

Schedule 13

Department of Human Services

Funding Request for The FY 2019-20 Budget Cycle

Request Title

R-19 Covering Child Support Unfunded Disbursements

Dept. Approval By: Melissa Wawchik _____ Supplemental FY 2018-19
 OSPB Approval By: [Signature] _____ Budget Amendment FY 2019-20
 _____ X _____ Change Request FY 2019-20

Summary Information	Fund	FY 2018-19		FY 2019-20		FY 2020-21
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$9,129,791	\$0	\$9,199,750	\$150,896	\$0
	FTE	16.9	0.0	16.9	0.0	0.0
Total of All Line Items Impacted by Change Request	GF	\$2,593,487	\$0	\$2,611,747	\$150,896	\$0
	CF	\$727,258	\$0	\$733,491	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$5,809,046	\$0	\$5,854,512	\$0	\$0

Line Item Information	Fund	FY 2018-19		FY 2019-20		FY 2020-21
		Initial Appropriation	Supplemental Request	Base Request	Change Request	Continuation
	Total	\$9,129,791	\$0	\$9,199,750	\$150,896	\$0
	FTE	16.9	0.0	16.9	0.0	0.0
07. Office of Self Sufficiency, (D) Child Support Enforcement, (1) Child Support Enforcement - Automated Child Support Enforcement System	GF	\$2,593,487	\$0	\$2,611,747	\$150,896	\$0
	CF	\$727,258	\$0	\$733,491	\$0	\$0
	RF	\$0	\$0	\$0	\$0	\$0
	FF	\$5,809,046	\$0	\$5,854,512	\$0	\$0

Auxiliary Data			
Requires Legislation?	NO		
Type of Request?	Department of Human Services Prioritized Request	Interagency Approval or Related Schedule 13s:	No Other Agency Impact

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Cost and FTE

- The Department requests \$150,896 total funds/General Fund in FY 2019-20 in order to sufficiently cover unfunded disbursements, given shortfalls in the Family Support Registry (FSR) Fund.
- This request represents a 1.6% increase over the FY 2018-19 appropriation.

Current Program

- The Family Support Registry Fund (FSR Fund) was created by the Colorado General Assembly in 1998 (26-13-115.5 C.R.S.), to deposit interest earned from the daily balance of the account used for child support collected by the Department to offset unfunded disbursements.
- Federal regulations require that 66% of these earnings be sent to the federal Office of Child Support Enforcement (OCSE); the remaining 34% can be used by the State to offset program expenditures.
- Unfunded disbursements result in rare cases when obligors bounce checks or funds are misapplied. They account for 0.038% of the total funds disbursed during the past three years.

Problem or Opportunity

- When the FSR Fund was created, interest earned on the account's daily balance was large enough that the 34% State share of these earnings covered unfunded disbursements. Any excess funds remained in the Fund for future years.
- Declining interest rates and advances in financial transaction times have reduced interest earned on the Fund's daily balance, effectively eliminating these funds' ability to cover the State's expense of the unfunded disbursements.

Consequences of Problem

- Unfunded disbursements are not eligible to be paid with Federal Financial Participation (i.e. federal matching) dollars. Therefore, using currently appropriated General Fund reduces the program total funds by \$443,813 (General Fund and federal funds), because the \$292,917 federal match is not earned on the \$150,896 General Fund.
- Shorting General Fund appropriated for system costs will hamper the Department's ability to modernize the Automated Child Support Enforcement System (ACSES) and improve performance.

Proposed Solution

- The Department requests \$150,896 total funds/General Fund in FY 2019-20 in order to allow the FSR Fund to cover the program's unfunded disbursements.
- These funds will allow the Department to focus appropriate resources to meet the child support program's goals, C-Stat measures, the Wildly Important Goal (WIG) to reduce zero payers, and Strategic Policy Initiative to improve families' economic security.

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COLORADO
Department of Human Services

John W. Hickenlooper
Governor

Reggie Bicha
Executive Director

FY 2019-20 Funding Request | November 1, 2018

Department Priority: *R-19*
Request Detail: *Covering Child Support Unfunded Disbursements*

Summary of Incremental Funding Change for FY 2019-20	Total Funds	FTE	General Fund
Covering Child Support Unfunded Disbursements	\$150,896	0.0	\$150,896

Problem or Opportunity:

The Department requests \$150,896 total funds/General Fund in FY 2019-20 to cover unfunded disbursements in FY 2019-20 given shortfalls in the FSR Fund.

The Department operates the statewide Child Support Services program. Child support is a tangible mechanism for ensuring economic supports for families and children. It is mandated by Title IV-D of the Social Security Act and 26-13-101 C.R.S. (2018) et seq. Appropriated funds include resources for the Automated Child Support Enforcement System (ACSES), the Family Support Registry (FSR), and the State Directory of New Hires (SDNH) as required to implement the Child Support Program statewide in 64 county offices. The federal Office of Child Support Enforcement (OCSE) provides a 66% reimbursement, known as Federal Financial Participation (FFP), when the State reports federally allowed program costs to the OCSE. Operating the complex child support program includes some costs that are not eligible for FFP. States bear the full burden of operational costs that are not eligible for federal reimbursement (e.g. employment services, unfunded disbursements, and program demonstration not directly tied to child support collections).

The Family Support Registry (FSR) is an important tool in collecting child support. It is responsible for the receipt and disbursement of child support in Colorado, processing more than \$450 million in child support obligations annually. The Family Support Registry Fund (FSR Fund) was created by the Colorado General Assembly in 1998, 26-13-115.5 C.R.S. (2018) to deposit interest earned from the daily balance on child support collections to offset unfunded disbursements. Federal law mandates that child support payments are transferred to the custodial parent within 48 hours of receipt. When a noncustodial parent pays child support, those funds are deposited into the FSR bank account. Any interest earned on the FSR bank balances is transferred to the FSR Fund (Fund 2470) and used to cover unfunded disbursements. Interest is earned on the daily balance during the short time between

when the funds are paid by a noncustodial parent and disbursed to the custodial parent. This is a common practice for financial transactions, similar to the way in which a bank can earn interest on customers' checking accounts. Per federal regulations, 66% of the earnings from this financial transaction must be returned to the federal Office of Child Support Enforcement (OCSE). The remaining 34% of these earnings can be used to offset State program expenditures. Pursuant to the creation of the FSR Fund, these earnings are used to cover unfunded disbursements.

Unfunded disbursements result in the rare cases when obligors bounce checks, stop payments on checks, or funds are misapplied by State or county workers. Typically, when disbursement errors occur, they are recouped through an automated process whereby the ACSES sends a notice to the obligee and begins retaining 10% of future child support payments each month until the total amount has been repaid. However, county workers have the ability to change or suppress the percentage collected on the case. In cases where there are no consistent child support payments to retain or the case is closed, there are no reasonable means to recoup the funds from the obligee, essentially creating the unfunded disbursement.

When the FSR Fund was created 20 years ago, financial transactions often took three to five business days for a check to clear at the bank and the money to be made available. In the past two decades, advances in financial transaction technology to process funds have shortened the time period during which these funds can earn interest. Concurrently, consistently low interest rates (below 1%) have decreased interest earned on the funds. Together, these factors have resulted in the FSR Fund's inability to cover the expense of the unfunded disbursements. As the FSR Fund slowly shrunk during the incremental changes in the financial landscape in the last 20 years, the State has been required to pay more and more of the unfunded disbursements. Since no funds are appropriated for these costs, the Department has had to use General Fund appropriated for modernizing the Automated Child Support Enforcement System (ACSES) to cover unfunded disbursements. Ultimately, this practice shortchanges the child support program and is not sustainable.

Prior to 2013, the Department had referred such cases to the Colorado Central Collections Services (CCS). In 2013 CCS stopped accepting the referrals due to technical issues. The reduction in recoupment between 2012 (the last full year using CCS) and 2014 (first full year not using the CCS) was \$38,000. Furthermore, CCS collection processes can cause the obligee, who was not receiving regular child support, to pay two to three times more in fees than the original unfunded disbursement to cover costs of collecting the debt. This practice exacerbates financial hardships among families already struggling to achieve economic security. Any additional hardship imposed on obligees through the collection process or fees applied to child support payment inhibits the Department's ability to achieve its child support program goals, C-Stat measures, the Wildly Important Goal (WIG) to reduce zero payers, and its Strategic Policy Initiative to "improve families' economic security." Using the average annual unfunded disbursement amount for the past three years, adjusted for inflation, the best estimate of the funds required to meet this need for FY 2019-20 is \$150,896. Unfunded disbursements comprise 0.038% of the total funds disbursed through the child support

system during the past three years. While small, these costs are solely the State's responsibility and do not earn the 66% FFP.

Using General Fund allocated for other purposes, such as the ACSES, to cover unfunded disbursements is not a wise use of State resources on several fronts. ACSES dates back to the 1980s and is the primary system for child support workers across the State to conduct the work required to promote families' economic stability via child support. The aging system has been experiencing system delays and inoperability, ultimately compromising service delivery. Given the gravity of these issues, the Department is in the midst of a multi-year project to fix and modernize ACSES in order to improve its functionality.

Since the cost of unfunded disbursements earns no FFP, it must be paid with State-only (General Fund, cash fund, or reappropriated) dollars. Therefore, covering \$150,896 in unfunded disbursements from current General Fund appropriated for ACSES essentially reduces program expenditures by more than \$443,813, nearly 300%, because the \$292,917 (66%) FFP is not earned. Furthermore, this practice delays critical system upgrades, ultimately affecting families' receipt of child support.

Proposed Solution:

The Department requests the appropriation of \$150,896 total funds/General Fund in FY 2019-20 in order to sufficiently cover unfunded disbursements, given shortfalls in the Family Support Registry (FSR) Fund. These funds will be used to cover expenditures in the form of unfunded child support disbursements. This solution bears no TABOR impact. It prevents the Department from needing to access its current General Fund appropriated to improving the ACSES that earns 66% federal reimbursement for the full appropriation.

Appropriating these funds to the FSR Fund will enable the ACSES appropriation to continue to be used for its intended purpose to operate and modernize the ACSES required to ensure efficacy in the collection and distribution of child support payments to Colorado families. Furthermore, earmarking funds for unfunded disbursements will ensure that the State earns its 66% federal reimbursement on all ACSES-related expenditures.

If funds are not appropriated to the FSR Fund to fully cover the cost of the child support program's unfunded disbursements, \$443,813 of spending authority will be shifted away from the operation and improvement of the ACSES to cover the \$150,896 in unfunded disbursements. This will result in a significant reduction of the resources available to modernize and improve the ACSES.

Anticipated Outcomes:

Providing funds in FY 2019-20 to cover unfunded disbursements will help to stabilize the FSR Fund and ensure that the child support program is using its appropriations intended to operate the ACSES. Modernizing and enhancing ACSES will ensure a more stable and functional system to better serve our customers.

Assumptions and Calculations:

Evidence from the past few years indicates that a General Fund appropriation of \$150,896 will cover unfunded disbursements in FY 2019-20, alleviating the Department from using its current General Fund appropriation earmarked for ACSES modernization during this year. Providing a dedicated fund source to cover unfunded disbursements, which are not eligible expenses for the Federal Financial Participation (FFP), will ensure that the Department will maximize its spending authority. This will bolster the Department’s ability to resolve the ACSES run time issues and other challenges that arise in serving more than 150,000 Colorado families within the child support system.

Table 1 illustrates the Long Bill appropriation and requested funding for FY 2019-20 and beyond.

Table 1: Long Bill Appropriation and Requested Funding for FY 2019-20 Through FY 2021-22							
Automated Child Support Enforcement System	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE	Notes
FY 2018-19 Appropriation (HB 18-1322)	\$9,129,791	\$2,593,487	\$727,258	\$0	\$5,809,046	0.0	Enter FY 2018-19 Appropriation Amount
Requested Funding (or Spending Authority)	\$150,896	\$150,896	\$0	\$0	\$0	0.00	
FY 2019-20 Total Requested Appropriation	\$9,280,687	\$2,744,383	\$727,258	\$0	\$5,809,046	0.0	
FY 2020-21 Annualization of Prior Year Funding	(\$150,896)	(\$150,896)	\$0	\$0	\$0	0.00	
FY 2020-21 Total Requested Appropriation	\$9,129,791	\$2,593,487	\$727,258	\$0	\$5,809,046	0.0	
FY 2021-2022 Total Requested Appropriation	\$9,129,791	\$2,593,487	\$727,258	\$0	\$5,809,046	0.0	