

Testimony
Engrossed House Bill 1012 – Department of Human Services
Senate Appropriations
Senator Holmberg, Chairman
March 13, 2017

Chairman Holmberg, and members of Senate Appropriations, I am Jim Fleming, Director of the Child Support Division of the Department of Human Services (Department). I am here today to provide an overview of programs and services that make up the budget request for the Child Support Division.

Programs

The purpose of the child support program is to enhance the well-being of children and reduce demands on public assistance programs by 1) obtaining child support and medical support from legally-responsible parents and 2) encouraging positive relationships between parents and their children.

Caseload/Customer Base

The Child Support Division's caseload consists of two kinds of cases: 1) cases receiving all appropriate establishment, enforcement, and disbursement services under Title IV-D of the Social Security Act (IV-D cases) and 2) cases in which the Child Support Division only issues income withholding orders, maintains payment records, and disburses payments (nonIV-D cases). As of September 30, 2016, our caseload included 66,548 children and 83,604 parents.

A child support case can become a IV-D case upon request from another state or tribe; upon referral from the Temporary Assistance for Needy Families (TANF), Medical Assistance (Medicaid), or Foster Care programs; or upon request from either parent.

The total child support caseload was 54,356 in December 2016. The IV-D caseload was 37,423 and the nonIV-D caseload was 16,933. Consistent with the trend nationally, this reflects a 1,811 reduction in the total IV-D caseload (39,234 in December 2014) and a 2,610 increase in the nonIV-D caseload (14,323 in December 2014). States continue to examine their policies for referring public assistance cases to the IV-D program and closing unproductive cases, which are the primary reasons for the shift in total caseload from IV-D to nonIV-D.

The IV-D caseload in the four western regions has dropped less than in the east. In the western four regions, the number of new cases from other states each year remains more than three times the number of similar cases a decade ago, and many of those cases have high arrears balances.

Program Trends/Major Program Changes

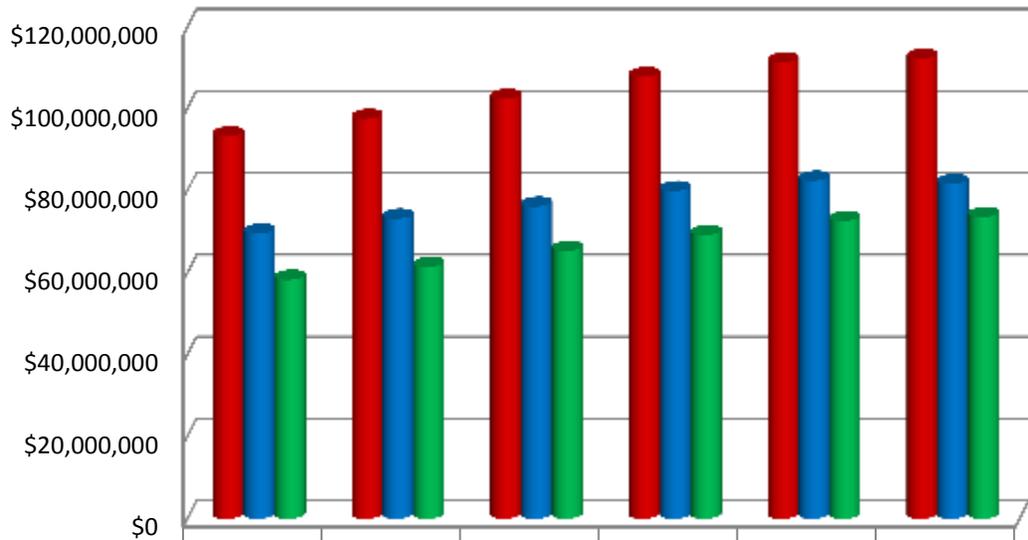
Program Changes

Over the last two years, the Child Support Division has continued its efforts to reduce the amount of child support that goes uncollected. In general terms, the amount of a parent's monthly child support obligation is set by the court based on the parent's income and can be reviewed periodically. As wages have increased over the last decade, so too have child support obligations. However, as economic activity in the state

slowed in the last few years, many parents were forced to make a job change with reduced wages. To avoid continued monthly obligations that were too high and essentially uncollectible, the Child Support Division increased its efforts to review and “right-size” obligations more often than the federally-required minimum of every three years. In addition, the Child Support Division offered its first amnesty program to encourage parents who were behind on their obligations to enter into payment plans to resume making sustainable, reliable payments of current support and an affordable amount toward any past-due support.

These efforts were successful. From 2008 to 2014, the amount of current support due in North Dakota rose by an average of 4.96% per year. In 2015, this growth slowed to 3.3% and in 2016, the increase in the current support due for the year was only 0.8%. The collection rate for current support still dropped from 74.2% in Federal Fiscal Year (FFY) 2014 to 72.8% in FFY 2016, but given the current economic situation, this drop would have been much larger had it not been for the extra effort to take a realistic look at parents’ ability to pay child support and seek a reduction in the obligation when appropriate.

Department of Human Services Current Child Support Federal Fiscal Year

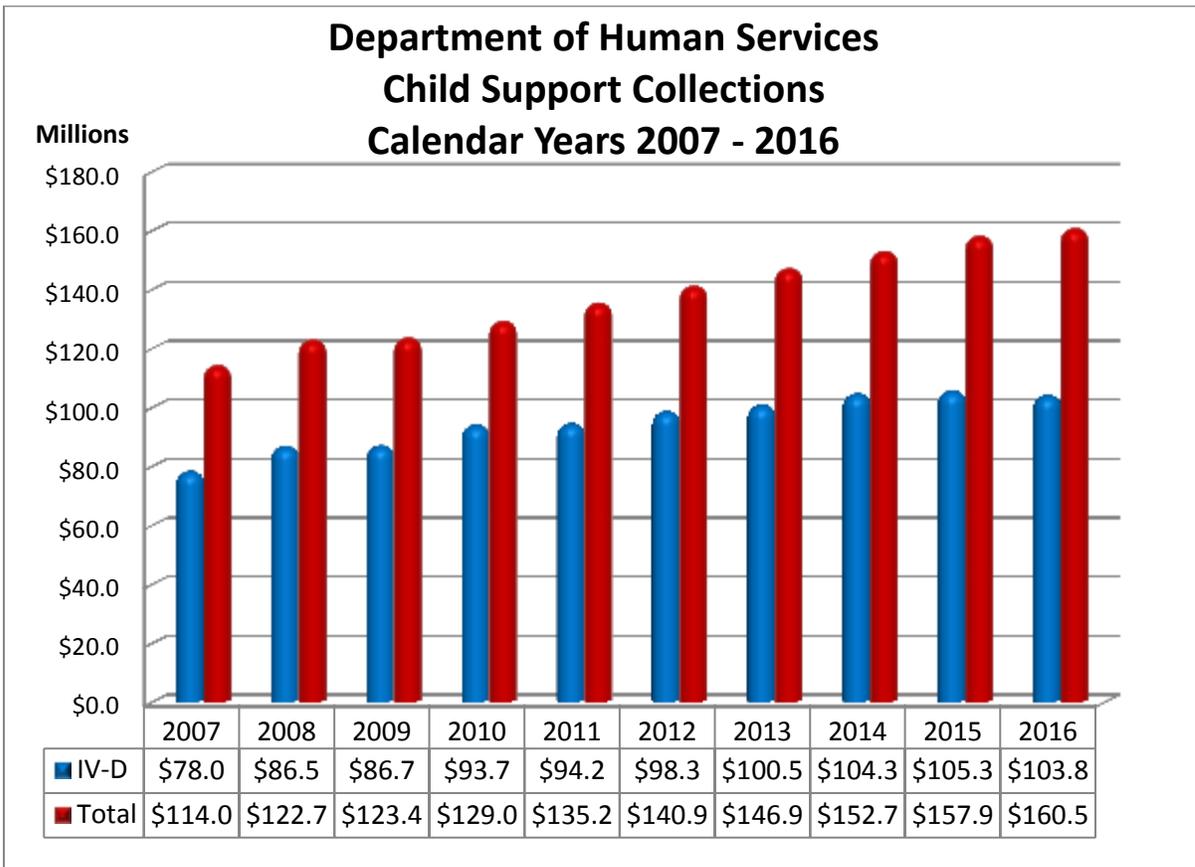


*National average performance applied to North Dakota's current support due.

	2011	2012	2013	2014	2015	2016
North Dakota	74.6%	75.1%	74.3%	74.2%	74.1%	72.8%
National Average	62.5%	63.0%	63.8%	64.2%	65.2%	65.6%

Collections

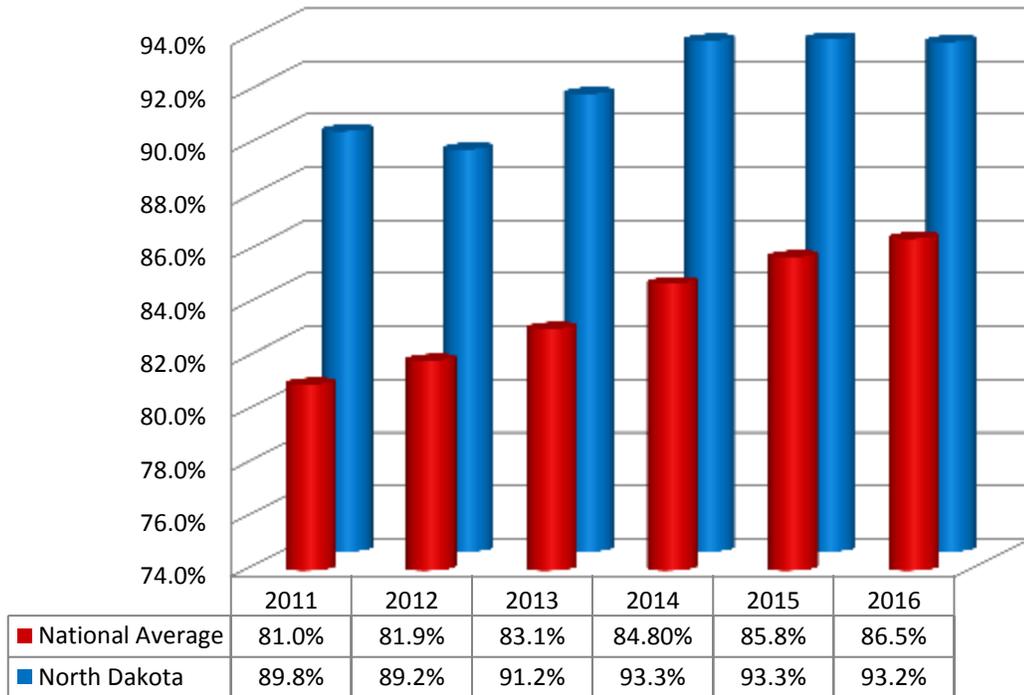
For Calendar Year 2016, total collections reached a new record of \$160.5 million. As expected from the shift in caseload from IV-D to nonIV-D, the collections in IV-D cases decreased 1.5% to \$103.8 million, and the collections in nonIV-D cases increased 7.7% to \$56.7 million. Of the estimated \$320 million we expect to collect in the next biennium, nearly 87% will be sent to families, with the remaining 13% either sent to other jurisdictions for disbursement or retained to reimburse taxpayers for expenditures by public assistance programs. Nearly two-thirds of child support collections are the result of employers withholding from employee wages.



Performance

The Child Support Division continues to rank as one of the best programs in the nation based on the five federal performance measures. In addition to the strong 72.8% current support collection rate, the Child Support Division has maintained its historic high of over 93% of IV-D cases having a support order established by the court.

Department of Human Services Child Support Order Establishment Federal Fiscal Year



The FFY 2016 establishment rate is one of the highest in the country.

North Dakota has continued to do well on the other three federal performance measures for the last federal fiscal year:

- Children in IV-D cases born out of wedlock with paternity established or acknowledged: 106.12% (this formula compares the children born out of wedlock with paternity established in IV-D cases that were open during FFY 2016 with the number of children born out of wedlock in IV-D cases that were open at the end of FFY 2015).
- IV-D cases with arrears in which there was a collection on the arrears: 65.1%. This number is down from 66.45% in FFY 2014, but is predictable given the difficulty many parents have in paying

their current child support until the obligation can be reduced to reflect their current income.

- Amount collected for each dollar spent: \$6.15.

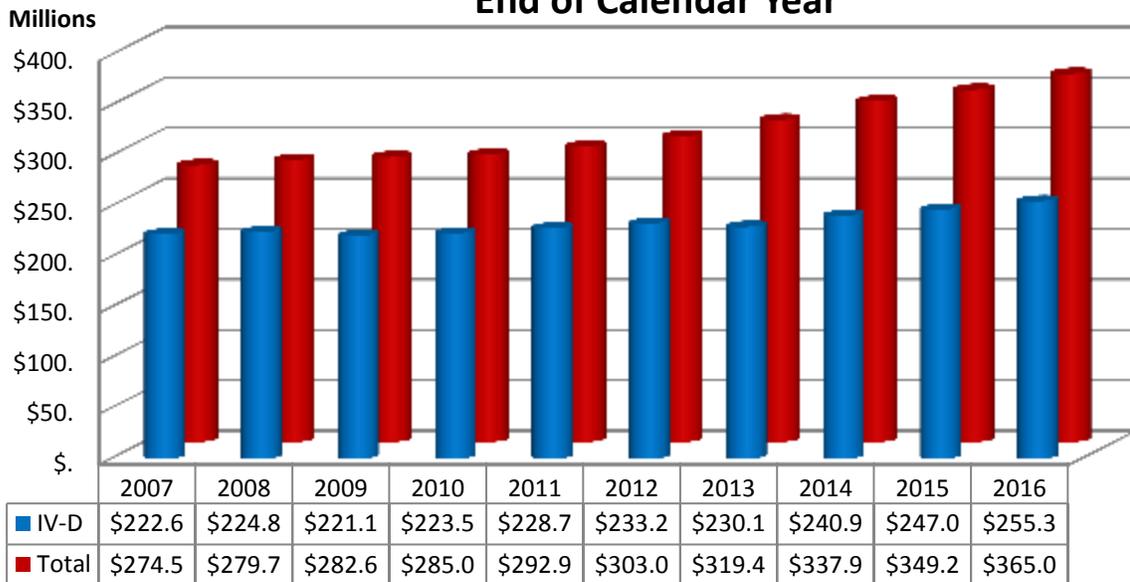
In addition to the five federal performance measurements above, the number of IV-D cases that cannot proceed for lack of jurisdiction has remained very low at 1,621, thanks in large part to our increased efforts to partner with tribes, tribal IV-D programs, and tribal courts.

Receivables

North Dakota parents, on average, are very diligent in providing current support for their children. Despite this fact, and the strong performance of the Child Support Division, \$30.58 million in current support went uncollected in Federal Fiscal Year 2016. Over the same period, the Child Support Division collected \$20.85 million in past-due child support.

Factoring in the judgment interest that accrues monthly on unpaid child support arrears, the total arrears owed in IV-D cases in North Dakota at the end of Calendar Year 2016 rose to \$255.3 million, with another \$109.7 million owed in nonIV-D cases. Our long-term goal, with continued legislative support for our program and the flexibility we currently have been given to work with delinquent parents, is to reverse this trend and reduce the overall statewide total of arrears.

**Department of Human Services
Child Support Receivables
End of Calendar Year**



Overview of Budget Changes

	2015-2017 Budget	Increase / (Decrease)	2017-2019 Executive Budget	House Changes	2017-2019 Budget To Senate
Salary and Wages	24,653,450	710,878	25,364,328	(259,799)	25,104,529
Operating	4,593,015	(360,191)	4,232,824	(3,439)	4,229,385
Total	29,246,465	350,687	29,597,152	(263,238)	29,333,914
General Fund	8,424,354	(381,627)	8,042,727	(97,352)	7,945,375
Federal Funds	18,044,837	(114,931)	17,929,906	(160,111)	17,769,795
Other Funds	2,777,274	847,245	3,624,519	(5,775)	3,618,744
Total	29,246,465	350,687	29,597,152	(263,238)	29,333,914

Full Time Equivalent (FTE)	165.20	0	165.20	(0)	165.20
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Budget Changes from Current Budget to the Executive Budget:

The Salary and Wages line item increased by \$710,878 and can be attributed to the following:

- \$577,230 in total funds, of which \$238,917 is general fund needed to fund the Governor's compensation package.
- \$414,938 in total funds, of which \$141,144 is general fund needed to fund the employee increases approved by the last Legislative assembly.
- The remaining decrease of \$281,290 is a combination of increases and decreases needed to sustain the salary of the 165.2 FTEs in this area of the budget.

The Operating line item decreased by \$360,191 (7.84%) and is a combination of the increases and decreases expected next biennium.

Outlined below are the significant areas of change:

- \$230,929 decrease in Operating Fees and Services mainly due to:
 - \$90,000 decrease due to replacing the need for a private investigator with more in-house locate efforts;
 - \$74,100 decrease due to moving work done by outside attorneys to in-house attorneys;
 - \$24,900 decrease for genetic testing based on actual usage and the negotiation of a lower rate;
 - \$15,000 decrease due to 2015-2017 budget including the cost to modify the Fargo regional office and the anticipated move of the Bismarck regional office to a different office space;
 - \$13,741 decrease in expected reimbursement to the Supreme Court for clerk and referee services based on current

- utilization and additional automation resulting in less review time of system-generated alerts by the clerks of court; and
- \$9,860 decrease in sheriff's fees based upon actual usage.
- \$68,491 decrease in Travel due to the Department-wide process used to develop the Department's savings plan.
- \$37,102 decrease in Professional Development due to the Department-wide process used to develop the Department's savings plan.
- \$26,210 decrease in Office Equipment and Furniture under \$5,000 due to the 2015-2017 budget including the replacement of a safe, several file cabinets, and furniture needed for a client meeting room and reception area in the Fargo regional office, along with additional decreases due to the Department-wide process used to develop the Department's savings plan.
- \$53,930 increase in rent with majority of the increase due to the rate increases in five of the eight regional offices and additional square footage in the Fargo regional office.

The net change in the general fund as well as federal and other funds is a result of the changes noted above and due to the Department using the Child Support incentive and fee revenue, which must be reinvested in the Child Support program. Eligible IV-D expenditures are matched with 66% federal funds and 34% state funds.

Currently, there is a federally-mandated \$25 annual fee charged in IV-D cases (excluding cases where public assistance has been expended) after the first \$500 in annual collections, and an equivalent monthly fee of \$2.10 in nonIV-D cases. In looking at the sustainability of the budget for the Child Support Division, the fees in nonIV-D cases could be increased

to support the administration of the program and motivate more parents to apply for IV-D services.

House Changes from Executive Budget:

- The Department-wide FTE allocation would result in the reduction of four FTE for the Child Support area of the budget, resulting in a \$612,000 decrease in Salary and Wages, of which \$174,485 is general fund. The loss of these FTE will result in less child support being collected. Most child support collected is disbursed to families, rather than retained by the state, which promotes family self-sufficiency. A reduction in child support collections will cause an increase in demand for assistance from programs such as Supplemental Nutrition Assistance Program (SNAP), TANF, Medicaid, and Child Care Assistance. A federal study showed that for every dollar collected that is disbursed to a family not on TANF, it avoids \$0.19 in costs to other public assistance programs. Using our latest federal cost benefit ratio of \$6.15 collected for each dollar spent, and considering the federal match rate of 66% for child support expenditures, every general fund dollar spent on child support avoids additional public assistance costs of \$3.44.
- \$160,523 decrease in Salary and Wages, of which \$52,621 is general fund, due to the House Amendments that removed funding for the anticipated retirement of 10 FTE in this area.
- \$99,276 decrease in Salary and Wages, of which \$41,292 is general fund, due to the elimination of the 1% salary increase that had been proposed for the second year of the biennium.
- \$3,439 general fund decrease in Operating expenses, will result in an overall operating expense decrease of approximately \$8,818 when federal matching funds are considered. It is anticipated that

this reduction will result in elimination of a biennial mailing to the employers in the state regarding their requirement to report new hires. This biennial mailing always results in an increase in the reporting rate of employment and an increase in collections.

This concludes my testimony on the 2017 - 2019 budget request for the Child Support Division of the Department. I would be happy to answer any questions.