

Department of Economic Security
Child Support Enforcement

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DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	863.8	863.8	863.8
Personal Services	20,847,100	22,998,700	22,998,700
Employee Related Expenditures	7,438,100	8,734,500	8,528,700
Professional and Outside Services	5,900,100	4,410,600	4,410,600
Travel - In State	45,700	38,000	38,000
Other Operating Expenditures	3,272,400	3,141,300	3,073,800
Equipment	1,221,800	664,400	664,400
OPERATING SUBTOTAL	38,725,200	39,987,500	39,714,200
SPECIAL LINE ITEMS			
Genetic Testing	242,700	723,600	723,600
Central Payment Processing	2,382,000	3,275,700	3,275,700
County Participation	5,285,800	6,845,200	6,845,200
Attorney General Legal Services	7,936,400	9,270,000	9,239,000
PROGRAM TOTAL	54,572,100	60,102,000	59,797,700
FUND SOURCES			
General Fund	5,371,400	5,718,500	5,690,900
<u>Other Appropriated Funds</u>			
Child Support Enforcement Administration Fund	11,939,300	14,287,200	14,190,900
SUBTOTAL - Other Appropriated Funds	11,939,300	14,287,200	14,190,900
SUBTOTAL - Appropriated Funds	17,310,700	20,005,700	19,881,800
<u>Expenditure Authority Funds</u>			
Federal Funds	37,261,400	40,096,300	39,915,900
SUBTOTAL - Expenditure Authority Funds	37,261,400	40,096,300	39,915,900
SUBTOTAL - Appropriated/Expenditure Authority Funds	54,572,100	60,102,000	59,797,700
TOTAL - ALL SOURCES	54,572,100	60,102,000	59,797,700

CHANGE IN FUNDING SUMMARY

	FY 2007 to FY 2008 JLBC	
	\$ Change	% Change
General Fund	(27,600)	(0.5%)
Other Appropriated Funds	(96,300)	(0.7%)
Expenditure Authority Funds	(180,400)	(0.4%)
Total Appropriated/Expenditure Authority Funds	(304,300)	(0.5%)
Total - All Sources	(304,300)	(0.5%)

COST CENTER DESCRIPTION — The Division of Child Support Enforcement (DCSE) program provides intake services; locates absent parents; assists in establishing paternity; establishes the legal obligation for the amount of child support payments; and evaluates the absent parent's ability to pay. The program also collects, enforces, investigates and works with the courts to review and adjust child support orders. In addition, the program, through a contract with a private vendor, operates a central payment clearinghouse for all child support payments in the state, including those enforced by private parties.

PERFORMANCE MEASURES	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2008 JLBC
• Total IV-D collections (\$ in millions)	273.5	291.9	307.3	330.0
• Ratio of current IV-D support collected and distributed to current IV-D support due	41.5	43.8	44.7	45.0

CHANGES FROM FY 2007

Overview

The DCSE budget includes direct appropriations from the following 4 fund sources:

- General Fund (GF);
- State Share of Retained Earnings (SSRE) from child support owed to the state while the custodial parent received Temporary Assistance for Needy Families (TANF) Cash Benefits;
- Federal incentives associated with child support collections; and
- Fees from non-custodial parents for posting payments to the central payment clearinghouse.

The last 3 fund sources are deposited in the Child Support Enforcement Administration (CSEA) Fund and appropriated as an Other Appropriated Fund (OF). In addition to the GF and CSEA Fund appropriations, the amount also includes Federal Expenditure Authority (EA) for DCSE. The federal monies received by DCSE generally match state funds at a ratio of 66% federal to 34% state.

Table 1 details the sources and uses of the CSEA Fund:

Table 1	
CSEA Fund	FY 2008
<i>Sources</i>	
State Share of Retained Earnings	\$11,886,500
Federal Incentive Payments	5,443,500
Fees	<u>907,400</u>
Total	\$18,237,400
<i>Uses</i>	
DCSE Administration	\$14,190,900
Administration (Non-Appropriated)	<u>4,046,500</u>
Total	\$18,237,400

Operating Budget

The JLBC includes \$39,714,200 and 718.8 FTE Positions for the operating budget in FY 2008. This amount consists of:

	FY 2008
General Fund	\$4,455,600
CSEA Fund	8,900,800
Federal Expenditure Authority	26,357,800

These amounts would fund the following adjustments:

Standard Changes	GF	(8,200)
	OF	(88,500)
	EA	(162,300)

The JLBC includes a decrease of \$(259,000) in FY 2008 for standard changes. This amount consists of:

General Fund	(8,200)
CSEA Fund	(88,500)
Federal Expenditure Authority	(162,300)

One-Time AZNet

Appropriation GF (14,300)

The JLBC includes a decrease of \$(14,300) from the General Fund in FY 2008 to reflect the one-time appropriation for AZNet telecommunication charges.

Special Line Items

Genetic Testing

The JLBC includes \$723,600 for Genetic Testing in FY 2008. This amount consists of:

General Fund	72,400
Federal Expenditure Authority	651,200

These amounts are unchanged from FY 2007. This line item funds DNA testing and blood testing for the estimated 50% of child support cases subject to the establishment of paternity through testing.

Central Payment Processing

The JLBC includes \$3,275,700 for Central Payment Processing in FY 2008. This amount consists of:

General Fund	444,700
CSEA Fund	1,573,800
Federal Expenditure Authority	1,257,200

These amounts are unchanged from FY 2007.

This line item funds administration of the central payment clearinghouse through which all child support payments in the state are directed. The line item primarily funds 2 areas: vendor payments for processing non-Title-IV-D case payments and losses due to NSF checks, custodial parent overpayments, and forgery and fraud. These losses are the department's responsibility; the department pays for these losses with no federal match.

County Participation

The JLBC includes \$6,845,200 for County Participation in FY 2008. This amount consists of:

CSEA Fund	1,384,100
Federal Expenditure Authority	5,461,100

These amounts are unchanged from FY 2007.

The division contracts with several Arizona counties to operate child support programs in those counties. As a result, a portion of SSRE and federal incentives are passed through to those counties, along with the 66% federal match, which matches SSRE and incentive pass-through monies as well as county appropriations.

This line item reflects contracting counties' SSRE and federal incentives, as well as expenditure authority for the federal match.

Attorney General Legal Services

The JLBC includes \$9,239,000 and 145 FTE Positions for Attorney General Legal Services in FY 2008. This amount consists of:

General Fund	718,200
CSEA Fund	2,332,200
Federal Expenditure Authority	6,188,600

These amounts would fund the following adjustments:

Standard Changes	GF	(1,400)
	OF	(7,800)
	EA	(18,100)

The JLBC includes a decrease of (27,300) in FY 2008 for standard changes. This amount consists of:

General Fund	(1,400)
CSEA Fund	(7,800)
Federal Expenditure Authority	(18,100)

One-Time AZNet

Appropriation	GF	(3,700)
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The JLBC includes a decrease of \$(3,700) from the General Fund in FY 2008 to reflect the one-time appropriation for AZNet telecommunication charges.

Monies in this line item are used to contract for Attorney General representation.

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FORMAT — Operating Lump Sum with Special Line Items by Program

FOOTNOTES

Standard Footnotes

All state share of retained earnings, fees and federal incentives above \$14,190,900 received by the Division of Child Support Enforcement are appropriated for operating expenditures. New full-time equivalent positions may be authorized with the increased funding. The Division of Child Support Enforcement shall report the intended use of the monies to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House Appropriations Committees and the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

DRA Impact

The federal government matches eligible state child support expenditures at a rate of 2 to 1. In addition, the

federal government provides incentive payments for meeting certain performance measures, including collections goals.

The 2006 Federal Deficit Reduction Act (DRA) eliminated the use of these Federal incentive payments as a source of state matching monies beginning in FFY 2008 (upon receipt of an incentive payment, states would use these funds as a state match to pull down more Federal Funds). In FY 2007, DES estimates they will receive about \$5.2 million in Federal incentive payments. As in prior years, DES is using these funds to serve as a match to receive \$10.2 million in Federal Funds.

Starting in October 2007, DES will lose approximately \$7.6 million in federal funds that had been matched with incentive payments. (Given that this change occurs for 75% of the state fiscal year, the amount represents 75% of the \$10.2 million in annual federal payments matched with incentive payments). To replace this \$7.6 million, DES could put up \$2.6 million in new state (non-federal incentive) monies. The federal government would then match this amount under the regular 2/1 matching program with \$5.0 million in Federal Funds. (See Table 2 for further details.)

	Current Funding ^{1/}	FY 2008 Backfill ^{2/}	Annualized Backfill ^{3/}
State: Federal Incentive - Matched	\$ 5.2	\$ 1.3	\$ --
Federal Match	10.2	2.6	--
State: Federal Incentive - Unmatched ^{4/}	--	3.9	5.2
Subtotal	15.4	7.8	5.2
New State Match ^{5/}	--	2.6	3.5
New Federal Match ^{5/}	--	5.0	6.7
Total Funding	15.4	15.4	15.4

^{1/} In FY 2007, DES can use \$5.2 million to match \$10.2 million in Federal Funds.
^{2/} In FY 2008, DES is assumed to use \$1.3 million (reflecting one quarter of estimated FY 2008 receipts) to match \$2.6 million in Federal Funds.
^{3/} In FY 2009 and beyond, no federal incentive payments can be used as a match.
^{4/} Represents the portion of \$5.2 million in federal incentive payments that DES will no longer be able to use as a match.
^{5/} Represents state and federal contribution if the state decided to backfill the loss of matched federal incentive payments.

The DRA also included 2 smaller provisions that affect the child support program. The first provision requires additional reviews of cases receiving assistance through the Temporary Assistance for Needy Families (TANF) program. DES estimates the cost of these reviews at \$644,200. The second provision changes the federal match on genetic testing from 90% to 66%. DES estimates that only \$50,000 would be required to maintain funding at the FY 2007 level, as they have historically underspent this appropriation.

The federal matching monies of \$7.6 million represent 13% of the division's budget. The division is appropriated 863.8 FTE Positions to locate absent parents, assist in establishing paternity, establish the legal obligation for the amount of child support payments, and evaluate the absent parent's ability to pay. The program also collects, enforces, investigates and works with the courts to review and adjust child support orders. In addition, the program contracts with a private vendor to provide a central payment clearinghouse for all child support payments in the state, including those enforced by private parties. The division reports over \$300 million in child support collections. The division retains nearly \$12 million in collected monies from welfare or former welfare recipients for the administration of the child support program.

The JLBC Baseline does not address this potential impact of the DRA pending additional analysis of possible program changes and input from the Legislature. In addition, the Executive's approach to this issue is not known at this time.

Further research is being done to determine the possible impact of a \$7.6 million reduction in the federal share of the DCSE operating budget. This reduction could reduce or slow the collection of child support that is distributed to households. Without child support, some of these

households may qualify for the Temporary Assistance to Needy Families program. In addition, the state retains approximately 4% of child support payments to help their administrative payments.

A potential source of additional funding, in lieu of the General Fund, could be higher than expected revenues in the Child Support Enforcement Administration (CSEA) Fund. A footnote in the budget allows DES to expend monies above the appropriated amount after notifying the JLBC. For FY 2006, the CSEA Fund collected \$500,000 above the appropriated amount, which was matched with \$1,000,000 of Federal monies. The department's budget request projects continued growth in the CSEA Fund revenues. These additional revenues in FY 2007 could be carried forward and used to partially offset the lost federal monies in FY 2008.

To the extent that DES is able to accelerate the receipt of their FY 2008 Federal incentive payments prior to October 2007, while they can still be used as a match, the impact in FY 2008 may be less than \$7.6 million. *(Please see the DRA Impact discussion in the Other Items for Legislative Consideration section of the DES Summary for further information.)*

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
