what works
policy brief

Information for Schools, Communities and Government Working Together to Improve the Well Being of Children And Families

REFORMING Financing Finance REFORM for Family and Children's Services

By Mark Friedman, Fiscal Policies Studies Institute

Introduction:

Financing reform has two meanings. How do we come up with the money to pay for the reform of family and children's services? And how do we reform the financing systems which themselves drive and shape these services? Both questions start with the idea that reform is somehow necessary. What is reform? And why bother with this when so many other matters demand our attention? This brief will address these questions and offer some ideas about how to do both things well: financing reform and reforming finance.

Why bother with Financing Reform?

There are a few simple reasons why we need to pay attention to service and finance reform.

First, the cost of bad results is killing us. We are spending more and more money on family and children's services at a time when evidence suggests things are actually getting worse (rising costs of foster care, juvenile crime, remedial education, etc.). Most of this spending, other than elementary and secondary education, is for remediating bad results, after they occur.

Second, preventing these costs is cheaper in the long run. We are paying a lot of money we might not have to pay if we did a better job of supporting families and children before they got into trouble. The sooner we get about the business of investing in preventing child and family problems the better off we will be. This is not just good social policy, it's good fiscal policy. We literally can not afford to continue on the path of endlessly increasing remedial costs. Let's explore these ideas briefly.

The cost of bad results is killing us.

There is of course the literal version of this. Even with violent crime on the decline, the U.S. still has the highest violent crime rate among developed countries. But, the idea of bad results starts with the idea of good results. Good results are conditions of well-being we hope to achieve for children, families and communities. They are such things as children born healthy, children ready for school, children succeeding in school and children staying out of trouble. Bad results are the opposites. Much, if not most, government spending for children and families, other than elementary and secondary education, is spent for bad results: children born **un**healthy, **not** ready for school, **not** succeeding in school, **not** staying out of trouble.

The cost of bad results is not just public spending. Think about the ways in which juvenile crime shows up in property damage which shows up in the insurance rates we all pay. Put your arms around all this spending and you have a huge bill, well in excess of $100 billion per year nationally.[1]

[1] *Capturing Cash for Kids,* The Comprehensive Integrated Services Reinvestment Project, March 1998, page 8.

FOUNDATION CONSORTIUM

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"Ben Franklin thought a 16 to 1 return on investment was believable for prevention investments. ("An ounce of prevention... a pound of cure.") In real studies the return is more like 3 to 1, still not too bad."

"The principal problem with prevention investments is that the cost of prevention and the savings from prevention show up in different places at different times in our finance systems. If costs and savings could be considered as a single unified multi-year budget, then the economic arguments for prevention would be easier to make..."

"Everywhere... teachers tell the same story: 'We know exactly which third graders will end up in the juvenile justice system.' So what do we do with that information? Generally we do nothing..."

Now consider how this fast growing part of our budget compares with the revenue we have to address these problems. The growth in revenue for state and local government is modest even in these good economic times. State revenues increased 17 percent, compared to a 32 percent increase in corrections costs between FY 1994 and FY 1997.[2]

The convergence of rising remedial costs with flat or modest revenue increases has the effect of driving out expenditures for other purposes: quality of life, and preventing the problems from occurring in the first place. We can already see this in the shift of state spending priorities over the last ten years away from support for higher education and toward prison costs.

We need to find ways in which we can slow and then reduce the costs of bad results. We need to invest in prevention now to reduce the longer term costs of bad results for children and families.

Prevention is cheaper than remediation.

Ben Franklin thought a 16 to 1 return on investment was believable for prevention investments. ("An ounce of prevention… a pound of cure.") In real studies the return is more like 3 to 1, still not too bad.[3]

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② National Association of State Budget Officers *Fiscal Survey of the States*. California's revenue increase was 23 percent, compared to a 25 percent increase in corrections expenditures between FY94 and FY97. While the rate of state corrections cost greatly slowed in FY98, these statistics actually understate the difference since they exclude local corrections costs and other costs of bad results.

③ The National Association of Child Advocates assembled 25 examples of the cost/benefit effects of prevention in *"Ready Willing Able,"* 1996. Another well known source of examples is Lizbeth Schorr's "Within Our Reach," 1988.

In every field from bridge maintenance to health care, prevention is less expensive over the long run than remediation. The question is: "What constitutes prevention for juvenile crime, child mental health problems and foster care?" The answers which have emerged over the last 10 to 20 years are helpful if still incomplete.

- Networks of basic services and supports for all families with children,
- Carefully integrated continuums of special services and supports for families and children in trouble, and
- Services provided in a timely accessible family friendly way, linking formal and informal support systems at the neighborhood level.

These networks include home visiting for all newborns; family support, particularly for families with young children; quality child care and other early child development and education; and supervised recreation for youth.

Everywhere one travels, teachers tell the same story: "We know exactly which third graders will end up in the juvenile justice system." So what do we do with that information? Generally we do nothing. Why not attach a mentor to every child and family in that situation? Why not pull out all the stops, do whatever it takes, to keep that child from failing in school? The investments will pay off in short order in the juvenile justice system and later in other deep end service systems, up to and including adult criminal justice.

Financing structures work against prevention investments.

The principal problem with prevention investments is that the cost of prevention and the savings from prevention show up in different places at different times in our finance systems. If costs and savings could be considered as a single unified multi-year budget, then the economic arguments for prevention would be easier to make and there would be straightforward financing mechanisms to reimburse prevention costs from prevention savings. Current budget and finance structures create a "fire wall" between investment and return on investment components, within the same fiscal year and across fiscal years. It would be like a company where research and development was expected to be financially independent from sales. Without that connection, R&D can never support itself and would die out. When we expect prevention programs to be self supporting we do the same thing.

Prevention is common sense, but it is also fact. The best long term studies show that investments in early quality of life pays back at the rate of three dollars or more in later lower utilization of expensive crisis and remedial services.[4] Vermont's recent experience in providing home visiting and Success by Six in all communities and near universal child health coverage is beginning to show up in reduced child abuse and child neglect, lower teen pregnancy and other behaviors that result in expensive crisis interventions. Many of the evaluations for home visiting, family preservation and other preventive services show the cost benefit values of these individual service investments. The compounding effects are rarely formally evaluated, but the Vermont experience begins to suggest the potential of such synergy.

So, if we can make the necessary investments in preventive services and supports, and create the fiscal systems to capture and reinvest the savings associated with these investments, we should be able to reduce long term remedial costs and have more money to spend on quality of life expenditures for all our citizens. ■

④ The High Scope Education Research Foundation has documented such cost savings/cost avoidance effects for the Perry Preschool Program in studies spanning 30 years.

Special Note to Baby Boomers

Research shows that high crime ages are 14 to 24. If you are 50 years old today, the 14-year-olds who will be around when you are 65 will be born next year. What we do for these children starting this year will determine crime rates when you retire.

“Results-based budgeting starts with the results we want for children and families and works backward to the means… it is very much like business planning which uses clear measures of success… in setting organizational priorities and tracking progress.”

Reforming Finance

How to create finance systems driven by results

What does it mean to reform finance? Essentially, it is changing the way we make decisions and create budgets. At a minimum there are three parts: changing the way we budget so that cross-system results for children and families drive budgets; changing the way we assess the performance of programs so that client results drive budgets; and changing state local fiscal relationships so that fund flexibility can be used to improve results.

Results-based budgeting across systems

Apart from automation, not much has changed in budgeting processes for a long time. Most budget processes work like this:

- Figure out how much there is to spend.
- Take mandatory spending off the top.
- If there’s anything left, pick other spending priorities.
- Put them in a political package called an “initiative.”
- Sell it.
- Begin work on next year’s budget.

At some level, this process — initiative-based budgeting — is a political fact of life that will not change any time soon. But, by itself, it misses the point of what we are trying to accomplish for children and families over the long term.

What is results-based budgeting?

Results-based budgeting starts with the results we want for children and families and works backward to the means to achieve those results. It is very much like business planning which uses clear measures of success as the driving force in tracking progress and setting organizational priorities.

The first challenge in applying business principles to children and family matters is clearly articulating the ends we seek to achieve. And this leads directly to the matter of language. We use language in so many different and undisciplined ways that those working on child and family well-being function in a virtual tower of Babel. Let’s start with a few simple definitions:

Definitions

Results are conditions of well-being for children, adults, families or communities stated in plain English (or plain Spanish or plain Korean). They are things that voters and taxpayers can understand. They are not about programs or agencies or government jargon. Things like, “healthy children, children ready for school, children succeeding in school, children staying out of trouble, safe communities.”

Indicators answer the question “How would we recognize these results in measurable terms if we fell over them?” Indicators are pieces of data which quantify whether we’re getting the results we want. So, for example, the rate of low-birthweight babies helps quantify whether we’re getting healthy births or not. The rate of high school graduation helps quantify whether kids are succeeding in school, the crime rate helps quantify whether we’re living in safe communities, etc.

Performance Measures answer the question: “How well is a particular program or agency working for its clients?”

The most important idea here is that results, by definition, have to do with ends, not means. They cross over agency boundaries, and even

“Reforming Finance” continued on page 6

Financing Reform

How to pay for reform of the family and children's service system (or the cosmology of financing)

Imagine that you could come up with an ambitious agenda of things that you think will work to improve results for children and families in your community. How could you pay for it? The cosmology of financing is a systematic way of considering all the possible ways to finance such an agenda. The main categories:

- Using money (and non-monetary resources) already in the system: **redeployment** and reinvestment
- Finding new money and resources: **revenue** and refinancing
- Changing the laws of the universe which drive the use of money and resources: **restructuring**

How does it work?

When it comes to financing most people think about resources in just one or two ways. It is absolutely essential to consider every possible approach and craft financing *packages* to support our agenda for children and families. There are no magic funding sources. Successful financing plans bring together many elements. As you develop your financing plan, think about *how each of the approaches* discussed below can be applied to *each of the elements* in your agenda.

Using money (and non-monetary resources) already in the system: redeployment and reinvestment:

The first order of business is using the resources already in the system. And the biggest of those resources are the huge sums now being spent on remediation.[5] How could we tap this bank account for prevention investments?

Imagine a company where the investments in research and development paid off big time in sales. But the sales department and the research and development department were separated by an accounting fire wall. R&D had to be self supporting without any of the profits from sales. Couldn't be done. Because investment and the profit show up in different parts of the company's budget. And unless the enterprise can be thought of as a whole, there is no way to make the investment engine go.

The same thing is true in children's services. Invest in recreation services, and the benefits show up in reduced costs for juvenile probation. Try to make recreation pay for itself and it can't be done. Link the two and maybe it can. Invest in family support centers and the savings show up in lower health costs by public and private providers. Try to make family centers pay for themselves and it can't be done.

The way businesses answer this question is by linking investment and return on investment (ROI) and considering the value of investments over time. By anticipating a credible return on investment, it is possible to use funds up front to be paid back later, with profit for the shareholders left over. The problem with applying this idea to children and family services centers is the word "credible." There have been many undisciplined attempts to argue for a return on investment in children and family services, to the point that people in positions of responsibility, like yourself, are rightly skeptical.

We have a few examples where the investment-return-on-investment structure has been shown to work reasonably well. The best examples are investments in family preservation services designed to keep children out of unnecessary placement in out of home care. The key to the success of these investments is the *disciplined targeting* of intensive services to children who

"Financing Reform" continued on page 7

"Invest in recreation services, and the benefits show up in juvenile probation.... invest in family support centers and the savings show up in lower health costs by public and private providers."

[5] Remediation expenditures include all treatments, crisis and other services provided after (as opposed to before) problems occur.

> "Results accountability is ownership of the well-being of a population (e.g. all children in the county) and the disciplined use of data to track and improve that well-being."

over the boundaries which separate government and private sector partners. Performance measures and the programs they represent have to do with means. It is going to take more than the health department to produce healthy children. It is going to take more than the school system to produce children succeeding in school. It is going to take more than the police department to produce safe communities. It will, in fact, take partnerships made up of many different players from across the community's public and private sectors.

How does it work?

The basic idea of results-based decision making is fairly simple. (See chart on page 8)

Develop a set of results and indicators:
Develop a set of plain English statements of well-being you would like in your community. For each of these identify a set of measures, for which you have data that could be used as proxies for these plain English conditions.

Create a baseline for each indicator:
Create a baseline which shows where you've been and where you're headed if you stay on your current course. Think about success as turning away from the baseline or beating the baseline. This may mean that success in the short term means slowing down the rate at which things get worse, before things get directly better.

Tell the story behind the baseline:
Find the causes, the forces at work, the reasons why the baseline looks the way it does. In public health this is called epidemiology. These forces become pointers to action in the steps below.

Assemble partners who have an interest in turning the curve:
Think about potential partners who have a role to play in turning this curve (or set of curves). Assemble a group of these folks, or use an existing group such as a county/city/neighborhood collaborative body.

Identify what works:
There is a tremendous body of knowledge built up over the last 20 years about things that have had a demonstrable effect on bad results. But the answers are not all, or even mostly in the library. It is important to figure out what would work in your community. And that will mean, among other things, asking the youth and families themselves "What would work, what could work, in this community to turn the curve?" Make sure at least some of the ideas are no cost or low cost ideas.[6] Not all or even most solutions are about more money.

Now you have the raw material for an action plan. The most important thing to remember is that such a plan must be a multi-year plan. It is never true that curves can be turned by any one agency in one year. The raw material can be crafted into an action plan by thinking about which of these ideas are most powerful, and sorting them into those that can be done in the next year vs. the next two to five years. It involves thinking systemically, about how the pieces fit together into a system, not just a confederation of good ideas. And finally, it involves thinking about how to finance this agenda, the subject of the other half of this paper.

Results-based budgeting involves, even requires, the development of new tools. A family and children's budget[7] can be developed to show how money is now being used and to highlight opportunities for investments and for more efficient use of resources. A periodic report card

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⑥ When this is done, often half to two-thirds of the ideas that groups come up with are no cost or low cost.

⑦ Some of the best children's budgets in the country are those created in California. Los Angeles County has produced a children's budget for 20 years, the longest known period of any children's budget. Contra Costa County and San Francisco have also produced excellent children's budgets. See also "A Guide to Developing and Using Family and Children's Budgets" by the Finance Project.

would have gone into care without such services. Obviously if you apply these new services to children who never would have gone into care in the first place, you incur all the new expense and get none of the savings. (See "For More Information," page 19) What is unusual about this investment is that the savings show up in less than two years, a short time for this kind of work.

Another reason the ROI method works with family preservation is that we know exactly where to look for the savings and with fairly simple budgeting tools can *credibly* capture it. The technology to do this on a broader scale is described in "Capturing Cash for Kids." (See "For More Information" section.)

> "What if we could strike a political deal that any savings or cost avoidance... would be reinvested back into prevention services to generate more savings in the future. This would be a reinvestment deal."

Let's say we could invest in preventive children services, such as (child care, recreation, family support, teen jobs, mentoring etc.) in such a way that we could actually track and capture the cost savings and cost avoidance which occur several years later in the deep end systems like foster care, juvenile justice and health care. What if we could strike a political deal that any savings or cost avoidance captured this way would be reinvested back into prevention services to generate more savings in the future. This would be a reinvestment deal. The accounting and budget techniques necessary to identify credible savings and cost avoidance effects are within the reach of many budget shops. But leadership is needed, along with thinking outside the budget boxes, to harness basic business investment principles to this challenge.

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Results, Indicators, Report Cards and Children's Budgets

Los Angeles has the country's longest running children's budget. Established in 1986 by the Los Angeles Roundtable for Children (precursor to the Children's Planning Council) and produced every year since. The budget brings together all the spending by county agencies related to children and family services using eight functional categories to group related spending. Los Angeles developed a set of outcomes and indicators for children and families and has issued an annual score card on these measures. And in 1998 Los Angeles issued an action plan drawing on the 15 year history of work on children's budgets and the combined thinking of a wide range of partners.

Contra Costa County has also developed a set of outcomes and indicators and a children's budget, which has become one of the most advanced children's budgets in the country.

In October 1998, the Mayor's Office for Children and Youth in San Francisco issued a family and children's budget. Other California counties with exemplary reporting on outcomes and indicators include Santa Cruz, San Diego, Placer, Santa Barbara and Sonoma.

"It is going to take more than the health department to produce healthy children. It is going to take more than the school system to produce children succeeding in school. It is going to take more than the police department to produce safe communities."

Results-Based Decision Making

Getting from Talk to Action

Population

e.g. Children prenatal to age 5

Result

e.g. Children enter school healthy and ready to learn
(what we want for children in plain English, plain Spanish)

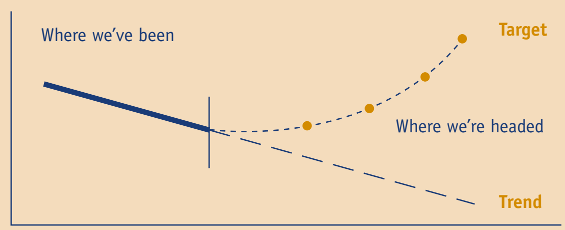
INDICATORS

(Measures of the result)

1____________________
2____________________
3____________________
4____________________

(Plus a data development agenda)

BASELINES



Story behind the baselines

The causes, the forces at work; the epidemiology of the baselines

Partners with a role to play

Public and private sector agencies and individuals

What works

What would it take to turn the curve in this community, best practices, best hunches

CRITERIA Could include

Specificity: clear who, what, when, where, how

Leverage: power to turn the curve

Values: consistent with community values

Reach: feasible, affordable

Action plan and budget

What we propose to do: Multi-year action plan and budget
Goals and objectives: What is to be accomplished by when by whom
Performance measures: Measures of how well supports, services and service systems are working

Generating a return on investment from deep end services is the most important redeployment approach. There are several other forms of redeployment to consider: wrap-around redeployment, cut-based redeployment and material redeployment. Let's take a look at each one briefly.

Wrap-around redeployment is reuse of money being spent for an individual child. All the funds now being spent for a child in expensive out of home placement are considered as a single total — and a service team is permitted to design an individual program "wrapped around" the child, providing they do so at the same total cost or less. When this technique is used to bring children home from out of state or care or expensive institutional care to community-based services, the package can come in at 70 percent or less of the original cost. These are funds already in the system redeployed to pay for better service.

Cut-based redeployment is, at its heart, the age old business of cutting one thing to fund another. We in human services have a very bad track record of voluntarily cutting anything. So we wait until it is forced on us and then make the hard choices. But there is no reason we could not make the hard choices now, providing one protection is in place. The money cut in this way must go back into improved services for children and families. Without this assurance, cutting will always wait for the mandates and emergencies. It is possible for us to create new efficiencies in service delivery and to face up to programs that are not working well, and to use these savings to fund services needed to improve results. One of the best examples of this occurred under the administration of Governor Roberts in Oregon. The Governor asked state agencies to cut over $100 million, and then allowed them to reapply for the money based on what would have the greatest impact on the state's priority benchmarks.

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The Cosmology of Financing
New Federal Money

California was late in the game of increasing federal revenue under the open ended entitlement programs of the Social Security Act. Part of the reason for the state's reticence was a bad experience with an attempted and not well constructed claim for additional emergency assistance funds which led to a large and painful federal audit disallowance.

While problems with the quality of creative claims and resulting disallowances continue to be an issue, California counties and school districts have produced a significant amount of new federal money. The MediCal LEA Billing Option was created to allow school systems to claim MediCal reimbursement for special education services provided to MediCal eligible children. Additional claims for MediCal administrative claims led to new problems with the federal auditors, but some new claims were sustained. And a number of counties continue to pursue additional federal funding under the federal foster care law (Title IV-E).

The single biggest issue in generating new federal revenue is what happens to the new funding. In most of this work around the country the money is taken out of the children and family service system, leaving that system with more paperwork and nothing much to show for the work. (In one unnamed state, the school districts' estimated Medicaid claim was taken off the top of their Americans with Disabilities Act reimbursement!!) In a few places the money has been largely reinvested back into better services for children. The strings attached to the MediCal Billing Option require this reinvestment in California. Missouri and Iowa are among the states with the best track record on reinvesting all or most of the new earnings from refinancing services.

"Performance accountability is ownership of a program, agency or service system and the disciplined use of data to track and improve its performance."

"...not 3 months or 3 years, but 3 minutes to get people out of the mindset of counting cases, and into the mindset of counting change for the better for the people they serve."

on the well-being of children and families will serve as the mirror to hold up and see "how are we doing?" And new tools like a periodic cost of bad results analysis, or a portfolio from a Prevention Investment Board made up of leading members of the jurisdiction's financial community.

Results-based budgeting must grow over time. You can't do it all at once. So this year pick one result (children ready for school) or maybe just one or two indicators and try it out. Over time, if these prove to be useful, fill in other parts of this new way of doing business.

Now, it's all well and good to be thinking about cross-system, cross-community, multiyear well-being of everybody and his brother, but we've got agencies and programs to run. How do we make sure that they are run as well as possible?

Performance budgeting within service systems

The answer is performance accountability and measurement. And just like results accountability, the trick is to avoid the all-talk-no-action-paper-blizzard version of performance budgeting. That's mostly what we've seen over the last 30 years.

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Performance Measures

Types of performance measures found in each quadrant

	QUANTITY	QUALITY
EFFORT	**Quadrant 1 (least important)** **How much service did we deliver?** Number clients/customers served Number activities/type of activity	**Quadrant 2 (second most important)** **How well did we deliver?** Percentage clients served well (e.g. percentage satisfied customers; average waiting time; percentage clients seen in their own language) Percentage activities/ functions performed well (e.g. client staff ratio; staff turnover rate; percentage actions correct, complete and timely; worker safety; unit cost rate)
EFFECT	**Quadrant 3** **How much change for the better did we produce?** Number skills Number attitude Number behavior Number circumstance	**Quadrant 4 (most important)** **What quality of change for the better did we produce?** Percentage skills (e.g. percentage with improved parenting skills) Percentage attitude (e.g. percentage with improved attitude toward drugs) Percentage behavior (e.g. percentage good school attendance) Percentage circumstance (e.g. working at job with health insurance)

Material redeployment addresses the non-monetary resources already in the system. We commonly see this used when staff are co-located at a family support center, or space and equipment are “contributed” to some new enterprise. One of the best examples of this is the actual bartering of one service for another, which occurred between a child care provider and a drug treatment provider in Chicago. One provider got child care for its patients. The other got drug treatment for its children’s mothers. No money changed hands. If there is an agenda to be financed, some of it can come from the use of non-monetary resources already in the system.

> “The principal challenge in refinancing is keeping the freed-up money in the system of services for children and families.”

Finding new money and resources:

Refinancing involves using someone else’s money to pay for services already provided, thereby freeing up your own (general) funds for new use. Refinancing has been mostly applied to services eligible for some form of open-ended federal reimbursement. By increasing federal claims for these services, state or local general purpose funds are freed up.

The principal challenge in refinancing is keeping the freed-up money in the system of services for children and families. Unfortunately, the history of this work over the last 20 years shows that more often the freed-up money is taken away and used for other purposes. When this happens, the child and family service system is actually worse off, having all the new paperwork for the new federal claims, and nothing in terms of new resources to show for it. If you can solve the problem of getting a firm commitment to reinvest earnings from such efforts, then it may be worth going forward.

Federal entitlement fund sources are much diminished from ten years ago, but two important ones are still left. Title IV-E of the Social Security Act allows states to claim costs associated with low income children in foster care, subsidized adoption, and some pre-foster care placement costs. Medicaid (Title XIX of the Social Security Act) provides a wide range of funding for medical and related services for low income children in the health, mental health, social service, and education systems.

The principal way to increase IV-E claims is to increase the percent of eligible children. Many states and counties have increased their IV-E eligibility rate into the 70 percent or better range, bringing a significant increase in reimbursement. The other way to increase IV-E claims is to broaden the type of expenses claimed. Here, recent work is pushing the boundary of expenditures that can be claimed as preplacement prevention work and administrative expense.

The way to increase Medicaid claiming parallels the strategies for IV-E: increase the percent of eligibles and the scope of claiming. In Medicaid the scope of claiming comes first. California and many other states have established a method for school districts to claim reimbursement for medically related services provided to special education students as part of an Individualized Education Plan (the LEA billing option). Many other services in public health, mental health, social services can also be made to qualify for Medicaid reimbursement. And many activities performed by workers in these systems can be claimed as Medicaid administration under broadly established definitions of this type of expense.

The principal difficulty in this kind of work is the risk of audit. The federal rules are complex, though not impossible, and it is essential that the work be done carefully to assure that the new claims don’t have to be paid back later. If

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> “The way to increase Medicaid claiming parallels the strategies for IV-E: increase the percent of eligibles and the scope of claiming.”

"The fiscal food chain ...the feds dump on the states, who dump on the counties, who dump on the cities, who dump on the communities..."

"Make sure this performance thinking and acting process is eventually used at every intersection of supervisor and subordinate throughout the organization."

Here's what's gone wrong in the past:

- Too many performance measures
- Not the right ones
- Not used for anything
- A paper monster waste of time

How does it work?

How could we do performance measurement right? How about this:

Fix for "Too many performance measures"
For each program pick just three or four measures. Resist the temptation to have a measure for every aspect of every program. Ask managers to imagine they only had five minutes with the CAO or Governor to discuss their program. What are the most important three or four?

Fix for "Not the right ones"
There are many methods which can be used to choose the most important performance measures. One method is based on the idea that all performance measures fit into one of four categories, derived from the intersection of quantity and quality vs. effort and effect.

If you think of this like the four quadrant box on page 10, the two most important measures are:

- *Quality of Effect* (Quadrant 4): Here is where we look at whether the people who get service (our clients, customers, patients or students) are better off in terms of their skills, attitude, behavior, or circumstance.
- *Quality of Effort* (Quadrant 2): Here we have measures which tell us how well service was delivered (including such things as timeliness, accessibility, efficiency, and cultural competence.)

After this the other measures (quantity of effort, e.g. number served, hours of services, etc.) pale in importance. But ironically, these other measures are the measures most often used.

This method of sorting measures and getting people to look at the most important measures in terms of well-being of clients (or client results) is simple to use. And most managers can put entries in each quadrant for their service in a few minutes... not three months or three years, but three minutes to get people out of the mindset of counting cases, and into the mindset of counting change for the better for the people they serve. Try it.

Fix for "Not used for anything:"
Picking performance measures is just the first step in improving services. The next step is getting people to track these measures on a regular basis and use the data to improve performance (the idea of a learning organization).

Managers must get from talk to action. This involves some of the same kind of steps used in results accountability. For each performance measure create a baseline which shows the performance history and the future performance track if we stay on our current course. Think of the potential partners who have a role to play in improving that performance. And think of what would work, what could work to improve performance, including no-cost low-cost ideas. Make sure this performance thinking and acting process is eventually used at every intersection of supervisor and subordinate throughout the organization.

Fix for "Paper monster waste of time"
Most performance measurement efforts are sponsored by the executive's office or the budget department who announce that "starting yesterday everyone must have performance measures." It can't be done that fast, and if it is, it will fail. Better to start with a few programs who have managers ready to be leaders. Let them show that this can be done and is useful to managing their services. Since everyone will be watching them, make sure they are not beat up too badly during the next year's budget process. Then build out from that success.

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this precaution is met, *and there is a reinvestment commitment*, then refinancing can produce significant new resources to support a plan for improving results for children and families.

Revenue: There are many other ways to increase revenue other than the increasing federal claims to displace state and local funds.

There is new federal funding available as a consequence of the improved economy (e.g. increased funding for child care, community development and education) and there is new flexibility in the use of existing funding (e.g. the EdFlex bill provides flexibility to all states in the use of federal education funding). Among the most important revenue sources is the surplus in the Temporary Assistance for Needy Families welfare program caused by significant reductions in caseloads since the end of the last recession.

At the state level, new funding is also available. The improved economy has created budget surpluses in all but two of the fifty states. And new funding sources, like The California Children and Families Act (Proposition 10), are opening up new possibilities.

Private funding is growing at an even greater pace. The growth in the stock market has significantly increased the endowments of many foundations who are required by law to give away a minimum percent of their assets each year. And new foundations have been formed as a result of the conversion of non-profit to for-profit health providers. Corporations are also important sources of funding for children and family services, particularly when the plan component is linked to their service enterprise (e.g. health providers supporting immunization efforts). And there are many ways to raise revenue by improving third party collections (e.g. child support medical support obligations), by charging fees for services (even modest fees can help), by actively seeking donations (one

Continued on page 15

The Cosmology of Financing Reinvestment

Digging up new federal money is not the only, and not even the most important approach to financing. Investing in prevention and reaping the resulting savings for reinvestment is the most powerful and important long term creative financing strategy.

California has demonstrated this kind of work with its investments in the mental health system of care initiative, and in its investments in family preservation services. Ventura county was the leader in systems of care, now operating in nearly all counties. In family preservation, Placer county, among others, has had the backing of political and budget leadership to identify capture and reinvest related foster care savings.

Efforts to identify the savings from more broadly based prevention investments in children are receiving attention as a result of the Foundation Consortium's Reinvestment Project. The publication "Capturing Cash for Kids" sets out a methodological approach to doing this. And Santa Cruz and Ventura counties are actively working to demonstrate that this can be done. California may turn out to be a leader in this work if these efforts are successful.

A New State Local Fiscal Deal must answer these questions:

- Who's accountable?
- For what results?
- With what money?
- With what standards and safeguards?
- With what risks rewards and penalties?
- For what period of time?

Trading results accountability for fund flexibility

The last matter we get to discuss here has to do with the fact that the state local fiscal relationship is, shall we say, not always helpful. It starts with the feds who dump on the states, who dump on the counties, who dump on the cities, who dump on the communities. It's the fiscal food chain. It has led to an underfunded categorical system of overlapping and contradictory mandates, created through years of accumulated political deals, not through any sensible view of how to divide responsibility.

Now let's imagine that everyone was on the same page about improving results for children and families. The question we would ask is: "How could we change the federal-state-local fiscal relationships to help improve results?" The answer involves at least three parts:

- Negotiation between state and local partners
- Leading to useful fund flexibility
- Linked to results accountability

How does it work?

First, it's about negotiation between state and local partners. Sounds obvious, but it is rarely practiced. We usually end up with two extreme positions when this subject is considered: the dumping version, where the state dumps new responsibilities on local government with less money. This is the form that block grants or capitated funding usually take. The other extreme is often articulated by local partners out of frustration: "Just give us the money[8] with no strings and no questions." Neither of these extreme views serve the purpose of improving results for children and families and neither stands up well to public scrutiny. The middle ground requires two party good faith negotiation.

> "The object of such negotiation is a new deal between state and local partners which exchanges fund flexibility for a new form of accountability for results."

The object of such negotiation is a new deal between state and local partners which exchanges fund flexibility for a new form of accountability for results. Creating such a new deal requires that a minimum of six questions be answered to the mutual satisfaction of both parties: Who's accountable? For what results? With what money? With what standards and safeguards? With what risks, rewards and penalties? For what period of time?

There are some lessons learned from years of largely unsuccessful experimentation with changing state/local fiscal relationships. Funding pools may be useful components of any deal, but they are means, not ends in themselves. And not any funding pool will do. The devil is in the details.[9] What goes into a funding pool and the strings attached are of vital importance to whether it is helpful or harmful. The most important rule about funding pools is that the money in them should include related remedial and preventive expenditures. This will create a natural incentive to save money on remediation so that it can be spent on prevention.

In family and children's services it is possible to group funds for out-of-home care placement with funds to prevent out-of-home care. This is, in essence, what Iowa did in its Decat program, the longest running and most successful of all new state/local deals. Other such prevention remediation clusters are possible. The point is to group funding so that there are natural incentives to do better. ■

⑧ Dammit

⑨ That's why they call it devilution.

To read the "Financing Reform" perspective of this Brief, turn back to page 5.

family support center in Maryland has over 300 supporters in their neighborhood). And don't forget the importance of volunteer and other contributed resources (e.g. mentoring food banks, and time dollar systems).

Changing the laws of the universe: restructuring:

The last category is about changing the incentives which drive money toward the things we want and away from the things we don't. Again this is common practice elsewhere in the world, notably the tax system, where tax incentives drive investments in home ownership and contributions to the non-profit community. These concepts can be applied to family and children's services in a number of ways. Performance incentives can promote change by rewarding good practice. Flexible funding can allow discretionary use of funds by line workers (e.g. payment of a housing deposit to keep a family together and the children out of foster care). Funding pools can provide flexibility at the system level to allow savings in remediation to be spent on prevention. More information on these approaches is available in the "More Information" section.

Using the cosmology

These elements of the "cosmology" (redeployment, revenue and restructuring) are intended to be used after an action agenda for children and families has been developed. Partners then take each element of the action plan and think through how each type of funding strategy in the cosmology can be brought to bear on that element over a multi-year period. The ideas are then consolidated into a funding plan that identifies what is to be funded, who are the potential funding partners, what are the potential resources, who is responsible for pursuing each resource and a timetable for action. ■

Trading Results Accountability for Fund Flexibility

Still the best, after all these years, is the Iowa Decategorization (or Decat for short) program. Established in 1987 with a simple two-page piece of legislation, the initial purpose was to reduce the excessive use of group and institutional placements for children in the child welfare and juvenile justice systems. It gave considerable flexibility to locally constituted Decat boards to use money flexibly across the whole continuum of care for children in these systems. The law allowed counties who saved money in deep end services to keep that money and use it for preventive services like family preservation and respite care. And it included a provision unprecedented in Iowa law — the ability to carry over savings across fiscal years.

In California, the Systems of Care work has had similar success. Based in the mental health system, systems of care has shown that the flexible use of funds to produce community-based, wrap around plans of care can result in better service at less cost. UC San Francisco's study showed that system of care counties spent considerably less on group and institutional care than comparable counties without system of care initiatives.

> "The starting point depends a lot on the particular political environment in your county, city or community. What are people passionate about? Who are the public and private sector leaders who care about this stuff? What capacity exists to get the work done?"

> "...the purpose of this work is to get from talk to action on improving the well-being of children and families. Don't wait a year or two to get to action. People are burned out by the all-talk-no-action processes of the past. Try to make sure a strand of your work involves working to turn a curve as soon as possible..."

Getting started

The cost of not reforming finance and financing reform is the steady increase in the cost of bad results. Since prevention is cheaper than remediation, we are spending a lot of money for remediating problems that we don't need to spend. The sooner we get about the business of investing in preventing child and family problems the better off we will be. This is not just good social policy, it's good fiscal policy. We literally can not afford to continue on as we have. The old proverb: "The best time to plant a tree was 20 years ago. The second best time is today." It's time to get started.

How do you get started? The answer may surprise you. This work is not linear, and there is not a simple sequence of things to do. Strands of this work will proceed in parallel. The starting point depends a lot on the particular political environment in your county, city or community. What are people passionate about? Who are the public and private sector leaders who care about this stuff? What capacity exists to get the work done? Given your own answers to these questions, consider any of the items on the following list as possible starting points for a strand of work.

Remember as you think about this, that the purpose of this work is to get from talk to action on improving the well-being of children and families. Don't wait a year or two to get to action. People are burned out by the all-talk-no-action processes of the past. Try to make sure a strand of your work involves working to turn a curve as soon as possible, while the other strands about creating report cards and other tools go forward.

Talk to action:

Pick a curve and turn it. Find a condition of well-being in your community (and associated indicators) that's "not OK." Assemble public and private partners around the table who have a potential role to play in improving this condition. Put the indicator numbers on the wall in the form of a baseline. Ask the partners where this line is heading if we don't change. Ask about the story behind this baseline and what it would take to turn the curve. Develop an action plan. After your first success, take on another curve.

Develop a set of results and indicators and publish a Children's Report Card.

Children's report cards are like mirrors held up to the community. Looking in this mirror is like asking "How are we doing for children and families?" The response to this look in the mirror sometimes helps move communities to action. Developing a complete, politically grounded list of results and indicators and publishing a report card will take a few years to finish, but will provide working products that can be used in the interim.

Create a reinvestment deal to reduce the cost of bad results.

Identify where the costs of remediating problems of children and families are growing rapidly. Bring together a set of partners who "own" those growing costs, and develop a set of investments which might slow or turn around the growth in these costs. Include in this work your best fiscal people, and ask them to help develop a way to capture the cost savings and cost avoidance if these investments pay off. Cut a deal with the political and fiscal leadership to allow you to keep these savings and reinvest them in more preventive services for children and families.

Improve the performance of a program or agency.

Work with a few willing managers to develop performance measures for their programs. Help them develop performance baselines for the three or four most important measures. Ask that they develop performance plans which address the story behind their performance baselines, partners with a role to play in helping their program succeed, and what works to improve performance. Recognize and reward the innovators, and build out from this success to other programs and agencies.

Begin linking results and performance to budgets.

Consider results and performance measures in the annual budget process. Add a new section to this year's budget where you ask how the county or city is doing on one result (condition of well-being) e.g. a safe community, or children ready for school. Present indicator baselines for this result and the best thinking of your public and private partners about what it will take to improve this condition. Discuss how your "what works" ideas show up in this year's budget.

In the program section of the budget, present the most important three or four performance measures (no more) for each program, and ask managers to present the story behind their performance baselines, and what they propose to do to improve performance in the coming year.

"The cost of bad results is killing us. We are spending more money on family and children's services at a time when evidence suggests things are actually getting worse."

"If we can make the necessary investments in preventive services, and create the fiscal systems to capture and reinvest the savings associated with these investments... we should be able to reduce long term remedial costs and have more money to spend on quality of life for all our citizens."

"We literally can not afford to continue on the path of endlessly increasing remedial costs."

Create a Children's Investment Board.

Ask some of the leaders from your business community (especially banking, insurance and finance) to join you in creating a new investment board to bring the same investment discipline used in the private sector to investing in children and families. If possible give them a few million dollars and ask them to create a portfolio of investments. Allow the board to set standards for the development of proposals. Include in this process the development of methods to capture how these investments will pay off in reduced costs of bad results in future years. ■

For more information

Resources:

The Finance Project
1000 Vermont Avenue NW
Washington, DC 20005
(202) 628-4200
www.financeproject.org

Fiscal Policy Studies Institute
8 Charles Plaza, Suite 1407
Baltimore, Maryland 21201
(410) 659-9745
www.resultsaccountability.com

Center for the Study of Social Policy
1250 Eye St. NW
Washington, DC 20005
(202) 371-1565
www.cssp.org

UCSF Child Services Research Group
44 Montgomery Street, Suite 1450
San Francisco, California 94104
(415) 502-6174

Center for Collaboration for Children
CSU Fullerton EC-324
800 N. State College Blvd.
Fullerton, California 92634
(714) 278-2166

Child and Family Policy Center
Flemming Building Suite 1021
218 Sixth Avenue
Des Moines, Iowa 50309
(515) 280-9027

Publications:

A Strategy Map for Results-based Budgeting: Moving from Theory to Practice, The Finance Project, Mark Friedman, September 1996.

A Guide to Developing and Using Performance Measures in Results-based Budgeting, The Finance Project, Mark Friedman, May 1997.

A Guide to Developing and Using Family and Children's Budgets, The Finance Project, Mark Friedman and Anna Danegger, August 1998.

The Cosmology of Financing: Financing Reform of Family and Children's Services: An Approach to the Systematic Consideration of Financing Options, The Center for the Study of Social Policy, Mark Friedman, June 1994.

Trading Outcome Accountability for Fund Flexibility: Negotiating New State Local Deals for (Core) Family and Children's Service Dollars, The Center for the Study of Social Policy, Mark Friedman, December, 1995.

Capturing Cash for Kids: A Workbook for Reinvesting in Community Based Prevention Approaches for Children and Families, The Comprehensive Integrated Services Reinvestment Project of the Foundation Consortium, Marty Giffin, Abram Rosenblatt, Nancy Mills and Mark Friedman, September 1998.

"The cost of bad results is not just public spending. Think about the ways in which juvenile crime shows up in property damage which shows up in the insurance rates we all pay. Put your arms around all this spending and you have a huge bill, well in excess of $100 billion per year nationally."

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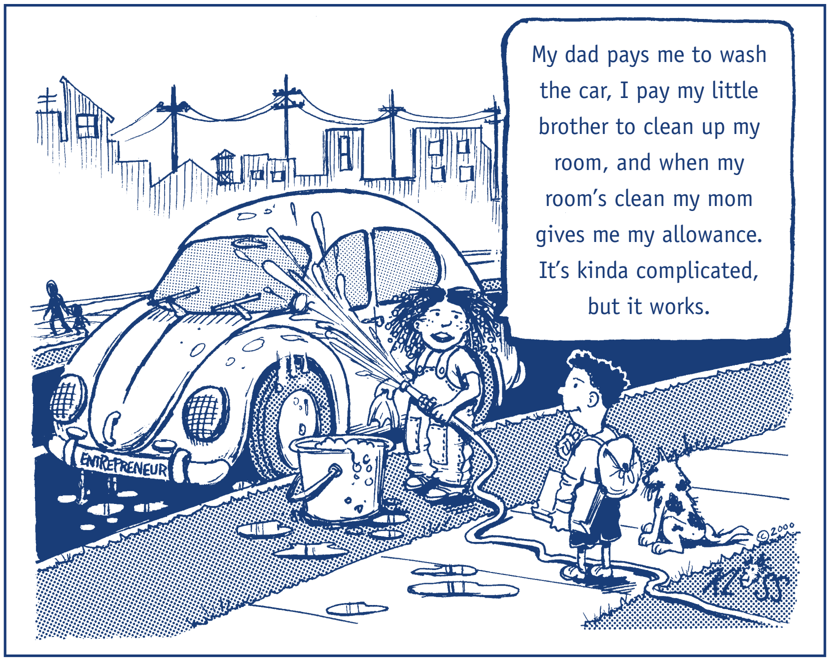
The Foundation Consortium is a change-agent promoting the Community Approach: schools, communities and government working together to improve child and family well-being. Eight corporate, private, community and family foundations, diverse in scope and purpose formed an alliance in 1991 to establish the Foundation Consortium. Now fifteen in number, Consortium members are united by a shared vision, the Community Approach, which promotes cooperation across organizations, embracing the key principles of family involvement, community partnership and shared accountability for results. It includes programs that foster health and self-sufficiency by devoting resources to family supports and core services rather than acute care and crisis intervention and by focusing on the strengths and needs of children, family and communities rather than isolated issues.



A kid's eye view of the Reforming Finance/Financing Reform Process

Fourth in a four-part series — January 2000

What Works Policy Brief

Information for schools, communities and government working together to improve the well-being of children and families.