

FEBRUARY 12, 2021

The 2021-22 Budget: Department of Child Support Services



LEGISLATIVE ANALYST'S OFFICE

Background

What Is the Child Support Program? The child support program is a federal-state program that establishes, collects, and distributes child support payments to enrolled parents with children. In California, the child support program is administered by 47 county and regional local child support agencies (LCSAs), in partnership with local courts. Local program operations are primarily overseen by the state Department of Child Support Services (DCSS). The Governor’s budget proposes \$333 million General Fund (\$1.1 billion total funds) in 2021-22 for DCSS, which is about a 6 percent increase over estimated 2020-21 level—\$315 million General Fund (\$1 billion total funds).



Key Program Developments

In this section, we discuss recent state, federal, and local child support-related program developments.

Legislatively Driven Policy Developments

As Part of the 2018-19 Budget, Legislature Required Workgroup on Funding and Efficiencies. The 2018-19 budget required DCSS, in collaboration with the Child Support Directors Association of California (CSDAC), to “[identify] programwide operational efficiencies and further refinements to the budget methodology for the child support program, as needed.” As a result of this workgroup, DCSS submitted a report describing possible operational efficiencies and recommended a new LCSA funding methodology.

- ***Program Efficiencies.*** The administration identified a number of possible operational efficiencies, including: (1) prioritizing of early and proactive order establishment practices, (2) expanding electronic filing and signature capacity, (3) simplifying the guideline calculator, and (4) centralizing workload associated with call centers and complex child support cases at the state or regional level. Some of these operational efficiencies have the potential to save staff time, better target staff resources on more cost-effective activities, reduce budgetary pressure, and improve customer service.
- ***New Funding Methodology for LCSAs.*** Using discussions from the workgroup process, the administration proposed a new funding methodology that would incrementally increase General Fund support for about 20 LCSAs identified as “underfunded” as part of the 2019-20 budget. The funding methodology generally defines “underfunded” as LCSAs with staffing levels below the target case-to-staff ratio. The target case-to-staff ratio largely reflects average staffing levels among certain LCSAs. The target case-to-staff ratio is considered the number of staff needed to effectively manage workload associated with all child support cases. Overall, the administration proposed to increase funding for “underfunded” LCSAs by the amount of additional funding needed to reach the target case-to-staff ratio. The funding methodology did not include



Key Program Developments

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a plan or time line to “right-size” funding levels for the over 25 LCSAs identified as “overfunded” or having funding levels above the amount needed to achieve the target case-to-staff ratio. (Additional information on the LCSA funding methodology can be found in our [*The 2019-20 Budget: Analysis of Proposed Increase in State Funding for Local Child Support Agencies*](#) report.)

Subsequent Budgets Also Required Ongoing Workgroups and Reporting to the Legislature. The 2019-20 and 2020-21 budgets also required the administration to provide additional information on program efficiencies and current program operations.

- **The 2019-20 Budget.** The 2019-20 budget required DCSS to hold a series of stakeholder workgroups to discuss and assess the fiscal impact of additional strategies and policy changes that may improve customer services, collectability, and cost efficiency in the program. A written summary of the discussed and recommended changes to the program and LCSA funding methodology was provided to the Legislature in February 2020.
- **The 2020-21 Budget.** The 2020-21 budget included supplemental reporting language that requires DCSS and Judicial Council, in collaboration with CSDAC, to provide updates to the Legislature on key components of California’s child support program, including the effectiveness and outcomes associated with (1) order establishment and the modification process, (2) child support guidelines and treatment of ability to pay and level of financial support needed for children, (3) collection rates and accumulation of arrears, and (4) local funding and initiatives. In addition, the Legislature required an update on implementation of federal guidance issued in 2016 and a summary of the findings and recommendations from the 2018 quadrennial review.



Key Program Developments

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Recent State Budget Actions

In recent years, the state has made a number of changes to the child support program funding levels.

- ***The State Increased Funding for LCSAs by \$3 Million General Fund in 2018-19.*** The 2018-19 budget included a \$3 million ongoing General Fund augmentation (at the time, an increase of about 1 percent statewide) to address concerns that flat funding levels over time have made it difficult for some LCSAs to carry out core child support services.
- ***While LCSA Funding Levels Were Increased in 2019-20 Based on Administration’s New Funding Methodology...*** The new LCSA funding methodology proposed to increase General Fund support for the “underfunded” LCSAs by \$19.1 million in 2019-20, ramping up to \$57.2 million in 2021-22. While the administration’s LCSA funding methodology anticipated future funding augmentations, the budget did not provided for these subsequent augmentations at the time.
- ***...Child Support Program Funding Levels Ultimately Were Reduced in 2020-21 Due to State Budget Constraints.*** The 2020-21 budget ultimately reduced funding levels for a number of child support program components.
 - ***LCSA Funding Reduction.*** Ongoing funding levels for LCSAs were reduced to 2018-19 budget levels—from \$266 million General Fund in 2019-20 to \$247 million General Fund in 2020-21. As a result, the \$19.1 million General Fund (\$56 million total funds) ongoing augmentation provided in 2019-20 was eliminated. Additionally, the administration withdrew its January 2020 budget proposal for subsequent funding augmentations as reflected in the LCSA funding methodology. The \$19.1 million General Fund reduction was implemented in a way in that “underfunded” LCSAs (as defined under the administration’s funding methodology) experienced a relatively smaller reduction to funding levels than “overfunded” LCSAs.



Key Program Developments

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- **DCSS Funding Reduction.** Ongoing funding levels for DCSS state operations were reduced by \$8.4 million General Fund (\$25 million total funds). (This reduction was in addition to statewide, collectively bargained reductions made to employee compensation in the 2020-21 budget as a result of anticipated coronavirus disease 2019 [COVID-19] budget challenges.)
- **Local Court Funding Reduction.** Funds for child support-related local court operations are mainly provided through an interagency agreement between DCSS and Judicial Council. As a part of the funding reduction to overall DCSS state operations, the interagency agreement with Judicial Council was reduced by \$2.4 million General Fund (\$7 million total funds). The funding reduction to local courts was largely distributed across Child Support Commissioners (CSC)—\$1.8 million General Fund—and Family Law Facilitator program (FLF)—\$0.6 million General Fund.

Federal Actions

In addition to state reporting requirements and budget actions, the federal government has issued a number of program rule changes and supported locally based pilot projects.

- **Flexibility, Efficiency, and Modernization in Child Support Enforcement Programs (FEM) Final Rule.** In 2016, the federal government issued new child support program guidance, referred to as the FEM final rule, which is summarized in the figure on the next page. While the state already is in compliance with some components of the FEM final rule, it will need to make some changes to the guideline calculator to come into compliance with the new federal guidance. We understand that while originally required to be implemented by 2022, the federal government approved the state's request to extend the compliance deadline for those components until September 2024.



Key Program Developments

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2016 Federal Guidance Prioritizes Consistency and Ability to Pay

Major Features of the Flexibility, Efficiency, and Modernization in Child Support Enforcement Programs Final Rule, (December 2016)

- ✓ Set accurate child support obligations based on the paying parents' ability to pay.
- ✓ Increase consistent, on-time payments to families.
- ✓ Move nonpaying cases to paying status.
- ✓ Increase the number of noncustodial parents supporting their children.
- ✓ Improve child support collection rates.
- ✓ Reduce the accumulation of unpaid and uncollectible child support debt.
- ✓ Incorporate technology and evidence-based standards that support good customer service and cost-effective management practices.

Source: Overview of Federal Final Rule, "Flexibility, Efficiency, and Modernization in Child Support Enforcement Programs."

- **Federally Approved Pilot Projects.** State and local child support agencies may apply for federal grants to conduct limited-term pilot activities that would not otherwise be allowable under federal program and funding rules. These pilots aim to promote the objectives of the child support program and improve the outcomes for children and must include a program evaluation. For example, in 2012, the San Diego Department of Child Support Services received federal funds to establish a pilot program in which eligible parents could attend a case resolution meeting and simultaneously agree on a child support and parenting time arrangement. Overall, the program evaluation found that paying parents who reached an agreement reported an increase in time spent with the children, improved relationship with the children and other parent, and higher child support payment rates.



Federally Required State Guideline Quadrennial Review

State Evaluation of Child Support Guidelines. The federal government requires states to establish a statewide uniform set of rules and calculations, referred to as child support guidelines, to determine the amount of child support a parent is required to pay. States are required to review and revise (if appropriate) the child support guidelines every four years largely to ensure the guidelines result in appropriate child support order amounts. Under state law, Judicial Council is required to review the child support guidelines, in consultation with DCSS, program participants, and other stakeholders. The review of these guidelines is referred to as the quadrennial review. The most recent quadrennial review was released in 2018, which was completed too soon after the enactment of the FEM final rule to recommend compliance changes to child support guidelines. However, the upcoming quadrennial review likely will include recommendations on how child support guidelines need to be changed to comply with the FEM final rule.

Impact of FEM Final Rule on State Guideline Requirements. The parameters of the quadrennial review are established by both the state and federal government. The FEM final rule included elements that impact the child support guidelines and the state’s quadrennial review process.

- **Codifies Requirement That Child Support Orders Must Be Based on Parent’s Ability to Pay.** Federal law was revised to explicitly require that state child support guidelines calculate child support orders “based on the noncustodial parent’s earnings, income, and other evidence of ability to pay.” The federal government characterized this change as codifying “longstanding interpretation of statutory guideline requirements and reflects the basic principal underlying the federal child support guidelines statute—that application of state guidelines should result in income-based orders.”
- **Consider Parent’s Specific Circumstances if Evidence of Income Is Unavailable.** When evaluating a parent’s earning capacity, states should consider specific circumstances of the parent, such as employment and earnings history, job skills, education attainment, literacy, age, health, criminal record, and other employment barriers. This requires states to allow for these individual factors to be considered when determining a parent’s earning capacity.



Federally Required State Guideline Quadrennial Review

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- **Consider Basic Subsistence Needs of Parent When Establishing Child Support Orders.** State child support guidelines must take into consideration the basic subsistence needs of the parent who has a limited ability to pay a child support order amount. This could be accomplished by incorporating a low-income adjustment factor in the child support payment calculation.
- **Analyze Additional Economic Data.** In addition to considering the cost of raising children when evaluating the child support guidelines, states must consider (1) state and local labor market data by occupational and skill level, (2) the impact of guidelines policies and amounts on families with income levels below 200 percent of the federal poverty level, and (3) factors that influence employment rates among parents and compliance with child support orders.



Governor's 2021-22 Budget Proposals

Proposes Smaller, Ongoing Augmentations for Child Support Program. The 2021-22 budget proposes to augment funding levels on an ongoing basis for the following program components:

- ***Partially Restore Prior Reduction for LCSAs With Highest Case-to-Staff Ratios.*** The Governor proposes increasing LCSA funding levels by \$8.5 million General Fund (\$25 million total funds), which is less than the LCSA funding reduction implemented in 2020-21. The additional funding would be allocated across 20 LCSAs with the highest case-to-staffing ratios as of September 2020 (similar to how “underfunded” LCSAs were defined in the 2019-20 funding methodology).
- ***DCSS Augmentation.*** The Governor proposes increasing DCSS state operation funding levels by \$4 million General Fund (\$12 million total funds) on an ongoing basis, which is less than the DCSS funding reduction implemented in 2020-21. We understand that the additional funds largely would be spent on information technology positions and system modifications.
- ***Local Courts Augmentation.*** The Governor proposes increasing funding for child support-related local court operations by \$4.1 million General Fund (\$12 million total funds), which is greater than the local court reduction implemented in 2020-21. The additional funds primarily would be allocated across CSC (\$3.1 million General Fund) and FLF (\$1 million General Fund).

Proposes One-Time Funding for Child Support Program Studies. The 2021-22 Governor's Budget proposes \$255,000 General Fund (\$750,000 total funds) for two years to contract for consulting services to conduct the following child support research projects generally to inform the next quadrennial review effort:

- ***Examine the Appropriateness of the “K-Factor.”*** The K-Factor refers to the cost of raising children or share of income families spend on their children. The state's child support guideline uses the K-Factor, along with number of children and time each parent spends with the children, to determine the amount of a parent's income to



Governor's 2021-22 Budget Proposals

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be allocated for child support. The K-Factor has not been updated since the adoption of the state's child support guidelines in 1993. We understand that the proposed study would analyze three issues related to the K-Factor: (1) the percentage of income two-parent households and separated parents spend on children today; (2) how the share of income parents spend on their children varies by income level; and (3) whether the guideline calculation, which accounts for number of children, income levels, and time each parent spends with children, ultimately results in a child support order that reflects a parent's ability to pay—in line with the FEM final rule.

- **Review the Compromise of Arrears Program (COAP).** In 2019-20, the Governor vetoed legislation that eliminated the collection of interest that accrues on past due child support owed to the government. The Governor instead directed DCSS to review COAP, the state's existing child support debt reduction program, and consider any needed program changes to address uncollectable debts and increase collections. We understand that the proposed study would evaluate the current COAP eligibility criteria and suggest additional factors (such as labor market conditions, parent's ability to pay, and other individual circumstances) that could be taken into account when determining COAP eligibility.

Trailer Bill Proposals. The 2021-22 Governor's Budget proposes the following changes to child support-related statute:

- **Expands Allowance of Electronic Signature.** Under current law, LCSAs may use electronic signatures of case participants to replace "wet signatures" only if the local court electronically files the document. The administration proposes to expand the use of electronic signature statewide by allowing LCSAs whose local court does not electronically file documents to utilize electronic signature. This change would require expanding the state's existing electronic signature solution to over 30 LCSAs, which the administration's estimates could be covered with existing funds.



Governor's 2021-22 Budget Proposals

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- ***Extend Suspension of LCSA Performance Incentive Model.*** Since 2002-03, the state has suspended the LCSA performance incentive model outlined in statute. As a part of the 2019-20 LCSA funding methodology, the administration created a new performance incentive model. However, statute was not updated to reflect the new incentive model. The administration proposes to continue the suspension through the end of 2022-23 while it reevaluates the funding and incentive model.



Assessment of Governor's Budget Proposals

Funding Proposals

Allocation of LCSA Funding Prioritizes Resources for LCSAs With Higher Case-to-Staff Ratio. As previously mentioned, the proposed funding augmentation to LCSAs would be allocated across 20 LCSAs with the highest case-to-staff ratio. This approach is consistent with how the additional funds provided in 2019-20 were allocated and the administration's definition of "underfunded" LCSAs under the new funding methodology. This approach would narrow the gap identified in the administration's funding methodology between those LCSAs that have been determined to be "underfunded" and those that are "overfunded." This proposal also is consistent with how the reduction in funding in 2020-21 was applied (which also tried to narrow the difference between "overfunded" and "underfunded" counties).

Research Proposal

K-Factor and COAP Studies Expected to Build Upon Existing Research. Below, we discuss past studies and evaluations of the state's K-Factor and COAP and how the administration's proposal compares to the existing body of research.

- ***K-Factor Research.*** The 2018 guideline review included a list of over ten K-Factor studies that utilize different statistical techniques and present different estimates on the share of income families spend on children. The most recent K-Factor study was completed in 2017 and a couple of the studies referenced in the 2018 quadrennial review were conducted at the request of California (in 2001 and 2010). Despite the breadth of K-Factor studies, the 2018 quadrennial review did not propose an update to the K-Factor, in part, because "there is no perfect model" for estimating the cost of raising children and "each [study] has its strengths and weaknesses." Another cited challenge to updating the K-Factor was "keeping 'politics' out of the choice" of the updated K-Factor estimate. How different the proposed K-Factor study will be from existing research is not clear at this time, but we understand that the administration expects the proposed study to address some of the technical limitations within existing research and ultimately inform a recommended revision to the K-Factor in the upcoming state quadrennial review.



Assessment of Governor's Budget Proposals

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- **COAP Research.** In 2003, DCSS contracted with the Urban Institute to evaluate the collectability of past due child support—known as arrears—to help determine the amount of resources to direct toward collecting child support arrears and how to prevent arrears from growing rapidly in the future. The study found that the majority of child support arrears were owed to the government and likely was not collectible, in part, due to the majority of arrears being held by low-income individuals. (When child support payments are missed for parents participating in the California Work Opportunity and Responsibility to Kids [CalWORKs] program, the state's welfare program, the arrears that occur are largely owed to the government.) In the same year, Chapter 225 of 2003 (AB 1752, Committee on Budget) directed DCSS to establish COAP, allowing the state to reduce the amount of government-owed child support arrears for eligible parents. The recent legislatively driven workgroups included discussions of ways COAP eligibility and program rules could be modified to increase compliance with child support obligations owed to families and standardize the program across all LCSAs. Additionally, some LCSAs have piloted different debt reduction rules and criteria, which resulted in more consistent child support payments and improved relationships with children and parents. We understand that the proposed COAP study would build upon recent interest in improving COAP by specifically evaluating possible changes to COAP eligibility criteria.

Research Proposal Aligns With Some Components of the New Federal Guidance. The K-Factor and COAP study may help the state determine how to better align state guidelines with certain components of the FEM final rule. Specifically, determining whether the K-Factor accurately reflects how much parents spend on children today may assist the state in modifying the state's child support guidelines to ensure child support orders accurately reflect a parent's ability to pay. Additionally, the evaluation of COAP eligibility criteria may assist the state in reducing the accumulation of unpaid and uncollectible child support debt.



Assessment of Governor's Budget Proposals

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Unclear if and How Remaining Components of FEM Final Rule Would Be Analyzed. Similar to the K-Factor and COAP study, the FEM final rule includes other components that also would benefit from additional analysis. For example, the 2018 quadrennial review mentioned that additional research may be warranted to assess whether a currently used low-income adjustment to child support orders provides enough of an adjustment to the order to allow for the basic subsistence needs of parents, as required by the FEM final rule. Additionally, the 2018 quadrennial review mentioned that a longitudinal study of order establishment, the child support guideline, and payment compliance patterns may help determine the optimal order amount for families in various economic and familial circumstances. Such a study generally would align with the objective of basing child support orders on a parent's individual circumstances and improve overall collection rates. Given that the Governor's research proposal mainly includes an evaluation of the K-Factor and COAP, if and how the administration would conduct research on topics related to the other issues that could assist in the implementation of other components of the FEM final rule is unclear.

Trailer Bill Proposals

Allowing Expansion of Electronic Signature Makes Sense. As a part of the legislatively driven workgroups, electronic signature capacity was identified as a possible program-wide operational efficiency. In recent years, DCSS collaborated with Judicial Council to develop and implement an electronic signature process for all child support legal forms in counties with existing electronic filing capacities. In past workgroup reports, the inability to use electronic signature in counties without electronic filing systems was identified as a barrier to maximizing this operational efficiency. The administration's proposed expansion of electronic signature capacity seems to address this barrier. Additionally, given that COVID-19 has impacted the timeliness of child support hearings, the expansion of electronic signature capacities may help improve hearing timeliness by decreasing court processing time.



Issues for Consideration

Despite Current Budget Constraints, the Legislature Could Explore Other Program Improvements. The administration's budget proposals in the past few years have prioritized increasing funding levels to LCSAs in line with its new budgeting methodology. However, current budget constraints likely limit the state's ability to augment child support funding levels further in the coming years. Despite these budget challenges, the state still could work towards improving child support program operations and outcomes by pursuing already identified operational program efficiencies and policy-based changes.

- ***Explore Possible Implementation of Program Efficiencies and Policy Changes Captured in Prior Federal, State, and Local Reports and Initiatives.*** The Legislature may wish to explore ways to implement and expand program efficiencies and policy changes that have been raised in previous workgroup reports, previously considered policy changes, and federally approved local pilot projects. In addition to possibly increasing child support compliance rates and customer satisfaction, some of these changes also could provide workload relief, which would help LCSAs manage current funding reductions. We suggest the Legislature request the following information from the administration:
 - An update on the implementation time lines of scheduled program efficiencies and policy changes.
 - The benefits and trade-offs of implementing other program changes, such as those identified in recent pilot programs, statewide.
 - The benefits and trade-offs of implementing the identified program changes while the rollout of the new funding methodology is put on hold.



Issues for Consideration

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- **Revisit Child Support Program Funding Structure Before Any Further Augmentations.** In our report, [The 2019-20 Budget: Analysis of Proposed Increase in State Funding for Local Child Support Agencies](#), our office identified a number of issues with the administration's LCSA funding methodology. Some of our concerns were technical in nature, such as the calculation of the target case-to-staff ratio possibly being based on faulty data and not fully capturing the most cost-effective program practices. Other concerns have to do with the lack of consideration on how funding augmentations may be used to implement and expand best practices, program efficiencies, and policy changes. The Legislature could consider asking the administration to address these issues prior to the LCSA funding methodology being proposed again when the state budget is in a better position. Additionally, the Legislature could request that the administration assess the funding needs for local courts and any other program components that were not captured in the LCSA funding methodology.

Possible Ways Legislature Could Maximize Use of Research Study Proposal. The Legislature may want to consider ways to maximize the research conducted under the administration's proposal, including:

- **Request a Draft of the Research Proposal and Time Line.** In general, the proposed K-Factor and COAP studies should be original and not duplicate existing research. Moreover, the work should help the state overcome barriers that have made it difficult to change the K-Factor and COAP in the past. To ensure that the administration's research proposal accomplishes these things, we recommend the Legislature request a draft of the research proposal and details on the project time line. This information would also help the Legislature better understand how DCSS will coordinate with Judicial Council to incorporate any findings and recommendations from the studies into the upcoming quadrennial review.



Issues for Consideration

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- ***Provide Input on K-Factor and COAP Research Framework.*** Upon receiving a draft of the research proposal and project time line, the Legislature could weigh in on the overall structure and approach of the two proposed studies. For example, if the draft proposal does not place enough emphasis on research questions or frameworks that are of legislative interest, such as equity or ability to pay, the Legislature could request that the research proposal be modified to draw greater attention to those components. Additionally, if not already reflected in the project time line, the Legislature could request frequent check-ins in which the administration seeks legislative input on key research decisions or provides updates on the progress of the research projects.
- ***Propose Additional Research Items That Align With Other Aspects of FEM Final Rule and Legislative Interests.*** The Legislature could consider using the administration's research proposal as a vehicle to assess additional components of the FEM final rule and topics of legislative interest. For example, the Legislature could include an evaluation of the current low-income adjustment factor, as mentioned in the 2018 quadrennial review. The Legislature also could request an evaluation of topics that were considered in past workgroups and other legislatively driven processes, such as benefits and trade-offs of increasing the amount of child support CalWORKs families keep or the impact of enforcement tools, including license suspension, on reliability of child support collections and families.

Request Additional Information on How the Administration Plans to Use the Findings From the Proposed Studies and Level of Legislative Involvement. How the administration plans to act on the K-Factor and COAP research findings and what role the Legislature would play in any policy proposal development is unclear. For example, would the administration fully adopt any recommended changes to the K-Factor or COAP, even if the studies also have the same shortcomings and challenges of existing research? If the studies were to recommend program changes, would the changes be implemented administratively or through legislation? Overall,



Issues for Consideration

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the Legislature may wish to consider requesting additional information on how the administration envisions using the findings from the studies to enact program changes and how the Legislature would be involved in that process.

Consider Ways to Expand Electronic Filing Capacity. In a previous state workgroup report, electronic filing was identified as an operational program efficiency as it saves staff time, reduces paper and printing costs, and results in child support collections being paid to families much sooner than would have occurred through manual filing system. We understand that over 30 counties currently utilize a paper filing system and that some efforts could be underway to expand electronic filing. The Legislature and administration may want to request additional information on the status of these possible efforts, what challenges are currently preventing full implementation of electronic filing, and consider ways it can further assist in the expansion of electronic filing.

