

NATIONAL  
CENTER FOR  
SERVICE  
INTEGRATION

RESOURCE  
BRIEF

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NATIONAL GOVERNORS' ASSOCIATION  
POLICY STUDIES ASSOCIATES, INC  
BUSH CENTER, YALE UNIVERSITY

# Getting to the Bottom Line:

State and  
Community  
Strategies for  
Financing  
Comprehensive  
Community Service  
Systems

**Frank Farrow**  
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## NATIONAL CENTER FOR SERVICE INTEGRATION

The National Center for Service Integration (NCSI), established in 1991 with grants from the U.S. Department of Health and Human Services and private foundations, was a collaboration of six organizations - Mattech, Inc., Child and Family Policy Center, the National Center for Children in Poverty at Columbia University, National Governor's Association, Policy Studies Associates, Inc., and the Bush Center on Child Development and Social Policy at Yale University. NCSI's mission is to stimulate and actively support service integration efforts across the country by serving as an information clearinghouse for documents, programs, and organizations.

The operating philosophy of NCSI, consistent with its mission, is to collaborate with and complement, rather than attempt to replace other clearinghouses, consortia, and institutions working in similar and related activities. Although no sharp limitations regarding target groups or services are appropriate, NCSI's initial focus of attention is on the integration of educational, health, and other social services directed to children and families.

In June 1995, the Child and Family Policy Center assumed responsibility for disseminating the publications produced by NCSI. Although federal funding for NCSI is ending, NCSI will continue to produce occasional publications and *Resource Briefs* on critical issues communities and states face in developing more comprehensive, community-based service systems.

### ABOUT SERVICE INTEGRATION

NCSI has defined service integration as the process by which a range of educational, health, and social services are delivered in a coordinated way to improve outcomes for individuals and families. Current efforts in service integration strive to overcome the disadvantages of the present fragmented structure of programs and providers, often promulgated by professional specialization.

Effective service integration initiatives emphasize:

- ▲ Comprehensive services
- ▲ Early intervention and prevention
- ▲ Consumer and family-oriented responses
- ▲ Provider accountability

Current initiatives often involve collaboration and system reform objectives that go well beyond traditional notations of coordination and information sharing. The most ambitious efforts seek the integrated delivery of a full scope of education and human services through collaborations that include schools and major health and social service providers.

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# ABOUT THE RESOURCE BRIEFS

NCSI *Resource Briefs* are designed to provide the most current information available on effective practices and strategies on issues or topics frequently encountered by states and communities in their service integration activities. As practice-based documents, *Resource Briefs* are designed to be concise and plainly written, to define a specific service integration issue, and to describe the current state of knowledge and practice about effective issue resolution. They are not intended to be comprehensive or scholarly. Rather, they seek to get useful information into the hands of practitioners in as timely a manner as possible through a sharing of experiences from other service integration efforts around the country.

An Oversight Board selects *Resource Brief* topics, and chooses writers based on their work in the field and their understanding of the issues involved. The Board approves the final draft of all *Resource Briefs* prior to their publication, following a peer review from individuals currently involved in service integration efforts. Members of the Oversight Board are: Charles Bruner (Child and Family Policy Center), chair; William A. Morrill (Mathtech, Inc.); Judith E. Jones (National Center for Children in Poverty); Sharon Lynn Kagan (Bush Center on Child Development and Social Policy); Evelyn Ganzglass (National Governors' Association); Hedy Chang (California Tomorrow); Frank Farrow (Center for the Study of Social Policy); David Hornbeck; Karen Pittman (Academy for Educational Development); and Lisbeth Schorr (Project on Effective Services).

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# CHAPTER 1

## Introduction

Political, economic, and demographic pressures are forcing changes in the way states and communities operate their child and family serving systems. A key part of these changes are innovations in the way that services are financed.

To some extent, this focus on financing stems from the recognition by states and communities that scarce dollars must be used as efficiently as possible. While public opinion polls show that the public is willing to fund services for children and families, they also show that the public must be convinced that services are delivered efficiently and that expenditures are effective in improving outcomes for children.

In addition, states and communities recognize that, without changes in financing, they cannot obtain the more comprehensive, community-based, and preventive service systems they seek. Financing directly influences service delivery. The ways in which funds are made available to state and local services help to determine their priorities, shape the incentives that drive service providers, and ultimately influence how useful services are to children and families.

With the help of federal entitlement programs and block grants and their own general revenue funds, most states and communities have developed a number of discrete funding streams that provide a broad array of services to children and families. These include educational services, health services, social and mental health services, and employment and income supports. Each service usually has its own eligibility requirements and a unique mix of state, federal, and local funding.

When a family is eligible for a number of different services, it is usually the family's responsibility to access and coordinate these services. Since services may address overlapping concerns, there is the potential for duplication of services. This is

not efficient from either the systems' or the family's perspective. In addition, a family must become involved with new workers each time it needs a service provided through a different funding stream. At the same time, a strong relationship between a family and a worker may be very important to the success of efforts taken to meet family needs. The fragmentation of service delivery makes the formation of such relationships more difficult.

This type of categorical funding and fragmented service delivery often makes it difficult to achieve significant policy goals—either at the community level or on behalf of an individual child or family. Different agencies, under different governing bodies with different priorities often are charged with addressing complex social problems—such as teenage pregnancy, school failure, and out-of-home placement. Although these problems are interrelated, programs operate independently, largely because of the way they receive funds. Consequently, even when agencies devote substantial dollars to particular policy goals, the fragmented and categorical way those dollars are made available may thwart their most effective use.

Professionals within different service systems increasingly recognize how this fragmentation impedes their best efforts. Children bring more than educational needs into the classroom. Teachers know that unless those other needs are met, children will not be successful learners. Families bring more than employment needs into the welfare office. Welfare officials know that unless those other needs are met, many families will not become economically self-sufficient. New parents bring more than parenting concerns into a family resource center. Center directors know that unless these other needs are met, parenting will suffer and children will not thrive.

Service financing must be dramatically changed. The whole mix of funding sources, including public education, child and family welfare, and public health must be re-examined.

In short, the improved outcomes that states and communities seek for children and families cannot be achieved without bringing together resources in new ways. Service financing must be dramatically changed. The whole mix of funding sources, including public education, child and family welfare, and public health must be re-examined.

This resource brief introduces the concepts involved in designing new financing strategies. It is based on the experiences of states and communities, primarily in the field of child welfare.<sup>1</sup>

Whether states and communities are developing new collaborative planning structures to better coordinate services into a more “seamless” delivery system, or are actually seeking to integrate or combine existing service systems, they recognize the need to give special attention to the way services are financed. This brief contends that the manner in which services are financed plays a critical role in how services are designed and delivered. The extent to which services are more flexible, individualized, family-focused, community-based, preventive, and comprehensive will depend on their funding.

Chapter 2 discusses the key principles that undergird new financing strategies. Chapter 3 reviews the specific strategies and options that states have used in changing their financing systems. The final chapter briefly reiterates the key concepts raised in the first three sections.

## CHAPTER 2

# Principles Behind New Service Financing Strategies

New service system financing strategies rely on at least four principles that deserve discussion. These principles should be articulated at the beginning of any redesign of financing systems, and they should be referred to throughout the process of developing a more comprehensive, responsive service system and its financing structure. These principles are:

1. Financing should reflect and reinforce a new set of principles and characteristics for service delivery and should be driven by a compelling and well-conceived program agenda.
2. Effective fiscal strategies should incorporate multiple funding sources and cut across traditionally separate service domains.
3. Financing strategies should make use of dollars already being expended in the service system.
4. Fiscal changes require parallel alterations in service governance and service delivery technologies if they are to achieve goals for a more effective service system.

**Financing should reflect and reinforce a new set of principles and characteristics for service delivery, and should be driven by a compelling and well-conceived program agenda.**

Consensus is emerging among policymakers, service providers, and advocates that the current system of providing services—categorical, inflexible, individually based, single-issue focused, and crisis and remediation-oriented—frequently does not provide a good match between what families need to succeed and what is available to them. Conse-

quently, there are pressures to redirect the focus of service systems to be more responsive to individual families and communities.

Current efforts are emerging in all public systems, including schools, public health programs, child welfare services, mental health centers, and income support programs, to enable client services to be more:

- ▲ Family-based and responsive to a child's needs in the context of his or her family and community, rather than focusing services solely on the child.
- ▲ Comprehensive and flexible in meeting a child's and family's unique needs.
- ▲ Likely to place decision-making authority at the community and neighborhood levels, rather than centralizing decision-making in state agencies through rules and regulations governing worker actions.
- ▲ Balanced by providing greater emphasis on development and preventive services that support families earlier and seek to avert crisis situations and remediation services.
- ▲ Focused on and accountable to achieving improved outcomes for clients.
- ▲ Capable of ensuring equity in the allocation of services.

Today's financing methods often undercut these principles. This is clear from numerous critiques of social services funding. The categorical nature of service financing creates numerous specialized services in a community that defy workers' and families' best efforts to coordinate them. At the frontline practice level, families' needs usually have to be fitted to available services, rather than the reverse. Since dollars never seem to be sufficient for mandated services, allocations for

If frontline workers achieve better outcomes when they adapt services to individual needs, then service funding should provide that flexibility.

developmental and preventive services remain even smaller than ever in the context of overall service system expenditures.

New fiscal strategies seek to restructure funding to support the principles above. If frontline workers achieve better outcomes when they adapt services to individual needs, then service funding should provide that flexibility. If decisions about which services to finance can be made more perceptively by local communities than by state agencies, then these decisions should be moved to the community level. If service priorities must be redirected toward earlier interventions, then financing mechanisms should create incentives for these more preventive investments. Financing then becomes a way to reinforce new policy directions.

### **Effective fiscal strategies should incorporate multiple funding sources and cut across traditionally separate service domains.**

Creating comprehensive service responses for children and families requires orchestrating a wide range of funding sources. A state's perception of what constitutes an effective family service system should include not only education, health, and human services, but also mental health, juvenile justice, employment, housing and other services.

Currently, states and communities are working to coordinate (and in some instances consolidate) traditionally separate funding streams. Financing strategies are mixing funds across agency boundaries to achieve desired outcomes, in some instances using federal funds creatively in combination with state and local funds and blending entitlement dollars with discretionary funds.

Most states and communities find that each of their distinct service systems performs some activities with families that are or could be generic across systems—particularly client or family assessment and general case management or advocacy. From a family's perspective, this duplication sometimes leads to too many cooks boiling the pot, or at least to substantial redundancy of effort both on the part of the service providers and on the part of the family that must make contact with these multiple providers. To the extent that these common activities can be financed and performed jointly, greater efficiency, consistency, and continuity can be achieved.

Neither changes in governance nor changes in financing alone will produce changes at the service delivery level toward a more responsive, family-based system; the two must be connected and coordinated.

**Financing strategies should make use of dollars already being expended in the service system.**

A growing number of state and community financing efforts now identify dollars previously spent for one purpose and redirect those same dollars for another purpose. This usually involves policy shifts that redirect funds from more restrictive to less restrictive forms of care. States and communities often find that their funding entitlements, incentives, and resource commitments go toward crisis-oriented and unnecessarily restrictive levels of care rather than toward prevention-oriented and home-based services.

Innovative states are redirecting out-of-home placement dollars to in-home services, switching institutional support dollars to community-based care and using specialized treatment funds for more preventive care. States have discovered that the enormous amounts of money spent on a family served by multiple systems (such as child welfare, mental health, special education, and juvenile justice) often can be reduced effectively by developing an integrated service plan for that family.

This emphasis on redirecting and redeploying funds reflects today's tight fiscal climate. It also indicates a more general conclusion that state and community administrators have come to—that they can more plausibly justify increased appropriations when current dollars are spent most efficiently.

**Fiscal changes require parallel alterations in service governance and service delivery technologies if they are to achieve goals for a more effective service system.**

As state and community agencies begin to pool or redirect funds to achieve a common goal, they will develop new joint service definitions, new contracting procedures, and new interagency referral mechanisms. As states shift decision-making concerning funding from the state to the local level, they must often construct new governance authorities because most current state agencies have a limited, highly categorical mandate. It is of little help when a state consolidates funding streams, and makes them available with more flexible parameters, if the agency to which they go continues to spend them in the traditional, categorical ways. For this reason, changes in the governance and operation of the local entities receiving funds must accompany financing changes.

The linkage of fiscal strategies to broader changes in service delivery and governance is a positive step. It helps to ensure that financing strategies are one part of a more fully developed service delivery system designed to achieve agreed-upon goals for children and families. Service providers ultimately respond to those agencies holding the purse strings and to the requirements that must be met. Neither changes in governance nor changes in financing alone will produce changes at the service delivery level toward a more responsive, family-based system; the two must be connected and coordinated.

## CHAPTER 3

# Strategies That Promote More Comprehensive, Locally Controlled, and Preventive Services

State and community funding innovations that incorporate the principles described in the previous chapter defy neat categorizations. Many have developed not as new funding strategies but as pragmatic efforts contoured to address current state service delivery problems. These initiatives have been tempered by political realities: the fiscal constraints of the overall budget; the need for public support; and the willingness of the service systems to innovate and to give up some areas of unilateral jurisdiction.

In general, however, states and communities have applied one or more of the following financing strategies in their efforts to achieve more comprehensive and appropriate services for children and families:

- ▲ **Pooling** funds across agency lines to achieve common goals.
- ▲ **Delegating** greater authority over the use of existing funding streams to community policymaking and administrative systems.
- ▲ **Redeploying** existing funds from higher cost services toward lesser cost, alternative services.
- ▲ **Refinancing**, through a greater use of federal entitlement programs, accompanied by **reinvestment** to expand the funding base for services.
- ▲ **Leveraging** private sector and foundation funds to expand the funding base for services or to cover the start-up costs for system reform.
- ▲ **Investing** new funds, based on long-term cost benefit analyses, into prevention-oriented services with clear outcome accountability.

States and communities most often apply these six strategies in combination. Choices depend on the political circumstances and the current issues under scrutiny. In the long run, each state and community has to assemble its own financing methods, working within state and federal funding structures in ways that respond to the goals it wishes to pursue.

Given the recent nature of many of the innovations described here, there are no “best practices” in this area. The results of these financing innovations are yet to be measured, but they do represent genuine efforts to use funds more effectively to achieve better outcomes for families and children. Examples presented in the remainder of this chapter illustrate these efforts.

### Pooling, delegating, and redeploying

Several of the most ambitious new funding efforts involve combining several strategies to dramatically reshape the way dollars are spent, particularly funds for families served by multiple systems. Each strategy is powerful in its own right. The purpose behind pooling funds is to share the costs of services that agencies otherwise would provide independently, thereby reinforcing a common policy direction and increasing the likelihood of more coordinated services delivery at the local level. Delegating spending authority is usually activated when states understand that communities (rather than central offices of state agencies) are in the best position to determine specific service priorities. Redeploying funds from more restrictive (and usually more expensive) services to less restrictive, community-based services, involves spending current dollars more effectively in ways that keep children in their own homes or communities.

Tennessee's Children's Plan has introduced a new funding approach with the dual intent of serving children more appropriately and curbing unacceptable increases in state out-of-home placement costs.

These three strategies together can reinforce policy directions that favor community-oriented, preventive, and less categorical services. They have most commonly been combined when agencies seek to address the needs of children and families involved in several service systems, and where different agencies operating independently are spending significant funds.

Three examples—from Tennessee, Maryland, and Iowa—illustrate how the combination of these strategies is being used to meet state and local needs. All of these strategies focus on children and families who already are involved intensively in child welfare services. While these three states are committed to preventive services, their officials believe they must first redirect funding already being used to serve children in high-cost settings in order to gain savings and justify new expenditures for earlier interventions.

**Tennessee.** Tennessee's Children's Plan has introduced a new funding approach with the dual intent of serving children more appropriately and curbing unacceptable increases in state out-of-home placement costs. In 1988, the legislature analyzed what it was getting for the increasingly large sums spent on out-of-home care for children, including foster care, group homes, and residential treatment. At that time, expenditures were about \$100 million a year and increasing over 20 percent annually.

The analysis found little justification, based upon children's needs, for many out-of-home placements. Out-of-home placements often occurred because no alternatives were available. To reverse this trend, the legislature and state agencies took several actions. First, the legislature financed intensive family preservation services, which are crisis intervention services for families at imminent risk of having a child removed from the home.

Unlike states that funded such services separately in child welfare, mental health, or juvenile justice agencies, Tennessee's agencies funded these programs jointly. Each agency contributed a share of the cost toward Family Ties, a uniform state program serving children identified as needing help from the child welfare, juvenile justice, and child mental health systems.

State officials believe this had strong benefits. All family preservation services in a community now have uniform eligibility standards, regardless of whether a family receives this service because of child abuse or neglect, delinquency or youth misbehavior, or a child's emotional problems. Local agencies contracting for this service work toward common outcomes, use common referral procedures, and accept common standards to assess service quality. The agencies have a single contract for services, rather than separate contracts from each of the three state agencies.

Building on this innovation, officials in Tennessee's Department of Finance and Administration (FDA) became convinced that further consolidation of funding was needed. FDA required state agencies to pool *all* funds previously spent for out-of-home care into one statewide account under FDA control. These dollars helped to finance plans of care developed for children and families through a redesigned system of Community Health Agencies (CHAs).

The CHAs became responsible for assessing the needs of all children deemed at immediate risk of out-of-home placement and for prescribing services that might prevent placements. The CHAs developed assessment teams in all jurisdictions of the state. When the team judges that a placement is the appropriate form of care for a child, a lead agency purchases placement services in the least restrictive, most community-based setting that can meet the child's and family's needs.

Maryland's broad reform initiative aims to help local communities develop more comprehensive, family-based service systems.

The differences between this method of funding services and Tennessee's previous funding pattern are three-fold. First, where dollars once flowed in separate, uncoordinated "streams" through the child welfare, juvenile justice, and mental health systems for identical or similar services, those funds are now combined into one more consolidated funding stream. The state agencies have taken advantage of this consolidation to set uniform provider-agency contracting procedures and uniform purchase-of-service rates for similar services from any provider.

Second, decisions about which services are most appropriate for the child are made at one point locally, with the decisions oriented toward in-home and community-based services.

Third, this approach begins to introduce market principles into the flow of funds. Because of the strong case planning role of the CHAs, backed by the purchase-of-service dollars in the state "pool," local agencies—public as well as private—must begin to justify the merit and cost-effectiveness of their services compared to alternatives. Over the long term, no agency is "guaranteed" a certain share of service expenditures; they have to "earn" it, based on performance.

The effects of Tennessee's new plan cannot be fully judged as yet. Already, however, state officials believe the approach is changing the incentives in the system. Local staff assess children's and families' needs more fully and consistently. Uniform contracting procedures treat all providers more fairly and efficiently. Providers no longer have to maintain three different contracting procedures to provide similar services for three different agencies. Patterns of care for children and their families are more easily tracked under the new system. Both local and state officials can observe more quickly patterns of placement, care, and

expenditures, and therefore can make necessary policy shifts.

**Maryland.** Maryland's funding changes for children's services over the past five years illustrate a related approach to funding many of the same services. However, appreciable differences reflect this state's differing priorities.

In 1989, Maryland enacted legislation that allows the Governor's Office for Children, Youth, and Families (OCYF) to authorize local jurisdictions to use funds appropriated for out-of-home care to provide in-home services for vulnerable children and families. The legislation applies to all types of out-of-home care, whether under the auspices of the child welfare, juvenile justice, mental health, or education agencies.

Maryland's broad reform initiative aims to help local communities develop more comprehensive, family-based service systems. As a part of this, the OCYF worked with all other state agencies serving children, including the departments of human resources, health and mental hygiene, and education, and the division of juvenile services. OCYF requires localities to use these redirected out-of-home care funds in conjunction with other changes in local service planning and delivery.

Local jurisdictions in Maryland must establish interagency plans for developing better services to families most at risk; must establish a new local entity with authority for spending the newly flexible dollars across agency lines; and must establish several core services, including family-based case management and family preservation services. While localities have latitude in the range of services they operate, they must agree to achieve the outcomes that they negotiate with the state. The incentive for the localities is that they retain 75 percent of any dollars they save by improving their

Iowa's decategorization initiative involves consolidations at the county level of more than 30 separate state funding streams.

efficiency for reinvestment into their local service systems.

Unlike Tennessee, Maryland implemented this approach incrementally. Not all out-of-home care dollars were pooled initially. The state first pooled only \$1.5 million dollars within one jurisdiction, while over the past three years the amount grew to over \$12 million in seven out of 24 local jurisdictions. The legislature has authorized state agencies to redirect all out-of-home care dollars this way, and the state is planning to set up the new local governing entities required for this model in all state jurisdictions by the end of 1993.

Maryland applied this same approach toward reducing the state's placements of children in facilities outside of the state. Localities can apply for authority over a dollar amount equivalent to their expenditures for out-of-state placements of children. These funds must then go to "bringing the children back" or to preventing similar placements from occurring. For example, rather than spending \$85,000 or more per year for a child in an out-of-state psychiatric facility, localities can direct that same amount to any combination of services and supports that can achieve safe, stable, developmentally appropriate care for the child in his or her home or community. This approach has produced unusual and creative service packages for children that are effective precisely because they meet unique family needs and circumstances.

In Maryland, the new funding strategy's purpose has been to increase home-and community-based care for children and to help change patterns of service delivery according to a new, three-pronged set of principles: (1) an emphasis on community decision-making and planning rather than state-level micromanagement; (2) a movement toward less rather than more categorical services; and (3) incentives for localities to design less cost-

ly in-home and community services rather than expensive residential placements.

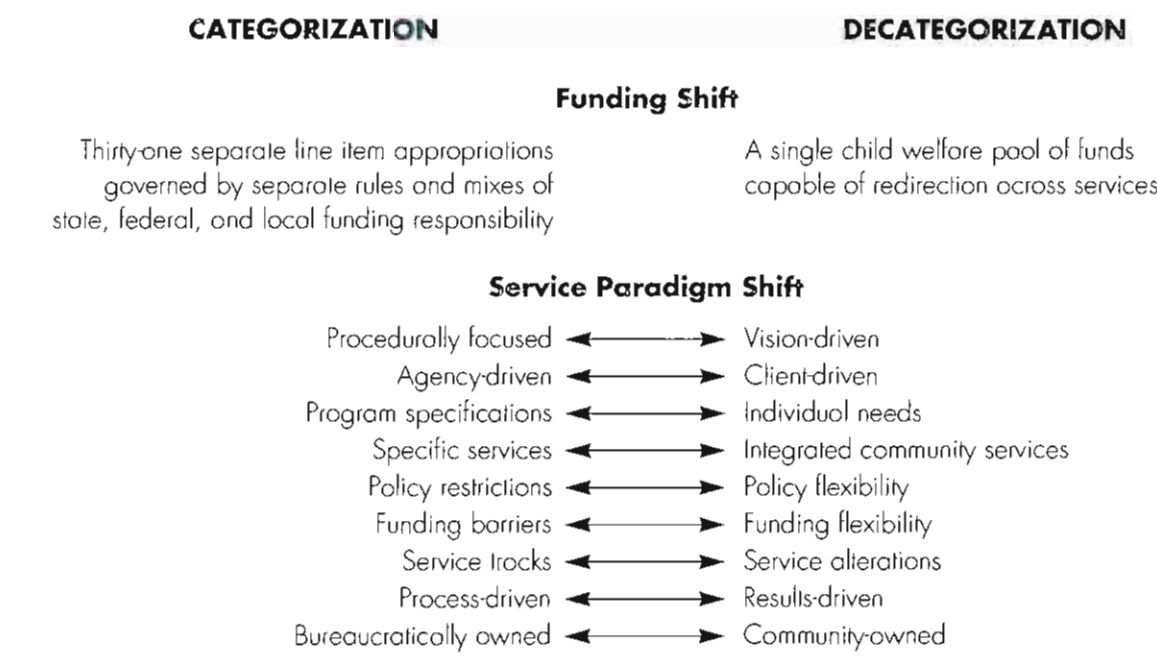
**Iowa.** Iowa's decategorization initiative involves consolidations at the county level of more than 30 separate state funding streams. It represents a third state approach to making funding more flexible and shifting authority to the local level.

In 1987, the Iowa General Assembly enacted legislation directing the Iowa Department of Human Services to select two counties as demonstration sites for decategorizing child welfare services. The intent of the decategorization was to allow these local jurisdictions to use categorical program funds in flexible ways that would produce a more client-centered system, as opposed to a funding-driven system. Subsequently, decategorization has been expanded to six counties, representing one-third of the state's child population, and decategorization has received permanent statutory authorization.

Funds for this consolidation and redirection by the counties come from mental health, juvenile justice, foster care, in-home service, institutional care, and state direct service worker funds. The county human services agency, the county board of supervisors, and the juvenile court serving the county jointly develop the county's new decategorization budget, and some counties also bring in local school districts and service agencies to help make these decisions.

Decategorization counties have used decategorization as an opportunity to examine the continuum of services available to children and families and to redirect some funds previously used for institutional services toward community-based services. They also have been able, on an individual basis, to develop integrated service plans for some of the families who have been high cost users of

FIGURE 1 A County's Conceptualization of Child Welfare Decategorization



Source: Adapted from a formulation by the Community Partnership of the Polk County Decategorization Project

separate services. Figure 1 represents one county's concept of Iowa's funding pattern and new service philosophy under decategorization.

By moving decision-making to the local level and allowing flexibility in the use of funds previously bounded by categorical restrictions, counties have been able to develop new services for specific populations. For example, another decategorization project located in Scott County has established a new residential program with a targeted focus and has returned to the community teenagers previously sent to the state training school. It has developed a day treatment program for 9–11-year-olds to avoid placements or to return back to their homes

children who had been placed out-of-home. The county could design these services because it knew the needs of these children and their families much more intimately than the state could know them.

A third decategorization county, Polk County, has brought children back into the community from high cost placements by developing individualized and community-based treatment plans involving collaborations among multiple service providers. By pooling funds and delegating responsibility to the local level, decategorization has enabled workers to focus on the needs of individual children and their families in a way that state-level financing and regulation cannot.<sup>2</sup>

In none of these states does the financing strategy stand alone. It is part of a broader vision about how the service system should operate, which has been translated into a clear and compelling set of program priorities.

Iowa's decategorization of funds, like Maryland's and Tennessee's redirection of out-of-home care dollars, is tied closely to other service system reforms. In none of these states does the financing strategy stand alone. It is part of a broader vision about how the service system should operate, which has been translated into a clear and compelling set of program priorities. Once that vision is set, new financing patterns and new local entities become a powerful infrastructure that drives system change.

In all three states, these changes have not been free from controversy and turf issues among state agencies and between state and local levels of government. At times, state agencies have resisted relinquishing fiscal control, arguing that specialized target groups might not be served if traditional boundaries were not kept. Localities have worried that the state was giving them new responsibilities without the resources to carry them out. State officials have resisted giving up their old categorical and regulatory procedures for overseeing and accounting for the expenditure of funds.

Still, progress has occurred. Both Maryland and Tennessee have decided to address these issues and establish these new funding patterns statewide. In Iowa, the decategorization approach has moved beyond being a demonstration project. By statutory authority, participation is an option for all counties that can reach a joint agreement between the county board of supervisors, the juvenile court, and the county department of human services.

The three funding strategies combined in these three states—**pooling** of funds, **delegating** authority to the local level, and **redeploying** funds from the so-called “back end” of the system to the “front end”—do not have to be combined. In fact, more modest versions of these approaches can be implemented singly or in different combinations.

Examples of other initiatives that have adapted one or more of these strategies are as follows:

- ▲ The Alaska Youth Initiative (ALI) illustrates a redeployment strategy which has been so successful that it has spread statewide in Alaska and is now being replicated in some form in many other states. ALI's goal was to return to Alaska those youth who had been placed outside the state in residential placements. Not only were these placements expensive, but family reunification and community reintegration had become almost impossible.

The ALI initiative offered broad-based authority to multidisciplinary teams to redeploy out-of-state placement funding so they could design more community-based treatment packages. Through “wrap-around services”<sup>3</sup> and creative case plans, Alaska brought the children back into the state and their communities and often reunified them with their families. In addition, the initiative found that this process cost less money than providing the previous services, and the money saved could be applied to expanding early intervention and prevention services. Developers of the initiative believe that any funds saved as a result of redeployment must remain within the system. Workers need an incentive to change their practices, and, in particular, to expend time and energy developing new service plans.

- ▲ In several states, family preservation services have been financed through redeploying funds that had been appropriated for out-of-home care. In California,

In a number of states, family support subsidy programs provide flexible funds directly to families to use for children with disabilities.

through legislation enacted in 1988, counties may shift up to 10 percent of the state's share of foster care expenditures to placement prevention services, such as family preservation.

The twelve counties now participating in this redeployment process use a formula that assures that placement prevention remains a primary goal. If they reduce their foster care budget as a result of placement prevention services, counties retain 25 percent of the savings. Alternatively, if the county exceeds its foster care allotment, it must pay the state a portion of the overage. As with the Alaska Youth Initiative, the California redeployment formula is successful because both counties and the state back it and view it as an incentive for practitioners to develop alternative services.

- ▲ A major aspect of North Dakota's Children and Family Services Reform Initiative in two regions of the state has been the provision of flexible funds at the frontline worker level to meet unique family needs. There is a growing recognition that some family needs are best served on an individual basis that extends beyond what any menu of available services might offer, including "nontraditional" support items such as automobile repairs, rent deposits, or even mattresses or washing machines. Family workers, administered through interagency, regional, governing boards, can expend on their own authority up to \$250 per family to help stabilize families. With their supervisor's approval, they can expend up to \$1,000. Moreover, the workers can access these funds immediately so the families do

not have to wait for days or weeks to address a concern that could turn into a crisis.

In general, these family workers direct the flexible dollars toward goods and services, such as rent deposits, emergency food, alcoholism treatment, or emergency child care, which the families place high on their list of immediate needs and which can help start them toward meeting other family goals as well. North Dakota makes these flexible funds available to solve problems that, in the past, have resulted in more costly categorical services.

- ▲ In a number of states, family support subsidy programs provide flexible funds directly to families to use for children with disabilities. In Michigan, over \$15 million is available statewide to provide support for families who care for their own children rather than having to place them in group homes or other institutions. Families can use the funds to purchase respite care, home nursing services, ramps, or other necessary home equipment. These programs are popular with the families they serve, and they avoid state costs for the out-of-home placements that might otherwise be necessary.

Each state and community must make its own decisions about which financing strategies advance its own particular goals. None are simple to install. All involve major departures from past practices, with all of the political and programmatic tensions involved with change. Ultimately, however, all introduce new fiscal incentives that can result in more effective services and positive outcomes for children and families.

Each state and community must make its own decisions about which financing strategies advance its own particular goals. None are simple to install.

The strategies described thus far largely involve redirecting dollars that were already being spent within the service system for new uses. The next several strategies seek to generate additional dollars and to direct them to service reforms.

### Refinancing and Reinvestment

One of the more prominent strategies for securing additional resources is to make greater use of federal entitlement programs to fund both existing and new services. Specifically, states and some communities have taken advantage of federal options in Social Security Act entitlement programs—particularly Medicaid (Title XIX), adoption assistance and child welfare (IV-E), and emergency assistance (IV-A)—to receive matching federal funds for the services they provide. See Figure 2 on page 18.

In some instances, when new services or new case management systems are being developed, federal matching funds simply extend the reach of any new state or community appropriation. In other instances, states have generated new resources for building more comprehensive community service systems by refinancing existing services and qualifying them for matching funds under a federal entitlement program. This frees previously expended state or community funds for other purposes, and these funds can be reinvested to expand and strengthen the child and family service system.

In particular, many states have been successful in “Medicaid-ing” portions of one or more of the following program areas:

- ▲ Child welfare services, through Medicaid’s rehabilitation service options and its Early, Periodic, Screening, Diagnosis, and Treatment (EPSDT) provisions.

- ▲ Services to children with disabilities, through rehabilitation options.
- ▲ Services to children with emotional problems, through EPSDT provisions.
- ▲ Special education services, through a variety of Medicaid diagnostic and treatment categories.
- ▲ Other outreach, diagnostic, health education, and related administrative activities provided in schools.
- ▲ General diagnostic and support services to families, through case management.

States have claimed increased payments under Title IV-E both by redefining services and by increasing the percentage of children certified as eligible for Title IV-E funds. In addition, “administrative” costs associated with IV-E have been used to pay for eligible preventive and pre-placement activities that affect children prior to entry into foster care. This has helped diminish the bias toward placement that Title IV-E traditionally has produced in states. Until recently, states viewed IV-E funds as available only when children actually are placed out-of-home. States also have been able to use the emergency assistance provisions under Title IV-A for services for families at immediate risk, including child welfare services such as family preservation, as well as services such as rental assistance which gave rise to the program in the first place.

An example of the gains that can be made through a reinvestment strategy can be seen in Missouri’s use of these federal entitlement funding sources to expand its children and family services over the past five years. Missouri has sought to reorient its service system from a reliance on out-of-home placement to a more balanced system of care anchored by intensive family preservation

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## FIGURE 2 Descriptions of Three Federal Entitlements Under the Social Security Act

**Title IV-E.** Title IV-E provides funding for out-of-home core costs for low-income children placed in accordance with federal requirements. Title IV-E also can fund some of the preventive and case management costs incurred in the child welfare and juvenile justice systems.

**Title IV-A.** Title IV-A is best known as the federal title that supports the Aid to Families with Dependent Children (AFDC) program. A lesser known provision of this title provides states broad options for structuring emergency assistance programs for families with children. Some states have begun to use this program to finance family preservation, protective services, shelter care, and other community responses to emergencies.

**Title XIX.** The Title XIX (Medicaid) program provides federal support for states' health and rehabilitation services for low-income families and individuals. Although Title XIX is best known as a primary health care program, it actually permits considerable discretion in the structure and coverage of state programs. States have begun to claim Title XIX reimbursement for social and rehabilitative services, including therapeutic community services housed in education, health, and mental health settings. In addition, the Early, Periodic, Screening, Diagnosis, and Treatment (EPSDT) provisions of Medicaid create considerable opportunity for funding clinical and nonclinical services to children, including school-based health education, outreach, and follow-up activities.

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services. To achieve this, Missouri has developed one of the largest intensive family preservation service programs in the nation. It also has implemented "Futures," an employment and training program for families on AFDC; has greatly increased therapeutic day care and respite care programs; and has initiated several other supports for families so that children can remain at home.

Reaching agreement on the direction of reform and focused service expansion was an important step for Missouri. In a time of tight budgets, Missouri's dilemma was how to pay for this service expansion. Refinancing has come primarily through increased claiming of federal funds under those federal entitlement programs for which state-funded services were eligible. Making use of increased reimbursements under Title IV-E, Title

IV-A, and Title XIX, the FY 1993 Children's Funding Package in Missouri generated \$17 million in new revenues, with most of those funds sustaining six core programs and developing or expanding 12 initiatives to reduce reliance on out-of-home or institutional care. Similar reinvestments are anticipated for the FY 1994 budget year from additional expansions of federal financing under IV-A and IV-E.

Refinancing and reinvestment activities also can contribute to a community's development of earlier support for children and families. The use of Medicaid financing by the Independence, Missouri, school system illustrates how this funding stream can generate new dollars for neighborhood and school-based services.

Because Missouri officials had a plan for using refinanced funds to meet state goals for children and families, they were in a strong position to retain those funds within child and family services.

The Independent School District (ISD) entered into a contract with the Missouri Department of Social Services (the state agency for the Medicaid program) to provide services under the EPSDT program. Through EPSDT, the school district offers an outreach component that identifies children in need of health services, arranges necessary diagnostic and screening activities, provides appropriate health education, and in general assures that children receive the health care they need. ISD not only claims for direct health services under Medicaid, but also claims for related administrative costs, such as the time spent by school personnel arranging medical appointments, addressing health-related issues, reaching out to ensure that children and their families are aware of services, and conducting other activities essential to program administration. In this way, the district generates federal matching funds for many activities previously supported entirely with local school district funds.

Many school systems around the country now are billing Medicaid for specific units of health care services, primarily as part of their special education programs. These include physical and occupational therapies and mental health treatments. Fewer school systems are using the EPSDT administrative provisions, as ISD does, to cover a wider range of health-related and health education costs. Yet these activities are more likely to be part of the broadly preventive and developmental supports that schools provide for children and families. Because of this broader base, ISD generates approximately \$1 million in additional funds, which are totally reinvested in additional school-linked services. The ISD leadership credits this financing strategy with allowing expansion of supports for children and families at a time when the district's fiscal situation has been constrained otherwise.

This reinvestment strategy is highly political. For every state like Missouri, in which dollars gained through refinancing have been substantially reinvested in child and family services, there are states in which new dollars generated from federal sources were used strictly for state deficit reduction, or for other priorities in the state budget. Because Missouri officials had a plan for using refinanced funds to meet state goals for children and families, they were in a strong position to retain the funds within child and family services.<sup>4</sup>

While securing federal financial participation requires much technical work complying with federal regulations, the principles behind refinancing are straightforward. The Center for the Study of Social Policy, in its paper describing states' experiences with refinancing and reinvestment, suggests the following:<sup>5</sup>

- ▲ Define the problem in a way that leads to desired program and fiscal outcomes.
- ▲ Develop programmatic reform strategies that can be defended as more effective and efficient and that provide maximum flexibility to the state, while meeting federal requirements for service definition.
- ▲ Develop a fiscal strategy to support the programmatic reform effort that assures desired fiscal control over expenditures, including: (1) mapping out current and projected expenditures and identifying opportunities for redirecting these dollars, and (2) obtaining the necessary agreements to assure the reinvestment of new federal dollars into an improved and ultimately more cost-effective service system.
- ▲ Make claims for services provided to eligible children in agencies other than the one state agency responsible for the services.

Foundations and corporations are taking a strong interest in system reforms that show promise of better integrating services and improving the educational and social outcomes for children.

- ▲ Make claims for all allowable costs.
- ▲ Construct incentives and sanctions that will help assure the compliance of those charged with making fiscal changes.

Above all, it is important for states and communities to have clear ideas of where they want to go. The first question should not be “what will Medicaid (or IV-E or IV-A) cover?” but “what do we want our service system to provide?”

## Leveraging

Leveraging private sector and foundation funds is another way to expand the funding base for services or to cover the start-up costs for system reform. States and communities are becoming increasingly sophisticated in developing public-private partnerships and in securing foundation funds to assist in the development of new and more integrated service systems. Foundations and corporations are taking a strong interest in system reforms that show promise of better integrating services and improving the educational and social outcomes for children. Several foundations, in particular, have established ambitious initiatives that support states and communities in reforming their service systems to become more integrated and responsive to individual family needs.

The Robert Wood Johnson Foundation is working with a number of local sites on a comprehensive children’s health initiative that seeks to better connect a wide range of children’s services. The initiative takes a broad perspective on child health that offers social as well as medical services and covers all aspects of healthy child development, including mental and physical well-being.

The Annie E. Casey Foundation has developed several state and community initiatives that have at their heart service system reforms to become more responsive to families, more community-based, and more cross-disciplinary. The New Futures Initiative supports collaborative efforts in six cities to connect education, employment, and other youth services to reduce school drop-out rates, adolescent pregnancy, and youth unemployment. The Child Welfare Reform Initiative supports two major state child welfare reform efforts. New child mental health, foster family, and juvenile justice initiatives all seek to better connect and integrate child mental health, child welfare, juvenile justice, and child educational services through cross-disciplinary planning, governance, and financing efforts.

A third illustration of national foundation support for state and community service system reform efforts is The Pew Charitable Trust’s Children’s Initiative, a ten-year partnership with several states to develop a system of inclusion for young children that is neighborhood-based, school-linked, and family-focused. Central to this initiative is the development of family centers that can assure that family needs are met through both public and voluntary systems of support. Each of these national foundation efforts offers substantial support and technical assistance to states or communities in system design and implementation activities, as well as providing direct funding for planning and for service system demonstration efforts. Significantly, each effort also offers technical assistance in making maximum use of federal entitlement programs through the types of refinancing efforts previously described.

The New American Schools Corporation (NASDC) represents a major business and foundation initiative to produce systemic educational reforms that include a more comprehensive and

Today, financing is more likely to be secured because of evidence of an initiative's ability to produce long-term benefits for the individual *and* for the state.

cross-system approach to meeting child and family needs than was taken previously. In its first year, NASDC assembled \$50 million for 11 initiatives designed to implement "break the mold" schools. Many of these initiatives represent consortia of national education reformers, state agencies, and local school districts who are working together to assemble the comprehensive array of restructured schools, health and human services and other community supports necessary to achieve better outcomes for children.

NASDC demonstrates the interest and fund-raising clout of the corporate community. Around the country, corporate heads have stepped forward as leaders for education and human service system reforms when they are tied to business's bottom-line interest in a more highly skilled and productive future work force.

In addition to national business and foundation support, many community foundations support comprehensive service reform planning efforts. Local United Way agencies often have taken the lead in developing more coordination and integration among service providers. Kiwanis International and the Cooperative Extension Service have made children's issues a special area of concern and of community education efforts. Local business and community leaders also have taken leadership roles in reform efforts, frequently offering substantial financial assistance in the process.

Leveraging these types of resources can be exceedingly helpful to states and communities in at least two ways. First, the support can cover start-up and planning costs which are difficult to obtain through state appropriations or local government budgets. Even when government financing for services is secured, it is often difficult to convince policymakers to hire the additional staff necessary to manage the new services. Second, outside sup-

port brings greater prominence and legitimacy to the initiative and helps sustain its members through the planning process. Community foundations and business community support provide the community ownership critical to true reform.

## Investing

Investing new funds, based on long-term cost benefit analysis, is another strategy for increasing prevention-oriented services. Over the last decade, the capacity for states and communities to finance new programs has been limited. Even so, states and communities have made substantial new resource commitments to services for children and families. The rationale for this support has changed since the 1970s, when welfare and Medicaid increases were often enacted on the basis of equality and fairness. Today, financing is more likely to be secured because of evidence of an initiative's ability to produce long-term benefits for the individual *and* for the state. Rhetorically, this represents a shift from speaking about services and spending to speaking about investment and outcomes.

Two areas of great service expansion over the last decade at the federal, state, and local levels have been based explicitly on this investment philosophy. Despite tight fiscal times, states and communities have applied this investment and outcome philosophy to expand maternal and child health programs and to develop and expand preschool programs for low-income children. In both cases, justifications for expansion have been based on the expectation of achieving a strong return on the initial investments, reducing social and governmental costs on remediation services in the long-term.

State policymakers often cite studies showing a potential return of \$3 for every \$1 invested in

It is important to recognize that expenditures on prisons, foster care, or health care for the uninsured may be traced in part to inadequate investments in prevention services.

prenatal services as a primary justification to expand services and supports to low-income pregnant women and to other women at high risk of poor birth outcomes. Similarly, Head Start and similar state and local programs have received dramatic increases in funding, based largely on reports that high quality early childhood programs produce a very positive long-term return on investment. Estimates used to help justify this investment vary from \$3 to \$7 gained for every \$1 spent initially.<sup>6</sup>

In both instances, cost-benefit calculations identified long-term savings to society and government that cross health, human service, and educational lines. Effective prenatal programs have demonstrated that they decrease health costs by reducing low birthweight and the immediate use of costly neonatal intensive care services. The programs also show promise in decreasing long-term disabilities and associated educational and maintenance costs. Similarly, certain high quality early childhood programs have demonstrated a reduced need for special education expenditures and have led to reduced school drop-out rates. They also have reduced costs associated with adolescent pregnancy and parenting, juvenile delinquency, and welfare dependency.

The investment argument is particularly necessary when financing for prevention services is sought. These are typically the services that are last funded and the first to be cut in state and community appropriations processes. State budget makers in the 1990s often are finding any increased tax revenues (as a result of economic growth) being overtaken by more state spending on new prison beds, more children in foster care, and more families on Medicaid. It is important to recognize that expenditures on prisons, foster care, or health care for the uninsured may be traced in part to inadequate investments in prevention services.

# CHAPTER 4

## Conclusion

The way a service system is financed has a profound influence on what that system actually does—at least equal to the mission statements of any of the agencies financed through the system.

This brief has discussed new financing strategies that rely on four principles and seven strategies for developing more comprehensive, community-based services. The principles that undergird these financing efforts should be made explicit to states and communities in their refinancing work:

- ▲ Financing should reflect and reinforce a new set of principles and characteristics for service delivery, and should be driven by a compelling and well-conceived program agenda.
- ▲ Effective fiscal strategies should incorporate multiple funding sources and cut across traditionally separate service domains.
- ▲ Financing strategies should make use of dollars already being expended in the service system.
- ▲ Fiscal changes require parallel alterations in service governance and service delivery technologies if they are to achieve goals for a more effective service system.

Strategies that states and communities can use to incorporate these principles into service system reforms include some combination of the following:

- ▲ **Pooling** funds across agency lines to achieve common goals.
- ▲ **Delegating** greater authority over the use of existing funding streams to community policymaking and administrative systems.
- ▲ **Redeploying** existing funds from higher cost services toward lesser cost, alternative services.
- ▲ **Refinancing**, through greater use of federal entitlement programs, accompanied by **reinvestment** to expand the funding base for services.
- ▲ **Leveraging** private sector and foundation funds to expand the funding base for services or to cover the start-up costs for system reform.
- ▲ **Investing** new funds, based on long-term cost benefit analysis, into prevention-oriented services with clear outcome accountability.

These principles and funding strategies will continue to evolve as states and communities experiment and adapt to meet new challenges. Fueled by simultaneous pressures to control costs and improve services, state and communities need to be increasingly creative in using these new financing strategies.

The 1990s challenge will be to direct and learn from these approaches. In fact as well as in theory, financing structures must become more useful, rather than less useful, to the children and families being served, and more likely, rather than less likely, to produce improved outcomes across a wide array of measures of child and family well-being.

## REFERENCES/NOTES

1. Children in the child welfare service systems (foster care, juvenile justice, and child mental health) are most likely to be involved in several service systems and therefore provide the greatest challenges to better service coordination across systems. In many instances, states and communities already are devoting substantial resources across multiple systems to serve them. For these reasons, some of the most innovative and extensive uses of new financing strategies have been developed in addressing children and families involved in child welfare.

2. For a more detailed description of decategorization, see: Bruner, C.; & Flintrop, D. (1991). *Developing comprehensive, family-centered child welfare systems: Emerging state strategies*. Des Moines, IA: Child and Family Policy Center.

3. "Wrap-around services" are services that are designed to augment and complement more traditionally available services to assure that the holistic needs of clients can be met. For a discussion of "wrap-around services" as they have been employed in serving severely emotionally-disturbed children, see: Burchard, J. D.; & Clarke, R. T. (1990). The role of individualized care in a service delivery system for children and adolescents with severely maladjusted behavior. *Journal of Mental Health Administration*, 17(1), pp. 48-60.

4. While there is nothing illegal or improper about a state decision to use refinanced funds for any state purpose, failure to reinvest those funds within child and family services wastes a golden opportunity both to finance service reforms and to redirect funding incentives toward more prevention-oriented and community-based alternatives. The dollars gained through refinancing are rarely enough to make a dent in states' large budget deficits. However, they are sufficient to give major impetus to local improvements in child and family service systems—and this can effectively address high priority community needs.

5. Center for the Study of Social Policy. (1991). *Leveraging dollars, leveraging change: Refinancing and restructuring children's services in five states*. Washington, DC: Center for the Study of Social Policy.

6. The most frequently cited study on the cost effectiveness of high quality early childhood programs for low-income children is that produced by the High Scope Research Foundation on the Perry Preschool Program. See: Berrueta-Clement, J. R.; Schweinhart, L. J.; Barnett, W. S.; Epstein, A. S.; Weikart, D. P. (1984). *Changed lives: The effects of the Perry Preschool Program on youths through age 19*. (Monographs of the High/Scope Educational Research Foundation No. 8.) Ypsilanti, MI: High/Scope Press. A more recent follow-up to that study shows even more pronounced "returns on investment" to that particular program. See: Schweinhart, L. J.; & Weikart, D. P. (1993 Summer). *Changed lives, significant benefits, High/Scope Resource: A Magazine for Educators*, 12(3), pp. 1, 10-13.

The most frequently cited statistic on prenatal care actually is the result of a simulation of the potential cost-effectiveness of prenatal care conducted by the Institute of Medicine in 1985, although selected other studies have shown benefits in reduced low-birthweight rates for specific prenatal programs targeted to high-risk populations. For a review of this literature, see: Bruner, C.; & Perrin, J. (1993). *Going to scale: Exemplary state programs to improve infant and child health*. Des Moines, IA: Child and Family Policy Center.

The U.S. Select Committee on Children and Families published a report citing a variety of studies suggesting the cost-effectiveness of different programs serving vulnerable children and families, although interpretation of these studies has been subject to debate, as evidenced by that document's minority report. See: Select Committee on Children, Youth, and Families, U.S. House of Representatives. (1990). *Opportunities for success: Cost effective programs for children: Update, 1990*. Washington, DC: U.S. Government Printing Office.

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