

# The Child Welfare Financing Structure

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The current child welfare financing structure is a complex system consisting of various federal, state, and local funding streams.<sup>1</sup> Federal funds account for approximately half of states' total reported spending for child welfare services,<sup>2</sup> and come from more than 30 programs.<sup>3</sup>

***A Patchwork of Funding.*** Although the Department of Health and Human Services (HHS) is the principal federal agency that funds child welfare services, eight other federal agencies also fund programs related to child welfare. Funding is provided to states, community-based organizations, academic institutions, and other grantees. In some cases, states (or local grantees) must match federal funding with their own spending. Some funds may be used for purposes other than child welfare, and may be distributed to multiple agencies within a state. Finally, each funding source has its own expenditure and other data reporting requirements. Given this “patchwork” of funding sources upon which states rely, it is difficult to accurately determine how much states spend for child welfare services.

***The Major Federal Funding Streams.*** This paper focuses on the major federal child welfare funding streams, for which expenditure data are more complete (but, in some cases, still far from exact). [Figure 1](#) shows the major federal funding sources and their share of total spending in state fiscal year (SFY) 2000.<sup>4</sup> Titles IV-B and IV-E of the Social Security Act are the largest dedicated child welfare funding streams (that is, funds specifically designated for child welfare services). In SFY 2000, these funds accounted for about 53 percent of total federal child welfare spending.<sup>5</sup> [Figure 2](#) describes the programs within Titles IV-B and IV-E, including their federal fiscal year (FY) 2003 funding levels.<sup>6</sup>

In addition to these dedicated child welfare funds, states use three major non-dedicated funding streams (that is, funds that are not specifically designated for, but which may be used for, child welfare services). These are the Social Services Block Grant (SSBG), the Temporary Assistance for Needy Families (TANF) block grant, and Medicaid. Together, these programs accounted for 42 percent of total federal child welfare spending in SFY 2000.<sup>7</sup>

Finally, other federal funds accounted for 5 percent of total spending. (These include Supplemental Security Income, or SSI, and Title II Survivors Insurance Benefits, which together accounted for 1 percent of total spending; and various other non-dedicated programs.)<sup>8</sup>

## ***Dedicated Child Welfare Funding***<sup>9</sup>

### **Title IV-B**

As shown in [Figure 1](#), IV-B accounted for 5 percent of all federal child welfare spending in SFY 2000.

With the exception of the relatively small Adoption Incentive Payment program described below, the programs authorized by Title IV-B are the most flexible source of dedicated child welfare funds. While states must match Title IV-B funds with a 25 percent share of nonfederal funding, the law does not impose any federal income or other eligibility restrictions on which families may be served with these funds.

**Subpart 1.** Subpart 1 of Title IV-B, known as the Child Welfare Services Program, authorizes matching grants to states for a broad array of child welfare services. Subpart 1 funding is discretionary, meaning that actual funding levels are determined by the annual appropriations process. The FY 2003 appropriation is \$290 million.

**Subpart 2.** Funding under Subpart 2 of Title IV-B, Promoting Safe and Stable Families, may be used for four broad types of services: (1) prevention, (2) family preservation, (3) time-limited family reunification, and (4) adoption promotion and support.

This program is a capped state entitlement, meaning that states are entitled to their specified share of annual funding (minus certain set-asides for Native American tribes and other purposes). The mandatory funding floor is currently \$305 million. Subpart 2 also has a discretionary component, which is currently authorized at \$200 million, but is subject to the annual appropriations process. (Thus, funding for Subpart 2 may not fall below \$305 million, but also may not exceed \$505 million.) The FY 2003 appropriation is \$405 million.

### **Title IV-E**

As shown in [Figure 1](#), Title IV-E represents the largest source of child welfare funding, accounting for 48 percent of all federal child welfare spending in SFY 2000. [Figure 3](#) illustrates the growth in Title IV-E over time, compared to relatively stable Title IV-B funding levels.<sup>10</sup>

**Foster Care.** The Title IV-E Foster Care program is a permanently authorized, open-ended entitlement program. This means that states may claim federal reimbursement for every eligible child who is placed in a licensed foster home or institution. (We note that Native American tribes that administer their own child welfare systems are not eligible for IV-E reimbursements.)

Eligibility for IV-E Foster Care reimbursement is based on each state's old Aid to Families with Dependent Children (AFDC) income need standards. Specifically, states receive federal IV-E funding only for children whose biological families would have been eligible for AFDC as the program existed July 16, 1996.

Federal reimbursement is provided at different rates for (1) maintenance payments to foster families, covering the costs of shelter, food, and clothing; (2) placement and administrative costs, including case management, eligibility determination, licensing, and court preparation; and (3) training for staff and foster parents. The federal matching rate for maintenance payments is equal to each state's Medicaid matching rate, which averages about 57 percent. The federal matching rate for placement and administration is 50 percent, and training costs are matched at a 75 percent federal rate.

The [Congressional Budget Office](#) has estimated federal Foster Care expenditures to be \$4.6 billion in FY 2003. (Maintenance payments usually account for about half of the IV-E Foster Care expenditures, with placement, administrative, and training costs accounting for the other half.)

***Adoption Assistance.*** The Title IV-E Adoption Assistance program is also a permanently authorized, open-ended entitlement program. Like IV-E Foster Care, federal reimbursement is provided for three types of activities: (1) maintenance payments to adoptive families; (2) placement and administrative costs, including case management, eligibility determination, and court preparation; and (3) training for staff and adoptive parents. The federal matching rates for all three types of activities are equivalent to those under the Foster Care program.

Generally, states are reimbursed for the adoption of children with “special needs” whose biological families meet the AFDC need standards or who are eligible for Supplemental Security Income (SSI). States have broad discretion in defining what constitutes a special need. For example, a child who has a physical or mental health disability, is a minority, is older, or is part of a sibling group may be considered by the state to have a special need.

[CBO](#) has estimated federal Adoption Assistance expenditures to total \$1.5 billion in FY 2003. (Maintenance payments usually account for just under two-thirds of IV-E Adoption Assistance expenditures, while placement, administrative, and training costs account for just over one-third of all expenditures.)

***Adoption Incentive Payments.*** The Adoption and Safe Families Act of 1997 (ASFA) authorized an incentive payment program for states to promote adoptions from foster care. Under this discretionary program, which is authorized through the end of FY 2003, states receive \$4,000 for each foster child who is adopted (above specified baseline levels), and \$6,000 for each special needs foster child who is adopted (again, above specified baseline levels). States may use such payments for any activity authorized under Titles IV-B or IV-E. States report using their incentive payments to recruit, train, and counsel adoptive families; provide post-adoption services; and hire additional child welfare staff.

The FY 2003 appropriation for incentive payments is \$43 million.

***Foster Care Independence.*** The Chafee Foster Care Independence Program is a capped state entitlement program, permanently authorized at \$140 million. The program also has

a discretionary component specifically for education and training vouchers. Funding for this component is authorized at \$60 million, but is subject to the annual appropriations process. The FY 2003 appropriation is \$182 million (\$42 million of which is for education and training vouchers). The program requires a 20 percent nonfederal match. States have flexibility to spend program funds on a broad array of independent living services for (1) children who are likely to remain in foster care until age 18 or (2) former foster youth up to age 21.

## ***Non-Dedicated Funding Sources<sup>11</sup>***

### **SSBG**

**SSBG accounted for 17 percent of all federal child welfare spending in SFY 2000.**

Title XX of the Social Security Act, known as the Social Services Block Grant (SSBG), is a capped state entitlement program with no state matching requirement. The program's broad policy goals include preventing child abuse, increasing the availability of child care, and providing community-based care to elderly and disabled individuals who would otherwise be institutionalized. States have broad discretion to determine both the types of services they provide with SSBG funds and their eligibility criteria.

In FY 2003, \$1.7 billion was appropriated for SSBG. States also have authority to transfer up to 10 percent of their TANF block grants into the SSBG. Data indicate that states spent at least \$1.5 billion in SSBG funds in SFY 2000 for child welfare services. (That figure includes transferred TANF funds. States spent their remaining SSBG funds on other SSBG activities.)

### **TANF**

**TANF accounted for 15 percent of all federal child welfare spending in SFY 2000.**

The Temporary Assistance for Needy Families (TANF) block grant, which replaced the Aid to Families with Dependent Children (AFDC) program in 1996, provides time-limited cash assistance to needy families. States also use TANF funds to provide various employment services to help low-income families gain and maintain employment.

The TANF block grant is a capped state entitlement, and is currently authorized at \$16.5 billion. To receive its block grant, each state must meet a "maintenance-of-effort" spending requirement, whereby state spending on allowable activities must be at least 75 percent of the state's 1994 level of AFDC expenditures. In addition, states must meet minimum work participation requirements. States have extensive flexibility to spend TANF funds so long as they are used to meet one of the program's four broad policy goals, which include providing assistance to families so that children may be cared for in their own homes. For example, states may use TANF funds to provide parenting classes, or domestic violence, mental health, and substance abuse treatment. States also use TANF funds to provide payments to relative guardians of children who would otherwise be placed in foster care. Finally, states may also use TANF funds for any child welfare services that were included in their AFDC-Emergency Assistance (EA) state plans.

Available data indicate that states spent at least \$1.7 billion in TANF funds for child welfare services in SFY 2000. (That figure includes unspent block grant funds that states “carried over” from prior fiscal years, but excludes any TANF funds transferred into SSBG.)

## **Medicaid**

**Medicaid accounted for 10 percent of all federal child welfare spending in SFY 2000. In addition, Medicaid provides routine health care coverage for most children in the foster care system.**

Medicaid, authorized under Title XIX of the Social Security Act, is an open-ended entitlement program that provides medical assistance to low-income families with dependent children and certain other individuals. The federal matching rate for Medicaid services, known as the Federal Medical Assistance Percentage, or FMAP, averages 57 percent among all states but can range from 50 percent to 83 percent. All children eligible for IV-E Foster Care or Adoption Assistance reimbursement are categorically, or automatically, eligible for Medicaid.

Data indicate that states spent at least \$780 million in federal Medicaid funding for child welfare services in SFY 2000. (This excludes spending for routine health care.) States’ use of Medicaid for child welfare services varies widely. (For a longer discussion of this variation, please refer to the “Background Binder.”)

## ***Concerns With The Current Financing Structure***<sup>12</sup>

The child welfare system is often criticized for being inflexible and administratively burdensome for both state and local administrators and case workers. Below we identify the most common criticisms of the current system.

### **“Back-End” Versus “Front End” Funding**

A common complaint about the current financing system is that the vast majority of dedicated federal funding—Title IV-E Foster Care and Adoption Assistance—can only be accessed once children have already been removed from their biological families. That is, they support children on the “back end” of abuse and neglect. The more flexible funding that is available for prevention, reunification, and permanency services—that is, the “front-end” services, funded primarily through Title IV-B—is relatively limited and, as discussed above, is subject to the annual appropriations process. [Figure 3](#) illustrates the increasing disparity in funding levels between these two funding streams over time.

Critics contend that as a result, states have limited ability to invest in family support initiatives that help prevent, or provide alternatives to, foster care placement. Critics further contend that once children have been placed in foster care, states (and the private agencies that provide foster care services) have little financial incentive to shorten the length of foster care stays. This is because, critics argue, they lose federal reimbursement for IV-E-eligible cases once those children exit foster care, and do not receive adequate

federal funding for family reunification and preservation services required to keep children out of foster care, or to support children in adoption or other permanent settings.

## **Complexity**

As described above, states use many non-dedicated federal funding sources to supplement funding available through Titles IV-B and IV-E. The two largest, SSBG and TANF, represent significant sources of flexible funding. However, each of the various funding streams has its own allocation provisions, matching rates, cost-allocation rules, and reporting and other requirements. Successfully claiming IV-E reimbursement for all eligible expenditures, as well as accessing other federal funds available for child welfare services, requires substantial administrative effort among states. This means that resources are diverted from direct service delivery to allocating, tracking, and reporting expenditures from multiple funding streams. States' success in maximizing federal funding for child welfare services varies widely, according to the level of investment that states have made for this purpose.

## **Reliance on Non-Dedicated Funding Streams**

States' reliance on non-dedicated funding streams may also create budgeting uncertainties, for two reasons. First, it increases the likelihood that federal budget decisions about programs not directly linked to the child welfare system will affect the level of funding available for child welfare services. This is especially true in the case of discretionary programs, such as SSBG, which are subject to the annual appropriations process. In fact, SSBG appropriations have fallen since the early 1990s, from \$2.8 billion in 1991 through 1995, to \$1.7 billion in the current year.

This is also true for certain entitlement programs, such as Medicaid. For example, changes to the Medicaid FMAP rates will affect the level of reimbursement states receive for IV-E Foster Care and Adoption Assistance. Similarly, restrictions on which services are authorized under Medicaid's targeted case management option will also affect the level of federal funding available for child welfare services.

Second, relying on non-dedicated funding streams means that the child welfare system in a given state must compete with other state budget priorities that use those same funding streams. The current state fiscal crises highlight this concern. As states struggle to balance their budgets, many have cut discretionary funding for programs serving low-income and at-risk populations, including child welfare.

## **The Link to AFDC**

As discussed above, eligibility for federal IV-E reimbursement is generally based on each state's AFDC income need standards. An Urban Institute study estimated that approximately 57 percent of children in out-of-home placements were eligible for IV-E reimbursements in SFY 2000. The AFDC requirement raises two concerns. First, a given child's need for foster care or adoption placement is not dependent on the financial status of that child's biological family. Critics argue that the AFDC requirement, or any other income eligibility test, is inappropriate, and that the federal commitment to foster care and adoption should apply to all children in need.

Second, the 1996 AFDC need standards have not been adjusted for inflation. This means that they have decreased in present-value terms. As a result, fewer children are eligible for IV-E reimbursement than in 1996. Due to inflation, this trend will only continue over time.

## Access to Funding for Tribal Child Welfare Systems

As mentioned above, Native American tribes that administer their own child welfare systems are not eligible for federal IV-E reimbursement. In addition, tribal governments may not receive direct SSBG funding from the federal government<sup>13</sup> (although they may apply to states through a competitive process for SSBG grant funding.) While Native American children account for 2 percent of the national foster care population, they represent a much larger percentage of children in foster care in certain states.<sup>14</sup> The lack of access to significant dedicated (and non-dedicated) child welfare funding creates further challenges for tribal governments in meeting the needs of abused and neglected children and their families.

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<sup>1</sup> Much of the descriptive information presented in this paper is based on a report by Karen Spar of the Congressional Research Service. [Spar, Karen. 2001. *Child Welfare Financing: Issues and Options*. Washington, D.C.: Congressional Research Service, U.S. Library of Congress.]

<sup>2</sup> Bess, Roseana, Cynthia Andrews, Amy Jantz, Victoria Russell, Rob Geen. 2002. *The Cost of Protecting Vulnerable Children III: What Factors Affect States' Fiscal Decisions?* Washington, D.C.: The Urban Institute. *Assessing the New Federalism* Occasional Paper No. 61.

<sup>3</sup> U.S. House of Representatives, Committee on Ways and Means. 2000. *2000 Green Book*. Washington, D.C.: U.S. Government Printing Office. (The various federal programs that are not discussed in this paper include, but are not limited to, the following: Adoption Opportunities; Abandoned Infants Assistance; Child Abuse Prevention and Treatment Act (CAPTA); Children's Justice Act Program; Community Schools Youth Services and Supervision Grant Program; Community Services Block Grant; Community Development Block Grant; Mental Health Services Block Grant; Safe Kids/Safe Streets and Safe Start Demonstration Projects; Children, Youth, and Families at Risk; Indian Social Services-Child Welfare Assistance; and the Indian Child Welfare Act-Title II Grants. See The Catalog of Federal Domestic Assistance, available on the web at [<http://www.cfda.gov>].)

<sup>4</sup> Figure 1 is from Bess et al., 2002.

<sup>5</sup> Bess et al., 2002.

<sup>6</sup> Much of the descriptive information presented in Figure 2 is from Spar, Karen, 2001.

<sup>7</sup> Bess et al., 2002.

<sup>8</sup> Ibid.

<sup>9</sup> The SFY 2000 state expenditure data presented in this section and the following section are from Bess et al., 2002. The FY 2003 estimated expenditures and appropriation figures presented in these sections are from the Congressional Budget Office. [See <http://www.cbo.gov/factsheets/FosterCare.pdf>.]

<sup>10</sup> The data presented in Figure 3 are from U.S. House of Representatives, 2000.

<sup>11</sup> Data limitations do not allow an exact accounting of how much states spend for child welfare services. This is especially true for non-dedicated funding sources, since they are also used for purposes other than child welfare. When responding to the Urban Institute's expenditure surveys, some states report less complete information than others. The percentage figures shown in Figure 1 are based *only on the responses of states that provided complete expenditure data for all funding sources*. By contrast, the expenditure *amounts* reported in this paper are based on the responses of *all* states that responded to the expenditure surveys, regardless of how complete their responses were. These expenditure amounts are reported in terms of the *minimum* expenditures that states could account for in SFY 2000 (for example, we report that states spent *at least* \$1.5 billion in SSBG funds). Because they are based on different sets of responses, the actual expenditure amounts for each funding source do not always match the percentages of

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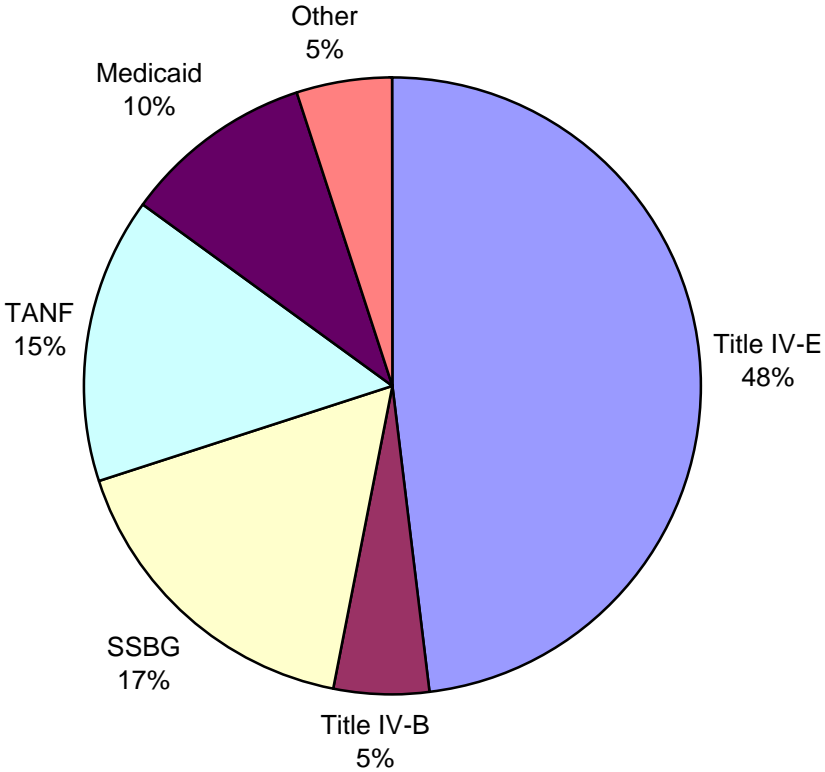
total spending. For example, while data indicate that SSBG funds accounted for 17 percent of total federal child welfare spending, and TANF funds accounted for only 15 percent, the reported expenditure *amount* for TANF is higher (\$1.7 billion) than that reported for SSBG (\$1.5 billion).

<sup>12</sup> With the exception of the information on tribal child welfare systems, much of the information presented in this section is from Spar, Karen, 2001.

<sup>13</sup> See The Catalog of Federal Domestic Assistance, available on the web at [<http://www.cfda.gov/static/93667.htm>], [<http://www.cfda.gov/static/93658.htm>], and [<http://www.cfda.gov/static/93659.htm>].

<sup>14</sup> U.S. Department of Health and Human Services, Children's Bureau. *Adoption and Foster Care Analysis and Reporting System (AFCARS)*. 2002. Washington, D.C.

**Figure 1**  
**Federal Child Welfare Spending by Funding Source**  
**State Fiscal Year 2000**  
Source:Urban Institute



**Figure 2**  
**MAJOR FEDERAL CHILD WELFARE FUNDING STREAMS**

<b>Funding Source</b>	<b>Type of Funding</b>	<b>Authorized Services</b>	<b>Eligibility</b>	<b>Funding Level (in millions) Fiscal Year 2003</b>
<b>Title IV-B of the Social Security Act</b>				
Subpart 1	Discretionary	Broad array of prevention, family reunification, and permanency services	Defined by the state	\$290
Subpart 2	Part capped state entitlement, part discretionary	Family support, family preservation, time-limited family reunification, and adoption promotion and support services	Defined by the state	\$405
<b>Title IV-E of the Social Security Act</b>				
Foster Care	Open-ended entitlement	Maintenance payments to foster families, administration, and training	Based on old AFDC need standards	\$4,600 <sup>a</sup>
Adoption Assistance	Open-ended entitlement	Maintenance payments to adoptive families, administration, and training	Based on old AFDC need standards	\$1,500 <sup>a</sup>
Adoption Incentive Payments	Discretionary	Any allowable IV-B or IV-E service	Generally defined by the state	\$43
Chafee Foster Care Independence Program	Part capped state entitlement, part discretionary	Broad array of independent living support services	Adolescent foster youth and former foster youth up to age 21	\$182

<sup>a</sup> Estimated.

**Figure 3**  
**Titles IV-B and IV-E Spending, 1985-2001**  
**Constant 2001 Dollars**  
**(Dollars in Millions)**  
Source: 2000 Green Book

