE XX SOCIAL SERVICES BLOCK GRANT	PERCENT OF TOTAL	INDIRECT COST ASSESSMENT	TOTAL INDIRECT COST ASSESSMENT
Administration	\$874,828	1.2%	\$60,382	\$0	0.0%	\$0	\$60,382
Continuous Quality Improvement (new line item)	83,664	0.1%	5,774	0	0.0%	0	5,774
Training	2,956,880	4.1%	204,088	255,716	1.1%	4,534	208,622
Foster and Adoptive Parent Recruitment, Training, and Support	67,792	0.1%	4,679	0	0.0%	0	4,679
Child Welfare Services	62,590,501	85.9%	4,320,098	23,590,313	98.9%	418,285	4,738,384
County Level Child Welfare Staffing	27,398	0.0%	1,891	0	0.0%	0	1,891
Title IV-E Waiver and Evaluation Development	250,009	0.3%	17,256	0	0.0%	0	17,256
Family and Children's Programs	3,123,098	4.3%	215,561	0	0.0%	0	215,561
Independent Living Programs	2,841,449	3.9%	196,121	0	0.0%	0	196,121
Federal Child Abuse Prevention and Treatment Act Grant	17,382	0.0%	1,199	0	0.0%	0	1,199
Hotline for Child Abuse and Neglect	55,032	0.1%	3,798	0	0.0%	0	3,798
TOTAL	\$72,888,033	100.0%	\$5,030,851	\$23,846,029	100.0%	\$422,820	\$5,453,671

In the table above, three line items fund block allocations to counties – Child Welfare Services, County Level Child Welfare Staffing, and Family and Children’s Programs line items. The resulting federal fund appropriation to these line items is reflected in the table below.

IMPACT OF FEDERAL FUNDS INDIRECT COST ASSESSMENT ON LINE ITEMS THAT FUND COUNTY BLOCK GRANTS					
LINE ITEM	TOTAL FUNDS	GENERAL FUND	CASH FUNDS	REAPPROP. FUNDS	FEDERAL FUNDS
Child Welfare Services	\$350,945,409	\$180,376,207	\$65,171,137	\$15,197,702	\$90,200,363
Indirect Cost Assessment applied to line item	(4,738,384)	0	0	0	(4,738,384)
TOTAL APPROPRIATION AFTER INDIRECT COSTS	\$346,207,025	\$180,376,207	\$65,171,137	\$15,197,702	\$85,461,979
County Level Child Welfare Staffing	\$15,073,709	\$13,520,675	\$1,525,636	\$0	\$27,398
Indirect Cost Assessment applied to line item	(1,891)	0	0	0	(1,891)
TOTAL APPROPRIATION AFTER INDIRECT COSTS	\$15,071,818	\$13,520,675	\$1,525,636	\$0	\$25,507
Family and Children's Programs	\$54,003,032	\$45,233,989	\$5,645,945	\$0	\$3,123,098
Indirect Cost Assessment applied to line item	(215,561)	0	0	0	(215,561)
TOTAL APPROPRIATION AFTER INDIRECT COSTS	\$53,787,471	\$45,233,989	\$5,645,945	\$0	\$2,907,537
Total appropriation to 3 line items	\$420,022,150	\$239,130,871	\$72,342,718	\$15,197,702	\$93,350,859
Total indirect costs assessment applied to 3 line items	(4,955,836)	0	0	0	(4,955,836)
TOTAL APPROPRIATION AFTER INDIRECT COSTS	\$415,066,314	\$239,130,871	\$72,342,718	\$15,197,702	\$88,395,023

Impact of Reduction. Funds allocated to counties provide the primary source of funding for counties to administer child welfare programs and deliver associated services to children and families. These line items provide funding for the following: county administration of child welfare related activities (including county staff); out-of-home care; subsidized adoption and relative guardianship agreements; family preservation services; and other necessary and appropriate services for children

and families. A reduction in the appropriation to these line items will have a substantial net impact on funding allocations to counties. Although updating the indirect cost assessment for the Division of Child Welfare reduces the federal funds identified in these three line items by \$5.0 million, there is concern that the allocation to counties will be reduced even further as a result of a reduction in spending of county funds, specifically the amount counties would have spent to draw down the federal fund match. JBC staff's recommendation is focused on the impact of the indirect costs on the federal funds identified in the Long Bill for informational purposes.

To add perspective to the reduction in funds allocated to counties, it is helpful to consider what \$5.0 million total funds can purchase in the form of services to children in the child welfare system, or to county staffing levels.

- Based on data provided by the Department, the average cost of program services per open involvement is \$5,987, in which case, \$5.0 million covers the cost of services to 835 children/families.
- In terms of county staffing and based on the same methodology for determining staff costs used by JBC staff in the February 28, 2017 figure setting document, \$5.0 million covers the cost of 81.0 county level child welfare case aides, case workers, and supervisors.

Mitigation of Reduction. To ensure that, in this first year in which the indirect cost assessment is specifically identified in the Long Bill, the allocations to counties are not reduced, JBC staff recommends that the Joint Budget Committee consider backfilling the Child Welfare Services, County Level Child Welfare Staffing, and the Family and Children's Programs line items in the amount equivalent to the federal funds reduction resulting from the indirect cost assessment. JBC staff has considered several funding source options to accomplish this. Following is a brief summary of those options:

- **Temporary Assistance to Needy Families (TANF) federal funds:** TANF is a federal block grant received by the state on an annual basis. Currently there is a balance of approximately \$47.0 million in the TANF long-term reserve. While the state receives approximately \$136.0 million each year, total annual TANF expenditures exceed that amount, resulting in the gradual erosion of the TANF reserve. For FY 2017-18, the Department has proposed more than \$5.0 million in new annual spending which will further deplete the balance at an increased pace. In addition, according to the Department, the state has been successful in receiving federal Contingency Funds; however there is concern about the availability of these funds in the future. If the state loses the opportunity to collect these additional funds, the Department estimates that it will be able to maintain the current spending level for four years.

Finally, the Department reports that the state is at risk for federal sanction as a result of Work Participation Rate non-compliance, and as a result is committing TANF resources to the Colorado Works Program or other employment focused initiatives. As a result of the above factors, JBC staff is concerned that using TANF funds to backfill the indirect cost assessment impact in the Division of Child Welfare will negatively affect the sustainability of the TANF long-term reserve.

- **Title IV-E Waiver federal funds:** Title IV-E of the Social Security Act is an open-ended federal entitlement through which states are partially reimbursed for the room-and-board and administrative costs associated with foster care and adoption services. The State of Colorado

was awarded a Title IV-E Waiver which provides Colorado with a guaranteed stream of capped federal Title IV-E funds for five years for major portions of its Title IV-E revenue stream: foster care maintenance (room and board) and administrative costs for case planning, management, and eligibility-determination. Directly paying for indirect costs from the Waiver is prohibited by the federal award.

The Department currently has \$6.9 million in the Title IV-E Waiver Demonstration Project Cash Fund. Title IV-E Waiver funds received for reimbursement of prevention services are transferred into the cash fund and these funds are used to pay for prevention services and specific interventions delivered through the Title IV-E Waiver Demonstration Project. As part of the terms and conditions of the Title IV-E Waiver, funding for interventions provided through the Title IV-E Waiver Demonstration Project are withheld from the counties' Child Welfare block allocation, as voted on by the Child Welfare Allocation Committee (CWAC).

Under the Title IV-E Waiver, Colorado is allowed to transfer unmatched eligible Title IV-B preventive expenditures to Title IV-E Waiver funds to operate the interventions. Since the Department currently has \$6.9 million in the cash fund, the Department will not make this transfer until the third quarter of the fiscal year when the current cash fund will be fully spent. The Department anticipates that all Waiver funds will be spent by June 30, 2018 and all funds transferred into the cash fund in the third quarter will be fully spent or encumbered by June 30, 2017.

There is concern about whether or not the federal government will reauthorize Title IV-E waivers in the future, creating issues with the sustainability of interventions currently provided by counties. As a result of this, JBC staff is concerned that using Title IV-E Waiver funds to backfill the indirect cost assessment impact in the Division of Child Welfare will prematurely affect the sustainability of interventions and reduce the total amount of funding allocated to counties through various sources. Finally, there is no benefit to using Title IV-E funds to make the child welfare block allocations whole. Transferring those funds still has a negative net impact on county funding as it only serves to shift funding from prevention and intervention services into a more restrictive funding stream.

- **Marijuana Tax Cash Funds:** County departments of human/social services have reported an increase in child welfare caseload since the legalization of marijuana, however at this time, there is no data collected by the Department that can be used to confirm a causative relationship. El Paso County has begun analyzing founded reports of child abuse and neglect related to marijuana use. In calendar year 2016, the county reports 387 open child welfare cases that involved substance use or abuse. Of this number, 51.0 percent were marijuana-related compared with 21.0 percent that were meth-related; and 38.0 percent of the open cases involved marijuana as the sole drug. In addition, 34.0 percent of the children born drug-exposed, were exposed to marijuana only, as compared with 2.0 percent who were exposed to other drugs, including alcohol. Unfortunately, as of the date of this document, the county has not finished analyzing data on prior year open involvements in order to provide a comparison. As a result, it is not possible to conclude whether or not legalization of marijuana has a correlative or causative relationship with child welfare caseload growth. The data does indicate, however, that a significant portion of drug related open child welfare cases involve marijuana.

Currently, child welfare services are not eligible for funding from Marijuana Tax Cash Funds (MTCF). As a result of this, JBC staff is unable to recommend backfilling the Child Welfare Services line item indirect cost assessment with an appropriation from MTCF. Should the committee elect to approve MTCF for child welfare services, it is possible to use this source of funding to prevent a reduction in the total appropriation to the affected line item.

- **General Fund:** The final source of funding JBC staff considered and recommends is General Fund. JBC staff is aware that in FY 2017-18, an appropriation of \$4,955,837 General Fund to the line items in the Division of Child Welfare that provide block allocations to counties (including \$4,738,384 to the Child Welfare Services line item, \$1,891 to the County Level Child Welfare Staffing line item, and \$215,561 to the Family and Children’s Programs line item) serves only to ensure no impact on county block allocations, and does not serve to reduce the overall amount of General Fund appropriated to the Department. However, based on the Long Bill indirect cost plan and the associated indirect cost pool, this \$5.0 million General Fund appropriation is partially offset by the \$3.9 million General Fund savings realized in other Divisions as a result of collecting indirect costs from cash funds. Please see the Department of Human Services Figure Setting Document dated March 14, 2017 for details. JBC staff’s recommendation results in a cost to the state of \$1,046,564 General Fund.

CHILD WELFARE SERVICES LINE ITEM FY 2017-18 RECOMMENDED APPROPRIATION	
	GENERAL FUND
FY 2017-18 Recommended Appropriation (3 line items)	\$244,086,707
Less Original Appropriation	(239,130,871)
Off-set resulting from General Fund savings identified in the Long Bill indirect cost plan	(3,909,272)
Amount necessary to maintain equivalent level of funding	\$1,046,564

ELIMINATION OF FOOTNOTE 40 IN LONG BILL

Footnote 40 in the FY 2016-17 Long Bill allows the Department to transfer funds among all line items in the Division of Child Welfare, except that the Department may not transfer funds from non-custodial line items to the Child Welfare Administration line item to increase funding for personal services. JBC staff is concerned that the level of flexibility provided to the Department has resulted in a lack of transparency and accountability in funding child welfare services. As a result, JBC staff recommends removal of this footnote from the Long Bill, as it does not support the efforts to create transparency concerning the use of funds appropriated to the Division of Child Welfare. JBC staff recommends that the Department submit supplemental budget requests in order to transfer funds between line items in the Division of Child Welfare.