EXECUTIVE SUMMARY

Child Welfare Financing SFY 2018:

A survey of federal, state, and local expenditures

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Child TRENDS

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Executive Summary

Child welfare agencies across the United States are charged with protecting and promoting the welfare of children and youth who are at risk of, or who have been victims of, maltreatment. State and local child welfare agencies rely on multiple funding streams to administer programs and services. While many funding sources are available to child welfare agencies, each has its own unique purposes, eligibility requirements, and limitations, creating a complex financing structure that is challenging to understand and administer. Each state's unique funding composition determines what services are available to children and families and the way in which child welfare agencies operate.

Child Trends conducted its 11th national survey of child welfare agency expenditures to promote an understanding among various child welfare stakeholders of the challenges and opportunities that agencies face in serving children and families. This survey asked questions similar to those from previous iterations of the survey to facilitate the analysis of trends, but also added several new questions that focus on how child welfare agencies spend their funds.

The full report details survey responses and findings. In state fiscal year (SFY) 2018 (July 2017 to June 2018 for most states), state and local child welfare agencies spent $33.0 billion using a combination of federal, state, local, and other funds. This represents a modest increase in spending over the past decade. As with previous analyses, we continue to find that most child welfare agency funding comes from state and local (as opposed to federal) sources, and that almost half of child welfare agency expenditures are spent on out-of-home placements. States continue to spend a relatively small proportion of their dollars on prevention, especially on prevention services that focus on mental health and substance abuse.

While the report captures data from SFY 2018, the survey was completed in 2019 and 2020. This past year presented both new challenges and opportunities for change within the child welfare system. Three key issues from 2020 may impact ongoing shifts to the child welfare financing landscape and are discussed throughout the report: the COVID-19 pandemic, renewed and necessary mainstream attention to racial equity, and early implementation of the Family First Prevention Services Act (Family First Act). We recognize the added burden to states in responding to our survey while simultaneously adapting to serving and protecting children and families during the COVID-19 pandemic. We appreciate their generosity with their time despite these added stressors and even more limited resources.

In reviewing the data presented in the report, we encourage readers to consider several questions:

- Are child welfare agencies getting their desired outcomes for all children and families? If not, which funding sources can finance the needed changes?
- Are we missing resources that could be available to our agency?
- Why aren't we using particular funding streams?
- Does our spending reflect our priorities and values?
- How does the way we finance child welfare perpetuate racial inequity and disproportionality in our system?
- How can we protect against the negative impacts of the COVID-19 pandemic?

- How can we use the Family First Act and other recent legislation to maximize opportunities to finance child welfare differently?

The report and this executive summary are part of an array of resources compiled from the survey's findings, which can be found on the Child Trends website. These resources include state-specific resources and detailed information on the following funding sources used by child welfare agencies:

- Title IV-E
- Title IV-B
- Temporary Assistance for Needy Families
- Social Services Block Grant
- Medicaid
- Other Federal Funds
- State & Local Funds

Key findings

Total expenditures

In keeping with past surveys, the report examines child welfare agency expenditures from a variety of sources for SFY 2018 and analyzes changes over time (after adjusting for inflation).

- **Total child welfare agency expenditures increased by 6 percent from SFY 2016 to SFY 2018, but only by 2 percent over the past decade.** Child welfare agencies use federal, state, local, and other funds to finance their work. Increases in both federal and state/local spending contributed to the uptick in total expenditures since SFY 2016. An 11 percent increase in Title IV-E expenditures drove the increase in total spending over the past decade. The Title IV-E increase outweighed decreases across other federal sources and state/local expenditures.

- **Child welfare agency expenditure trends and financing sources vary greatly among states.** For example, 28 states reported an increase in total spending from SFY 2016 to 2018 and 11 states reported a decrease. National findings mask extensive state variation in all aspects of child welfare financing, including how expenditures have changed over time, the percentage of expenditures sourced from federal and state/local funds, the mix of federal sources used, and how the dollars are spent.

- **Expenditures from some federal funding streams decreased substantially over the past decade.** Title IV-B and Medicaid spending by child welfare agencies decreased by 26 and 18 percent over the past decade, respectively. While the federal funding structure is complex, drivers of these decreases for IV-B and Medicaid include (1) a reduction in Title IV-B funds available to child welfare agencies due to sequestration and relatively flat appropriation levels that lose value over time, and (2) changes in how and whether child welfare agencies access Medicaid to pay for Medicaid-covered services for children involved in the child welfare system.

Sequestration, or across-the-board spending cuts, was a fiscal policy enacted by Congress in 2011. It was designed to automatically reduce federal spending starting in 2013 in the event Congress failed to pass a deficit-reducing budget by a specified time.

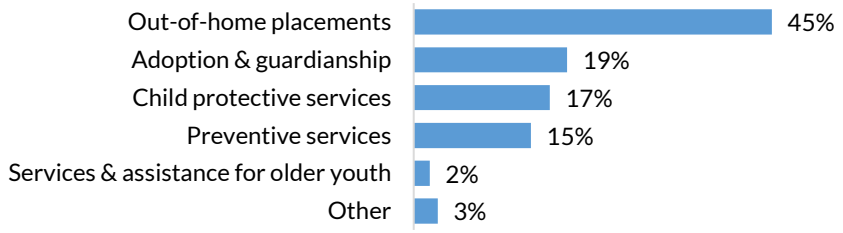
- **Over half of child welfare agency spending continues to be financed by state and local sources.** In SFY 2018, 56 percent of all dollars spent by child welfare agencies came from state and local (as opposed to federal) sources. During the past decade, these proportions have held steady.

Use of funds

We asked states how child welfare agencies used their funds. Among the key findings:

- **As in the SFY 2014 and 2016 surveys, child welfare agencies used nearly half of all federal and state/local expenditures to finance the costs of out-of-home placements, with smaller proportions spent on other services.** Adoption and legal guardianship, child protective services, and in-home preventive services each comprised 15 to 19 percent of total expenditures. A small percentage (2%) was used for services and assistance for older youth. In general, federal and state/local funds are used in similar ways. However, state/local funds were used more for prevention and child protective services and less for adoption and legal guardianship, relative to federal dollars.

Proportion of total expenditures on categories of services (41 states with sufficient data)



Note: See page 48 for definitions of each of these categories.

- **Less child welfare agency prevention spending is focused on substance abuse and mental health services than on other preventive services.** Most child welfare agency prevention expenditures are spent on skill-based programs for parents and caseworker visits and administration (including information and referral services). Much less is spent on financial supports (such as assistance with transportation, housing, child care, and more), substance abuse prevention and treatment, and mental health services. While child welfare agencies may not focus their prevention spending on these programs, it is possible that they partner with other agencies (such as health departments) that fund such services.

- **Few states were able to report information about their child welfare agency spending on evidence-based practices (EBPs).** This mirrors our finding from the SFY 2016 survey. States' inability to produce data on spending on EBPs will become significant with the implementation of the Family First Act because that law requires states to track spending on evidence-based and promising practices in certain circumstances.

Role of recent legislation and other policy changes

Several shifts in policy at the federal level affect child welfare agency expenditures.

- ***Sequestration continues to impact federal child welfare financing sources***. Of the primary federal child welfare funding sources, three (Title IV-E, Medicaid, and Temporary Assistance for Needy Families, or TANF) were protected from sequestration and two (Title IV-B and the

Social Services Block Grant, or SSBG) were affected. Title IV-B spending by child welfare agencies decreased by 26 percent over the past decade, partly due to sequestration. SSBG spending also decreased during the past decade, but only by 2 percent, which is similarly explained by sequestration since FFY 2013.

- ***Implementation of the Fostering Connections to Success and Increasing Adoptions Act of 2008 continues to influence Title IV-E expenditures.*** As the eligibility for federal adoption assistance broadened, the overall funding level grew. The law also gave states the option to use Title IV-E for guardianship assistance payments. There was a 4 percent increase in adoption assistance payments in SFY 2018 over SFY 2016, and a 26 percent increase in Guardianship Assistance Program (i.e., GAP or KinGAP) expenditures over the same period. The Fostering Connections Act also allowed the use of Title IV-E to cover the costs for youth ages 18 to 21 who remain in foster care (contingent on other requirements). This extended care option may have also contributed to the 11 percent increase in total Title IV-E expenditures over the decade.

- ***The expiration of federal Title IV-E waivers at the end of FFY 2019 meant that at least an estimated $477 million in waiver expenditures will need to be covered in new ways in the future.*** The 26 states that reported waiver expenditures for SFY 2018 will no longer be able to utilize the Title IV-E waiver to cover costs for non-Title IV-E eligible children and non-IV-E allowable activities. Agencies may turn to other federal funding sources to cover these costs, such as the Title IV-E prevention program through the Family First Act, which states were able to implement starting October 1, 2019. Congress enacted The Family First Transition Act (Transition Act) in 2019 to, in part, ease the fiscal implications of the end of the waiver in waiver states, allowing decreases in federal funding to happen more gradually in FFYs 2020 and 2021.

The **Child Welfare Waiver Demonstration authority** provided states with a time-limited opportunity to use federal funds more flexibly through Title IV-E waiver projects to test innovative approaches to child welfare service delivery and financing. Through this authority, states could design and demonstrate a wide range of approaches to reform child welfare and improve outcomes in the areas of safety, permanency, and well-being. States that accepted waivers did not receive additional funds over what they would have received without the waiver; they used their waiver dollars for traditional IV-E services and populations, in addition to innovative services and new populations. On the SFY 2018 survey, 26 states reported waiver expenditures for projects in various stages of implementation. Waiver authority expired on Sept. 30, 2019.

- ***The Family First Act and, to a smaller extent, the Transition Act will affect child welfare agency expenditures in the coming years.*** These two acts will reshape future child welfare financing structures by expanding the categories of services eligible for federal reimbursement, among other things. While this report was released after Family First Act implementation began, the report presents pre-implementation data from SFY 2018. The report presenting SFY 2020 findings will begin to show initial impacts of this legislation.

- ***Legislation passed in response to the pandemic will affect child welfare financing in the short term.*** Again, this survey presents data from SFY 2018, before the pandemic began. Recent legislation passed in response to the pandemic made changes to child welfare financing, including increased federal reimbursement rates for certain types of child welfare agency expenditures, additional funding, enhanced flexibility, and more. These changes could alter the

way that child welfare is financed over the short term, such as the percentage of child welfare agency expenditures coming from federal vs. state and local sources.

Looking forward

The Child Welfare Financing SFY 2018 report presents national and state-level data on how much child welfare agencies spend, which funding sources they use, and how they spend available funds. Stakeholders can use the information presented in the report to start a line of inquiry to understand the story behind the data and uncover ways that child welfare financing can provide a robust, effective array of services and supports to improve outcomes for children and families. In reviewing the data presented in the report, we encourage readers to consider several questions:

- **Are child welfare agencies getting desired outcomes for all children and families?** Are we examining outcomes by demographics? If we are not getting the outcomes we want, what factors need to improve? Which funding sources could finance the services and activities we need?
- **Are we missing resources that could be available to our agency?** For instance, does our Title IV-E foster care coverage rate truly reflect the percentage of children in care who are eligible for IV-E or can we take actions to more fully document eligibility and maximize our Title IV-E resources?
- **Why aren't we using particular funding streams (e.g., TANF or SSBG)?** Is this because our state has made a strategic decision to use those funds in other ways, or is it because the child welfare agency has not been present during discussions about the use of these funds?
- **Does our spending reflect our priorities and values?** For instance, does the balance between spending on out-of-home care and prevention make sense for our state?
- **How does the way we finance child welfare perpetuate racial inequity and disproportionality in our system?** What actions can we take to undo the systems and structures that support the status quo? Is our state using funds in a way that best supports children and families of color?
- **How can we protect against the negative impacts of the COVID-19 pandemic?** How can we leverage legislative changes in response to the pandemic (such as increased federal reimbursement and flexibility) to better meet the needs of the children and families we serve?
- **How can we use the Family First Act and other recent legislation to maximize opportunities to finance child welfare differently?** How might new legislation present new opportunities for us?

We hope that the data in the report and accompanying products spark conversations about these and other topics, and serve as a catalyst to improve how child welfare agencies serve children and families.

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