

# Schedule 13

## Department of Human Services

### Funding Request for The FY 2020-21 Budget Cycle

Request Title

R-10 Child Support Pass-through

Dept. Approval By:

Supplemental FY 2019-20

OSPB Approval By:

Budget Amendment FY 2020-21

X

Change Request FY 2020-21

Summary Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$7,032,958	\$0	\$7,100,795	\$800,182	\$800,182
	FTE	24.5	0.0	24.5	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$5,204,523	\$0	\$5,220,753	\$800,182	\$800,182
	CF	\$166,067	\$0	\$171,955	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$1,662,368	\$0	\$1,708,087	\$0	\$0

Line Item Information	Fund	FY 2019-20		FY 2020-21		FY 2021-22
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$7,032,958	\$0	\$7,100,795	\$800,182	\$800,182
	FTE	24.5	0.0	24.5	0.0	0.0
07. Office of Self Sufficiency, (D) Child Support Enforcement, (1) Child Support Enforcement - Child Support Enforcement	GF	\$5,204,523	\$0	\$5,220,753	\$800,182	\$800,182
	CF	\$166,067	\$0	\$171,955	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$1,662,368	\$0	\$1,708,087	\$0	\$0

### Auxiliary Data

Requires Legislation? YES

Type of Request?

Department of Human Services  
Prioritized Request

Interagency Approval or  
Related Schedule 13s:

No Other Agency Impact

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**Department Priority: R-10**  
**Request Detail: Child Support Pass-through**

Summary of Incremental Funding Change for FY 2020-21			
	FY 2019-20	FY 2020-21	FY 2021-22
Total Funds	\$800,182	\$800,182	\$800,182
FTE	0.0	0.0	0.0
General Fund	\$800,182	\$800,182	\$800,182
Cash Funds	\$0	\$0	\$0
Reappropriated Funds	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0

***Summary of Request:***

The Department of Human Services requests \$800,182 total funds/General Fund in FY 2020-21 and ongoing to ensure sufficient resources available to continue the Child Support pass-through program. This is an 18.0% increase over the FY 2019-20 appropriation. This proposal supports previous legislation and continues to induce positive behavioral change in terms of child support payments to the poorest of Colorado families.

In 2015, the Colorado General Assembly passed historic legislation (SB 15-012) making Colorado the first state in the nation to implement a full child support pass-through program. Through Colorado's policy change, all current child support payments made on behalf of children on cases receiving monthly cash assistance through the Temporary Assistance for Needy Families (TANF) program are going directly to those children and families. Previously, the State and counties retained a portion of the child-support payment to recover the cost to provide public assistance.

Multiple studies have found this program to be effective. According to the Pew Foundation's Results First Clearinghouse Database, pass-through has "a positive impact based on the most rigorous evidence." Full pass-through may also reduce the risk of child maltreatment. Generous pass-through and disregard policies generally decrease government outlays on some safety net services such as child care and food stamps (Pirog 2006).

The Department is conducting an evaluation of the pass-through program using a quasi-experimental design. To date, the Department has collected preliminary evidence suggesting that more TANF cases are establishing child support orders, more non-custodial parents are paying child support, and child support is being paid at a higher rate. The request is between level 4 and 5 on the evidence continuum scale.



### ***Current Program:***

In 2015, the Colorado General Assembly passed historic legislation (SB 15-012) making Colorado the first state in the nation to implement a full child support pass-through program. Through Colorado's policy change, all current child support payments made on behalf of children on cases receiving monthly cash assistance through the Temporary Assistance for Needy Families (TANF) program are going directly to those children and families. Previously, the State and counties retained a portion of the child-support payment to recover the cost to provide public assistance.

Following extensive changes to the Automated Child Support Enforcement System (ACSES) to automate the payments, Colorado's child support pass-through became operational in April 2017. In the two years that the policy has been implemented (April 2017-June 2019), an average of 3,045 families per month received child support pass-through payments, ultimately directing nearly \$10 million into the pockets families with income less than \$6,000/year, rather than to the federal and county governments. These resources are directly helping families to attain self-sufficiency. In fact, research indicates that every dollar of child support paid on behalf of a child living in poverty increases the child's likelihood to excel in school, avoid the juvenile justice system, and pursue an adult life outside of poverty, while reducing risk of maltreatment (Office of Child Support Enforcement, Administration for Families and Children, December 2016).

Colorado had relied on available data from other states who had implemented a partial pass-through program to estimate the policy's impact and costs. This data suggested that child support payments would increase as non-custodial parents became aware of their payments going directly to their child or children instead of being retained by the government. The available data did not provide the full story of the behavioral changes among both the non-custodial parents owing child support and the custodial parents seeking child support orders. With data from more than two years of implementing a full pass-through program, along with internal research, the Department has a better understanding of the program's effect and can proactively plan to ensure that pass-through payments operate continuously, within the available appropriation.

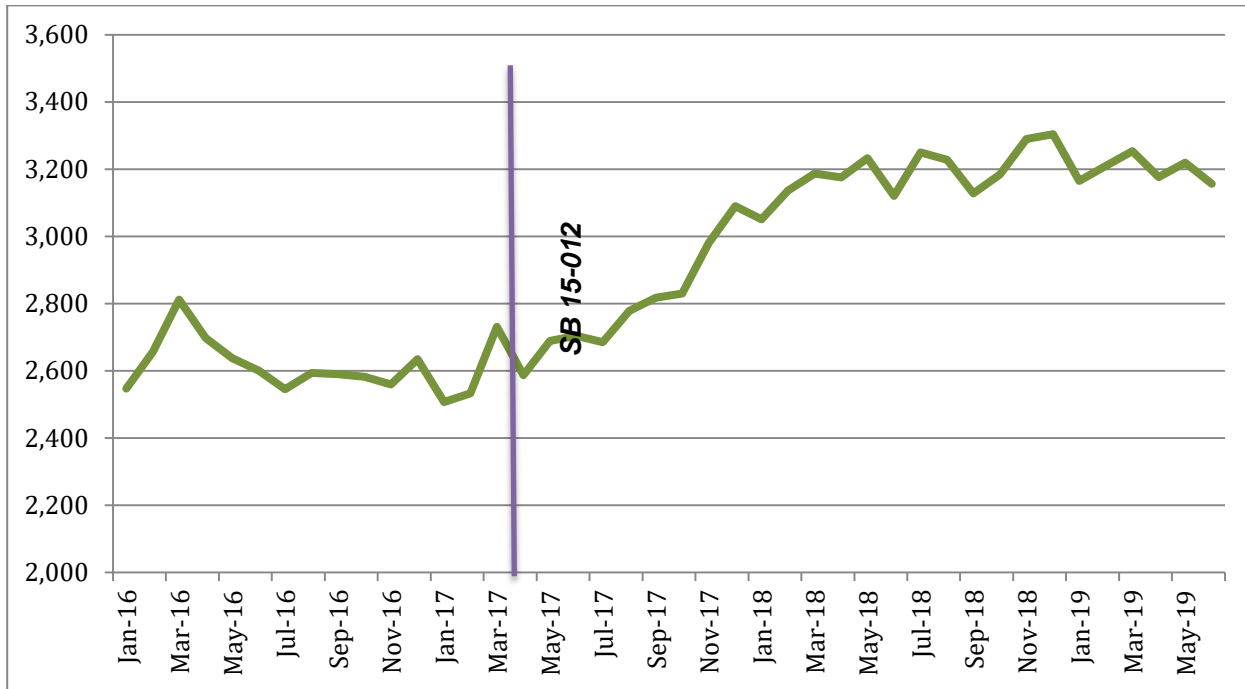
The Department has identified the following factors as causal evidence of the varying, yet increasing, child support payments being passed to families and children receiving TANF:

- 1) More TANF cases are establishing child support orders;
- 2) More non-custodial parents are paying child support; and
- 3) Child support is being paid at a higher rate.

#### 1.) More TANF cases are establishing child support orders

Figure 1 illustrates the increase of child support cases receiving support after the implementation of SB 15-012. This data shows that more families receiving TANF assistance are receiving child support payments since the pass-through was implemented. In March 2017, just prior to the pass-through becoming operational, child support was paid on behalf of 2,731 TANF families (all of which was retained by the government). By June 2019, more than two years into the program's operation, 3,157 TANF families (15.6% increase) were receiving all child support paid on their child or children's behalf.

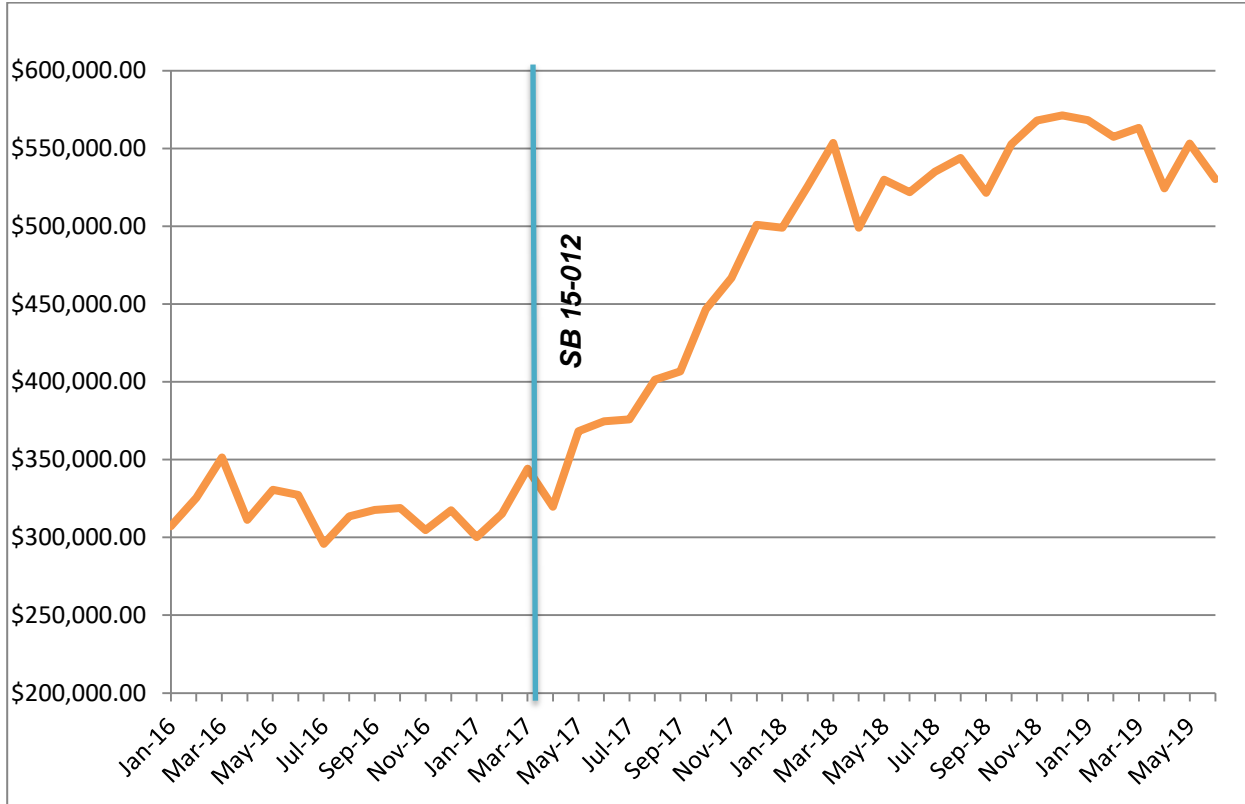
**Figure 1: TANF Caseload with Current Support Received**



2.) More non-custodial parents are paying child support

During the same time period (March 2017 to June 2019), the total monthly child support collected on behalf of TANF cases increased by \$444,676 (54.1% increase). These child support payments have resulted in more than \$13.4 million going directly to the lowest-income families since the program began. Figure 2 illustrates the significant increase in child support funds received, all of which is now directly supporting children.

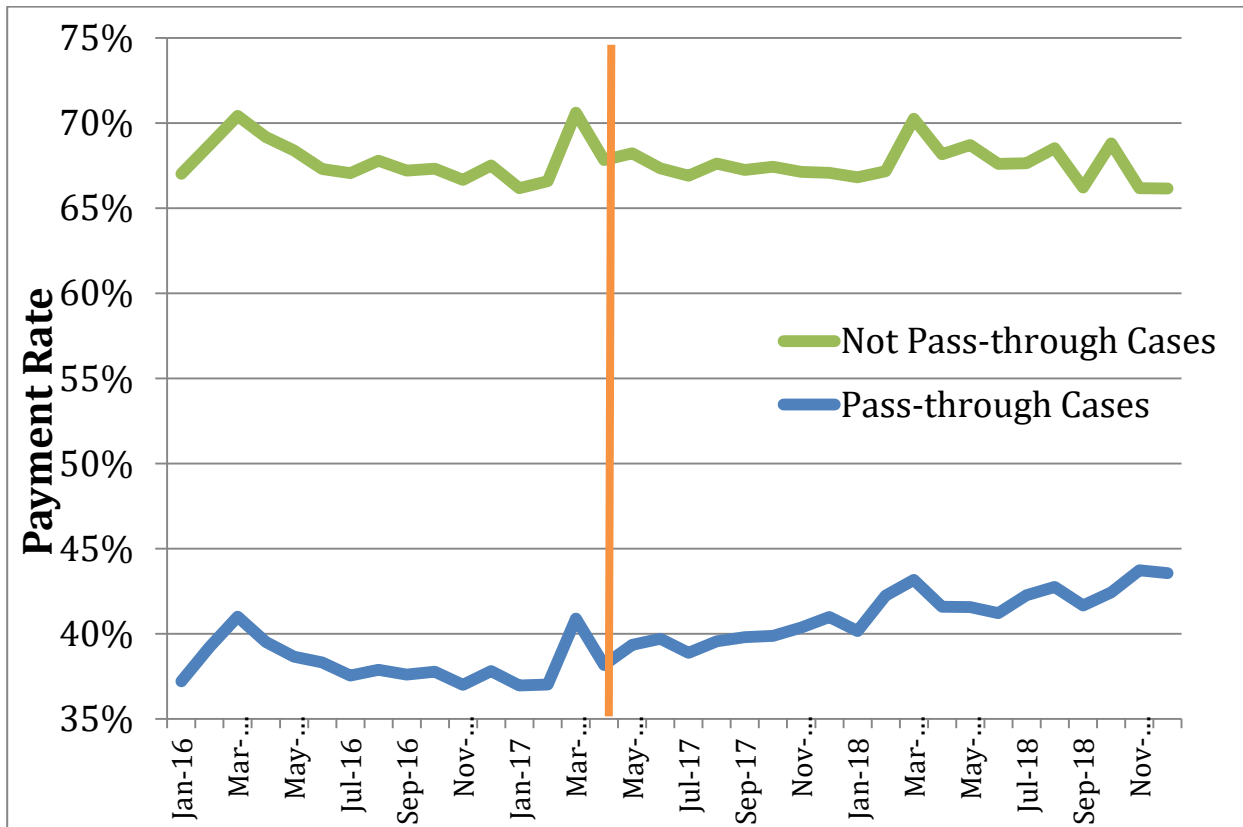
**Figure 2: Total Child Support Received on TANF Cases**



**3.) Child support is being paid at a higher rate**

The percentage of pass-through cases with monthly payments increased as payments were made at a much higher rate than cases not in the pass-through program. Figure 3 depicts the 6.4% increase in the payment rate among TANF pass-through cases with child support payments between January 2016 (37.2% payment rate) and December 2018 (43.6% payment rate). This increase was not evident among non-TANF cases. In fact, the payment rate among cases not in the pass-through program declined 0.8% between January 2016 (67.0%) and December 2018 (66.2%). While the overall payment rates are lower for the pass-through cases (given financial demographics among that group), data in Figure 3 provides evidence that the pass-through policy has had a positive effect upon child support payment rates for TANF (pass-through) cases.

**Figure 3: Child Support Payment Rates: Pass-through vs. Not Pass-through**



Evidence indicates that the pass-through policy is continuing to inspire positive behavioral changes among parents: more custodial parents are cooperating with child support offices to establish support orders and more non-custodial parents are choosing to pay child support to children on the TANF caseload. This behavior has resulted in Colorado’s most vulnerable families receiving an average of \$167 additional monthly income from parents directly supporting their children. These positive changes help families, but have caused the pass-through program to exceed its appropriation during its first two full years of operation.

***Problem or Opportunity:***

As the first state in the nation to change policy to implement a full child support pass-through, Colorado lacked evidence, both internally and from other states, to gauge its impact. The fiscal note projecting costs for the authorizing legislation (SB 15-012) estimated an annual five-percent increase; however, that entire increase was realized within the first few months of the pass-through becoming operational. That initial estimate was based on predictions from other states who had implemented partial pass-through programs and Colorado’s payment history from 2013-2015. The initial estimated cost did not accurately model behavior changes transpiring from the pass-through. The appropriation needed to fund this program is inherently a function of program participants’ behavior.

In just over two years of operations, the pass-through has grown dramatically: 34% growth in FY 2017-18 and 8.25% growth in FY 2018-19. Data indicates the growth curve is slowing, yet



continuing to increase. The Department projects the pass-through payments will exceed the FY 2019-20 appropriation by \$800,182 (8.25% growth plus a five-percent contingency in case growth does not flatten-out). If the pass-through continues to grow at its current rate, and no statutory changes are made, as discussed in the Proposed Solution section “2. Statute Changes,” the Department estimates the pass-through payments will exceed its appropriation by more than \$1 million in FY 2020-21. Therefore, the Department is seeking a budget change to ensure appropriate means to operate the program in FY 2019-20 and beyond, while level-setting the program to avoid similar problems in the future.

Prior to the pass-through legislation, Colorado statute had required all current child support paid on behalf of children receiving TANF assistance be retained as unreimbursed public assistance. Fifty percent of these collections are mandated to be paid to the federal government. In Colorado, the remaining fifty percent is allocated to the counties as incentive payments. The State’s obligations to the federal government and counties remain under C.R.S. 26-2-108, even though that child support paid on behalf of a child receiving TANF assistance is now going directly to that child and family. Therefore, the annual General Fund appropriation is required to satisfy the statutory requirement to back-fill funds required to pay the federal government and counties in lieu of the collections that are now going directly to TANF cases.

Statute also requires that if sufficient funds are not appropriated to reimburse the federal government and counties their respective shares of child support payments, the Department is required to “turn off” the pass-through in ACSES and counties are not required to pass-through child support funds to families.

Turning-off the pass-through when funds run out during a fiscal year is not a viable, long-term solution. Turning-off the pass-through risks undoing the positive behavioral changes of encouraging parents to seek and pay child support and reducing dollars available to support children living in poverty. In addition, turning off the pass-through would entail unplanned costs to the Department in order to communicate this change to both paying and receiving parents and to counties. Furthermore, additional costs would result from re-messaging to parties when the pass-through becomes operational again at the beginning of the next fiscal year. Moreover, statute (C.R.S. 26-2-108) requires the program to operate as long as the General Assembly appropriates funds for the program, making turning-off the pass-through only an incremental solution, one fiscal year at a time, recreating the same issues every year funds fall short of the growth.

#### ***Proposed Solution:***

The Department is proposing a multi-pronged solution to resolve the persistent underfunding of the pass-through: 1) submitting a supplemental budget request for FY 2019-20 (to reflect the FY 2018-19 growth over the current appropriation and projected FY 2019-20 growth); 2) seeking statute change (C.R.S. 26-2-108) to mitigate the effects of variable growth; and 3) increasing the FY 2020-21 appropriation (per this decision item). These interconnected solutions will establish a long-term solution that will preclude the Department from needing to request additional funds in future years.

The three parts of the proposed solutions are detailed below:

1. FY 2019-20 Supplemental funding: The requested funds in this decision item reflect the anticipated need for supplemental funding in FY 2019-20. As such, the Department projects that program growth in FY 2018-19 and FY 2019-20 will render the FY 2019-20 appropriation to be \$800,182 short of the fiscal year commitment. A forthcoming supplemental budget request for FY 2019-20 will ensure the program operates throughout the year without any disruption.
2. Statute changes: Recommended changes to C.R.S. 26-2-108 would require counties to continue passing child support to families even if the program appropriation runs out mid-year (as has occurred since the program began). This change would ensure that unexpected cost-overages would no longer put the pass-through at-risk. Additionally, it would alleviate the need for future budget requests because the amount appropriated each year by the General Assembly will be statutorily sufficient to ensure the program operates continuously throughout the year. The Department also recommends that the statute change to allow the pass-through appropriation to roll-forward to the subsequent fiscal year. This change seeks to accommodate the predicted ebbs and flows in future payments and reduce the impact on counties if the appropriation runs out before the end of the fiscal year.
3. FY 2020-21 budget request: This decision item, in concert with the other two parts of the solution, will establish a ceiling for required program funds at an amount sufficient to fund projected costs in FY 2020-21. These funds will create a realistic baseline for the cost of the pass-through using empirical data from the Department's experience in implementing the program.

Ultimately, increasing the appropriation in FY 2020-21 will ensure that child support paid on behalf of some of the poorest children in Colorado will go directly to those children. The average pass-through payment is \$167, roughly a 33% increase in financial resources for a single mother with two children receiving TANF. Additionally, the Department will be able to meet its obligations to the federal government and counties per unreimbursed public assistance.

The Department continues to work to identify the appropriate legislative route to (a) provide funds for this proposal in FY 2019-20, (b) allow the ability to roll-forward funds, and (c) cap payments to counties at the FY 2019-20 appropriation, ensuring long-term program sustainability. The recommended amount is consistent with the capping of the FY 2019-20 appropriation. Joint Budget Committee members and staff will be updated on the status of such legislation.

#### ***Anticipated Outcomes:***

Child Support Pass-through has the highest rating on Pew's Results First Clearinghouse. There is strong evidence that full pass-through and disregard of child support payments increases custodial parents' likelihood of receiving payments as well as increasing the amount they receive. Paternity is also established more quickly when the custodial parent receives all child support paid on their child's behalf, and that amount is not considered in benefit calculations,

than when child support payments are retained to offset welfare payments (Urban-Wheaton 2008, Cancian 2008, UW IRP-Cancian 2007, Pirog 2006, Cassetty 2005). Full pass-through may also reduce the risk of child maltreatment (Cancian 2013).

The Department anticipates that providing funds to ensure a full year of the Child Support pass-through, given increased number of parents making child support payments, will result in several key outcomes in Colorado, as intended by SB 15-012:

- Children will have more cash resources directly supporting their needs and stabilizing their families. Available Colorado data reveals that child support (via the pass-through) represents more than 82.7% of income among the Colorado Works caseload receiving those funds.
- Every dollar of child support paid on behalf of a low-income child increases the child's likelihood to excel in school, avoid the juvenile justice system, pursue an adult life outside of poverty, and reduces risk of maltreatment. (Office of Child Support Enforcement, Administration for Families and Children, December 2016)
- Non-custodial parents will continue to be motivated to pay child support when those dollars are going directly to their children instead of being retained by the government. Custodial parents will be more willing to seek child support orders if they know that orders will translate into actual received payments.
- Counties will continue to receive the full amount (50% of retained collections) of funds that the State statutorily owes them until the statute is changed. Once the statute is changed, counties will be receiving a larger percentage of their retained collections than before the pass-through was implemented.
- The ability to roll-forward funds will minimize the impact to counties, while ensuring that counties have some "skin in the game" by more equitably distributing costs and alleviating the State from holding full responsibility for program costs.
- The pass-through program will essentially be capped at the FY 2020-21 appropriation, ensuring long-term program sustainability and, more importantly, long-term financial support to some of Colorado's most vulnerable children/families.

#### ***Assumptions and Calculations:***

Data used to estimate program need is based on the pass-through program's operation between April 2017 and June 2019. This data comes directly from actual payment amounts received from non-custodial parents and disbursed to custodial parents. Information from a study being conducted by the Department's Performance Management Unit on the pass-through program was also used to support this request.

Table 1 below shows the pass-through growth rate, as it relates to the appropriation, over time.

**Table 1: Pass-through growth rate over the past two fiscal years**

Month	Pass-through Backfill- Total owed Feds & Counties	Cost Running Total	Appropriation Running Balance
FY 2017-18  Appropriation: \$3,024,000			
17-Jul	264,081	264,081	2,759,919
17-Aug	282,619	546,700	2,477,300
17-Sep	294,484	841,184	2,182,816
17-Oct	324,154	1,165,338	1,858,662
17-Nov	332,739	1,498,077	1,525,923
17-Dec	364,813	1,862,890	1,161,110
18-Jan	364,983	2,227,873	796,127
18-Feb	377,559	2,605,432	418,568
18-Mar	397,298	3,002,730	21,270
18-Apr	356,978	3,359,708	(335,708)
18-May	377,020	3,736,728	(712,728)
18-Jun	376,844	4,113,572	(1,089,572)

FY 2018-19			
Appropriation: \$4,447,426			
18-Jul	389,715	389,715	4,057,711
18-Aug	399,332	789,047	3,658,379
18-Sep	376,137	1,165,184	3,282,242
18-Oct	408,839	1,574,023	2,873,403
18-Nov	416,667	1,990,690	2,456,736
18-Dec	411,438	2,402,128	2,045,298
19-Jan	421,537	2,823,665	1,623,761
19-Feb	406,671	3,230,336	1,217,090
19-Mar	412,301	3,642,637	804,789
19-Apr	381,993	4,024,630	422,796
19-May	404,338	4,428,968	18,458
19-Jun	384,437	4,813,405	(365,979)

As shown in the table above, the growth rate resulted in costs 36.03 % over appropriation in FY 2018-18, and 8.23% over appropriation in FY 2019-20.

The rate of growth of the program was calculated using the annual growth rate between April 2017 and June 2019, and is shown in Table 2 below.

Table 2: Pass-through growth calculation	
*Projected Pass-through FY 2019-20	\$5,247,608
Appropriation	\$4,447,426
Difference	\$800,182
<i>*Projected pass-through assumes same rate of historical federal disregard</i>	

***Supplemental, 1331 Supplemental or Budget Amendment Criteria:***

The Department will also request a supplemental in FY 2019-20 for \$800,182 to address issues outlined in this document. Joint Budget Committee members and staff will be updated on the status of such legislation.

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