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Child Welfare Financing in Colorado: Current Landscape and Recommendations

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Introduction

Child welfare-related activities and services have complex sources of funding. Numerous funding streams and multiple agencies seek to support the children and families that are known to the child welfare system. At the state and local levels, this complexity sometimes means that policymakers, practitioners, advocates, and other stakeholders do not have a complete picture of child welfare financing, which is vital to their understanding of how to best provide needed services and supports to children and families. As a result, Colorado stakeholders decided to enhance understanding of the state's child welfare financing landscape by contracting with Child Trends. Funding for this study was provided by the Zoma Foundation, Casey Family Programs, and the Colorado Department of Human Services (DHS).

As a first step, Child Trends analyzed Colorado's data from the Child Welfare Financing Survey—a national survey conducted by Child Trends with support from Casey Family Programs and the Annie E. Casey Foundation—to identify state-specific funding sources and trends.[1] We also analyzed trends in the state's child welfare population (e.g., trends in the number of children in care, use of family-based settings) and completed a scan of relevant recent news stories to understand contextual factors that may affect child welfare funding. We also reviewed existing reports and materials related to the state's child welfare financing and conducted interviews and focus groups with stakeholders. These activities helped us examine the child welfare financing landscape in Colorado, identify challenges, and ultimately draw upon our knowledge of other states' financing to propose recommendations.

The work for this report started shortly after the passage of the Family First Prevention Services Act of 2018 (Family First Act). Although the Family First Act will affect child welfare financing and practice in many ways, the project sponsors intended for this report to analyze overall child welfare financing structures and systems, many aspects of which are either not affected or only minimally affected by the Family First Act. Therefore, this report provides an overview of Colorado's child welfare financing landscape and

Child Welfare Financing Survey

The Child Welfare Financing Survey is a national survey that collects information about child welfare agency expenditures for child welfare-related services and supports. The survey does not collect information on *all* spending on children and families that may be known to the child welfare agency since many other agencies (such as health and education departments) serve these families. The latest data from this survey covers state fiscal year 2016 (Rosinsky & Williams, 2018).

[1] Over the course of this project, Colorado updated the Child Welfare Financing Survey data it had previously provided. As a result, some data presented in this report do not align with data presented in prior Child Welfare Financing Survey products. See Appendix A for more information.

presents nine recommendations for how the state can use additional or different funding sources or strategies to fund needed child welfare-related services and activities. While this report focuses on Colorado, other states can use the information presented to develop ideas for improving child welfare financing in their state.

Overview of Child Welfare Funding in Colorado

This section includes Colorado-specific information about the entities that play a role in child welfare financing, how funding is allocated to child welfare agencies, the various funding sources that child welfare agencies use, the roles of the state and counties with regard to child welfare financing, data systems used in the state, and recent changes related to child welfare financing in Colorado.

Entities

Many entities play a role in financing services and supports for the child welfare population in Colorado.

Department of Human Services. The Department of Human Services (DHS) encompasses many offices and divisions, some of which provide services and supports to the child welfare population. These entities include the following:

- **The Division of Child Welfare (DCW)** is the child welfare agency within the Office of Children, Youth, and Families at DHS. The child welfare system in Colorado is state-supervised by DCW and administered by child welfare agencies in each of the 64 counties. While we focused our examination on DCW and county child welfare agencies, we learned about other entities that play a role in funding services for families and children who are at-risk of maltreatment and/or have experienced maltreatment and come to the attention of the child welfare system (described below).

- **The Division of Youth Services (DYS)** is a division within the Office of Children, Youth, and Families at DHS that serves youth with juvenile justice involvement who are committed to the custody of the state. Since some youth are known to both child welfare and DYS, there is collaboration between the two entities for dually involved youth (for example, the blending and braiding of funds to finance services).

- **The Office of Behavioral Health (OBH)** is an office within DHS that funds substance abuse prevention programs (among other programs), which can contribute to child maltreatment prevention efforts in the state.

- **The Office of Early Childhood (OEC)** is an office within DHS that funds and administers several child maltreatment prevention programs in Colorado. For instance, they fund home visiting programs, SafeCare® (a parenting program), Colorado Community Response (a program that provides a variety of supports and services to families), and other early childhood programs that seek to reduce maltreatment. While child welfare agencies also fund some child maltreatment prevention activities, child welfare agencies focus prevention activities on families known to the child welfare agency. If the child welfare

Child Maltreatment Prevention

Several entities in Colorado play a role in child maltreatment prevention. These efforts include primary prevention aimed at the general population to reduce maltreatment from ever occurring, secondary prevention programs that target high-risk families, and tertiary prevention efforts to stop maltreatment from recurring (Child Welfare Information Gateway, n.d.).

agency screens a child/family out of the child welfare system or closes a child welfare assessment, it can make referrals to OEC-funded and administered services.

- **The Office of Economic Security (OES)** is an office within DHS that administers the Temporary Assistance for Needy Families (TANF) program for the state (among other programs). Families known to the child welfare agency can benefit from TANF-funded services and supports (see below for more about TANF).

Other departments. Outside of DHS, other entities that play a role in financing services and supports for the child welfare population include the following:

- **The Department of Health Care Policy and Financing (HCPF*)*** administers Medicaid for Colorado. Most children involved with the child welfare system are Medicaid eligible, so HCPF plays a significant role in financing health-related services for this population. Regional Accountable Entities (RAEs) are regional organizations in Colorado that coordinate care for the Medicaid-eligible population.

- **The Department of Public Health and Environment (CDPHE)** funds child maltreatment prevention programs such as the Essentials for Childhood project. They also fund the Child Fatality Prevention System—a network of organizations that work together to prevent child deaths—and initiatives around maternal depression and injury prevention.

In addition to these state departments and divisions, there is also the Child Welfare Allocation Committee (CWAC), comprising 13 voting and two non-voting members who represent various regions of the state. The CWAC makes recommendations to DHS regarding the method for allocating child welfare funding to each county. In addition, there is the Joint Budget Committee of the state legislature, which develops budget recommendations for the state. See below for more on the role of the CWAC and the Joint Budget Committee.

Finally, while the courts do not play a direct role in financing services and supports for this population, their actions have an impact on financing; although the child welfare agency makes recommendations to the court, it is the judge who ultimately makes the decisions. The placements and services ordered by the courts can affect financing (e.g., ordering the use of more expensive congregate care placements). Judges also need to make judicial determinations in a particular way for a child to be deemed eligible for Title IV-E (see below for more on Title IV-E).

Block allocations

The state provides county child welfare agencies with three block allocations to finance their activities and services:

- **Child Welfare Services block.** Also known as the "child welfare block," this is the largest of the three block allocations and can be used for administration, out-of-home placements, and other child welfare-related services and activities. If a county under-spends this allocation, they can transfer the under-spent funds to the other two block allocations.

- **Family and Children's Programs block.** Also known as "Core Services," this block provides funding for services for children and families to allow children to remain in their home, return home, or stay in the least-restrictive placement possible.

- **Child Welfare Staffing block.** This block provides funding for counties to hire additional staff. This block was developed in 2015 as a result of a workload study that indicated the state needed hundreds of new caseworkers.

Each fiscal year (FY),[2] counties receive allocations under each of the three blocks. These allocations provide a maximum each county can spend (with exceptions, see below). Counties are required to meet each block's requirements but have flexibility to choose how to spend their allocations. For example, if a cost can be covered by both the Child Welfare Services block and the Core Services block, counties can choose to apply the cost to either block. However, if a cost can be billed to Medicaid, Medicaid must be used first. As will be explained further in the context of funding sources, this does not always happen.

In general, the state funds 80 percent of the total allocated amount (some of which is funded through federal funds), and counties are required to provide the remaining 20 percent. However, the precise matching amount varies by the type of cost. For instance, counties are only required to provide a 10 percent match for the Child Welfare Staffing block.

To determine the allocations each county receives, the CWAC makes recommendations to DHS regarding the method for allocating funding from each block to each county. The allocation formulas can vary year-to-year and are based on a number of factors. For instance, in the past, county-level variables reflecting the poverty rate, number of out-of-home involvements, congregate care usage, staff hours spent on various activities, and more have been used to determine how much of the total block allocation should go to each county. If the CWAC and DHS do not agree on the allocation formulas to be used, then the Joint Budget Committee of the state legislature chooses a methodology.

Close-out process

At the end of each FY, the close-out process determines if counties over- or under-spent their allocations. This is a complex process, but generally proceeds as follows (Smart, 2017):

1. Each original block allocation is compared to actual county block expenditures to determine whether each of the three blocks was over- or under-spent.

2. If a county over-spent Core Services or Child Welfare Staffing, those over-expenditures "can be covered by under-expenditures in the Child Welfare [Services] block" (Smart, 2017). However, the reverse is not true: Over-expenditures of the Child Welfare Services block cannot be covered by under-expenditures of the other two blocks. Once these adjustments are made, the net county over- or under-expenditure amount is determined.

3. Unused allocations from counties that under-spent can be transferred to counties that over-spent. The over-spent counties that receive these additional allocations are still required to provide local matching funds for the additional allocated funds. For instance, if a county over-spent their allocation by $10,000 and other counties under-spent by at least that amount, the total allocation for the over-spent county can be increased by $10,000. To fully utilize the $10,000, the over-spent county would be required to provide $2,000 in matching funds to access the remaining $8,000 in state funds.

[2] For the purposes of this report, when we refer to fiscal year, we are referring to state fiscal year. In Colorado, this is July 1 – June 30.

4. After transfers of allocations from under-spent to over-spent counties, if there are still counties with over-expenditures, DHS can transfer funds to these counties from under-spent state-level programs financed via funds set aside before allocations are made available to counties. For instance, the FY 2018-2019 Appropriation Act included set-aside funding for services for Native American children and an insurance policy for foster homes, among other purposes. If set-aside funding for these programs is not fully used, the leftover amount can be used to cover county over-expenditures. The state can also transfer under-spent general funds from appropriations to HCPF and DCW. Over a recent three-year period (FYs 2015-2017), these transfers were used in two out of three years (FYs 2016 and 2017; Smart, 2017).

5. Following these transfers, if a county still has an over-expenditure, the county is required to cover the remaining over-expenditure with their own dollars. These dollars can include TANF funds the county accesses and local taxes. Some counties have taxes ("mill levies") specifically collected for human services programs that give them flexibility to overspend their block allocations since those tax dollars can be used to cover any overages. Other counties do not have this flexibility, so their leadership does not permit any overspending (Smart, 2017).

Funding sources

Many funding sources are used by the state and local child welfare agencies in Colorado.

Federal funds. In FY 2016, about a third of Colorado's child welfare agency expenditures came from federal sources. The largest federal funding source used in Colorado (and nationwide) is Title IV-E of the Social Security Act. Total Title IV-E expenditures increased in Colorado between FYs 2012 and 2016. These expenditures include the waiver that allows Colorado to spend its Title IV-E dollars more flexibly to promote innovation in the design and delivery of child welfare services. The waiver is currently set to end in 2019.

In Colorado, the percentage of children in care who are eligible for and receive Title IV-E reimbursement for foster care maintenance payments is significantly lower than the national average (30 percent in Colorado in FY 2016, compared to the national average of 51 percent).[3] This means that the state receives federal IV-E reimbursement for a smaller proportion of children than average. We heard from interviewees several possible explanations for this low coverage rate, including improper documentation of children's eligibility status and an increase in the use of unpaid kinship care (which is not IV-E eligible). In fact, one interviewee indicated that the IV-E foster care coverage rate for children in paid placements is just below 50 percent when children in unpaid kinship care are excluded from the calculation.

The Social Services Block Grant (SSBG) accounts for about one-fifth of federal child welfare agency expenditures in Colorado, which is higher than the national average of 11 percent. SSBG expenditures by child welfare agencies in Colorado held relatively stable between FYs 2012 and 2016. Colorado uses SSBG primarily for case management services, administrative costs, foster care services, and child protective services.

While in FY 2016, Temporary Assistance for Needy Families (TANF) made up a fifth of federal child welfare agency expenditures nationwide, child welfare agencies in Colorado did not report using TANF dollars.

[3] "Children in care" is defined as children for whom the Title IV-E agency has care and placement responsibility.

However, in years past, child welfare agencies in Colorado have used this funding stream. In Colorado, counties tend to use TANF to help cover over-expenditures during the close-out process, but TANF can also be directly appropriated to counties for child welfare services (apart from close-out). The Office of Economic Security (OES) also uses TANF to provide child-only TANF payments to kinship caregivers instead of a child welfare agency-financed foster care maintenance payment. County child welfare agencies can also refer TANF-eligible families to the local TANF agency for supportive services in lieu of using Core Services dollars for supportive services.

Child welfare agencies in Colorado also use Medicaid to finance their work. Medicaid represents 3 percent of federal child welfare agency spending in Colorado, which is lower than the national average of 6 percent. To receive federal Medicaid dollars, a state must provide matching funds. As described earlier, the majority of Medicaid expenditures flow through HCPF, which administers Medicaid for the state. However, there are some instances where the child welfare agency will pay the non-federal match required to draw down federal Medicaid dollars. According to interviewees, there are three ways Medicaid funds can be appropriated by Colorado's legislature. The legislature can appropriate Medicaid and state matching funds:

1. **For certain services to HCPF.** If a child known to the child welfare system is referred to a Medicaid provider for those services, HCPF will pay the non-federal match.

2. **For other services to DCW.** If a child known to the child welfare system is referred to a Medicaid provider for those services, the child welfare agency will pay the non-federal match.

3. **To HCPF, which then re-appropriates the funds to DCW.** In this scenario, HCPF receives a Medicaid allocation in their budget, and then reallocates some of that allocation to DCW (so it shows up in the DCW budget as well, and the child welfare agency ultimately pays the non-federal match for services using the funds re-appropriated to them).

Federal Funding Sources

Title IV-E of the Social Security Act is a funding source specific to child welfare that can be used for some foster care placement costs, adoption and guardianship costs, transition supports, and child welfare workforce training. Not all children are IV-E eligible and not all costs are IV-E reimbursable.

Title IV-B of the Social Security Act is a funding source specific to child welfare that can be used for maltreatment prevention, family preservation, family reunification, services for children in foster care and children who have been adopted, training for child welfare professionals, and adoption promotion activities.

TANF can be a source of flexible funding for supporting child welfare activities.

SSBG can be a source of flexible funding to promote self-sufficiency, prevent or remedy child maltreatment, reduce inappropriate use of institutional care, and more.

Medicaid provides health coverage and services, including clinical behavioral health services, to low-income individuals. Most children in out-of-home placement are Medicaid eligible.

States may use **other federal funding streams** to fund child welfare services, such as the Child Abuse Prevention and Treatment Act (CAPTA), Adoption and Guardianship Incentive Awards, and more.

In summary, for a child who is Medicaid eligible, the Medicaid-eligible services may sometimes be funded out of the HCPF budget, and sometimes out of the DCW budget. DCW is appropriated Medicaid (and therefore pays the non-federal match) for the following services:

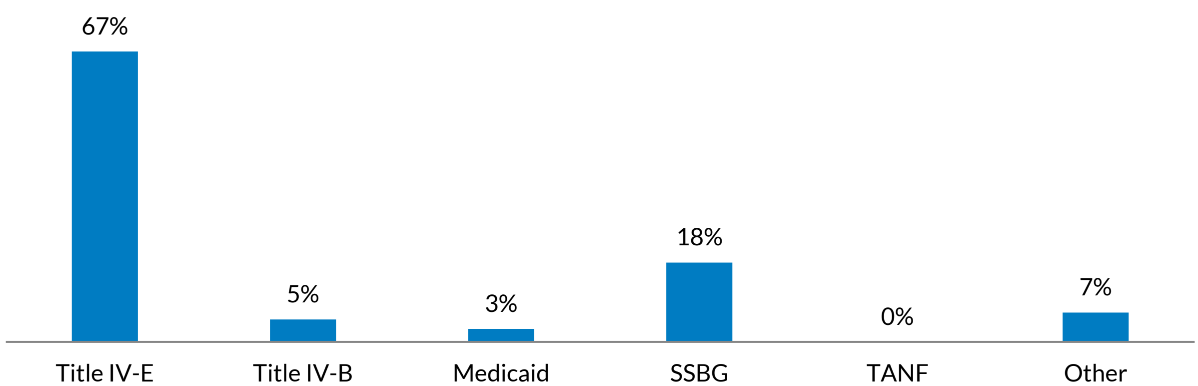
- Psychiatric residential treatment facilities
- Children's Habilitation Residential Program, which provides services for specifically qualified children

- Medicaid-eligible services provided by child welfare staff to children placed in a residential setting

Per state regulations and state memoranda, Medicaid is meant to be billed before the child welfare agency bills its Core Services block allocation (Social Services Rules, 2018; Werthwein, VanDeMark, & Hammer, 2016). Child welfare agency Medicaid expenditures (those for which the child welfare agency paid the non-federal match) decreased by about 30 percent between FYs 2012 and 2016. This decrease may be due to a shift away from residential settings (for which child welfare agencies sometimes pay the non-federal Medicaid match—see above). In addition, interviewees suggested that this decrease reflects counties' use of Core Services dollars for Medicaid-eligible services due to a lack of Medicaid providers and long waitlists. Therefore, counties use Core Services funds to provide services in a timely manner, but the state loses out on federal Medicaid reimbursement.

Colorado child welfare agencies use other federal funding sources as well, but they make up a much smaller share of total expenditures. See the "Federal Funding Sources" box for background about each source and Figure 1 for the proportion of Colorado's federal child welfare agency expenditures that come from each source.

Figure 1. Proportion of Colorado's federal child welfare agency expenditures from each major federal source, FY 2016



State and local funds. About two-thirds of the state's child welfare agency expenditures come from state and local sources, which is a higher proportion than most other states.

As mentioned above, counties have local matching requirements for many costs. Costs that remain after federal dollars and local matching funds are accessed are covered by state general fund dollars, to the extent funds are available. In addition, if a county has an over-expenditure after the close-out process, they must use their own funds to cover that over-expenditure. County local funds are primarily property taxes.

Colorado also has several cash funds that are used to benefit children and families. For instance, the Marijuana Tax Cash Fund helps fund the development of plans to serve youth known to the child welfare and juvenile justice systems; it also funds the Tony Grampsas Youth Services Program (which seeks to reduce youth crime and maltreatment). Funds from tobacco litigation help fund home visiting programs as well as the Tony Grampsas Youth Services Program. The Children's Trust Fund supports maltreatment prevention. In addition, the Collaborative Management Program, which allows county agencies to pool resources to better coordinate care for children and families known to multiple systems, is supported by a cash fund financed by court fees.

Role of the state vs. counties

As stated earlier, the state provides block allocations to each county, and then each county determines how to spend these allocations (within allowable uses). Generally, the state is responsible for administering all federal funding, and counties are not involved in deciding which federal funding streams are used and how they are spent. However, county child welfare agencies do play a role in determining eligibility for federal funding streams (like Title IV-E) and coding activities appropriately in data systems (see below for more about data systems). This division of responsibilities means that Colorado does not have a "pass-through system" in which counties monitor and make decisions about how federal funds are spent.[4] Federal dollars are instead drawn down by the state to offset the state share of costs. For instance, if a cost charged to the Child Welfare Services block requires a 20 percent local match, the state has responsibility for the other 80 percent. If the state obtains Title IV-E reimbursement for that cost, the Title IV-E dollars offset the state's 80 percent share. Federal IV-E reimbursement does not offset the county's local share.

While most of the federal sources are administered at the state level, counties do play a role in some instances. For example, counties determine how TANF dollars are spent and can therefore determine whether TANF is going to be used to help the child welfare agency close out if they over-spend.

Data systems

Colorado's Statewide Automated Child Welfare Information System (SACWIS) is named "Trails." Case workers in each county enter data about placements and services for each child on their caseload into Trails for payment. They document whether a child is IV-E eligible and assign a code to each service activity, enabling the county and state to draw down payment from the applicable payment source. Contracted services are also entered into Trails. The system is currently undergoing a modernization effort, which has caused some challenges (such as workers having trouble entering or retrieving data). Further, even though Trails data are generally accepted as accurate, there is concern about inconsistencies across counties, given that each county might have slightly different data entry practices and interpretations of data entry fields. These issues are noteworthy because data from Trails are used to feed the allocation formulas. However, some individuals we spoke to indicated that the data used in the allocation formulas are likely more accurate than some other data collected in Trails.

The County Financial Management System (CFMS) is another data system used by the state. Case-level information about placements and services entered into Trails flows into CFMS for payment. In addition, counties enter data about administrative costs (like staff salaries) into CFMS.

CFMS data is then captured in a statewide accounting system called CORE, which tracks all state and county child welfare costs and enables these costs to be pulled into one state-level financial statement.

[4] Most county-administered child welfare systems have at least some "pass-through system" elements in their fiscal structure. Colorado is unique among county-administered states in that it has fewer pass-through elements than other such states.

Recent changes related to child welfare financing

Several recent developments have brought changes to Colorado's child welfare financing:

- **Increases in total child welfare agency expenditures between FYs 2012 and 2016.** Based on Child Welfare Financing Survey data, we know that spending increased by 8 percent during this time period. Part of this increase can be attributed to changes in the child welfare population (see below).

- **Shifts in the child welfare population.** Between 2012 and 2016, referrals for maltreatment and the number of children receiving an investigation or alternative response increased, which could have contributed to increased costs. However, over the same time period, fewer children were involved in an open case or in out-of-home placement, length of stay in care decreased, and the proportion of children in family-based settings and in unpaid kinship care increased, all of which could have reduced costs.

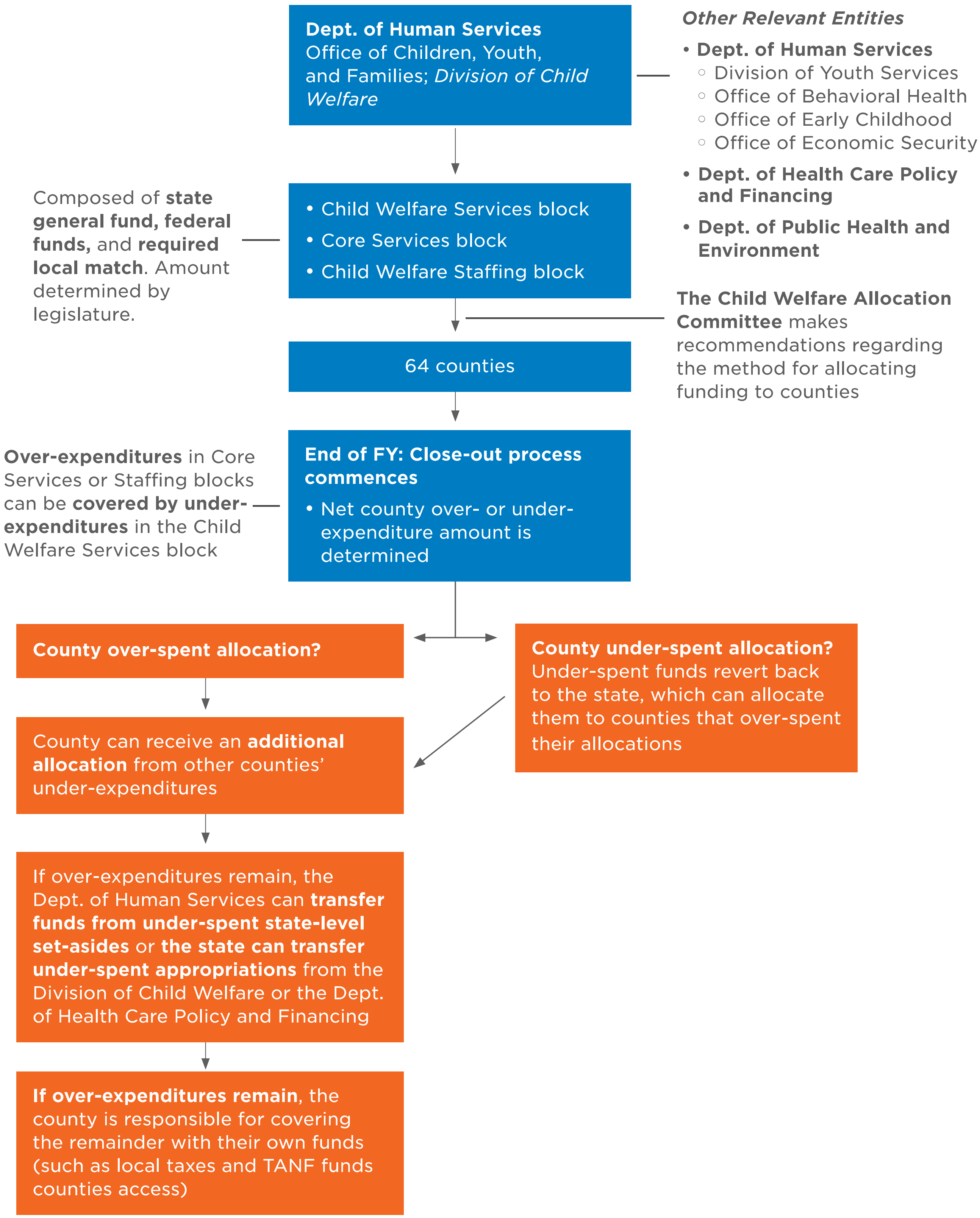
- **Enactment of the 2018 Child Welfare Reform Bill.** This state legislation (S.B. 18-254) made sweeping changes to child welfare financing. For example, it reduced the local match requirement for adoption and guardianship subsidies (from 20 percent to 10 percent) and financed those subsidies outside of the capped block allocations so the costs of the subsidies do not compete with child welfare agencies' other costs. The law also created a task force to help ensure alignment of state policies with the federal 2018 Family First Prevention Services Act (including how to incentivize certain services/placements), among other duties. It also mandated that the state hire a contractor to develop a funding model to determine the appropriate level of child welfare funding and have the funding model inform the CWAC (i.e., determining the level of funding needed instead of determining how to divide a set amount among 64 counties).

- **Provider rate increases.** In 2017, the state passed legislation requiring an analysis of the cost of congregate care placements. That legislation and the Child Welfare Reform Bill put in place requirements to gradually adjust provider rates as a result of this analysis (Smart, 2018).

- **Increased focus on prevention.** There is strong interest in prevention in the state. For instance, state legislation in 2011 allowed counties to use existing block allocations (Child Welfare Services and Core Services blocks) to fund prevention services. In addition, the governor proposed a framework for maltreatment prevention in the state in 2017, and the Child Welfare Reform Bill created a cash fund that could be used by child welfare agencies to fund prevention and intervention services.

Figure 2 shows a visual summary of the structure of child welfare agency financing in the state.

Figure 2. Colorado's child welfare financing landscape



Recommendations

Based on the information gathered through our assessment of Colorado's child welfare financing landscape, we present nine recommendations for the state to consider, some of which are based on the ideas shared by interviewees.

1. **The funding model required by the 2018 Child Welfare Reform Bill should include distribution and weighting variables based on projected population needs and demographics, as opposed to variables that are overly reliant on prior year's costs.**

   The 2018 Child Welfare Reform Bill (S.B. 18-254), as enacted, specifies that "the state department shall contract with an outside entity to develop a funding model that must be used to inform the [CWAC], the general assembly, the governor, and the state department of the appropriate level of funding required to fully meet all state and federal requirements concerning the comprehensive delivery of child welfare services." We recommend that the necessary funding level be computed using variables based on the needs of the population (e.g., child population, poverty rate) rather than variables based on prior year's costs. The current allocation formulas use a mix of variables: Some of these reflect the needs of the population, but many others are based on prior year's costs and activities (such as number of out-of-home placements). While prior year's costs/activities may reflect need, they may also reflect inefficiencies. For instance, if a county placed 10 children in congregate care last year when they could have been served appropriately in a family-based setting, using variables based on last year's congregate care placements could serve to perpetuate this inefficiency. Instead, in this scenario, we recommend basing funding levels on the cost of family-based settings for those 10 children.

   Relatedly, a focus on what funding is needed to serve the population—rather than what was spent last year—helps remedy the potential for building perverse incentives into the funding formulas over time. Given the current approach, if a county reduces their out-of-home placements in a given year, their allocation for the next year can be reduced. This is not to say that counties are consciously deciding to place more children in out-of-home care simply to increase their allocation. However, over time, this allocation structure can penalize counties that make progress in reducing the number of children in out-of-home care. Basing funding decisions more on population needs and demographics and less on prior year's costs will gradually remove any influence or bias on placement decisions from the funding model and mute any perverse incentives.

2. **The state should make structural changes to incentivize counties to maximize federal Title IV-E reimbursement.**

   In Colorado, the processing of federal reimbursement is done at the state level, even though counties play a role in documenting eligibility. This approach is efficient given that Title IV-E administration is consolidated at the state level. However, we learned there is concern that Title IV-E is not being maximized. We know that the IV-E coverage rate in Colorado is lower than the national average. Some interviewees suggested that some counties may not be coding all activities correctly or doing the necessary paperwork to maximize federal contributions for Title IV-E eligible children. One interviewee suggested that counties do not have a strong incentive to maximize federal funding sources since the county match is the same whether a child is deemed IV-E eligible or not, for example. We also know that there is interest in generally maximizing federal funding sources because Colorado relies more heavily on state and local sources than many other states, and many interviewees believe the child welfare system is under-funded.

Therefore, we recommend that the state change the local match requirements from a percentage of the total cost to the percentage of the non-federal share of the cost. As stated above, the county match requirement is generally 20 percent. This means that if a county incurs a $100 placement cost for a Title IV-E eligible child, they pay $20, Title IV-E covers $50, and the state pays the remaining $30.[5] If the child is not IV-E eligible, the county pays the same $20 and the state pays the remaining $80. There is no direct fiscal benefit to the county for properly documenting IV-E eligibility.

A structural change could be made to provide counties with an incentive. Instead of applying the county share to the full cost, the county share could be applied to just what is left over after IV-E reimbursement. For instance, if a county incurs a $100 placement cost for a Title IV-E eligible child, $50 would be reimbursed by Title IV-E. Twenty percent of the remaining $50 would be the county's responsibility ($10), and the remaining $40 would be the state's responsibility. If the child is not IV-E eligible, the county share would be 20 percent of the full cost ($20). This creates a fiscal incentive for counties to be diligent about securing and documenting IV-E eligibility.

While this recommendation encourages counties to properly document IV-E eligibility, there are also safeguards to prevent counties from inappropriately deeming a child eligible—namely, state audits of IV-E eligibility determinations. In addition, under the current structure and our recommended structure, there is an incentive to place children in less expensive placements (including kinship care placements, which do not receive payment through the child welfare agency budget). Under our recommendation, this incentive to place children in less expensive placements may be stronger for children who are not IV-E eligible since the county will be responsible for a larger share of their costs. While counties are unlikely to make placement decisions based on this fiscal incentive, the state should consider safeguards to prevent any unintended consequences. For example, the state could monitor any disparities in placement type by IV-E eligibility status.

While our recommended approach would reduce the county share of expenses for IV-E eligible children, it would increase the state share. The increased state financial requirement could be partially offset by an overall improvement in the IV-E coverage rate, which would yield benefits in terms of increased IV-E reimbursements for administrative and training costs that accrue to the state. However, we suggest that before implementing this recommendation, the state should audit IV-E eligibility determinations to understand why the IV-E coverage rates are low (see Recommendation 3) and develop a forecasting model to understand how this change would affect the state share/state general fund.

This is just one idea that could help improve Colorado's IV-E reimbursement yields. However, it is important to consider the wide range of services and activities that IV-E supports and how IV-E reimbursement might be improved for each. For example, changing how the county share is applied could work to improve IV-E eligibility rates for foster care placements as Colorado prepares to exit its current Title IV-E waiver demonstration and revert to conventional claiming methodologies for foster care maintenance, administration, and training costs. However, different approaches may be desirable for the implementation of other aspects of Title IV-E, especially given the passage of the Family First Act. For instance, to maximize Title IV-E reimbursement for prevention services under Family First, the state may need to provide support to counties around evaluating existing programs or preparing for evaluations of newly adapted programs. Counties may also need help identifying prevention programs that meet the criteria described in the Family First Act. The state and counties could also consider how

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[5] Title IV-E maintenance payments are reimbursed at the state's Federal Medical Assistance Percentage (FMAP). Colorado's FMAP is 50 percent.

to define a "candidate for foster care" that would be eligible for IV-E reimbursement under the new Family First prevention program in a way that will maximize federal reimbursement.

3. **DCW should conduct a thorough review of Title IV-E claiming processes to identify areas to increase IV-E reimbursement.**

Given the concerns around the maximization of federal sources, including Title IV-E (as described above)—as well as concerns about whether all IV-E eligible costs are being reimbursed at the maximum possible rate—we recommend a comprehensive audit of eligibility determinations and a detailed examination of how activities are submitted for IV-E reimbursement.

- **Review why children were determined not to be IV-E eligible.** Understanding why children are not deemed IV-E eligible will identify any administrative reasons that could be remedied (e.g., the child would have been eligible if only the courts had used appropriate language in paperwork). In exploring this topic, one of the issues the state may encounter is that children in the custody of the child welfare agency are ineligible for IV-E when placed in unlicensed kinship care, and those placements may not be getting any foster care maintenance payment at all. Instead, those placements may only receive TANF child-only payments financed by the Office of Economic Security, not the child welfare agency. In fact, the increase in these unpaid kinship placements is likely the most significant reason the IV-E foster care coverage rate is low, according to interviewees. It will be important to consider these cases because moving these children into IV-E eligible placements (by licensing the kinship placements, for instance) may or may not be possible or ideal for the child/family, and may bring costs funded by the Office of Economic Security into the child welfare agency budget (which may or may not be desirable).

  These suggested reviews would require the commitment of significant staff time. One way to make these reviews more manageable is to start with a sample and then expand it if issues are found or suspected. For instance, the state could identify 100 children deemed ineligible for IV-E and examine why they were deemed ineligible. If that sample suggests errors that could have been remedied to make the child eligible, then the state may want to expand the examination through a contract with a third party to conduct a more complete review.

  These reviews would also allow the state to understand the upper limit of IV-E eligibility, which could aid goal-setting for improving the IV-E coverage rate and temper any expectations of increasing the coverage rate beyond that point.

- **Review how activities and associated costs are compiled for IV-E reimbursement.** We also recommend that DCW convene budget staff to review how activities are submitted for IV-E reimbursement. This review could examine whether administrative costs for candidates for foster care are submitted consistently for IV-E reimbursement, and include an audit to ensure eligible activities are submitted for the highest possible rate (e.g., all eligible training costs are being claimed at 75 percent). To complete this review, the state could randomly select a few recent quarters of IV-E claims and reconstruct the administrative and training claims as if they were being submitted for the first time (with care being taken to ensure that the claim is constructed in a manner consistent with the state's cost allocation plan and procedures). For this review, we suggest using staff other than those who originally prepared the claim.

  We suggest that this review should also include an analysis of the assumptions and data used for the joint DCW/DYS Title IV-E administrative claim to see whether the state would obtain greater IV-E reimbursement if a different process were used to construct the claim. Through this project, we learned that the IV-E coverage rate for youth involved with DYS is much lower than the coverage rate for children involved with child welfare. This means that Colorado *could* receive a greater federal Title IV-E reimbursement if the DCW and DYS Title IV-E administrative claims were based on different sets of assumptions. For example, imagine there are 80 children involved with child welfare and 50 are IV-E eligible (63 percent coverage rate), and there are 20 children known to DYS and 4 are IV-E eligible (20 percent coverage rate). The aggregate coverage rate for children known to child welfare and DYS combined is 54 percent (100 children, 54 eligible). Figure 3 shows how the IV-E reimbursement amount could differ given different coverage rates.

Figure 3. Hypothetical scenario comparing approaches to the joint DCW/DYS Title IV-E claim

Steps	Combined Assumptions	Separate Assumptions	
		DCW	DYS
Determine administrative costs for Title IV-E claim (e.g., $100,000)	$100,000	$85,000	$15,000
Apply allowable percentage of caseworker activities (assuming the percentage is the same for DCW and DYS for ease of illustration)	50% of $100,000 = $50,000	50% of $85,000 = $42,500	50% of $15,000 = $7,500
Apply coverage rate	54% of $50,000 = $27,000	63% of $42,500 = $26,775	20% of $7,500 = $1,500
Apply IV-E administrative reimbursement rate of 50%	50% of $27,000 = **$13,500**	50% of $26,775 = **$13,388**	50% of $1,500 = **$750**
TOTAL IV-E administrative reimbursement	$13,500	$14,138	

As a result of this hypothetical analysis, budget/accounting staff in DCW and DYS should pull data on the IV-E coverage rate for children known to child welfare and those known to DYS; the IV-E administrative claim amount, by division; and the allowable percentage of caseworker activities applied to the IV-E claim, by division. Using these real data, staff should calculate what the IV-E administrative reimbursement would be if the administrative claim was based on one set of assumptions (i.e., costs, IV-E coverage rate, and allowable percentage of caseworker activities aggregated across both divisions) or based on different assumptions (i.e., these data points by division). Ideally, we recommend analyzing data over the last several years to see which approach routinely maximizes IV-E reimbursement.

Finally, we also suggest a review of whether IV-E allowable activities performed by third party public entities (e.g., other agencies) on behalf of IV-E eligible children are being submitted for IV-E reimbursement. If they are not, DCW could enter into an interagency agreement with that entity that stipulates the activities that would be reimbursed. This arrangement would need to be included in the state's IV-E cost allocation plan and receive federal approval.

After completing the reviews, the state can consider how to remedy any issues that have been identified by developing a technical assistance/training plan for counties or engaging outside entities to assist with claiming processes. For instance, if these reviews show that claiming for candidates for foster care can be improved, the state could consider holding trainings on this issue. These trainings could take place alongside trainings on the new process for identifying and claiming prevention program candidates under the Family First Act. These efforts could be coupled with incentives for counties to maximize IV-E reimbursement (see Recommendation 2).

4. DCW, HCPF, Regional Accountable Entities (RAEs), and service providers should enhance their collaboration and communication to address Medicaid challenges.

Through this project, we learned about many challenges in accessing Medicaid-eligible services for the child welfare population, including a lack of Medicaid providers, wait lists, and service denials. In addition, there has been a reduction in child welfare agency spending of Medicaid. While the child welfare agency pays the Medicaid match only for certain types of services, some interviewees noted that the decrease in Medicaid spending by the child welfare agency is due to the increasing use of Core Services dollars for Medicaid-eligible services. Therefore, there is interest in maximizing the use of Medicaid. In fact, the 2018 Child Welfare Reform Bill charged a newly developed task force with working to maximize Medicaid.

To facilitate the state's maximization efforts, we suggest that DCW create a regular forum for ongoing conversations with HCPF, RAEs, and providers. These forums would allow stakeholders to discuss the following suggestions for maximizing Medicaid, many of which were shared by interviewees:

- Revisit performance requirements in managed care organization contracts to ensure that they include actionable and binding provisions that guarantee local and timely access to high-efficacy services for children and families involved with the child welfare system across *all* areas of the state.
- Discuss providers' challenges in becoming Medicaid eligible, and potential solutions to those challenges.
- Strategize how Medicaid waivers could be used to provide more Medicaid-eligible services to children known to the child welfare system.
- Ensure all stakeholders understand the definition of medical necessity and the process HCPF uses to determine medical necessity. If a service is not deemed medically necessary, Medicaid cannot be used, and the service must be financed through another source, such as child welfare block allocations. We heard that there is variation across the state in the determination of medical necessity, so these conversations can help promote understanding and consistency.
- Discuss revising the Medicaid state plan to promote the reimbursement of more services.

This recommendation serves as a first step toward helping the state maximize Medicaid. Future steps could include a deep analysis of how specific Medicaid-eligible services have been paid for in the past, and if not through Medicaid, why not. Such instances could be flagged in the Trails system for examination. Although this approach would be resource-intensive, it could help the state better understand how to maximize Medicaid.

5. **The state should incorporate incentives that encourage desired practices and outcomes into the funding model.**

Given concerns around perverse incentives in the current allocation formulas (described above) and recommendations from interviewees to use the funding formulas to incentivize desired outcomes, we suggest that the state incorporate incentives into the funding model. We present three actions for implementing this recommendation.

- First, we recommend that DCW (alongside the governor, legislature, and other stakeholders) identify child welfare policy and practice priorities and build consensus around the importance of the priorities. Because interviewees reported that the diversity of the counties makes it challenging to determine what to prioritize, we recommend starting with this consensus-building effort.

- Second, we suggest that the state ensures that the processes used to make funding decisions do not run counter to the identified priority(ies). For example, the funding model that is developed by an outside contractor to estimate needed funding levels (per the 2018 Child Welfare Reform Bill) should align with the priorities. For instance, if a priority is to reduce congregate care, eliminate variables that predict county need based on the prior year's congregate care costs (see Recommendation 1).

- Third, we recommend that the state implement a mechanism that incentivizes counties to make progress toward the identified priority(ies). One example is to change the county match requirement for certain costs. For instance, if a priority is to reduce congregate care, the state could increase the county share of congregate care placement costs from 20 percent to 30 percent. (Note that we use congregate care for ease of illustration only. Many stakeholders have concerns about de-incentivizing the use of congregate care in this manner, given that the availability of family-based settings is limited in many areas of the state, and the Family First Act will disincentivize congregate care placements, once implemented.) There is recent precedent for this type of mechanism: In the 2018 Child Welfare Reform Bill, the county share of adoption and guardianship subsidies was reduced from 20 percent to 10 percent.

  Another approach is to have DCW request an appropriation for county needs based on the funding model, and also request an additional pool of "incentive dollars" from the state. DCW could provide a portion of these incentive dollars to the counties that meet pre-defined targets. The pre-defined targets would need to be carefully developed (for instance, targets based on a percentage of children in care achieving a particular outcome could be very difficult for smaller counties to meet if they only have a handful of children each year and one does not achieve the outcome). Interviewees told us that in the past, incentive dollars were held out from the base allocations, which was unpopular because it reduced each county's allocation. Therefore, we recommend a separate pool of incentive dollars.

  When developing a method to incentivize counties on identified priorities, the state should consider incentivizing outputs *and* outcomes. Changing county match requirements for certain services/activities is likely to work best when incentivizing certain outputs (such as placement type and timeliness of activities) since the match requirements are tied to particular services/activities. While certain outputs are associated with better outcomes, a pool of incentive dollars could also be used to directly incentivize outcomes (such as rates of reunification and reduced re-allegations of maltreatment).

This recommendation for incorporating incentives aligns with language in the 2018 Child Welfare Reform Bill around how the funding allocation formulas should be outcome driven and consistent with federal and state goals. It also supports the bill's provision to develop a task force that is in part responsible for developing a method to incentivize counties for services and placements that align with a child's needs per the Family First Act

6. **The state should develop a dedicated block for child abuse and neglect prevention.**

The state has a strong focus on prevention, and child welfare agencies are able to use their block allocation funding for preventive services. However, interviewees noted that it is difficult to pay for prevention-related activities given the need to use the block allocations to fund services/activities for more urgent needs. As a result, there is often little left over for prevention. In addition, there is concern about sustaining Title IV-E waiver interventions (including those focused on prevention) after the waiver ends in 2019, especially since it is unclear whether the state will begin implementation of the Family First Act prevention program in October 2019.

Therefore, we recommend the development of a dedicated block for prevention. This separate block could consolidate funding for prevention that currently comes from a variety of sources and programs (such as Core Services, the Promoting Safe and Stable Families program under Title IV-B, Family First Act prevention dollars [once implemented], the Child Welfare Prevention and Intervention Services Cash Fund developed under the 2018 Child Welfare Reform Bill, and more). However, given stakeholders' concerns about the difficulty of focusing on prevention with current resources, we know that, for example, to simply set aside a portion of Core Services dollars for prevention activities would stress child welfare agency budgets. Therefore, additional funds would be needed for this dedicated block.

These prevention funds could be reserved for primary prevention activities (those to prevent maltreatment from occurring) as well as for efforts to prevent entry or re-entry into care. We are not suggesting that the child welfare agency take over all prevention efforts that are being undertaken by a diverse array of agencies and divisions in the state (see above). Rather, we recommend that a structural change be made to incentivize child welfare agencies to do more around prevention when it is appropriate for them to do so in the context of wider community efforts.

When we presented this recommendation to stakeholders, they expressed some concerns. First, there is concern that having a dedicated block for prevention, instead of paying for prevention within the current block allocations, will restrict counties' flexibility and make it more difficult for them to nimbly address the needs of their population. There was also concern that a dedicated block for prevention, if funded, would be vulnerable to future cuts since it is not a mandated service. Keeping prevention within the current blocks may better protect the funding that can be used for prevention. One alternative to a dedicated prevention block is to incentivize a focus on prevention in other ways within the current block structure (for instance, see Recommendation 5). Another alternative is to develop an organizational structure or coordinating entity with robust knowledge of the various prevention funding streams used in the state and how they can be maximized by the various partners working on prevention efforts. In fact, this coordination would be valuable even if a dedicated prevention block is developed. Yet another alternative is to focus the use of the new Child Welfare Prevention and Intervention Services Cash Fund developed under the 2018 Child Welfare Reform Bill on prevention. The use of this cash fund primarily for prevention can take resource pressure off of the Core Services block and serve as a launchpad for implementation of family preservation programs under the Family First Act.

7. DCW should provide trainings to legal stakeholders (such as judges and attorneys).

As described above, child welfare agency staff are not the sole decision makers around placements and services. The child welfare agency makes recommendations to the court, but judges ultimately make the decisions—decisions that can affect financing.

Therefore, to better meet its goals for children and families, the child welfare agency should train judicial stakeholders around the research base for child welfare priorities (such as the reduction of congregate care to promote more positive outcomes for children and reduce costs) and the language needed for judicial determinations for IV-E eligibility (to ensure children are documented as IV-E eligible, when applicable). DCW could lead these trainings or could help form a coalition to lead these trainings. For instance, we are aware of trainings led by the Court Improvement Program around the Family First Act and other planned trainings for legal stakeholders; these might be good pre-existing venues for trainings on these additional topics.

Based on our prior work with legal stakeholders, we make the following recommendations (Jordan & Murphy, 2018):

- Identify judicial champions or organizations that can help strategize the best way to approach legal stakeholders, frame the message, and enhance take-up of the learning.
- Hold trainings that allow ample time for discussion.
- Ensure the information is presented clearly and includes recommendations/action steps.

8. DCW should promote consistency in Trails data.

Through our interviews, we learned that there is variation among counties in how they enter information into Trails. For example, some counties enter all services or activities for a child or family regardless of whether those services are funded by the child welfare agency, which could inflate county numbers when estimating funding needs. In addition, definitions of terms vary by county. While several interviewees noted that Trails data are generally accepted, there appears to be room to improve accuracy given that the data are used to inform funding decisions.

Therefore, we recommend that DCW (1) hold ongoing trainings about Trails to promote uniformity in how counties understand the data fields and enter their data, and (2) review the Trails system to make sure all terms and fields are well defined, specifically those fields used to make funding decisions. The more accurate the Trails data are, the better the funding model will work. It may be most prudent to wait to implement this recommendation until the current Trails modernization effort is completed so that training and clarifications are based on the final system.

9. DCW should provide support to counties to promote efficiency and reduce costs.

As stated above, Colorado's child welfare agency is state supervised, and county administered. There are 64 counties, some of which are very small and rural. We heard from interviewees that some small counties have trouble identifying service providers or placements. We also learned that some counties have successfully collaborated to co-fund positions in the past (e.g., combining funding to hire a staff person who works across two or more counties). However, interviewees noted that some counties may be reluctant to pursue this sort of collaboration in part because they are unsure of how to do it.

Therefore, we offer two ideas for how DCW can provide support to counties to promote efficiency and reduce costs:

- **Instead of having each county child welfare agency independently identify and contract with service providers, the state could coordinate a private, regional service network.** This would help streamline the identification and use of providers and promote better access for children and families served by the child welfare system. For example, a regionalized structure could aid counties in accessing more preventive services that will be reimbursable under the Family First Act, and in identifying providers that accept Medicaid—both of which can help reduce costs. With this model, counties would pay for services the same way they do now, but would have less administrative burden and access a more robust network of providers. Depending on how the regions are defined, one challenge with this approach could be that some regions would still have relatively few providers, or have providers that are clustered in one area of the region. Therefore, the contracts arranged with the providers should make it clear that the provider is expected to serve the entire region.

- **DCW could provide technical assistance and support to counties that are interested in pooling resources to co-fund staff, services, placements, etc.** This support could be in the form of written materials, forums, or individual meetings with counties. Regional service networks (above) could provide a structure for promoting stronger inter-county collaborations to maximize existing resources. For example, Boulder County has a Crisis Response Team service model that they have offered to provide to other counties. The state could support counties in arranging this cross-county collaboration.

Conclusion

While this report focuses on Colorado's child welfare financing landscape and offers recommendations for how the state can use different or additional funding sources or strategies, stakeholders in other states could also benefit from these takeaways. For example, many states are looking for ways to maximize federal funding streams, and there is national interest in prevention and a growing desire to incentivize positive outcomes. While every state is unique, Colorado's child welfare financing structure and the recommendations we offer could provide ideas to other states (including those that are state-administered) seeking to improve the way they finance services and supports for children and families known to the child welfare system.

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Appendix A

The Child Welfare Financing Survey is a national survey that collects information on child welfare agency expenditures for child welfare-related services and supports. The most recent data collected for State Fiscal Year (SFY) 2016 was released in December 2018. Over the course of this project, Colorado updated the Child Welfare Financing Survey data it had previously provided. As a result, some data presented in this report do not align with data presented in Child Welfare Financing Survey products for SFY 2016.

Colorado provided this statement explaining the revisions:

At the time of the original survey, the Colorado Department of Human Services (CDHS) Division of Child Welfare's Research, Analysis, & Data (RAD) Unit was experiencing more than a 50 percent personnel vacancy rate. Several months after the request to complete the survey was received, in an effort to meet the deadline, members of the CDHS accounting division submitted the data that was available; however, due to the aforementioned staff shortages neither the RAD Unit nor the Division of Child Welfare's Finance Unit reviewed or verified the numbers. Months later, CDHS was able to rectify this and submitted revised data.

It is understood by all of the CDHS teams involved in this survey that, going forward, this survey should be treated the same as any other mandatory survey and it will go through the same levels of review as do other federal reports to ensure accuracy and that deadlines are met.

See below for key information from the state's revised data submission:

Funding Source	SFY 2016 Expenditures	
	Originally Reported	Revised
Title IV-E		
IV-E Foster Care Program	$20,597,696	$10,017,495
IV-E Adoption Program	$16,306,443	$16,391,269
IV-E Guardianship Program	$605,833	$632,346
Chafee/Education and Training Vouchers	$1,672,379	$2,606,749
IV-E Waiver	$51,451,460	$65,392,413
Total Title IV-E	$90,633,811	$95,040,272
Title IV-B	$6,854,182	$7,345,815
Medicaid	$4,240,076	$4,240,076
Temporary Assistance for Needy Families	$0	$0
Social Services Block Grant	$23,900,382	$25,941,079

Funding Source	SFY 2016 Expenditures	
	Originally Reported	Revised
Other federal funds	$534,738	$9,618,624
State funds	$179,163,285	$249,890,766
Local funds	$62,000,862	$83,063,625
Total expenditures	$367,327,337	$475,140,258

The state also updated information about its Title IV-E coverage rates:

Title IV-E Coverage Rate Type	SFY 2016 Coverage Rate	
	Originally Reported	Revised
Foster care—by child[1]	28%	30%
Foster care—by care day[2]	53%	34%
Adoption[3]	70%	69%
Guardianship[4]	77%	75%

[1] The percentage of children in out-of-home care for whom the state received federal reimbursement through Title IV-E for foster care maintenance payments.
[2] The percentage of out-of-home care days for which the state received federal reimbursement through Title IV-E for foster care maintenance payments. Care-days is defined as the number of days a child spends in out-of-home care, summed across children in out-of-home care. Care-days is sometimes referred to as bed-days.
[3] The percentage of children receiving an adoption assistance payment that were supported by Title IV-E.
[4] The percentage of children receiving a guardianship assistance payment that were supported by Title IV-E.

Please see the Child Welfare Financing Survey resources on the Child Trends website for more information about the survey instrument and these funding sources (https://www.childtrends.org/research/research-by-topic/child-welfare-financing-survey-sfy-2016).