

## DOCUMENT RESUME

ED 394 675

PS 024 084

AUTHOR Orland, Martin E.; And Others  
 TITLE Creating More Comprehensive, Community-Based Support Systems: The Critical Role of Finance.  
 INSTITUTION Finance Project, Washington, DC.  
 PUB DATE Nov 95  
 NOTE 35p.; Reprinted with permission from Integrated Services for Children and Families: Opportunities for Psychological Practice.  
 AVAILABLE FROM The Finance Project, 1341 G St., N.W., Washington, DC 20005.  
 PUB TYPE Reports - Descriptive (141) -- Guides - Non-Classroom Use (055)

EDRS PRICE MF01/PC02 Plus Postage.  
 DESCRIPTORS Budgets; Community; Economic Factors; Educational Economics; \*Educational Finance; Federal Aid; \*Finance Reform; Financial Support; \*Fiscal Capacity; Integrated Services; State Aid  
 IDENTIFIERS \*Financial Analysis; Local Control; Localization (Administrative); Local Planning and Assessment Process

## ABSTRACT

Programs serving children and families are funded through countless federal, state, and local governmental channels, as well as through private sources. Every one of these programs contains a unique set of standard rules and requirements about how funds may be used and who is eligible to receive them. Increasingly, policymakers, educators, professional service providers, and advocates have begun to recognize the limitations of such fragmented approaches to the delivery of children's services and have begun to outline new systems of children's support that integrate programs across service sectors into comprehensive, community-based support systems (CCBSS) characterized by a focus on prevention-oriented services and supports, flexibility in supporting the needs of children within the context of their families and communities, a strong community role in program design, implementation, and governance, and a focus on accountability for outcomes. This report is made up of three sections. The first section provides background on the current financing of children's services and supports, discussing the magnitude of public expenditures and public funding mechanisms. The second section, which discusses innovations in financing integrated services, includes private expenditures public financing strategies, decategorization methods, refinancing, fund redeployment, and investments in inter-professional development. The final section discusses the challenges ahead in the areas of management systems, external grant mechanism, and professional development activities. (Contains 25 references.) (ET)

\*\*\*\*\*  
 \* Reproductions supplied by EDRS are the best that can be made \*  
 \* from the original document. \*  
 \*\*\*\*\*

ED 394 675

U.S. DEPARTMENT OF EDUCATION  
Office of Educational Research and Improvement  
EDUCATIONAL RESOURCES INFORMATION  
CENTER (ERIC)

- This document has been reproduced as received from the person or organization originating it
- Minor changes have been made to improve reproduction quality
- Points of view or opinions stated in this document do not necessarily represent official OERI position or policy

CREATING MORE  
COMPREHENSIVE,  
COMMUNITY-BASED  
SUPPORT SYSTEMS

■  
The Critical Role  
of Finance

PERMISSION TO REPRODUCE AND  
DISSEMINATE THIS MATERIAL  
HAS BEEN GRANTED BY

*Cheryl D.  
Hayes*

TO THE EDUCATIONAL RESOURCES  
INFORMATION CENTER (ERIC)

PS 024084



THE FINANCE PROJECT

---

---

CREATING MORE  
COMPREHENSIVE,  
COMMUNITY-BASED  
SUPPORT SYSTEMS

□

**The Critical Role  
of Finance**

November 1995

By Martin E. Orland,  
Anna E. Danegger,  
and Ellen Foley

Prepared for  
**THE FINANCE PROJECT**  
1341 G Street, NW  
Washington, DC 20005  
202-628-4200  
Fax: 202-628-4205



#### **ABOUT THE AUTHORS**

Martin E. Orland is a Senior Fellow at The Finance Project. Anna E. Danegger is a Research Associate there. Ellen Foley is a Ph.D. candidate in the education school at the University of Pennsylvania and a consultant to The Finance Project.

---

From *Integrated Services for Children and Families: Opportunities for Psychological Practice*, by R.J. Illback, H. Joseph, Jr., and C. Cobb (Editors) (in press). Washington, DC: APA Books.  
Reprinted with permission.

---

## PREFACE

Public financing for education and an array of other children's services has become a topic of significant interest and political concern. Growing skepticism among a critical mass of American voters and taxpayers has fueled doubts about the ability of government to solve social problems and provide basic supports and services that enhance the quality of life in their communities. Voters spoke clearly in November 1994. They want more for their money. They want more and better services, but they also want balanced budgets and cuts in income and property taxes. In this time of big public deficits, they want government at all levels to operate more effectively and efficiently. They also want it to invest wisely and live within its means. On Capitol Hill on Washington, DC and in statehouses nationwide, policymakers are scrambling to respond.

Across the country, there is mounting evidence of efforts to reform and restructure education and other community supports and services in order to improve the lives and future prospects of children and their families. Critical to the success of these initiatives is the way in which they are financed. How revenues are generated and how funds are channeled to schools, human service agencies, and community development initiatives influence what programs and services are available. It determines how they are provided and who benefits from them. Financing also affects how state and local officials define investment and program priorities, and it creates incentives that guide how educators, other service providers, and community volunteers do their jobs. For these reasons, financing fundamentally affects how responsive programs and institutions are to the needs of the people and communities they are in business to serve.

In recent years, several blue ribbon commissions and national task forces have presented ambitious prescriptions for reforming and restructuring the nation's education, health, and human service systems in order to improve outcomes for children. While some have argued that public financing and related structural and administrative issues are critical to efforts to foster children's healthy development and school success, none has been framed for the specific purpose of inventively reconceptualizing public financing. Indeed, many of the most thorough and thoughtful reports have called for an overlay of new funds, but have neglected to provide cogent analyses of effective financing strategies, the costs of converting to these approaches, and the potential beneficial outcomes that might accrue from addressing financing reform as an integral aspect of program reform.

In addition, the past several years have witnessed a burgeoning of experimental efforts by mayors and city managers, governors and state agency directors, legislators and council members, program managers and school officials to make government work better and more efficiently. They have been enhanced by the work of people outside of government, including foundation executives, business and labor leaders, community organizers, and academic scholars. Some are creating new ways to raise revenues, manage schools, deliver human services, and spur community economic development. Others are designing new public governance and budgeting systems. Still others are developing and testing new approaches to more directly involve citizens in setting public priorities and maintaining

---

accountability for public expenditures. Taken together, these efforts suggest the nascent strands of new and improved public financing strategies.

Against this backdrop, a consortium of national foundations established The Finance Project to improve the effectiveness, efficiency, and equity of public financing for education and an array of other community supports and services for children and their families. Over a three-year period that began in January 1994, The Finance Project is conducting an ambitious agenda of policy research and development activities, as well as policymaker forums and public education. The aim is to increase knowledge and strengthen the capability of governments at all levels to implement strategies for generating and investing public resources that more closely match public priorities and more effectively support improved education and community systems.

As a part of its work, The Finance Project produces a series of working papers on salient issues related to financing for education and other children's services. Some are developed by project staff; others are the products of efforts by outside researchers and analysts. Many are works in progress that will be revised and updated as new information becomes available. They reflect the views and interpretations of the authors. By making them available to a wider audience our intent is to stimulate new thinking and induce a variety of public jurisdictions, private organizations, and individuals to examine the ideas and findings they present and use them to advance their own efforts to improve public financing strategies.

This paper, *Creating More Comprehensive, Community-based Support Systems: The Critical Role of Finance*, was written by Martin E. Orland, Anna E. Danegger, and Ellen Foley, and was reprinted with permission from *Integrated Services for Children and Families: Opportunities for Psychological Practice*, an edited volume in press at the American Psychological Association. It serves as both a guide to social service financing mechanisms for the non-expert, and an analysis of how those mechanisms can impede service delivery. With particular attention to the challenges and opportunities offered by the changing policy environment and the approaching federal block grant era, it also explores options for financing reforms that support comprehensive, community-based services for children and families.

Cheryl D. Hayes  
Executive Director

---

## INTRODUCTION

Programs serving children and families are funded through countless federal, state, and local governmental channels, as well as through private sources. The federal government alone currently funds nearly 500 distinct programs for children, their families, and their communities, ranging from health to education services, and from child protection and support to youth centers. In addition, state and local governments, and private individuals and corporations, fund their own series of initiatives for children and their families. By one count, there are some 238 separate programs for "at-risk" youth operating within the Los Angeles Unified School District alone (Gardner, 1995, p. 4). Each of these programs was no doubt initiated with the best of intentions, among them to ensure that politically and economically vulnerable constituencies (e.g., low-income children and families, children with disabilities) actually benefit from public expenditures. However, such guarantees come at a price.

Every one of these programs contains a unique set of standard rules and requirements about how funds may be used, and who is eligible to receive them. For example, the requirements for compensatory education programs differ from those for health awareness, which, in turn, are separate from those for family preservation, and so on. These programs are each run independently and managed separately, following procedural requirements typically set by federal, state, or local government officials. "Street-level" children's service providers (e.g., teachers, social workers, nurse practitioners) are likely to be quite knowledgeable about the particular rules and regulations connected with serving the children and/or families for whom they are responsible. However, it would not be surprising if they were unaware of even the existence of many of the other special program services that these same children or families also receive.

Increasingly, policymakers, educators, professional service providers, and advocates have begun to recognize the limitations of such fragmented, functionally based approaches to the delivery of children's services. As currently constituted, the dizzying array of separate rules, regulations, and administrative structures makes it all but impossible to design and implement strategies that are responsive to the needs of the children and families who are the objects of such assistance. Current arrangements ignore two fundamental tenets of effective service provision for children: (1) children with multiple needs require comprehensive and coordinated service strategies, and (2) local communities represent an indispensable asset for effectively linking programs and resources across agencies and public and private institutions (Hayes, Lipoff, and Danegger, 1995).

In response to these limitations, researchers and program developers have begun to outline new systems of children's support that integrate programs across service sectors and involve communities as centerpieces of program design and operation. Ideally, such comprehensive, community-based support systems (CCBSS) have a number of features that distinguish them from traditional children's service arrangements (Farrow and Bruner, 1993; Hayes et al., 1995; Schorr, 1988). These include:



- *A focus on prevention-oriented services and supports.* In traditional children's service programs, most resources are made available for treating a problem (such as juvenile delinquency), rather than for trying to prevent it in the first place. A CCBSS, on the other hand, aims to prevent problematic outcomes for children.
- *Flexibility in supporting the needs of children within the context of their families and communities.* Traditional children's service programs target the use of funds to narrowly delineated purposes (e.g., hiring substance abuse professionals), and place detailed restrictions on how resources may and may not be used. A CCBSS blends resources and coordinates services and supports across professional domains (such as health, social welfare, education, and neighborhood development agencies) as well as public, private, and non-profit institutions in order to make the most worthwhile investments for children. Such investments need not focus solely on the child, but can also include supports to his or her family and community.
- *A strong community role in program design, implementation, and governance.* In most current children's programs, service and funding decisions are typically made centrally by federal, state, or local bureaucracies. Ideally, in a CCBSS, community members exercise substantial decision-making authority in defining their high-priority needs and then marshaling the resource and program strategies for meeting them.
- *A focus on accountability for outcomes.* Most traditional program accountability systems measure narrow service inputs (e.g., the number of teacher workshops the school system offers on classroom disruption). In a CCBSS, the accountability system is performance-driven, with community members defining desirable child, family, and community outcomes (e.g., reducing the rate of violent incidents in and around neighborhood schools), periodically monitoring their attainment, and adjusting program strategies accordingly.

Today, there are numerous local efforts around the nation that attempt to initiate program strategies for children and families that are consistent with these characteristics.<sup>1</sup>

Despite the fact that the number of comprehensive, community-based systems has been growing, the children's service landscape continues to be dominated by fragmented, uncoordinated, and bureaucratically driven program strategies. Why do such arrangements persist, in light of their commonly acknowledged limitations? It is the central thesis of this paper that their continued presence is intimately related to the way in which most children's services are now financed. That is, the current financing system--grounded in narrow and functionally based requirements for how public resources may be obtained, used, and reported--discourages the development of comprehensive, community-based support systems for children and their families. However compelling the arguments for more

---

<sup>1</sup> A summary of more than 50 such programs can be found in The Finance Project's *Compendium of Comprehensive, Community-Based Initiatives: A Look at Costs, Benefits, and Financing Strategies*. (Hayes et al., 1995).

---

integrated service delivery approaches might be, as long as these basic financing systems remain more or less intact, efforts to develop and sustain these new structures will only have marginal success.

Because finance and service delivery are so closely related, it is essential to carefully examine the links between the vision we have for children's service delivery and the financing strategies that are needed to see this vision fulfilled. The purpose of this paper is to conduct such an examination, which is done by addressing two critical questions. First, how do current financing arrangements present obstacles to implementing comprehensive, community-based children's service approaches? Second, what types of financing reforms hold particular promise in overcoming these obstacles, and what is the likelihood that such reforms will become more prevalent?

The paper begins by describing the current system of children's financing and documenting the number, types, and funding levels of major federal programs for children. Next, it examines how these financing structures inhibit the creation, effective implementation, and institutionalization of more comprehensive, community-based program designs. This paper then describes and analyzes significant efforts (both proposed and under way) to reform children's financing arrangements so as to encourage more integrated, community-driven service approaches. Finally, it concludes with a discussion of the prospects for furthering such reforms in the months and years ahead.

#### **BACKGROUND: THE CURRENT FINANCING OF CHILDREN'S SERVICES AND SUPPORTS**

Children need "decent education, health care, and safe neighborhood environments where they can play, parents can work, and people of all ages can socialize and develop personal relationships" (Hayes et al., 1995, p. 1). These needs traditionally have been met by families and communities; however, changing demographics and family/community dynamics have meant that in many cases, the necessity for organized supports which meet some or all of the needs of children and families has grown. More and more, children grow up in single-parent families, generations of families live farther away from one another, and communities are less cohesive because of increased personal mobility. Individuals, private organizations, and the public sector have attempted to fill the resulting social gaps through financing organized supports and services. However, the services that currently support children and their families are delivered by a range of providers and financed in myriad ways, with little coordination among them.

Relying heavily on The Finance Project's Database of Federal Allocations and Tax Expenditures Benefiting Children and Families,<sup>2</sup> the following section highlights both the

---

<sup>2</sup> The Finance Project's Database of Allocations and Tax Expenditures Benefiting Children, Families, and Communities tracks approximately 500 programs that benefit children broadly. A significant portion of these programs benefit children and families indirectly (e.g., through community development grants) or assist others in addition to children and their families (e.g., low-income housing assistance grants). Of the approximately 500 programs in the database, about 150 are targeted exclusively to supports and services for children and their families.

---

magnitude of spending on, and the principal mechanisms for financing, services and supports for children and families.

### **The Magnitude of Public Expenditures**

The primary financing source of organized support for children and families is public expenditures--specifically, revenues from federal, state, and local governments. While there are overlapping responsibilities among the different levels of government, distinct differences exist in the focuses of funding. The federal government plays the most significant role in financing human services for children and their families (e.g., health, nutrition, housing, and welfare programs). State and local governments play the primary role in financing education expenditures.

As defined for The Finance Project's database, federal allocations for children fare rather poorly in relation to many other categories of federal expenditures. In fiscal year (FY) 1994, direct federal allocations supporting education and other services for children and their families totaled approximately \$104 billion. As a reference point for comparison, federal allocations for discretionary defense spending in the same year totaled more than twice that, at \$280.6 billion. Allocations for seniors were also dramatically higher than those for children and families with children. The federal government allocated \$63 billion for federal retirement, \$140.8 billion for Medicare, and \$317.7 billion for Social Security, totaling \$521.5 billion directed to the nation's senior populations, more than five times its \$104 billion allocation for children and their families.

Of the \$104 billion spent by the federal government on children and families, 56 percent (\$58 billion) goes to only four large programs: Food Stamps, Aid to Families with Dependent Children (AFDC), Medicaid, and Children's Old Age Survivors and Disability Insurance (OASDI).<sup>1</sup> Each of these programs either transfers income directly to individuals or provides payment waivers for expenses such as food and medical care. The balance of federal funds, \$46 billion, benefits children and families through numerous categorical programs, the great majority of which were smaller than \$100 million in FY 1994.

Federal spending for children and families with children pales in comparison not only to other categories of federal spending, but also in relation to overall state investments in children and families. This is because state and local governments finance the lion's share of educational services, the only children's service area where eligibility for government support is universal and the costs are fully subsidized by public funds. In the 1992-1993 school year, states provided \$115.2 billion, and localities and other non-federal sources \$114.1 billion, of the approximately \$253.8 billion spent on elementary/secondary education (Gold and Ellwood, 1994). States also make significant contributions to funding other services for children and families, including providing federally required matching funds AFDC and Medicaid. In 1992, states spent \$21.5 billion on matching federal investments in non-

---

<sup>1</sup> OASDI is a part of Social Security

---

education supports for children and their families. Of this amount, \$17.3 billion (or approximately 80 percent) was spent on matching federal AFDC and Medicaid expenditures.

State investments in children vary greatly, however. Education spending per pupil in 1992 was three times greater in New Jersey than in Utah. In that same year, Massachusetts spent about ten times more per poor child than Mississippi on non-education children's programs (Orland and Cohen, 1995).

State and local funding has been affected in recent years by citizen tax revolts, waning economic growth, and increasing numbers of children, particularly children in poverty. Since 1980, state and local AFDC spending per poor family has declined 19 percent in real terms, while state and local education spending per pupil has held steady since 1991, following two decades of relatively uninterrupted growth (Orland and Cohen, 1995).

### Public Financing Mechanisms

Whatever the relative size of investments in children and their families, it is clear that governments in general, and the federal government in particular, have enormous influence on how services for children and families are delivered. Federal influence is attributable to two related factors. First, although states and localities may spend more overall on children and families, the federal government has come to shoulder unique responsibilities in supporting children and families with high levels of need. Programs such as Head Start, Title I of the Elementary and Secondary Education Act, and the Special Supplemental Food Program for Women, Infants, and Children (WIC) are three prominent examples of large-scale federal initiatives designed to meet the unique needs of at-risk children and families. Second, even in instances when the financing responsibilities for serving high-need children and families is shared among levels of government (such as the AFDC, Medicaid, and special education programs), the federal government establishes the rules by which its financial assistance will be forthcoming, thus driving the basic design of services and supports.

The federal government provides financial support to children and their families in two basic ways: (1) by transferring income directly to individuals, and (2) by funding special programs and services. The principal mechanisms used to deliver these resources are described below. Family incomes are generally subsidized through *entitlement programs*, *tax expenditures* and *loans*. *Competitive grants-in-aid* and *formula grants* are the primary financing mechanism for delivering special program services.

*Entitlements* are the largest source of public funds for children and their families. An entitlement guarantees a financial subsidy or service to an individual--provided that a specific eligibility standard is met--and the funds are used for the clearly defined purposes specified by government rules and regulations. As the name implies, individuals are automatically *entitled* to receive these funds, and services are based on one or more defining characteristics, such as age, occupation, disability, or income.

The federal government funded \$79.2 billion of FY 1994's \$104 billion of allocations for children and their families through entitlements,<sup>4</sup> making this by far the most prevalent

---

<sup>4</sup> This figure includes allocations for both capped and uncapped entitlements

---

means by which the federal government invests in children and families (Database of Federal Allocations, 1995). Food Stamps, AFDC, Medicaid, and OASDI payments make up the majority of these funds. Every person meeting the eligibility requirements may receive such subsidies, provided that they comply with the program's rules and regulations (such as AFDC beneficiaries participating in job training programs, as stipulated in the 1988 Family Support Act).

When entitlement eligibility requirements are not met--no matter how small the margin of difference--it is illegal for an individual to access the funds and services. Nor can the monies be used for purposes other than those that are federally designated. For example, only medical care is to be provided with Medicaid funds, and food stamps can only be used to purchase food. So, although entitlements represent a major source of funds for needy children and families, their broad use is severely circumscribed.<sup>5</sup>

*Tax expenditures* are another method by which financial investments in children and families are encouraged. Like entitlements, tax expenditures are a way to invest in general family needs and support, rather than in the delivery of specific services. They differ from entitlements, however, in two significant ways. First, tax expenditures are not direct government allocations; rather, they reduce individuals' income tax liabilities. They are thus ordinarily of limited value to low-income individuals paying little or no income tax.<sup>6</sup> Second, unlike entitlements, tax expenditures not only transfer income and services to a particular category of individuals (such as the poor), but also encourage private investment in activities deemed to be socially desirable.

Overall, \$3.4 billion was forfeited by the federal government in 1994 through four tax expenditures expressly targeted to increasing the after-tax incomes of families with children (Database of Federal Allocations, 1995).<sup>7</sup> The child and dependent care tax credit was the largest single tax expenditure of this kind, totaling \$2.8 billion dollars.<sup>8</sup>

Like tax expenditures, *loans* are another form of public subsidy providing both direct and indirect benefits to children and families. Since loans must be repaid and are commonly

---

<sup>5</sup> However, as will be pointed out later, resourceful local administrators have in recent years developed practices to enhance the flexibility of entitlement funds, particularly Medicaid, by aggressively seeking federal entitlement matches for activities previously supported through state and local funds, and using the resulting revenue savings to fund other programs and services.

<sup>6</sup> The exceptions to this are the few tax expenditures that are refundable, such as the Earned Income Tax Credit (EITC). In these cases, government payments to individuals may exceed their level of income tax liability, thus benefiting many low-income people with little or no income tax obligations.

<sup>7</sup> This \$3.4 billion is not included in the \$104 billion figure cited earlier as the total federal allocation for children and their families. It would be misleading to imply that tax expenditures are direct investments parallel to allocations.

<sup>8</sup> In addition to those described, there are other significant tax expenditures, such as a deduction for the mortgage of a house and the exemption for charitable contributions, which both directly and indirectly benefit families, yet which also benefit adult individuals without children, and thus have not been included in the \$3.4 billion figure.

---

considered a tool of the private sector, they are often not counted as a public support mechanism. However, government loans are usually offered to fulfill a public purpose that is not being met by private financial markets. Thus, the government undertakes a financial obligation--for example, by underwriting high-risk ventures (and absorbing the financial losses that are more likely to come with such ventures), subsidizing interest rates, or extending loan repayment periods.

In 1994, the federal government provided approximately \$79 billion in loans to support families and their communities (Database of Federal Allocations, 1995). These loans subsidized purchases of housing, home heating, and educational services, as well as the start-up costs for business ventures.

Aside from individual income transfers, the federal government supports children and families through grant-in-aid programs to state and local governments and private organizations. Such grant programs fall into two broad categories: competitive and formula grants.

*Competitive grants-in-aid*, commonly called categorical grants, are the most common form of federal grants serving children and families. They began to proliferate in the 1960s as a means for the federal government to encourage states and localities to serve disadvantaged or disenfranchised groups and deliver particular types of program services.

In a categorical grant arrangement, the federal government carefully details the designated purposes, eligibility requirements, and permissible uses of funds. Recipients (known as grantees) are typically selected through a competitive application review process, and are usually state and local governments agreeing to administer a program consistent with the grant-in-aid guidelines. The grants are monitored by federal officials to check compliance with the prescribed requirements. Many grants are designed to ensure that the program will benefit the intended target population and that the grant will supplement existing state and local commitments to these beneficiaries rather than merely replace state and local resources with federal funds. Using categorical grants for purposes other than those that are designated can make the grantee financially liable.

In 1994, the federal government delivered approximately \$5.5 billion of services for children and families through 82 competitive grant-in-aid supports. Large numbers of grant programs exist in every children's service area, including education (47 programs), health (19 programs), and juvenile justice (6 programs) (Database of Federal Allocations, 1995). In addition to federal competitive grants, each state runs its own series of competitive categorical grant-in-aid programs for children and families.

*Formula grants* are a less prescribed form of federal grant-in-aid support. While they too are created and authorized for a definitive purpose, this is usually broader than that of the competitive categorical grant.<sup>9</sup> For example, a formula grant may be provided for school reform, while a categorical grant might fund a program for staff training to meet the needs of

---

<sup>9</sup> The Catalog of Federal Domestic Assistance (OMB and USGSA, 1994) defines a formula grant as an "allocation of money to states or their subdivisions in accordance with a distribution formula prescribed by law or administrative regulation, for activities of a continuing nature not confined to a specific project (p. 6-94)."

---

learning disabled children. Formula grants are allocated to states and localities based on legislated formulas rather than being awarded through a grants competition. In 1994, the federal government transferred approximately \$15 billion (in the form of supports and services) to children and families through formula grants.

*Block grants* are a type of formula grant that historically has been created by merging numerous smaller competitive and formula grant programs. Under block grants, the grantee (usually the state) is given much greater discretion than in either categorical or more prescribed formula grant arrangements in deciding how to use the funds. Federal compliance and reporting requirements are also less stringent. In 1994, four major block grants directly served children and families: the Maternal and Child Health Services Block Grant, the Child Care and Dependent Block Grant, the Social Services Block Grant, and the Chapter 2 Education Block Grant. These four grants accounted for \$5.6 billion of 1994 allocations for children and families.

At this writing, Congress is considering a series of proposals that would drastically increase the size of block grant program allocations in the children and family service arena (as well as in general) by converting both entitlement and categorical grant programs to block grants in the areas of cash welfare, child welfare and child abuse, child care, food and nutrition, education, and job training. Three implications of the impending changes are likely: (1) the entitlement status of some federal programs will be eliminated; (2) the federal role in financing social services will be greatly reduced, and (3) states will have more authority to design, administer, and finance programs benefiting children and families. These changes are likely to generate both challenges and opportunities for financing more comprehensive, community-based support systems for children and families.

### **Summary**

This section has outlined the magnitude of government spending on children and families and highlighted the principal mechanisms by which public resources are allocated to provide them with supports and services. All told, the federal government directly allocated about \$104 billion for children and families in FY 1994, a figure considerably lower than that for both federal defense expenditures and spending on the elderly. It is also much lower than state and local expenditures on children and families, primarily because the single most heavily funded service for children--education--is almost exclusively supported by state and local dollars. Nevertheless, federal funds exert influence on children and family services that is belied by these relatively modest resource levels--both because of the targeting of much of the assistance on needy populations, and the leverage exerted through setting the conditions by which funds will be received.

The current major funding mechanisms for children's services--entitlements, tax expenditures, loans, categorical grant-in-aid, and formula grants--can be said to drive the current support systems for children and families. As described in the following section, with the present situation of funding from so many different sources and so many varying regulations, "families' needs usually have to be fitted to available services, rather than the reverse" (Farrow and Bruner, 1993, p. 7).

---

## THE CURRENT FINANCING SYSTEM: IMPLICATIONS FOR SERVICE DELIVERY

The amalgamation of categorical grants, formula grants, and entitlement programs that we call the public financing "system" is more than just a fund disbursement mechanism. It also has enormous implications for how social services are delivered. Imagine that paychecks came with purchasing rules, and that getting paid each week was contingent on proving that the previous week's salary was spent accordingly. Imagine further that raises were granted not based on job performance but according to how well employees documented their weekly expenditures. Some employees would no doubt find that the purchasing rules prevented them from getting what they really needed. Even so, most would take pains to show that they had followed the rules, even perhaps letting their work suffer in the process. In essence, this is how the social service financing system works.

Funds that flow from the public treasury are typically neither easy to get nor easy to use, and are generally accompanied by very strict and specific spending requirements. The following section describes specifically how the current financing system inhibits the development of comprehensive, community-based services for children and families. Particular attention is placed on the ways in which the current financing system is centrally governed (rather than community-based), treatment- (rather than prevention-) focused, process- (rather than outcome-) oriented, and fragmented (rather than comprehensive).

### Centralized Governance

One of the central tenets of successful businesses is the importance of staying "close to the customer" (Peters and Waterman, 1982, p. 156). Osborne and Gaebler (1992) and many adherents of their book, *Reinventing Government*, suggest that this philosophy should be transferred to the public sphere in order for government to be efficient and effective. The current system for financing social services, however, is governed centrally, either at the federal or state levels. Localities are far removed from the decision-making process. Many federal allocations go directly to individuals, but officials at the federal and state levels determine what kinds of services are to be provided, who is eligible to receive services, and how funds will be allocated. Decision-making authority is also centralized through rules and regulations, developed at the federal and state levels, which govern the use of funds. For example, there are 27 federal programs focused on substance-abuse prevention and treatment for high-risk communities, families, and children. At least ten different federal agencies administer these programs and control allocations through categorical and formula grants. The agencies distribute these grants primarily to state agencies, which then can further restrict or regulate the use of funds (Office of Management and Budget and U.S. General Services Administration, 1994). By the time the funds reach communities, there is scant flexibility left for social service professionals to use them creatively to meet local needs.

As Gardner (1995) notes, under the current highly prescriptive system, local policymakers find it difficult to shift resources from *any* public sources to meet their community's specific needs. For instance, one-quarter of the funds provided for substance-abuse prevention and treatment comes from competitive grants, which specifically delineate the types of programs that will be funded. In order to be awarded the grant, a community



---

must design the program according to grant stipulations, regardless of its own priorities. For example, the Catalog of Federal Domestic Assistance (OMB and USGSA, 1994) lists *thirteen* different federally defined objectives for a single program, the Comprehensive Residential Drug Prevention and Treatment for Substance Abusing Women and Their Children, a \$15 million grant program. The objectives specify exactly what kind of services are to be provided and how they are to be administered, including the requirement of the provision of parenting and vocational training, as well as substance-abuse treatment and therapy. Only programs designed specifically to fulfill these federally defined goals are funded. Although programs like this one were developed with the good intention of helping communities respond to a growing need, the federal government determined how this need was to be met, leaving little room for localities to determine their own courses of action.

### **Treatment Orientation**

Although many people pay lip service to the adage that an ounce of prevention is worth a pound of cure, few dollars are earmarked for the former. The most well-funded federal programs are treatment oriented. Funds are *only* delivered to programs for persons who *exhibit* particular problems, such as drug abuse, or poverty, or some combination of defining factors. Disbursed in this manner, categorical and other public funds play an important role in alleviating some of these problems, but they do little to prevent them from occurring in the first place. For example, in FY 1994, from \$104 billion dollars earmarked for children and families, the federal government allocated only \$3.2 billion to primary prevention services, while nearly ten times that amount was spent on crisis intervention and support and maintenance programs (Database of Federal Allocations, 1995). Spending patterns like these signal a focus on treatment of specific problems, rather than an investment in prevention.

This treatment orientation is further exacerbated by the lack of flexibility in the use of public funds. Even if, for example, a community-based organization wanted to shift some of its drug treatment monies to prevention-oriented services, strict spending requirements would inhibit its efforts. Dollars generated from entitlement and other grant programs at both the federal and state levels must by law be earmarked for the provision of mandated services and their administration.<sup>10</sup> Additionally, all funds distributed require an "audit trail"--that is, it must be possible to track money as it moves through the system to a particular client or for a specific function. All but the most exceptional and creative local administrators who attempt to shift monies from remediation to prevention find it nearly impossible.

---

<sup>10</sup> Formula grants, which include block grants, are more flexible than categorical/competitive grants. But the history of block grants demonstrates that the longer they exist, the more regulated they become (Hayes, 1995), so they, too, are restricted in their use.

---

### Fragmentation

When a child acts out, this behavior is often a reaction to difficult conditions in the family. The child's parents may need job training, substance abuse counseling, and parenting education, or the child may need better nutrition, or parental attention. Families--particularly economically disadvantaged families living in distressed areas--often have complex, interconnected problems. Yet, frequently in the current system, treatment is fragmented: Each problem is treated individually, without regard for the client's other issues, or family circumstances. This is due in part to the way that funds are appropriated and to the regulations that guide them.<sup>11</sup> For example, there are substance-abuse prevention and treatment programs for juveniles, pregnant women, the homeless, and Native Americans, among others. There are also family support services for these same groups. Little documentation exists on the interaction of the providers of these services, but program administrators report that relationships between them are limited or non-existent (Foley, forthcoming). There is little incentive to collaborate, because resources are tight and because social service programs are not reimbursed for service provision outside their narrowly defined domains.

Additionally, because receiving public funds relies in part on showing compliance with regulation, programs need to be able to demonstrate exactly what services the funding provides and to whom. This results in rigid procedural adherence, with sometimes a file, a case manager, and a counselor for each individual. Administratively, this makes tracing funds easier, but it is difficult for service providers to address the complexity of their clients' problems and it increases the fragmentation of service delivery. People within the same family or even one individual may interact with a multiplicity of providers, with each provider focusing on a different aspect of their lives and acting autonomously, not in concert. Imber-Black (1988) describes a family "served" by 14 different "helpers," each unaware of the others' existence. In this environment, providers end up duplicating effort, working at odds with each other, and, in many cases, wasting resources.

### Process Orientation

Funding for many public programs, particularly entitlement programs, is determined by caseload. Logically, the greater the number of people who need services, the larger the allocation. Yet this seemingly rational system supplies social service staff with perverse incentives. When services succeed by removing individuals from the system and getting them on their own two feet, funding is reduced. If finances are managed well and savings accrue, the savings must often be returned to the treasury at the end of the fiscal year, and the following year's allocation is cut accordingly. Because annual program audits ignore outcomes, staff tend to focus on compliance with rules and regulations, rather than results.

---

<sup>11</sup> Farrow and Joe (1992) also note that both categorical training and the categorical structure of public agencies also play a role in creating social services that treat problems in isolation.

---

The goal of many categorically funded programs then becomes to maintain caseloads, spend every dime allocated, and focus on procedures not progress.

Contributing to this process orientation is one of the ongoing frustrations of the public financing system: the existence of varying eligibility requirements. At the federal, state, and local levels, separate programs intended for the same population have varying participation guidelines. This is particularly true of categorical grant programs. For example, three competitive grant programs administered by the U.S. Department of Health and Human Services have been established to benefit substance-abusing women. The first program focuses on pregnant or post-partum women, and includes their infants, up to the age of 5 and other children, ages 6 to 15. The target of the second program is low-income, pregnant or post-partum women and their infants only. The third program targets the women, and their infants and children, but is not limited to pregnant or post-partum women (OMB and USGSA, 1994). One woman might qualify for the services funded through the first program but may not meet the income requirement of the second program, while an older child may be eligible for services through the third program. Social service providers and administrators must sort out this morass. If they are awarded all three grants, they must fill out different paperwork for each program and separately prove eligibility for each individual. They must also provide services only to those who meet the requirements of each program.

The paperwork is not limited to eligibility determination and grant applications. Publicly funded programs are often required to submit numerous reports to the government. To continue receiving funds, many recipients of competitive grants must provide to federal officials quarterly progress reports, yearly financial status reports, and an overall final report, as well as being subjected to annual fiscal audits (OMB and USGSA, 1994). For a three-year grant, this totals no less than sixteen reports and three audits. Fiscal accountability is important, but no equivalent emphasis is placed on a program's impact on social service recipients. Most accountability audits of categorical programs virtually ignore outcomes. Because compliance with regulations rather than outcomes is stressed, most current social services focus on process, not results.

#### **Implications for Financing Comprehensive, Community-Based Support Systems**

The current categorical financing structure has, in part, fostered a service delivery system that social service professionals and other decision-makers increasingly recognize as contrary to best practice (Farrow and Bruner, 1993). Its centralized governance, fragmentation, process-orientation, and remediation-focus inhibit the development of more family-centered, locally controlled prevention services, which are considered primary elements of model service delivery (see, for example, Schorr, 1988).

Comprehensive, community-based support systems attempt to incorporate all of these best practices, but they are inhibited by the problems of the current financing system. In fact, the current financing system is often cited as the primary barrier to developing comprehensive community-based support systems for children and families (see, for example, Feister, 1994; Gardner, 1995; Sipe and Batten, 1994; U.S. Department of Education

---

and American Educational Research Association, 1995). The characteristics that the system fosters in social service programs are almost entirely at odds with the goals of integrated service initiatives. Where comprehensive initiatives focus on prevention and early intervention services, most public programs respond only after problems become acute (Hayes et al., 1995). Where comprehensive initiatives acknowledge the complexity and interconnectedness of social issues, public systems define eligibility narrowly and focus treatment on individuals. Where comprehensive initiatives recognize the assets of individuals and communities, programs funded from the public treasury focus on their liabilities. And where comprehensive initiatives seek an outcomes focus, public systems reward process and compliance rather than results (Farrow and Joe, 1991). Other barriers to developing comprehensive, community-based support systems exist, but the structure of the current public financing system and its impact on service delivery significantly hinder their growth.

Fortunately, efforts are being made to align practice with theory. The following section describes several innovative efforts to develop and maintain comprehensive, community-based support systems.

#### **INNOVATIONS IN FINANCING INTEGRATED SERVICES**

In response to the financing challenges described in the last section, several strategies have been developed and tested to encourage and sustain comprehensive, community-based support systems. Advocates of integrated service initiatives are looking to non-public revenues for fiscal backing in areas where public monies are lacking. Also, several alternative public financing methods--which incorporate prevention-oriented, family-centered, and locally controlled services--have been developed or adapted to support comprehensive initiatives. From policy reform efforts that include decategorization and block grants, to intra-system reform strategies (e.g., funding coordination, fund redeployment, and results-based budgeting), financing innovations supporting comprehensive initiatives are being piloted nationwide. The following section illustrates financing options for comprehensive, community-based support systems and provides examples of initiatives utilizing these strategies.

#### **Private Expenditures**

*Private expenditures* have played a significant role in the development of more comprehensive services for children and families. Government funding for social services limits resource use to a standard array of categorical services and supports, but private citizens, corporations, and foundations who provide philanthropic gifts and grants can afford more cutting-edge approaches. These expenditures often have fewer reporting requirements and other constraints, so they can provide the flexibility that comprehensive initiatives need. They also can fill in the gaps that other expenditures often do not cover, including funds for planning, demonstration, and/or evaluation costs.

However, private funds have their limitations, with the most problematic being their availability. There is a limited pot of private funds for which comprehensive initiatives, and

---

other social service providers, must compete. Large amounts of resources can be invested in grant applications with no results. Additionally, nearly all private benefactors are loathe to finance ongoing operating costs, preferring instead to invest in time-limited, supplementary projects that might advance the field, but do not commit the benefactors over the long term. Finally, the flexibility of private expenditures can be a bane as well as a boon. Private funds can often be withdrawn as easily as they are granted. For these reasons, private funds--whether individual, corporate, or foundation grants, gifts, or loans--must be used in conjunction with other funds in order to finance a comprehensive initiative over the long term.

- *New Futures*: The New Futures Initiative of the Annie E. Casey Foundation was initiated in 1988 to help communities develop school-based, integrated services for at-risk youth. Savannah, Georgia, received a \$10 million grant from the Foundation for a five-year project. The Foundation required the community to put up an equal amount in matching funds to ensure local commitment during the project, as well as at the conclusion of the grant period (Hayes et al., 1995).

To generate some of their own revenue, independent of public or private largesse, some comprehensive initiatives have begun to experiment with *user fees* as a funding source. Although they have shown promise in helping to develop community "buy-in,"<sup>12</sup> user fees have yet to become a stable source of revenue for comprehensive initiatives. They rarely cover the entire cost of integrated service provision, since they neglect both administrative and start-up costs. They also may be burdensome to economically disadvantaged persons who are often a target of comprehensive service initiatives.

- *Family Focus*: Operating in the Chicago area since 1976, Family Focus Centers provide families with support through a variety of services, including child care, parent support groups, case management, family literacy, and counseling. Ten percent of Family Focus Centers' FY 1995 budget came from user fees (Hayes et al., 1995).

### Public Financing Strategies

While private expenditures can supplement some activities, the broad-based development of comprehensive, community-based support systems will require changes in the public finance system, the largest organized source of revenue for children and family services. Used in conjunction with each other or alone, many innovative approaches are being piloted nationwide. Highlighted below are existing strategies that can be reapplied, as well as new techniques that are being developed to support comprehensive initiatives.

---

<sup>12</sup> User fees are also frequently a symbolic gesture, rather than a mechanism for fundraising. For instance, if a CCBSS is serving a low-income population, a user fee may be instigated in order for the client population to feel as though they are paying for the services which are being received, to feel inclusion and membership, or to get them to "buy-in" to a certain program. However, these fees may only cover a very small fraction of the actual costs of service delivery.

---

### *Results-Based Budgeting and Accountability*

*Results-based budgeting* (also known as outcomes-based budgeting) and *results-based accountability* bring business principles to the social service arena. Used together, these strategies link program planning and resource allocation, providing rewards and sanctions to programs based on their progress toward achieving desired outcomes (Brizius, 1994). The desired outcomes can include removing people from the welfare rolls, preventing teen pregnancy, or any other social service goal that a community agrees upon in the planning process. Commonly practiced in the business community, these strategies give managers the tools to understand program costs, and to allocate funds based on sound financial investments rather than on changing economic or political situations. Outcomes of services can also be tracked to determine whether the goals were achieved (Bruner, 1994). Many states and local agencies are making strides toward using desired results to influence their planning and budgeting processes.

- *Oregon Benchmarks*: In 1988, the state of Oregon developed a 20-year strategic plan called Oregon Shines. To measure progress toward the goals outlined in Oregon Shines, 259 benchmarks were developed. The state now organizes reform efforts and directs funds toward achievement of these goals (Hayes et al., 1995).
- *Cleveland Works, Inc.*: Cleveland Works is a program designed primarily to move Cleveland, Ohio, AFDC recipients from welfare to work. To facilitate this transition, the program provides comprehensive services, including day care, health and mental health services, and legal aid, in addition to job training and job placement services. About 50 percent of the Cleveland Works budget comes from a performance-based contract, in which the organization is paid for every person it removes from the welfare rolls, with payment based on the expected savings to the city and state governments (Hayes et al., 1995).

One of the reasons why these methods have not been used extensively in the public sector in the past stems from the difficulty of measuring outcomes in social programs. In order to utilize results-based budgeting and accountability, one must be able to assess results. In the private sector, the profit is a natural measure of performance; in the public sector, there is not always a parallel measure. Placing a dollar value on prevention services is very difficult. What is the value of fewer runaways or reduced infant mortality, for example? What are the costs of failure? The development of a credible performance measurement system is necessary in order to use results-based strategies effectively.

### *Decategorization Methods*

*Decategorization methods* like funding coordination and block grants are techniques that emphasize greater efficiency and coordination in the use of public funds (Friedman, 1994). While new funds may be appropriated for results-based planning and budgeting and other refinancing efforts, decategorization methods typically rely on the more efficient utilization of existing monies. *Funding coordination*, for example, does not change the way that funds flow to programs: They are still disbursed categorically, but are coordinated to finance prevention-oriented services and other activities essential to comprehensive service

---

provision. Developing the structure for funding coordination is often a long process, done through waivers or in conjunction with legislation that allows participating initiatives exemptions from conventional categorical restrictions on the uses of funds. This technique can promote services that have the flexibility to respond holistically to the needs of children and families.

- *Child Welfare Decategorization Project:* In Iowa, the Child Welfare Decategorization Project coordinates more than 30 separate state funding streams at the county level. Legislation was developed that allows the participating counties funding flexibility and more authority over their resources (Hayes et al., 1995).

Related to funding coordination are broader decategorization strategies, which actually change the fund-disbursement mechanism. With *blending* or pooling, funds are no longer distributed categorically. Freed from the categorical disbursement mechanism, funds once directed toward specific services can be blended across agencies and applied in less-restricted ways. This strategy is often used to coordinate service delivery and eliminate duplicative efforts by social service providers. Again, this strategy usually requires legislation and/or new administrative structures at state and local levels before it can be accomplished.

- *California Assembly Bill 1741 (The Youth Pilot Program):* California Assembly Bill 1741 provides allowances for five pilot counties to blend monies from at least four categorical programs to fund services for children and families. No new money was appropriated for this effort. All the funds utilized are simply freed up from categorical restrictions and then redirected as the counties see fit. The state exchanges control through compliance monitoring for an outcomes-based strategic plan from each county. If results are successful, these counties will serve as models for future statewide adaptation of decategorized, comprehensive, prevention-oriented services (Hayes et al., 1995).
- *West Virginia Governor's Cabinet on Children and Families:* The West Virginia Governor's Cabinet on Children and Families--with members from social service, education, and labor agencies--was created in 1990 to create closer ties among agencies providing services to children and families. The relationship that developed spawned an effort to set aside one-third of one percent of expenditures on the thirteen largest federal categorical programs, including Medicaid, AFDC, and the Job Training Partnership Act funds. The pooled funds will be utilized to plan and coordinate comprehensive services (Hayes et al., 1995).

*Block Grants* are another type of decategorization measure. Block grants have the potential to fully fund a comprehensive initiative, but they are politically controversial. They consolidate disparate grant programs into a few unified funding streams, usually with the exchange of autonomy for reduced fiscal responsibility. In the most recent congressional discussion of block grants, the federal government would devolve control to states in exchange for a reduced federal financial burden. For example, one of the proposals in H.R. 4--the U.S. House of Representatives plan proposed in January 1995--included consolidating ten federal food and nutrition programs and reducing the appropriation by more than \$2 billion over five years (Hayes, 1995).

- *Lafayette Courts Family Development Center*: The Lafayette Courts Family Development Center receives about 90 percent of its funds through the Community Development Block Grant administered by the Baltimore Housing Authority. On-site services—including child care, adult education, job training, and family support services—are available to the 2,400 residents of the Lafayette Courts public housing facility (Hayes et al., 1995).

If they are developed correctly, block grants and other decategorization methods could become opportunities for policymakers interested in reforming the categorical system, and could help make comprehensive service initiatives a widespread reality (Hayes, 1995). However, critics warn that inadequate funding could negate the potential benefits expected from the reduction of federal regulation and the devolution of authority (Farrow et al., 1994; Hayes, 1995). As block grant policy is formed and re-formed, what is needed is model legislation that will guide decision-makers in developing block grant/decategorization policy that bolsters comprehensive, community-based support systems. Informed by lessons from the history of block grant reforms (Hayes, 1995), future legislation should describe the full complement of federal programs available for communities to access, and include incentives for developing comprehensive initiatives.

#### *Refinancing*<sup>11</sup>

*Refinancing* is another tool that social service administrators utilize in order to fund comprehensive service initiatives. Refinancing entails aggressively pursuing monies from uncapped federal appropriations such as entitlement funds, using these new federal funds to pay for standard services, and then applying the freed-up local and state funds to pay for alternative programs, including, perhaps, comprehensive service initiatives.<sup>14</sup> At this writing, there are five primary programs that can be used in refinancing efforts: Title IV-E Foster Care and Subsidized Adoption, Title IV-A Emergency Assistance, Title XIX Medicaid, Title IV-D Child Support, and Title XVI SSI Benefits (Farrow and Bruner, 1993; Friedman, 1994). Although a detailed account of the ways in which programs acquire more federal funds is beyond the scope of this paper, it should be emphasized that most refinancing is achieved by increasing program eligibility rates and expanding coverage to additional service areas.

- *Healthy Start*: Another California-based initiative, Healthy Start is a school-linked, comprehensive support program. One of its primary financing strategies has been to aggressively pursue federal Medicaid funds by claiming for services provided at school sites, particularly therapeutic services. School districts can be reimbursed for speech and physical therapy, and health screenings provided to Medicaid-eligible children (Hayes et al., 1995).

<sup>11</sup> If the block grant legislation in the 104th Congress is developed as expected at this writing, refinancing will no longer be a viable financing strategy, due to the elimination of the entitlement status of several Federal programs.

<sup>14</sup> According to Friedman (1994), the chance that the freed-up local money will NOT be used for services for children and families is the greatest risk of using refinancing strategies.



---

---

Refinancing, however, would be a much more effective financing tool if funds were appropriated over time periods greater than one year. Annual funding uncertainty is the bane of several comprehensive service initiatives. Each year, many programs must devote energy to lobbying for support in their communities and state legislatures, in the face of budget cuts and staff pressures. This constant uncertainty makes developing collaborative relationships among public agencies and other service providers difficult. The promise of multi-year funding has helped some current initiatives to create longer-term plans, which is an activity appropriate to an intervention designed to make a lasting impact on a community.

### *Fund Redeployment*

Another technique being utilized to support the development of comprehensive initiatives is *fund redeployment*. When redeploying funds, social service providers emphasize movement from restrictive and expensive services to cheaper, more humane, community-based supports and services. Nonviolent mentally ill persons, for example, may be transferred from institutions to group homes, or juvenile delinquents may be sent to an alternate sentencing program, rather than a detention center. Friedman (1994) identifies four methods of redeployment: (1) investment-based, (2) capitation-based, (3) cut-based and (4) material. Material redeployment is probably the easiest type to achieve. Staff and other non-fiscal resources are shifted from one place to another, more conducive to the development of integrated services. School-linked comprehensive initiatives often use this technique when co-locating family support, juvenile justice, and other services at the school site.

Cut-based redeployment is very straightforward: It involves cutting one type of service in order to fund another. Although social service budgets are very tight, it is widely agreed that money is often not used efficiently (Friedman, 1994). Cutting can be conducted discriminantly, and the savings can be invested in integrated service efforts. Kagan et al. (1995) note that by "decreasing bureaucracy and duplication of efforts, integrated services and service delivery systems can become more cost efficient, with portions of monies funneled back into service delivery" (pp. 83-84).

Other types of redeployment are more complicated. Capitation-based redeployment, for example, entails charging one fixed cost for groups of services. Health maintenance organizations employ this type of financing strategy. Investment-based redeployment, on the other hand, is founded on the idea that short-term investments will reap long-term gains. Savings anticipated from the use of preventive services, for example, can be used up front to fund those services. This method is more easily discussed than done, however. Although many believe that investing in prevention-oriented services is more efficient, there is little information on the short- and long-term costs and benefits of such investments

- *Kansas City's Local Investment Commission (LINC)*: LINC is an initiative to reform Kansas City's human services system and devolve responsibility for the design and operation of services to neighborhood leaders. LINC serves as a catalyst for reallocating current resources from highly formalized categorical services to more flexible responses to community needs. For example, some LINC communities are redesigning their schools to be the hubs of neighborhood social services. LINC

---

also sponsors a program which converts AFDC and Food Stamp benefits to grants to local employers who hire welfare recipients (Hayes et al., 1995).

Fund redeployment and other techniques described above often rely on the availability and accessibility of valid data on program participation and the utilization of funds. The development of a model Management Information System (MIS) for comprehensive service initiatives would help support these endeavors. Many comprehensive initiatives have already had to modify their existing MIS, or create a new one to support the data demands of redeployment, refinancing, evaluation and other collaborative work. A thorough review of these MISs is presented in the National Center on Service Integration report by Marzke, Both, and Focht (1994). Building on some of this work and creating user-friendly, easily modifiable software would help support the development of comprehensive, community-based support systems.

#### **Investments in Inter-Professional Development<sup>16</sup>**

Even if all of these promising strategies for reform were implemented and all of the needed policies were adopted, one challenge to the development of comprehensive, community-based support systems would remain. The impact of the existing inflexible, treatment-oriented, process-focused, hierarchical financing system will persist unless the relationships among providers and the attitudes and skills of social service professionals are addressed (Foley, forthcoming). Research and anecdotal evidence has shown that the public financing structure not only affects the way in which social services are delivered, it also affects the attitudes and competencies of social service professionals (Foley, forthcoming; Kirst, 1994). The fallout from the current public financing system makes it difficult for professionals to establish and maintain relationships across disciplines, and contributes to a deficit orientation. Combined with specific professional training and agencies organized around particular areas (Farrow and Joe, 1992), specialized funding causes many social service professionals and staff to "think" categorically. The message they receive when, for example, funding for substance abuse treatment is provided separately from funding for family support and other services, is that these are distinct issues that must be dealt with separately.

Public funds are primarily obtained by identifying the weaknesses of clients in need of social services. Clients must present a specific problem, or be classified as disadvantaged in some way in order to qualify for services. Because the focus is on liabilities, social service providers often think of their clients as deficient, rather than as individuals with the capabilities to solve their own problems with support and guidance.

Even in initiatives that have developed a substantially different financing structure, administrators described the pervasiveness of these attitudes as one of their primary challenges (Foley, forthcoming). However, some comprehensive initiatives have attempted

---

<sup>16</sup> In a joint report, the U.S. Department of Education and the American Educational Research Association suggested that investment in "inter-professional development" was needed. Inter-professional development was defined as preparation to support "the ability of professionals to integrate and connect services for children and youth with their potential problems" (p.19).

---

to address this issue through interagency planning and collaboration, as well as efforts at creating inter-professional development opportunities.

- *New Beginnings*: A San Diego county collaborative, *New Beginnings* seeks to use existing resources more efficiently, and to develop family-centered integrated services for children and families. In the project's initial year, an Institute for Collaborative Management was developed "to institutionalize collaboration among the partner agencies" (Barfield et al., 1994, p. 11) and to develop professionals' collaborative skills. Inter-agency conferences and training activities have been held (Barfield et al., 1994).

But inter-professional development cannot be achieved by comprehensive initiatives alone. Universities and other institutions that provide training to social workers, psychologists, educators, and other service professionals must revamp their curricula, and governing agencies must reorganize to provide opportunities for collaboration. Utilizing strategies like results-based planning and budgeting, decategorization, fund redeployment, and refinancing to change the financing system is a necessary step to improving services for children and families. But these strategies will be insufficient unless social service professionals concurrently promote decategorized training and service. One of the current financing system's unfortunate legacies is its negative impact on service delivery; undoing its effects is one of the primary obstacles threatening the development of comprehensive, community-based support systems. The following section of this paper highlights this, and other challenges that lie ahead.

### THE CHALLENGES AHEAD

Three major areas were analyzed in the prior sections. The magnitude and nature of current public financing efforts on behalf of children and families were described. The difficulties caused by such arrangements were then outlined from the perspective of delivering integrated and community-centered services and supports. Finally, specific attempts were presented that are under way to better align the goals of more comprehensive, community-based support systems for children and families with the financing arrangements needed to create and sustain them.

Implicit throughout this paper is the belief that more integrated and community-based approaches have considerable potential to enhance positive outcomes for children. However, despite the numerous initiatives launched over the last decade, significant changes in the current institutional techniques for financing services for children and their families are required in order for this service delivery paradigm to become both large-scale and sustainable.

The necessary changes are primarily in three areas: (1) management systems, (2) external grant mechanisms, and (3) professional development activities. Because the areas are interrelated, reforms in each area are critical for bringing about widespread systemic change consistent with a comprehensive community-based service delivery paradigm.

First, new public-sector management systems need to be developed and used in the public sector in order to design, budget, and evaluate services for children and families. The

---

new systems must articulate across traditional functionally organized service sectors (education, health, social services, juvenile justice, and community development) by focusing attention on the contributions from each that are needed to achieve high-priority children's outcomes. Management reforms should also encourage greater resource investment in prevention services, as well as the use of new accountability systems for monitoring and reporting progress in achieving desired children's outcome objectives.

Second, new intergovernmental grant arrangements must be developed that empower local communities to allocate resources consistent with their children's outcome goals. The current system of fragmented, prescriptive, and detailed service mandates as a condition for external financial support needs to be replaced with more flexible outcomes-based grant policies. And explicit incentives should be built into new grants for inter-agency cooperation, as well as the leveraging of private-sector resources.

Finally, there must be dramatic changes in how children and family service administrators and service providers are trained to perform their jobs. As noted earlier, the current financing system has reinforced professional training that under-emphasizes inter-service cooperation and often conflicts outright with the objectives of integrated, community-based approaches. New management and structural reforms can be expected to have marginal impact on service arrangements as long as the attitudes and skills of front-line workers reflect traditional categorical arrangements.

These needed system changes are, of course, not trivial, and the challenges ahead are made even more daunting by the fact that they are both technical and political in nature. Put simply, there is a need for new financing and related service delivery structures that alter both *horizontal* relationships among service providers and *vertical* relationships between the federal, state and local governments. Is it realistic to expect changes of this magnitude?

External factors may create unprecedented opportunities for such restructuring to occur. It is significant that virtually no one defends the existing children's financing and service delivery system anymore.<sup>16</sup> In part, this reflects the near-universal belief that public investments to date have not yielded favorable child and family outcomes. It also reflects the recognition among officials of all political persuasions that governments cannot continue to make such inefficient resource investments in the years ahead. Budget deficits, stagnant real incomes, and increasing children's service demands driven by demographic factors such as increased school enrollments and higher child poverty rates, are all expected to increase the level of fiscal stress on government in the foreseeable future (Orland and Cohen, 1995). Impending cuts in federal aid will make this condition particularly acute in some states and localities. These circumstances could lead political officials, policy leaders, and program managers to rally around fundamental changes in management and service delivery arrangements offering the promise of increased efficiency and enhanced outcomes. The unprecedented recent level of reform activity exemplified by Oregon Benchmarks and California's Assembly Bill 1741 at the state level, and federal initiatives such as

---

<sup>16</sup> See Gardner (1995), however, for a description of both the pros and the cons of a categorical financing structure.

---

empowerment zones and block grants, can be partly attributed to this challenging fiscal context.

Of course, this is not the only possible scenario, or even the most likely one. Having a heightened receptivity to new ways of doing things is not the same as the redesigning of financing and service delivery structures so that they are more comprehensive, community-based, and outcomes-driven. From this perspective, the future fiscal and political climate includes at least as many dangers as opportunities. Scarce resources could as easily (perhaps more easily) lead to further politicization of children's services as to increased intergovernmental and service-sector cooperation. Funding limitations may also preclude the resource investments needed to redesign government management systems and inter-professional development.

Even structural reforms like block grants may have little impact on traditional service arrangements. Bureaucratic inertia and political pressures may result in the persistence of pre-existing local categorical service structures long after they are required by federal or state governments. Even worse, given heightened fiscal stress, the increased flexibility afforded states and communities could be used not to further integrate services, but to divert scarce public resources from needy to more affluent constituents.

Helping to ensure that new financing arrangements such as block grants further the objectives embodied in an integrated community-based service delivery paradigm will be the major policy challenge facing reform advocates in the months and years ahead. Opportunities to devise alternative programs will abound, as states develop their own structures to replace federal requirements and mandates.

The providers of social services, particularly program administrators, are uniquely suited to lead these endeavors. Armed with an understanding of both the strengths and limitations of current financing arrangements, they can promote new financing mechanisms that will avoid the negative implications of the categorical system, while ensuring support for poor children and families. For example, practitioners can encourage the inclusion of strategies like results-based budgeting to alter the service delivery focus from process to outcomes. They can also support activities such as fund blending and resource redeployment that allow for the acknowledgment of the complexity of the problems that children and their families face, as well as encourage the development of coordinated service delivery. Finally, social service providers--particularly those with strong professional associations, such as psychologists, teachers, and health care providers--can press credentialing institutions to provide more opportunities for inter-professional instruction and development.

A vast improvement of social service delivery is indeed possible. Even with the expected reductions in funding that accompany them, block grants have the potential to promote this improvement. However, one should not underestimate the degree of perseverance, political leadership, technical know-how, and good fortune that will be necessary in order to succeed with this ambitious service restructuring agenda. Social service professionals and other advocates must seize the moment and play a lead role in efforts to reshape financing mechanisms so that they facilitate, rather than inhibit, the development of comprehensive, community-based support systems for children and families.

---

## REFERENCES

- Barfield, D., Brindis, C., Guthrie, L., McDonald, W., Philliber, S., & Scott, B. (1994). The evaluation of new beginnings: First report. San Diego, CA: New Beginnings.
- Brizius, J., & The Design Team (1994). Deciding for investment: Getting returns on tax dollars. Washington, DC: Alliance for Redesigning Government, National Academy of Public Administration.
- Bruner, C. (1994). Investment based budgeting: The principles in converting from a remediation/response to a prevention/investment budget. Washington, DC: Child and Family Policy Center.
- Database of Federal Allocations and Tax Expenditures Benefiting Children and Families [database]. (1995). Washington, DC: The Finance Project [Producer].
- Farrow, F., & Bruner, C. (1993). Getting to the bottom line: State and community strategies for financing comprehensive community service systems (Resource Brief 4). New York: National Center for Service Integration.
- Farrow, F., & Joe, T. (1992). Financing school-linked, integrated services. The Future of Children, 2(1), 56-67.
- Farrow, F., Watson, S., Bruner, C., Perlowski, K., Murphy, R., Politz, B., Orrego, M. E., & Peck, S. (1995). How block grants can help and why the PRA approach won't. Washington, DC: The Center for the Study of Social Policy; The Child and Family Policy Center; The Center for Youth Development and Policy Research, Academy for Educational Development; and the Family Resource Coalition.
- Feister, L. (1994, July). Comprehensive strategies for children and families: The role of schools and community-based organizations. (Report of the July 15, 1994 White House Meeting). Washington, DC: The White House.
- Foley, E. (forthcoming). Beyond decategorization: Defining barriers and potential solutions to financing comprehensive community-based support systems for children and families. Washington, DC: The Finance Project.
- Friedman, M. (1994). Financing reform of family and children's services: An approach to the systematic consideration of financing options, or "The cosmology of financing." Unpublished manuscript.

---

Gardner, S. (1992). Key issues in developing school-linked, integrated services. The Future of Children, 2(1), 85-94.

Gardner, S. (1995). Reform options for the intergovernmental funding system: Decategorization policy issues. Washington, DC: The Finance Project.

Hayes, C.D. (1995). Rethinking block grants: Toward improved intergovernmental financing for education and other children's services. Washington, DC: The Finance Project.

Hayes, C.D., Lipoff, E., & Danegger, A. (1995). Comprehensive service initiatives: A compendium of innovative programs. Washington, DC: The Finance Project.

Imber-Black, E. (1988). Families and larger systems: A family therapist's guide through the labyrinth. New York: Guilford Press.

Kagan, S. L., Goffin, S.G., Golub, S. A., & Pritchard, E. (1995). Toward systemic reform: Service integration for young children and their families. Falls Church, VA: National Center for Service Integration.

Kirst, M.W., Koppich, J.E. & Kelley, C. (1994). School-linked services and Chapter I: A new approach to improving outcomes for children. In Wong, K.K., & Wang, M.C. (Eds.), Rethinking Policy for At-risk Students. (pp. 197-220). Berkeley, CA: McCutchan Publishing Corporation.

Marzke, C., Both, D., & Focht, J. (1994). Information systems to support comprehensive human services delivery: Emerging approaches, issues, and opportunities. Falls Church, VA: National Center for Service Integration.

Office of Management and Budget and U.S. General Services Administration (1994). Catalog of Federal Domestic Assistance. Washington, DC: U.S. Government Printing Office.

Orland, M.E., & Cohen, C.E. (1995). State investments in education and other children's services: The fiscal challenges ahead. Washington, DC: The Finance Project.

Osborne, D., & Gaebler, T. (1992). Reinventing government: How the entrepreneurial spirit is transforming the public sector. New York: Plume Books.

Peters, T.J., & Waterman, R.H. (1982). In search of excellence: Lessons from America's best-run companies. New York: Warner Books, Inc.

Schorr, L. B. (1988). Within our reach: Breaking the cycle of disadvantage. New York: Doubleday.

---

Sipe, C. L., & Batten, S.T. (1994). School-based programs for adolescent parents and their young children: Overcoming barriers and challenges to implementing comprehensive school-based services. Bala Cynwyd, PA: Center for Assessment and Policy Development.

United States Department of Education and the American Educational Research Association (1995). School-linked comprehensive services for children and families: What we know and what we need to know. Washington, DC: Author.



---

## THE FINANCE PROJECT

The Finance Project is a national initiative to improve the effectiveness, efficiency, and equity of public financing for education and other children's services. With leadership and support from a consortium of private foundations, The Finance Project was established as an independent nonprofit organization, located in Washington, DC. Over a three-year period that began in January 1994, the project is undertaking an ambitious array of policy research and development activities, as well as policymaker forums and public education activities.

Specific activities are aimed at increasing knowledge and strengthening the nation's capability to implement promising strategies for generating public resources and improving public investments in children and their families, including:

- examining the ways in which governments at all levels finance public education and other supports and services for children (age 0-18) and their families;
- identifying and highlighting structural and regulatory barriers that impede the effectiveness of programs, institutions, and services, as well as other public investments, aimed at creating and sustaining the conditions and opportunities for children's successful growth and development;
- outlining the nature and characteristics of financing strategies and related structural and administrative arrangements that are important to support improvements in education and other children's services;
- identifying promising approaches for implementing these financing strategies at the federal, state and local levels and assessing their costs, benefits, and feasibility;
- highlighting the necessary steps and cost requirements of converting to new financing strategies; and
- strengthening intellectual, technical, and political capability to initiate major long-term reform and restructuring of public financing systems, as well as interim steps to overcome inefficiencies and inequities within current systems.

The Finance Project is expected to extend the work of many other organizations and blue-ribbon groups that have presented bold agendas for improving supports and services for children and families. It is creating the vision for a more rational approach to generating and investing public resources in education and other children's services. It is also developing policy options and tools to actively foster positive change through broad-based systemic reform, as well as more incremental steps to improve current financing systems.

## RESOURCES AVAILABLE FROM THE FINANCE PROJECT'S WORKING PAPERS SERIES

### Federal Financing Issues and Options

The Budget Enforcement Act: Implications for Children and Families by Karen Baehler (November 1995)

Dollars and Sense: Diverse Perspectives on Block Grants and the Personal Responsibility Act (Joint publication of The Finance Project and the American Youth Policy Forum and the Policy Exchange of the Institute for Educational Leadership) (September 1995)

Rethinking Block Grants: Toward Improved Intergovernmental Financing for Education and Other Children's Services by Cheryl D. Hayes, with assistance from Anna E. Danegger (April 1995)

Reform Options for the Intergovernmental Funding System: Decategorization Policy Issues by Sid Gardner (December 1994)

Federal Funding for Children and Families: An Analysis of Trends and Patterns by Cheryl D. Hayes, Anna E. Danegger, and Carol Cohen (Forthcoming--Winter 1995)

### State Financing Issues and Options

Issues and Challenges in State and Local Finances by Therese McGuire (November 1995)

Toward State Tax Reform: Lessons From State Tax Studies by Therese McGuire (November 1995)

Legal Issues and Constraints in Revenue Raising by Thomas Triplett (November 1995)

State Investments in Education and Other Children's Services: The Fiscal Challenges Ahead by Carol Cohen and Martin Orland (November 1995)

State Investments in Education and Other Children's Services: Fiscal Profiles of the 50 States by Steven D. Gold and Deborah Ellwood (October 1995)

State Investments in Education and Other Children's Services: Case Studies of State Innovations by Ira M. Cutler, Alexandra Tan, and Laura Downs (October 1995)

Spending and Revenue for Children's Programs by Steven D. Gold and Deborah Ellwood (December 1994)

The Significance of Market Forces in Determining State and Local Governments' Fiscal Behavior by Claire Cohen (Forthcoming--Winter 1995)

The Macroeconomic Context for Revenue Raising by Sally Wallace (Forthcoming--Winter 1995)

---

### Local Financing Issues and Options

Issues and Challenges in State and Local Finances by Therese McGuire (November 1995)

The Significance of Market Forces in Determining State and Local Governments' Fiscal Behavior by Claire Cohen (Forthcoming--Fall 1995)

Case Studies of the Financing of Children's Services in Six Communities by Bill B. Benton (Forthcoming--Winter 1995)

### Financing Comprehensive, Community-based Supports and Services

Conceptualizing the Costs of Comprehensive, Community-based Support Systems for Children by Jennifer Rice (November 1995)

Creating More Comprehensive, Community-based Children's Services and Support Systems: The Critical Role of Finance by Martin Orland, Anna E. Danegger and Ellen Foley (November 1995)

A Compendium of Comprehensive Community-based Initiatives: A Look at Costs, Benefits, and Financing Strategies by Cheryl D. Hayes, Elise Lipoff, and Anna E. Danegger (August 1995)

The Role of Finance Reform in Comprehensive Service Initiatives by Ira M. Cutler (December 1994)

Beyond Decategorization: Defining Barriers and Potential Solutions to Financing Comprehensive, Community-based Support Systems by Ellen Foley (Forthcoming--Winter 1995)

### School Finance Issues

Securing Equal Educational Opportunities: Past Efforts and the Challenges Ahead by Alexandra Tan and Martin Orland (February 1995)

School Finance Litigation: A Review of Key Cases by Dore Van Slyke, Alexandra Tan and Martin Orland, with assistance from Anna E. Danegger (December 1994)