

## Federal Budget Bill May Reduce Federal Child Welfare Funds To California by Hundreds of Millions of Dollars

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Shortly after it returns on January 31, 2006, the U.S. House of Representatives will vote on a budget package already approved by the Senate. This package, called the Deficit Reduction Act of 2005, contains numerous cuts to human services, including child welfare. Based on CLASP estimates using Congressional Budget Office (CBO) data<sup>1</sup>, the proposed package stands to reduce federal funding to children and families in California's child welfare system by hundreds of millions of dollars. **California will bear the largest share of the funding losses in the nation**, with net losses in federal funding estimated by CLASP to be \$271.5 million over five years and \$614 million over ten years. In fact, CLASP estimates that California will suffer a budgetary impact in this area greater than all of the other states combined (79 percent of the total net federal funding losses over five years and 70 percent over ten).

### How Will the Cuts Affect the Children and Families in the Child Welfare System?

- The cuts will create a financial disincentive to placing children with licensed and unlicensed relative foster parents. Some abused and neglected children placed with low-income relatives will no longer be eligible for foster care (IV-E) maintenance payments. California may also no longer be able to receive federal foster care funding support for children who are placed with relatives who are not licensed within a given time.
- Because the budget creates a financial disincentive for states to place some children with relatives, it is possible that far fewer foster children will be placed in relative care. This goes against priorities in both federal law and state law.
- Thousands of low-income relatives caring for foster children will lose federal foster care funding and will have

<b>CLASP Estimate of Federal Budget Reconciliation effect on California (in \$ millions):</b>		
<b>Funding source</b>	<b>Est. Impact (5 yrs)</b>	<b>Est. Impact (10 yrs)</b>
IV-E Foster Care	- 250.8	- 555.4
IV-E Administrative	- 54.4	- 124.1
PSSF increase	+ 33.7	+ 65.5
<b>Net Effect</b>	<b>- 271.5</b>	<b>- 614.0</b>

to support the child using the smaller funds available through Temporary Assistance for Needy Families (TANF) child-only grants. This will increase the pressure on TANF, a limited source of money available to California.

## **Background on the Child Welfare System: Federal and State Funding**

**Federal Funding Background.** A portion of funds for state child welfare programs comes from a number of federal funding sources. Title IV-E (“IV-E”) of the Social Security Act is the largest source of funding, representing 48 percent of all federal child welfare funding. IV-E is used mainly to fund foster care and adoption services. Title IV-B (“IV-B”), which includes the Promoting Safe and Stable Families (“PSSF”) program, is intended to fund prevention services, as well as other services, and accounts for 5 percent of federal child welfare funding. TANF—including “child-only grants” for children being raised by surrogate parents—accounts for 15 percent of federal funding. Medicaid—including the Targeted Case Management program—accounts for 10 percent of federal funding. The Social Services Block grant accounts for 17 percent of federal funding, and other miscellaneous programs make up the other 5 percent.<sup>2</sup>

**State Funding.** California’s foster care system is involved in a number of reform efforts designed to improve how children fare when they are victims of abuse or neglect. Many of these reforms will require funding to implement. A recent federal review—the Child and Family Services Review or CFSR—found that the state failed to meet a number of key federal standards for its child welfare system. Like other states, California was required to submit a reform plan and meet certain targets in the coming years.<sup>3</sup>

## **The Deficit Reduction Act of 2005: What’s in the Budget Agreement?**

**Federal Funds for Foster Care Services and Adoption Assistance—the *Rosales* Provision.** The budget agreement reduces IV-E foster care (“IV-E maintenance”) and adoption assistance eligibility for children placed in relative foster care. Maintenance payments are used to pay for a child’s basic necessities while in care. The funding reduction is accomplished by basing IV-E eligibility determination only on the income of the family deemed abusive, not that of the family with whom child was living when legally placed into foster care. Therefore, a child placed with a low-income relative may no longer qualify for IV-E benefits. This provision is intended to overturn a Ninth Circuit U.S. Court of Appeals decision (*Rosales v. Thompson*) that upheld California’s interpretation of IV-E eligibility rules.<sup>4</sup> Of the nine states directly affected by this provision, California has the largest foster care population.

CBO estimates that the nine affected states would lose \$397 million over five years and \$879 million over ten years. CBO also estimates that 4,000 children would be affected. Of the children in foster care in the nine states, 63.18 percent were located in California.<sup>5</sup> Applying that percentage to the CBO estimates results in an approximate loss of \$250.8 million over five years and \$555.4 million over ten years. Using the same methodology, 2,527 children would lose IV-E benefits over the next fiscal year.<sup>6</sup> The Congressional Research Service (CRS) did an analysis of the impact of overturning *Rosales* on the nine states using two different data sets. CRS estimated the annual impact on California to be between \$41.6 and 69.7 million per year. CRS

did not estimate how that number would change in coming years, given changes in inflation and caseloads.<sup>7</sup>

California and other states may be forced to find other funding for these families through TANF (child-only cases). However, TANF funds are capped, and states are facing strong pressures to increase state funding in their TANF program to meet other needs. Additionally, TANF child-only payments are generally significantly lower than IV-E maintenance payments.

**Federal Funds for Case Management and Administration.** The budget agreement places time restrictions on the use of federal administrative match funds (also called “IV-E Administrative” funds) for children in unlicensed relative homes. Administrative funds are used for multiple purposes including finding placements for children and general case management. States would be prevented from claiming a federal match for managing these cases beyond 12 months or the average time it takes to license a family in that state, whichever is shorter. The federal budget also restricts states’ ability to claim IV-E administrative funds for children who are transitioning out of institutions such as hospitals or detention facilities.

CBO’s estimate for all of the administrative fund reduction proposals is \$180 million over five years and \$411 million over ten. CLASP’s rough estimate of California’s share of losses, using CBO estimates for the total losses in this area, would be \$54.4 million over five years and \$124.1 million over ten years.<sup>8</sup>

**Increases in Federal Funding.** The budget does include some new money for the Promoting Safe and Stable Placements (PSSF) program through Title IV-B. The budget bill would authorize PSSF to receive an additional \$40 million for 2006. If Congress reauthorizes the PSSF program past this year, more funds may be allocated. The budget bill would also allocate two \$10 million grants for improving how courts handle child welfare cases. These grants would be available through 2010. Because of the time needed to “ramp up,” CBO estimates that only a portion of these moneys would get utilized over the next few years. Based on CBO estimates and historical data, CLASP estimates that California stands to receive a \$33.7 million increase over five years and a \$65.5 million increase over ten years.<sup>9</sup>

**Other Potential Funding Losses Related to Child Welfare.** The budget bill also makes changes to states’ ability to claim funds for Medicaid’s Targeted Case Management (TCM) services. Through TCM, foster children receive support from health navigators and case workers who work on accessing needed services. This brief does not include an analysis of the impact of the loss of TCM services. Since CBO has not yet estimated how much this provision would affect foster children (as opposed to other vulnerable populations who receive TCM), CLASP does not yet have an estimate of its impact on California. However, the provision is significant and could have a huge effect on the state. It is expected to reduce total federal funding of Targeted Case Management by \$760 million over five years and \$2.1 billion over ten years, more than the total reduction in other child welfare programs.

## Conclusion

Reduced funding for child welfare from the federal government will force California policymakers into difficult choices. A lack of stable funding for children who may still be reunited with parents may diminish the chances of reunification, forcing more children into long-term foster care. Without stable funding, children already in long-term foster care may experience a loss of both case management and other services intended to provide them with an adequate education, stable placement and even basic necessities. Parents who are at risk of losing their children or whose children have temporarily been removed may experience less support in obtaining the services necessary to ensure they can once again safely parent that child or children. Additionally, at a systemic level, the federal budget, if passed, will create another barrier to complying with the federal statutory mandates and commitments made through the federal Child and Family Services Review process.

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## Endnotes:

<sup>1</sup> Congressional Budget Office. Preliminary CBO Estimate of the Federal Budget Effects of Title VII of the Draft Conference Proposal (December 17, 2005 Score). 2005.

<sup>2</sup> Figures as of FY 2000, see Figure I in <http://pewfostercare.org/research/docs/MurrayPaper2.pdf>. For a detailed description of federal funding sources, see <http://www.cwla.org/advocacy/financingfunding.htm>. For an analysis of California's spending in relationship to federal funding support, see <http://www.childrensdefense.org/childwelfare/financing/factsheets/ca.pdf>.

<sup>3</sup> For a copy of California's Program Improvement Plan to meet federal standards, see <http://www.dss.cahwnet.gov/cfsr/res/pdf/PIP/PIPRevised.pdf>.

<sup>4</sup> For a summary of the 2003 case, *Rosales v. Thompson*, see <http://www.cwla.org/advocacy/rosalesfaq.htm>.

<sup>5</sup> Of the 72,479 children who entered foster care in Ninth Circuit states in 2003, 45,796 (63.18 percent) were in California.

<sup>6</sup> CBO estimates 4,000 children will be affected in these states; 63.18 percent of this number is 2,527.

<sup>7</sup> Stoltzfus, Emilie. *Estimated Effect of the Rosales Provision, by State*. CRS Congressional Distribution Memorandum December 7, 2005. This brief uses CBO estimates as the basis for the federal effect on states. Because there is a lack of data available to estimate the effect of the *Rosales* provision, there is significant dispute over both the number of affected children and the impact on state and federal budgets. Without reference to CBO numbers, the State Department of Social Services (DSS) has done an estimate cited in an October 25, 2005 letter to the Ways and Means Committee. DSS estimated that 5,100 children would be affected in California, a number substantially higher than CBO's estimate. However, DSS estimated that overturning *Rosales* would cost the state \$20m annually, instead of the numbers cited above. (See, California State Association of Counties, County Welfare Directors Association of California and Child Support Directors Association. *Letter to California Congressional Delegation*. October 28, 2005. Available at <http://www.nachsa.org/acrobatics/jointreconltr1028.pdf>.)

<sup>8</sup> These are initial calculations are based on the fact that California received 30.2 percent of all federal IV-E funding for child placement services and administration in 2002.

<sup>9</sup> CBO estimates that the new PSSF funds (including the Court Improvement grants) would result in new funds totaling \$234m over five years and \$455m over ten years. In 2003, California received 14.4 percent of the total PSSF funds allocated. This estimate uses 14.4 percent of the CBO estimates. However, this estimate also depends on PSSF being reauthorized beyond 2006 and through 2015, and maintaining the same funding. It does also not take into account that Congress decreased PSSF discretionary allocations between 2005 and 2006.