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Overview of Child Welfare Services in Michigan State

October 2007

Michigan is experiencing severe economic and fiscal problems due primarily to a downturn in the automobile industry, resulting in a budget deficit of approximately \$856.4 million at the end of the state's 2007 fiscal year (September 30). Because of these issues, many of the state's budget bills are still being debated as of the date of this memo. The human services budget bill, SB 232, was passed by the Senate on August 22, 2007. The House passed an amended version of the bill on September 6, 2007. The bill is currently in conference committee. This memo will summarize those provisions in the bills that are relevant to reform of federal child welfare financing. When a budget is finally approved and signed by the Governor, this memo will be updated.

Background

Michigan's foster care caseload is characterized by two trends.

- First, the average monthly caseload of IV-E eligible children has declined from 8,483 in FY 2001 to 4,486 in FY 2006, a 47 percent decrease. (During the same period, the total foster care population decreased by only 5 percent.)
- Second, the number of children in relative placements (including fictive kin, called "unrelated caregivers" in Michigan) increased from 5,996 in FY 2001 to 6,628 in FY 2006, an 11 percent increase.

These two trends are related, in that many of the relative placements are unlicensed and therefore ineligible for IV-E funding, according to an issue paper by the Michigan Senate Fiscal Agency. That paper states that approximately 2,865 children in relative placements would be eligible for IV-E if their caregivers were licensed foster parents. Accordingly, the increased reliance on relative caregivers has, along with other factors, contributed to a substantial loss of federal funding. The staff analysis of the governor's proposed budget reflects a decrease in federal foster care funding in the amount of \$10.3 million. The analysis states that the federal funding reduction is due to "declines in federal Title IV-E foster care eligibility." The analysis states elsewhere that the governor's budget anticipates an increase of \$5 million in federal foster care funds due to contracted revenue maximization efforts. Finally, the proposed budget reflects a general fund (GF) savings of \$8 million in foster care funds due to a reduction in cost per case and a projected caseload decline from 9,608 to 9,570.

Current Budget Bills



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As stated above, both the Senate and House passed their own versions of the Human Services budget. The status of the House bill is somewhat murky. The House Appropriations Committee reported out a bill retaining some of the provisions of the Senate bill and changing others. The full House then approved a bill that essentially zeroed out all of the human services appropriations. According to Senate Fiscal Agency staff, the conference committee will enter into negotiations based on the substance of the bill approved by the House committee, rather than negotiate every line item from scratch based on the action of the full House. Therefore, the discussion below is based on the House committee bill (SB 232, H-1).

Relevant Senate Bill Provisions:

- Creation of a new subsidized guardianship program, funded with \$4.5 million in state GF. (Michigan is in the minority of states that do not currently have a subsidized guardianship program.)
- Elimination of 834 foster care, adoption and juvenile justice staff positions and transfer of funding and responsibility to private agencies.
- Creation of a new IV-E Compliance and Accountability Office with 4 positions to assist with maximization of IV-E funds.
- Rejection of the Governor's proposal to add 257 new positions focused on finding permanent placements for children in foster care, converting current relative caregivers to licensed foster parents, and facilitating background checks on current and prospective foster parents.

Relevant House Committee Bill Provisions

- Retains the Senate bill's provision creating a new subsidized guardianship program, funded with \$4.5 million in state funds (see above).
- Retains the IV-E Compliance and Accountability Office, but adds a fifth FTE and funds up to 200 IV-E specialist positions to work in local DHS offices to ensure that all eligible cases are qualified for IV-E funding. First year funding for the new positions: \$6.7 million state GF, \$1.7 million federal funds.
- Includes funding for 151 of the 257 new positions recommended by the Governor. These positions would facilitate permanency for children who have been in foster care for more than a year. Also includes funding in the amount of \$2.8 million in state and federal funds for private agencies to recruit and license relative caregivers.



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Analysis

At least with regard to child welfare, Michigan is considering the following strategies to deal with a serious budget shortfall:

1. Increase federal IV-E funding by:
 - Strengthening its eligibility determination process, and
 - Licensing more relative caregivers.
2. Reduce foster care expenditures by moving children out of foster care to permanency, including subsidized guardianship.
3. Expand the privatization of foster care and adoption services.

Proposals for reform of federal child welfare financing are directly relevant to all of these strategies.

- The House committee's perceived need for up to 200 staff to handle IV-E eligibility determinations, at a first-year cost of over \$8 million in state and federal funding, is testament to the complexity and burdensomeness of the rules that govern IV-E eligibility, particularly the AFDC look-back. Making all foster children eligible for IV-E funding would eliminate the need for these types of expenses.
- Many relative caregivers in Michigan are unlicensed because meeting the strict standards imposed on non-relative foster parents, as required by federal law for IV-E eligibility, is unduly burdensome or, in some cases, impossible. Reform of federal law to allow a separate licensing process for relatives would allow more relatives to qualify for IV-E funding and ease the financial burden on the state.
- Federal support of subsidized guardianship would greatly strengthen Michigan's efforts to move children to permanency and reduce the costs of foster care. Under current law, the entire cost of Michigan's proposed subsidized guardianship program would have to be covered by state funds. At a time of fiscal crisis, federal financial participation in this program would reduce these costs and partially insulate the program from shifting political and economic currents.
- Although proposals for federal financing reform do not directly address privatization, they could, if enacted, alleviate some of the fiscal pressures that make privatization seem like an attractive option for some policymakers. In fact, there is little evidence that privatization results in budget savings. In addition, some in Michigan fear that DHS will not have the resources to adequately monitor the performance of private providers, which could put children's health and safety at risk. A recent report by the



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Office of the Auditor General found that DHS was not effective in monitoring the services provided by existing contract agencies.

Conclusion

Michigan's increased reliance on relative care, while in accord with broad federal policy and good child welfare practice, has hurt the state financially. It is probable that many of these relative placements could be converted to permanent placements if the state had a subsidized guardianship program, as is being proposed. Thus, the idea of federal support for subsidized guardianship might be highly attractive to Michigan policymakers, including the state's Congressional delegation. Other aspects of federal financing reform could help alleviate some of the fiscal pressures currently being experienced by the state, all the while ensuring the safety, permanency and well-being of Michigan's children.