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Families Will Lose At Least \$8.4 Billion in Uncollected Child Support If Congress Cuts Funds—and Could Lose Billions More

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In December 2005, the House and Senate each passed a version of the conference agreement on budget reconciliation legislation (S. 1932) that makes substantial cuts in federal funding for child support enforcement.¹ While the conference agreement dropped a provision to reduce the federal child support match rate from 66 percent to 50 percent, a provision remains that prohibits states from drawing down federal matching funds on state performance incentive payments when they are re-invested in the child support program. This federal incentive match cut was included despite clear instructions from both the House and Senate to conferees to avoid cuts to the child support program.²

According to the Congressional Budget Office (CBO), the prohibition on the federal incentive match would result in a net reduction in federal funds of \$4.9 billion over the next ten years (\$1.6 billion over the next five years). The CBO estimate assumes that states will use their own funds to replace half of the reduction in spending. CLASP estimates that if states do not replace these funds, states would stand to lose \$8.55 billion over ten years—**more than a 20 percent cut to federal child support funds.**³ Tables 1 and 3 of this report offer estimates of the state-by-state funding cuts that would result from the elimination of the federal incentive match.

A one-page [fact sheet](#) is also available online.

Child Support Will Go Uncollected

Some proponents have argued that eliminating the federal incentive match would not hurt families, but would simply close an unintended loophole. This is not the case, however. States use the federal matching funds to establish and enforce support orders and collect money owed to families by non-custodial parents. The cut in federal funding would result in reduced child support payments taken directly out of the budgets of families who need the money to meet their children's needs. The budget legislation also would impose a new service fee on families who have not received TANF assistance, further reducing child support payments to families. **The CBO estimates that if states replace half of the spending reduction, \$8.4 billion in child support owed by non-custodial parents over the next ten years—and \$2.9 billion over five years—would go uncollected as a result of the federal incentive match cut.** CLASP estimates that if states do not replace half of the spending reduction, the amount of uncollected support would be twice as high as the \$8.4 billion estimate, or \$17 billion. Table 2 provides CLASP's state-by-state estimates of uncollected support payments based on the CBO score.

¹ The author appreciates the assistance of Sharon Parrott and Arloc Sherman from the Center on Budget and Policy Priorities in preparing this report.

² On December 14, the Senate voted 75 to 16 in favor of a motion from Senator Kohl (D-WI) to instruct Senate conferees to insist that the child support cuts in the House bill not be included in the conference agreement. On December 16, the House voted 246 to 175 in favor of Representative Spratt's (D-SC) motion to instruct House conferees to recede to the Senate, avoiding child support cuts.

³ Federal funding to the child support program includes 66 matching funds and incentive payments.

Federal Savings Scored by the CBO Do Not Reflect Full Impact of Cuts on States

The CBO estimates that eliminating the federal incentive match would result in a net savings to the federal government of \$4.9 billion over the next ten years. However, as noted above, the actual cut in federal funds is nearly twice as high, or \$8.55 billion. This is because the \$4.9 billion CBO estimate assumes that states would use their own funds to replace half of the lost federal child support funds. These state replacement funds would in turn be eligible for a federal match if spent on child support enforcement activities—offsetting federal savings gained from eliminating the incentive match.

The assumption that states would replace half of the spending reduction may be generous. At the same time states are grappling with the child support cuts, they will be facing strong pressures to increase state funding in their Temporary Assistance to Needy Families (TANF) program to meet substantially increased work participation rates. The CBO has estimated that the cost of meeting new TANF requirements by increasing participation in program activities would be \$8.4 billion over five years, but the bill provides no new TANF funds and only \$1 billion in new child care funding. States that fail to meet participation rate requirements risk a penalty of loss of up to 5 percent of their TANF block grants. States also will be scrambling to replace reduced federal funding in their foster care program to be able to support children placed with their grandparents and other relatives.

States spend these federal funds on basic child support activities—such as establishing paternity when a baby is born, going to court to obtain a support order, locating non-custodial parents and their assets, sending payroll withholding orders to employers, seizing bank accounts and income tax refunds, processing and distributing support payments, providing customer call centers, using secure procedures for domestic violence victims, referring low-income non-custodial parents to job services, updating computers, and ensuring that data are accurate.

The child support program is highly regulated by the federal government to ensure effective interstate enforcement. States that fail to meet extensive federal requirements must forfeit federal funding. States are required to meet extensive federal requirements in operating their child support programs, or forfeit federal funding. Because states have limited flexibility to alter their programs, CBO concluded that the budget legislation would impose an intergovernmental mandate by decreasing the federal government's responsibility to provide funding to states to administer the child support program.⁴

The Federal Match is Key to the Performance Incentive System

Since the early days of the child support program, states have received federal incentive payments—but not until Congress overhauled the incentive system in 1998 were states held to specific performance standards. Until this overhaul, states were permitted to spend the incentive payments in any way they chose, and were not required to re-invest their incentive payments in the child support program (for example, some states returned the incentive payments to their state treasury). However, states that chose to spend their incentive payments on reimbursable child support activities were permitted to draw down federal matching funds.

The performance-based system enacted by Congress in 1998 includes both incentives and penalties. It is now a “carrots and sticks” approach to funding. States are measured on five performance measures. Failure to meet minimum standards will trigger a penalty against states' TANF block grant funds of 1 to 2 percent in the first year and up to 5 percent for multiple-year failures. States also are subject to penalties if they fail to maintain accurate child support data. If states perform adequately, they will receive neither a penalty nor an incentive payment. Improved performance can earn states a partial incentive payment. The better a state performs, the higher the incentive payment, up to a capped amount set by statute.

⁴ <http://www.cbo.gov/ftpdocs/68xx/doc6821/WMrecon.pdf>

As a part of the redesigned performance incentive system, states are required to spend their incentive payments on reimbursable child support activities, unless they receive permission from the U.S. Department of Health and Human Services (HHS) to spend the money on closely-related but non-reimbursable activities—fatherhood programs, for example. Congress intended that when states spend their incentive payments on reimbursable child support activities required under the state plan, they would receive federal reimbursement at the standard matching rate. The intent was to create an adequate pool of funds available to states, especially poorer and smaller states, to improve their child support performance. This pool was designed to include both the incentive payments and the draw-down on federal matching funds. (This paper’s Appendices contain the statutory and proposed language.)

In 2008 (the year the cut goes into effect), states will receive \$483 million in incentive payments. However, the 66 percent federal match on those incentive payments is nearly twice as much—\$937 million. The federal match effectively triples the funds available to states to improve their performance and enforce child support. The combined pool of incentive payments and federal matching funds will be worth \$1.4 billion to states (\$483 million in incentive payments plus \$937 million federal match).

It is the federal match—combined with the real threat of performance penalties—that helped drive dramatic performance improvements in recent years. Together, the incentive payments and federal incentive match account for 25 percent of total program funds, providing states with a significant incentive to invest additional state funds and improve performance. Without the federal match, the performance incentive would be limited to 8.5 percent of program funds.

These Cuts Will Undermine a Decade of Dramatic Progress

This performance-based funding system has accomplished exactly what it was designed to do. At the time the incentive system was redesigned, child support programs in most states were substantially underfunded compared to other children’s programs, and performance was abysmal. In 1998, states were only collecting child support in 23 percent of cases. By 2004, states had more than doubled their collection rates from 1998 levels, collecting child support in 51 percent of cases. States have significantly improved their performance on every other measure as well, including paternity establishment, obtaining support orders, and cost-effectiveness. In fact, not only has state performance steadily improved every year since the performance incentive system was adopted, but collections have increased faster than spending.

The Office of Management and Budget ranks the child support program as one of the highest-rated block/formula grants of all reviewed programs government-wide under its Performance Assessment Rating Tool (PART). The President’s 2006 budget states that, “This high rating is due to its strong mission, effective management, and demonstration of measurable progress toward meeting annual and long term performance measures.”⁵

If the federal match on incentive payments is eliminated, state performance will almost certainly slip. The research is clear that child support performance is directly related to funding levels. With these cuts, states will have less money available to maintain and improve their child support performance, creating a downward spiral of reduced funding and performance. As state performance slips, states will lose incentive payments, and many states will fall into penalty status. States receive automatic penalties of 1 to 2 percent of their TANF funds in the first year for performance or data reliability problems. By law, a penalized state must replace the federal TANF funds withheld to pay the penalty with state funds. At the same time, the state will need to find additional funds to improve their child support performance if they are to avoid subsequent penalties.

⁵ FY 2006 U.S. Department of Health and Human Services. *Budget in Brief*. Retrieved October 27, 2005 at <http://www.hhs.gov/budget/06budget/acf.html#legislativeProp>.

Reduced Child Support Funding Means Higher Welfare Costs

The child support program ensures that both parents support their children—so that taxpayers do not need to. The child support program is a front-end program, collecting child support to help families remain self-sufficient. Every \$1.00 spent by federal, state, and county governments yields \$4.38 in private funds paid by non-custodial parents to support their children. Federal funds spent on the child support program directly reduce federal outlays in other programs. The Urban Institute found that the child support program more than pays for itself in reduced direct budgetary outlays in TANF, Medicaid, food stamps, and other needs-based programs. It is in the federal government's direct budgetary interest to fund the child support program at a level that reinforces parental responsibility and produces results for families. When families do not receive child support, they need more help from public assistance programs.

The cuts to child support funding will erode the progress made by states, resulting in fewer non-custodial parents supporting their children and more families signing up for public assistance. Child support performance will likely slip and more states will certainly incur penalties against their TANF funds as they cut child support costs and retrench enforcement efforts.

TABLE 1

**Cuts to Federal Funds if Federal Incentive Match is Eliminated
(\$ millions)**

State	5-year Cut, 2006-2010	10-Year Cut, 2006-2015
Nationwide	-\$1,636.0	-\$4,893.0
Alabama	-\$14.1	-\$42.3
Alaska	-\$7.0	-\$20.9
Arizona	-\$18.0	-\$53.8
Arkansas	-\$12.1	-\$36.2
California	-\$158.3	-\$473.3
Colorado	-\$17.4	-\$52.1
Connecticut	-\$12.5	-\$37.2
Delaware	-\$4.6	-\$13.6
Dist. Columbia	-\$2.2	-\$6.4
Florida	-\$90.4	-\$270.4
Georgia	-\$38.1	-\$114.0
Hawaii	-\$5.6	-\$16.9
Idaho	-\$8.4	-\$25.2
Illinois	-\$30.4	-\$91.0
Indiana	-\$25.5	-\$76.3
Iowa	-\$26.1	-\$78.1
Kansas	-\$11.9	-\$35.6
Kentucky	-\$27.5	-\$82.2
Louisiana	-\$21.2	-\$63.4
Maine	-\$8.4	-\$25.2
Maryland	-\$19.7	-\$59.0
Massachusetts	-\$33.0	-\$98.8
Michigan	-\$104.8	-\$313.3
Minnesota	-\$47.0	-\$140.6
Mississippi	-\$11.7	-\$35.0
Missouri	-\$37.9	-\$113.4
Montana	-\$3.8	-\$11.4
Nebraska	-\$13.1	-\$39.2
Nevada	-\$4.9	-\$14.6
N. Hampshire	-\$6.5	-\$19.4
New Jersey	-\$58.9	-\$176.1
New Mexico	-\$3.5	-\$10.5
New York	-\$94.8	-\$283.4
North Carolina	-\$46.2	-\$138.0
North Dakota	-\$5.6	-\$16.6
Ohio	-\$111.1	-\$332.4
Oklahoma	-\$12.4	-\$37.0
Oregon	-\$21.5	-\$64.2
Pennsylvania	-\$95.6	-\$286.0
Rhode Island	-\$4.6	-\$13.7
South Carolina	-\$13.0	-\$38.9
South Dakota	-\$5.5	-\$16.4
Tennessee	-\$28.0	-\$83.7
Texas	-\$126.2	-\$377.4
Utah	-\$13.3	-\$39.6
Vermont	-\$4.3	-\$12.9
Virginia	-\$38.5	-\$115.0
Washington	-\$48.5	-\$144.9
West Virginia	-\$13.6	-\$40.7
Wisconsin	-\$52.4	-\$156.6
Wyoming	-\$4.3	-\$12.7

CLASP calculations based on December 17, 2005 Congressional Budget Office preliminary estimate of federal savings if states no longer receive federal matching payments when they re-invest child support incentive payments in the child support program. The CBO estimate assumes that states will replace half of the reduction in spending. The total cut was allocated by state based on each state's 2004 share of child support incentive payments (unpublished HHS data).

TABLE 2

**Projected Impact on Federal Child Support Collections
(\$ millions)**

State	5-year Cut, 2006-2010	10-Year Cut, 2006-2015
Nationwide	-\$2,900.0	-\$8,400.0
Alabama	-\$25.1	-\$72.6
Alaska	-\$12.4	-\$35.8
Arizona	-\$31.9	-\$92.4
Arkansas	-\$21.5	-\$62.2
California	-\$280.5	-\$812.6
Colorado	-\$30.9	-\$89.4
Connecticut	-\$22.1	-\$63.9
Delaware	-\$8.1	-\$23.4
Dist. Columbia	-\$3.8	-\$11.1
Florida	-\$160.2	-\$464.2
Georgia	-\$67.5	-\$195.6
Hawaii	-\$10.0	-\$29.0
Idaho	-\$14.9	-\$43.2
Illinois	-\$53.9	-\$156.2
Indiana	-\$45.2	-\$131.0
Iowa	-\$46.3	-\$134.1
Kansas	-\$21.1	-\$61.2
Kentucky	-\$48.7	-\$141.1
Louisiana	-\$37.6	-\$108.8
Maine	-\$14.9	-\$43.3
Maryland	-\$35.0	-\$101.4
Massachusetts	-\$58.6	-\$169.6
Michigan	-\$185.7	-\$537.9
Minnesota	-\$83.3	-\$241.4
Mississippi	-\$20.7	-\$60.1
Missouri	-\$67.2	-\$194.8
Montana	-\$6.8	-\$19.6
Nebraska	-\$23.2	-\$67.3
Nevada	-\$8.7	-\$25.1
N. Hampshire	-\$11.5	-\$33.4
New Jersey	-\$104.3	-\$302.2
New Mexico	-\$6.2	-\$18.0
New York	-\$168.0	-\$486.6
North Carolina	-\$81.8	-\$237.0
North Dakota	-\$9.9	-\$28.5
Ohio	-\$197.0	-\$570.6
Oklahoma	-\$22.0	-\$63.6
Oregon	-\$38.0	-\$110.2
Pennsylvania	-\$169.5	-\$490.9
Rhode Island	-\$8.1	-\$23.5
South Carolina	-\$23.0	-\$66.7
South Dakota	-\$9.7	-\$28.1
Tennessee	-\$49.6	-\$143.7
Texas	-\$223.7	-\$647.9
Utah	-\$23.5	-\$68.0
Vermont	-\$7.6	-\$22.2
Virginia	-\$68.2	-\$197.5
Washington	-\$85.9	-\$248.8
West Virginia	-\$24.1	-\$69.9
Wisconsin	-\$92.8	-\$268.8
Wyoming	-\$7.5	-\$21.8

CLASP calculations based on December 17, 2005 Congressional Budget Office preliminary estimate of federal savings if states no longer receive federal matching payments when they re-invest child support incentive payments in the child support program. The CBO estimate assumes that states will replace half of the reduction in spending. The total loss in collections was allocated by state based on each state's 2004 share of child support incentive payments (unpublished HHS data).

TABLE 3

**Comparison of 10-Year Cuts if States Do Not Replace Reduced Funds
versus Replacing Half of Funds
(\$ millions)**

State	If States Do Not Replace Any Funds:	If States Replace Half of Funds:
Nationwide	-\$8,550.0	-\$4,893.0
Alabama	-\$73.9	-\$42.3
Alaska	-\$36.4	-\$20.9
Arizona	-\$94.0	-\$53.8
Arkansas	-\$63.3	-\$36.2
California	-\$827.1	-\$473.3
Colorado	-\$91.0	-\$52.1
Connecticut	-\$65.1	-\$37.2
Delaware	-\$23.8	-\$13.6
Dist. Columbia	-\$11.3	-\$6.4
Florida	-\$472.4	-\$270.4
Georgia	-\$199.1	-\$114.0
Hawaii	-\$29.5	-\$16.9
Idaho	-\$44.0	-\$25.2
Illinois	-\$159.0	-\$91.0
Indiana	-\$133.4	-\$76.3
Iowa	-\$136.5	-\$78.1
Kansas	-\$62.3	-\$35.6
Kentucky	-\$143.7	-\$82.2
Louisiana	-\$110.7	-\$63.4
Maine	-\$44.1	-\$25.2
Maryland	-\$103.2	-\$59.0
Massachusetts	-\$172.7	-\$98.8
Michigan	-\$547.5	-\$313.3
Minnesota	-\$245.7	-\$140.6
Mississippi	-\$61.1	-\$35.0
Missouri	-\$198.2	-\$113.4
Montana	-\$20.0	-\$11.4
Nebraska	-\$68.5	-\$39.2
Nevada	-\$25.5	-\$14.6
N. Hampshire	-\$34.0	-\$19.4
New Jersey	-\$307.6	-\$176.1
New Mexico	-\$18.3	-\$10.5
New York	-\$495.3	-\$283.4
North Carolina	-\$241.2	-\$138.0
North Dakota	-\$29.0	-\$16.6
Ohio	-\$580.8	-\$332.4
Oklahoma	-\$64.7	-\$37.0
Oregon	-\$112.2	-\$64.2
Pennsylvania	-\$499.7	-\$286.0
Rhode Island	-\$23.9	-\$13.7
South Carolina	-\$67.9	-\$38.9
South Dakota	-\$28.6	-\$16.4
Tennessee	-\$146.3	-\$83.7
Texas	-\$659.5	-\$377.4
Utah	-\$69.3	-\$39.6
Vermont	-\$22.5	-\$12.9
Virginia	-\$201.0	-\$115.0
Washington	-\$253.2	-\$144.9
West Virginia	-\$71.1	-\$40.7
Wisconsin	-\$273.6	-\$156.6
Wyoming	-\$22.2	-\$12.7

CLASP calculations based on December 17, 2005 Congressional Budget Office preliminary estimates of federal savings assuming that states replace half of the reduction in spending. The total cut was allocated by state based on each state's 2004 share of child support incentive payments (unpublished HHS data).

TABLE 4

**2003 State Incentive Payments and Federal Match
(\$ millions)**

State	Incentive Payments	Federal Match	Combined Funds (Incentives Plus Match)
Nationwide	\$461.0	\$894.3	\$1355.3
Alabama	\$4.0	\$7.8	\$11.8
Alaska	\$2.1	\$4.2	\$6.3
Arizona	\$5.1	\$9.8	\$14.9
Arkansas	\$3.1	\$6.1	\$9.3
California	\$45.3	\$87.8	\$133.1
Colorado	\$4.9	\$9.5	\$14.5
Connecticut	\$3.9	\$7.6	\$11.6
Delaware	\$1.0	\$1.9	\$2.9
Dist. Columbia	\$0.5	\$1.0	\$1.4
Florida	\$22.5	\$43.7	\$66.3
Georgia	\$10.5	\$20.3	\$30.7
Guam	\$0.06	\$0.1	\$0.2
Hawaii	\$1.6	\$3.1	\$4.7
Idaho	\$2.2	\$4.3	\$6.5
Illinois	\$7.2	\$13.9	\$21.1
Indiana	\$5.6	\$10.8	\$16.3
Iowa	\$7.2	\$14.0	\$21.2
Kansas	\$3.1	\$6.0	\$9.1
Kentucky	\$8.0	\$15.4	\$23.4
Louisiana	\$6.1	\$11.9	\$18.0
Maine	\$2.6	\$5.0	\$7.5
Maryland	\$6.5	\$12.7	\$19.2
Massachusetts	\$10.0	\$19.3	\$29.3
Michigan	\$27.4	\$53.1	\$80.5
Minnesota	\$13.5	\$26.2	\$39.7
Mississippi	\$2.5	\$4.8	\$7.3
Missouri	\$8.7	\$16.8	\$25.4
Montana	\$1.2	\$2.2	\$3.4
Nebraska	\$3.1	\$6.0	\$9.1
Nevada	\$1.3	\$2.5	\$3.8
N. Hampshire	\$2.0	\$3.8	\$5.8
New Jersey	\$17.9	\$34.7	\$52.6
New Mexico	\$0.7	\$1.3	\$2.0
New York	\$30.9	\$59.8	\$90.6
North Carolina	\$12.2	\$23.7	\$35.9
North Dakota	\$1.3	\$2.5	\$3.7
Ohio	\$30.4	\$58.9	\$89.2
Oklahoma	\$3.1	\$5.9	\$9.0
Oregon	\$6.3	\$12.3	\$18.6
Pennsylvania	\$29.5	\$57.3	\$86.8
Puerto Rico	\$3.5	\$6.7	\$10.2
Rhode Island	\$1.0	\$1.9	\$2.8
South Carolina	\$3.9	\$7.6	\$11.6
South Dakota	\$1.7	\$3.2	\$4.9
Tennessee	\$7.7	\$15.0	\$22.7
Texas	\$36.8	\$71.4	\$108.3
Utah	\$3.5	\$6.8	\$10.3
Vermont	1.1	\$2.1	\$3.2
Virgin Islands	\$0.1	\$0.2	\$0.3
Virginia	\$11.4	\$22.2	\$33.6
Washington	\$14.7	\$28.5	\$43.1
West Virginia	\$4.2	\$8.2	\$12.4
Wisconsin	\$15.6	\$30.3	\$46.0
Wyoming	\$1.2	\$2.3	\$3.4

CLASP calculation of federal match and combined funds based on 2003 state incentive payments. CLASP assumes that federal match is 1.94 of incentive payments.

APPENDIX 1

Child Support Funding Provisions in S. 1932

SEC. 8320. INCENTIVE PAYMENTS.

(a) IN GENERAL. – Section 455(a)(1) (42 U.S.C. 655(a)(1)) is amended by inserting “from amounts paid to the State under section 458 or” before “to carry out an agreement.”

(b) EFFECTIVE DATE. – The amendment made by subsection (a) shall take effect on October 1, 2007.

SEC. 8304. MANDATORY FEE FOR SUCCESSFUL CHILD SUPPORT COLLECTION FOR FAMILY THAT HAS NEVER RECEIVED TANF.

(a) IN GENERAL. – Section 454(6)(B) (42 U.S.C. 654(6)(B)) is amended –

(1) by inserting “(i)” after “(B)”;

(2) by redesignating clauses (i) and (ii) as sub-clauses (I) and (II), respectively;

(3) by adding “and” after the semicolon; and

(4) by adding after and below the end the following new clause:

“(ii) in the case of an individual who has never received assistance under a State program funded under part A and for whom the State has collected at least \$500 of support, the State shall impose an annual fee of \$25 for each case in which services are furnished, which shall be retained by the State from support collected on behalf of the individual (but not from the 1st \$500 so collected), paid by the individual applying for the services, recovered from the absent parent, or paid by the State out of its own funds (the payment of which from State funds shall not be considered as an administrative cost of the State for the operation of the plan, and such fees shall be considered income to the program);”.

(b) CONFORMING AMENDMENT. – Section 457(a)(3)(42 U.S.C. 657(a)(3)) is amended to read as follows:

“(3) FAMILIES THAT NEVER RECEIVED ASSISTANCE. – In the case of any other family, the State shall distribute to the family the portion of the amount so collected that remains after withholding any fee pursuant to section 454(6)(b)(ii).”.

(c) EFFECTIVE DATE. – The amendments made by this section shall take effect on October 1, 2006.

APPENDIX 2

Federal Statutes Requiring Re-Investment of Incentive Funds and Authorizing Federal Match

Paragraph (f) of the Child Support Performance Incentive Act of 1988 (42 U.S.C. 658a(f)) provides:

A State to which a payment is made under this section shall expend the full amount of the payment to supplement, and not supplant, other funds used by the State—

- (1) to carry out the State plan approved under this part; or
- (2) any activity (including cost-effective contracts with local agencies) approved by the Secretary, whether or not the expenditures for the activity are eligible for reimbursement under this part, which may contribute to improving the effectiveness or efficiency of the State program operated under this part.

The child support matching funds statute (42 U.S.C. 655(a)(1)) provides:

(a) Amounts payable each quarter

- (1) From the sums appropriated therefore the Secretary shall pay to each State for each quarter an amount—

- (A) equal to the percent specified in paragraph (2) [66 percent] of the total amounts expended by such State during such quarter for the operation of the plan approved under section 654 of this title....

except that no amount shall be paid to any State on account of amounts expended to carry out an agreement which it has entered into pursuant to section 663 of this title [child custody and missing children agreements]. In determining the total amounts expended by any State during a quarter, for purposes of this subsection, there shall be excluded an amount equal to the total of any fees collected or other income resulting from services provided under the plan approved under this part.