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Comments Regarding The Dynamics Of The Existing Funding System

Traditionally, funding for human services have been based on entitlement models and categorical funding streams. The hallmarks of these entitlement/categorical funding models are Food Stamps, Medi-Cal (Title XIX) and Foster Care (Title IV-E). Prior to 1996, AFDC (Title IV-A) was the other major entitlement. These large entitlement programs are supplemented by smaller more discretionary grant programs – Social Services Block Grant (Title XX), Child Welfare (Title IV-B), and a number of more specialized grants to complete program funding.

This traditional funding system was dramatically changed in 1996 with passage of Welfare Reform (a.k.a. the Personal Responsibility and Work Opportunities Reconciliation Act). Welfare Reform changed AFDC, eliminating the Title IV-A entitlement and replacing it with the Temporary Assistance to Needy Families block grant. The block grant came with a promise of new flexibility and better efficiencies. The trend established in 1996 continues with new proposals from President Bush's administration to offer block grants in Medicaid (Title XIX) and in Foster Care (Title IV-E).

Fundamental to understanding the dynamics of the existing funding system is appreciating the risks, benefits, opportunities and restrictions of:

- State and local budgeting;
- Financing under the different funding models of entitlements and block grants;
- Claiming mechanisms for reimbursement of funds; and,
- Relationships with community based providers.

<u>Budgeting</u>
The major goal of any budget exercise in human services is to maximize service delivery capacity within available resources in order to achieve positive community outcomes. A related goal is to minimize the cost of non-discretionary activities so that limited resources can be used as flexibly as possible to meet ever-changing local demands. By minimizing the cost of non-discretionary activities, resources are freed for new program initiatives and for managing the financial risks of growing programs and inaccuracies in budget estimating.

In human service programs with capped funding levels, the closer the budget comes to using all allocated resources the greater the risk that the budget will be exceeded. Many counties operate under policies that will not let them exceed capped allocations. In the ideal budgetary world these counties come close to using all available resources, but do not ever exceed the allocation. As a result of this dynamic, under-spending of available resources is a natural budgetary phenomenon. Other counties have authority from their Board to exceed allocations and can use that flexibility to maximize the availability of resources coming into the county.

In budgeting, we struggle with programs that have high local costs. This struggle manifests itself with approaches to service delivery that range from one extreme of minimizing risk and cost by implementing eligibility restrictions and barriers to access to the other extreme of promoting preventive services in collaboration with community partners so as to reduce long-term demand achieve better outcomes for at-risk families and communities.

Where the struggle leads depends on the gravity of budgetary demands. When the pressure to reduce cost is immediate and intense we tend choose options that restrict benefits because they have a better track record for reducing cost quickly. But this choice often results in quick fixes that have long term negative social, political and cost consequences.

While promoting preventive services in collaboration with community partners is often the better long-term option, these strategies are often complex and hard to manage. They require a level of creativity and energy that is not always available. There is risk that costs are not effectively controlled. And, they may result in raising community expectations to levels that cannot be sustained given the budgetary gyrations that we've come to expect. Because of these challenges, prevention programs and collaborative efforts are not as robust as one might hope. In order for them to be successful a strong risk mitigation strategy needs to be at hand so that budgets can be balanced if efforts don't yield promised savings.

In human services programs priority is placed on making sure those with immediate and compelling need receive services. When funding is short and there are not ready strategies to mitigate risk, services to those that are not yet presenting with compelling problems but are at-risk take a back seat or are cut. A good example of State policy that supported counties in risk mitigation was CalWORKs Performance Incentives. This incentive program gave counties discretionary funds based on achieving good outcomes that could be used to help balance the risks inherent in innovation.

<u>Financing Under Entitlements and Block Grants</u>
From a budgetary perspective, entitlement funding eases the risk of growing program costs. It assures local government that they are not left paying 100% of the tab when unpredictable changes in the larger economy, or social environment occur. It also builds confidence that each level of government will share in cost increases resulting from demographic changes and inflation. But, the guaranteed funding levels of entitlement programs can lead to a complacency that emphasizes cost control through restrictions on

eligibility and service levels when budgets are tight. It is more difficult for administrators to see the opportunities for flexibility.

Block grants scream flexibility. At their onset, they offer impetus to test new initiatives and to redirect resources to projects addressing very localized needs within a fixed budgetary amount. But, there are some profound problems with block grants. First, the costs to funders are capped, so the financial risk for future program growth lies entirely with the locality. Second, experience shows us that the promised flexibility is tempered by policies limiting use of funds and regulations assuring statewide consistency in practice.

These dynamics can be seen in the current discussion of TANF Reauthorization. The recently passed House Resolution (HR 4) mandates stricter work requirements, directs local policies over how to sanction for non-compliance and neither adds new funds to TANF and nor enough in Child Care to fully pay for projected need. I believe in the coming years we will see the innovation that counties implemented with the TANF block grant evaporate as economic shifts cause more community need, restrictive Federal policies require new program emphases and capped funding begins to limit opportunities to continue on with innovative practices. Already in Monterey we are proposing to reduce post-employment supportive services from 12 months after a family leaves aid to 6 months and have eliminated all our CBO contracts for community based innovations. Innovations that had been pursued included assisting with the establishment of transportation lines into more distant rural communities, support for kin caregivers, expanded employment services for troubled youth, teen pregnancy prevention efforts and domestic violence services.

Claiming

Social services are blessed with a wonderfully dynamic claiming system that allows blending of finances. The County Expense Claim and County Welfare Department Cost Allocation Plan allows counties to blend funding streams into a single worker or program area efficiently. This cost allocation system is very holistic in that it accounts for all salary, benefit and operating costs within local social services departments and distributes those costs for reimbursement to almost all funding sources. It allows the costs of delivering services to be shared equitably by all programs in what I've heard referred to as a funding mosaic. At the same time the County Expense Claim prevents double-dipping and missing claims. This claiming mechanism is at the heart of our existing funding system. From my discussions with colleagues in health and education it appears to be unique to CDSS, but is a model worth emulating in other systems.

Supporting this system of claiming is an effective cash management system. CDSS is usually successful in distributing funds to counties timely so that large cash lags do not occur. CDSS has a very robust system of advancing funds promptly and adjusting to actual expenses relatively quickly thereafter. I frequently hear from my health counterpart that claims can languish unreimbursed for over a year. It is often difficult to fund new programs when the cost reimbursements do not flow in a timely manner. The county must forego other important programs while waiting for reimbursements to arrive.

CDSS also takes care to redistribute funding from counties that have not been able to maximize funds to those that have exceeded allocations so as to minimize risk counties doing their best to fully utilize available resources. This redistribution is known as close-out funding. Because many counties are comforted by the history of having costs in excess of capped allocations covered, they are less edgy and conservative in their budgeting practice. As an example, in 2001-02 Monterey was under allocated funds for operating IHSS due to a calculation error in the State's allocation methodology. Knowing that close-out funding would be available I was able to negotiate with my Board of Supervisors to not cut my workforce to the point where services would be degraded. This valuable process also seems unique to CDSS among State Departments.

Relationships

Competition is a natural and promoted feature of American culture. It can only be expected that competition exists between county departments and between county staff and community staff. This competition can be a barrier to collaboration as each player works to prove their effectiveness. Healthy collaboration requires that we rethink the team. It can't be DSS v. Probation v. Behavioral Health or County v. State or County v. Community Organization. At some level we have to let go of our individual organizations' identities and come together as a holistic team addressing a community need. The ultimate test of rethinking the team is letting go of a function and giving it to a partner because they are closer to the customer.

This really is a test of trust and capacity. Trust, in that each partner will approach service delivery and cost reimbursement with integrity. That each is capable of carrying out the public responsibility with which counties are entrusted. Capacity, in that each partner needs to have the skill set to meet mandates and commitments. We have so many differing skill levels among us that respecting our uneven competencies can be a challenge.

In other words, if each partner believes they do not have to outshine another and has the skills and integrity to carry out commitments, then partnership can occur.

Models for Sharing Risk and Accountability for Results

So where does this lead us? I often tell my staff that if they have an innovative idea, the only thing preventing implementation should be the energy and capacity of our administration and our community partners. As an example, in Foster Care (Title IV-E) when the Family-to-Family approach was presented to me as a best practice approach that would help us prevent placement, I had every incentive to move forward. If we can save Foster Care dollars through this new approach to collaborating with birth families, resource families and communities, then it makes sense to "just do it." County costs for Foster Care placement are extremely high and the outcomes for the children we care for are often complex. I refuse to accept the argument that categorical funding streams prevent creativity – particularly in social services programs where we have a wonderful cost allocation plan and a supportive relationship with our State partners.

But there are some hurdles that need to be overcome in this "just do it" approach. One important one is that State regulations should promote flexibility in county approaches to purchasing supportive services, without undermining the ultimate public accountability for quality.

Where this flexibility has worked the best is in our relationship with local Community Colleges and Adult Schools for parent education classes, foster parent training, vocational education and other training programs. We've had a successful track record of establishing contracts guaranteeing funding for classes where our partner in educational pursues revenues through their normal funding streams, and if their need to achieve a particular average daily attendance is not met, than DSS makes up the difference.

Where this flexibility is notably absent is in child welfare where State law precludes counties from claiming Federal Title IV-E reimbursement for any contracted services. I understand that very recently in implementing it's Alternative Response System, Alameda County was able to overcome this barrier using its waiver authority under AB 1741.

Beyond the "just do it" approach to collaboration and flexible financing strategies there are other models that hold promise. Wrap-around programs in foster care have demonstrated success in improving outcomes for children in extremely high levels of institutional care. Alameda's successful Title IV-E waiver pilot, Project Destiny program takes wrap-around one step beyond the AB 163 model. It allows services to continue even after dependency has been dismissed and is designed to test "managed-care like" approaches to child welfare so as to promote flexibility in service delivery while retaining the safety net and shared risk benefits of the Title IV-E entitlement.

<u>Conclusion</u>

In conclusion, our existing financial systems are at a crossroads. We are struggling with Federal, State and local budget shortfalls. Budgetary pressures challenge us to take either restrictive approaches to service delivery or to pursue creative solutions for preventive services in collaboration with community partners.

The Federal government is moving away from entitlement funding to block grants. Block grants offer an ideal of flexibility, but this flexibility does not necessarily come to fruition. Block grants carry great risk for out-year funding shortages as they often get capped at the same time population and need grows. Block grants leave local government carrying most of the risk for funding shortfalls.

Entitlements do a better job than block grants at sharing the risk for program costs among the various levels of government involved. With the positive relationship between CDSS and counties, flexible approaches to service delivery are possible. Tools to help include the County Expense Claim, the County Welfare Department Cost Allocation Plan and the effective cash flow strategies employed by CDSS.

Our challenge is to develop relationships with partners that overcome our natural competitive spirit and that are founded on mutual trust and capacity. If we can overcome our issues of trust and capacity, then there are good models of collaboration that exist. Some of them we can and should "just do." Perhaps the greatest barrier there is overcoming the challenges we face in just maintaining our fragile grip on compliance with current mandates. Others models require counties to have more authority to receive Federal reimbursement for contracted services. Alternatively, "managed-care like" approaches to service delivery hold promise for sharing accountability and risk. But pursuit of these models should not erode the entitlement nature of our safety net. They should promote flexible service delivery tailored to an individual's needs rather than capping a system that is inadequately funded to begin with.