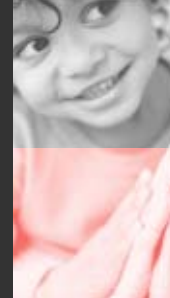


Child Welfare Spending during a Time of Fiscal Stress



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State and local public child welfare agencies provide a safety net for maltreated children. For example, child welfare agencies directly provide or fund programs to prevent abuse and neglect, investigate reports of abuse or neglect, provide services so children can remain safely in their own homes, and place children in foster care when they cannot. These and additional child welfare activities are funded by federal, state, and local dollars.

This brief, focusing on state fiscal year (SFY) 2002, marks the fourth time that the Urban Institute has collected child welfare spending data from all 50 states and the District of Columbia. This information allows us to continue tracking spending trends and explore several new questions. First, the data show states' responses to the early period of the fiscal crunch resulting from the 2001 recession; there was concern that states' social service systems would be overwhelmed and face cuts in state funding because of declining revenues. Second, the data show states' fiscal actions when the nation began raising the bar on child welfare performance—through the Adoption and Safe Families Act (ASFA) and the Child and Family Services Reviews (CFSRs). Many have argued that public child welfare agencies are underfunded and require additional financial support to meet these standards. Third, the comprehensive methodology of this study allows us to track changes in spending from all levels of government—federal, state, and local—and, in particular, shifts in the composition of federal funding. With several federal programs funding child welfare activities likely to receive congressional attention this year, this information is particularly useful.

How Did Child Welfare Funding Fare?

Nationally, child welfare spending from all levels of government increased between SFY 2000 and SFY 2002. Overall, at least \$22.2 billion was spent on child welfare activities in SFY 2002, 8 percent (\$1.5 billion) more than in SFY 2000. However, the change in spending varied by state; for example, 13 states experienced a decline in total spending while six states saw increases of 21 percent or more. Of the total, \$11.3 billion came from the federal government, \$8.2 billion from state governments, and \$2.6 billion from local governments. Federal and state spending each increased 7 percent (\$748 million and \$538 million), while local spending increased 15 percent (\$341 million).¹

Federal Funding Sources Shifted.

In SFY 2002, 53 percent (\$6.1 billion) of all federal funding came from the two largest dedicated funding streams, titles

IV-B and IV-E of the Social Security Act. Additionally, 43 percent (\$4.7 billion) came from three federal programs not dedicated for child welfare activities: Medicaid,² the Social Services Block Grant (SSBG), and Temporary Assistance for Needy Families (TANF). Increases in TANF and Medicaid accounted for nearly all the growth in federal spending reported above. Although title IV-E is an open-ended entitlement dedicated to reimbursing states for the cost of foster care for eligible children, states used more TANF, SSBG, and Medicaid funds than title IV-E funds to cover the costs associated with children in out-of-home placements. This may be because eligibility for title IV-E reimbursements is declining due to its link to outdated eligibility rules, because TANF and SSBG do not require state matching funds, or because states are using Medicaid to serve children with more physical, mental, and behavioral health needs. Information about the reliance on these nondedicated federal funds is important because both Congress and state legislatures could alter these funding streams, producing unintended consequences for child welfare services.

Spending on Adoption Continued to Increase.

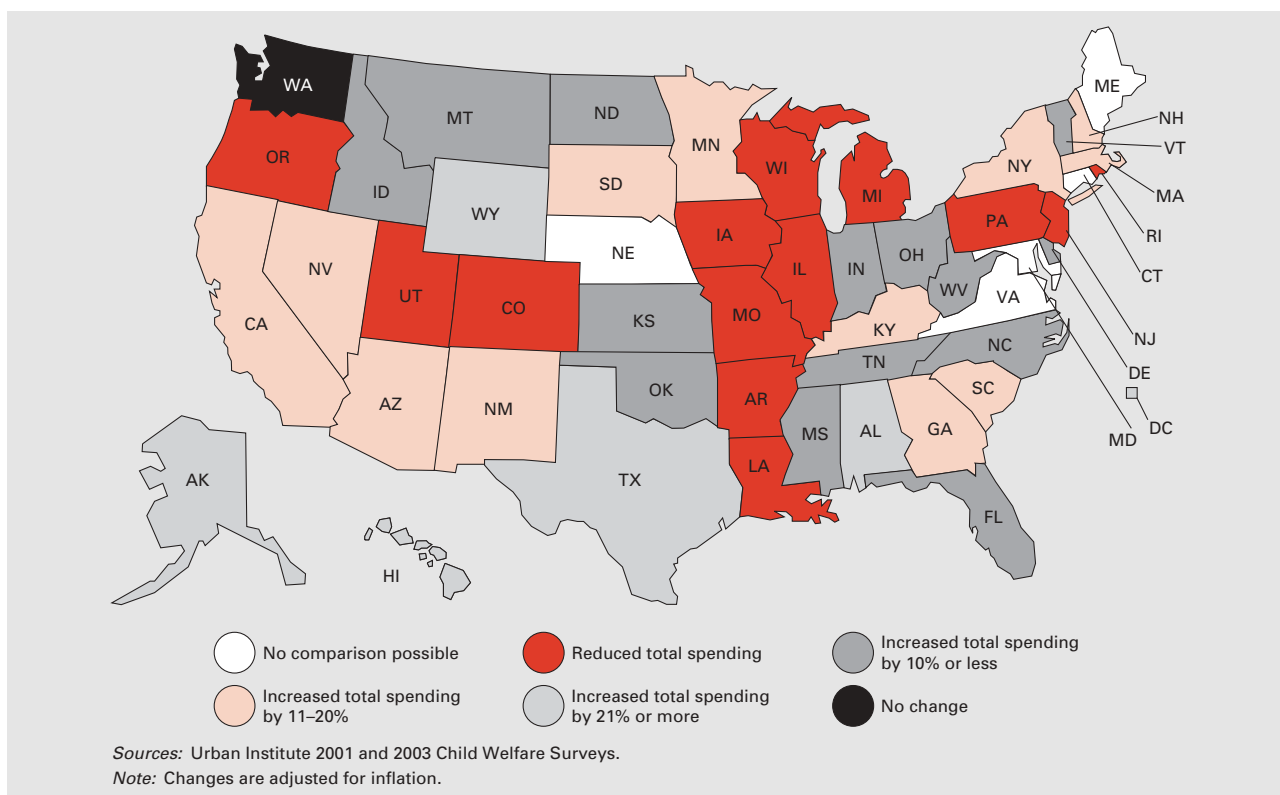
Of all the funding uses, spending on adoption appears to have increased the most between SFYs 2000 and 2002, increasing by \$708 million to \$2.6 billion. An increase in adoption spending was expected, given the mandates of ASFA and the subsequent movement of children from foster care to adoption or subsidized guardianship. Adoption costs are expected to continue to increase as the cumulative number of children receiving adoption subsidies increases.

Possible Reasons for the Increase in Total Spending.

While we cannot be certain why total spending increased, we have several possible explanations:

- Many state budgets did not see the full effects of the recession until SFY 2003 or 2004.³
- Child welfare agencies must maintain some level of funding to meet state and federal statutory requirements and the performance expectations of ASFA and the CFSRs.
- Child welfare administrators in many states noted gubernatorial or legislative support during the budget process, allowing the child welfare agency to maintain level funding or grow minimally even when other agencies experienced cuts.
- Children in foster care now may have more severe needs requiring more expensive services and placement settings.

Changes in Total Child Welfare Spending between SFY 2000 and SFY 2002



■ States' efforts to use all available federal funding for child welfare clients and activities likely allowed states that might have experienced a decline in spending to see no change or a slight increase.

Discussion

As Congress revisits the issue of reforming federal child welfare financing, our findings raise four points important to policy and budget debates at both the state and national levels. First, over the period reviewed, state and local spending combined increased faster than federal spending. We need to understand better the state-by-state needs and performance expectations driving that spending. Second, national trends conceal substantial differences in states' spending patterns. While spending continued to rise nationally between SFY 2000 and SFY 2002, several states saw declines (including Illinois, Michigan, and Missouri). Moreover, the changes seen in any one state from year to year vary, highlighting the instability of child welfare funding. Third, while the dramatic growth (more than doubling) in the adoption caseload has clearly led to an increase in adoption spending, caseload size in other areas does not seem to be the main factor influencing spending. Out-of-home placement spending increased even as foster care caseloads declined between 1999 and 2002. Meeting the needs of children in care may be more costly now. Finally, we need to further explore the implications for states of the declining role of title IV-E and the corresponding increased reliance on nondedicated funding streams. It is vital to understand the gap filled by these nondedicated funding streams and the fiscal decisions states make to use all the allowable resources available to meet the needs of their most vulnerable children.

Further Details

These findings are based on the Urban Institute 2003 Child Welfare Survey. For more information and state-specific details see *The Cost of Protecting Vulnerable Children IV* by Cynthia Andrews Scarcella, Roseana Bess, Erica Hecht Zielewski, Lindsay Warner, and Rob Geen (Washington, D.C., 2004).

Notes

1. When California and New York are removed from the analysis, local spending increased 1 percent.
2. States were asked to exclude Medicaid spending on routine health care.
3. See National Governors Association and National Association of State Budget Officers, *The Fiscal Survey of States* (Washington, DC: NGA and NASBO, 2003).

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