

Human Services: Re-visiting the State-Local Partnership

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Executive Summary

The Governor's "Blue-Ribbon Commission on State-Local Partnerships for the 21st Century" will make key decisions over the next several months regarding the future of Wisconsin's commitment to human service programs. Yet human service issues could easily be overshadowed by even larger and more contentious issues relating to the Commission's sweeping mission to restructure state and local relations in Wisconsin.

As a back-drop for the Commission's work, we reviewed trends in state and local human service spending, and we analyzed how much of the responsibility for human services in Wisconsin falls upon local governments in comparison to other states. Our analysis of the expenditure data and the historical evolution of the state-local partnership in delivering human services shows the following:

- Wisconsin is very unusual in the large amount of responsibility for human service programs that falls upon county government. Our review of U.S. Census Bureau data found that local governments in Wisconsin are responsible for a higher percentage of human service spending than their counterparts in all but two other states (New York and California).
- State financial support for the Community Aids and Youth Aids programs has fallen far behind inflation. State general fund spending in these two programs increased just 2.4 percent from 1988 to 1998, while county matching funds and "overmatch" for Community Aids increased by 174 percent.
- Most Wisconsin counties have long waiting lists for services. Of 48 counties reporting to a recent survey, over 94 percent of the responding counties report having waiting lists for people needing long-term care services, and about two-thirds of the respondents had waiting lists of more than two years in length.
- The state law requiring two-thirds funding for public schools provides a politically popular model for a state-local partnership that combines state funding and local delivery of a service. Yet, ironically, the cost of that initiative has resulted in no inflationary increases for human services and has led to questions regarding whether Wisconsin should continue its state-local partnership for human service programs.
- Shifting fiscal responsibility for human service programs needs to be done very carefully to avoid creating a fiscal incentive for program "gatekeepers" to place individuals in expensive, state-funded institutional care rather than more cost-effective local programs.

Introduction

Wisconsin has a long and proud tradition of supporting human services designed to meet the basic needs of state residents and intended to equalize opportunity for people who have physical or mental disabilities or who are facing economic hardship. Many of these services are provided at the local level, but often with substantial state aid.

The future of the state-local partnership for providing human services will be one of the many issue areas facing the Governor's "Blue-Ribbon Commission on State-Local Partnerships for the 21st Century", chaired by Don Kettl. Whether the Commission will focus much attention on human services is an open question, given the broad sweep of its work and the possibility that human services could be over-shadowed by "big ticket items" such as school aids, Shared Revenues and property tax credits. But regardless of how much time and attention the Commission focuses on human service issues, the group's work could have critical implications for the future of human service programs that serve disadvantaged and vulnerable populations.

Among the types of questions that the Commission's work may answer (either directly or by default) are:

- Will waiting lists for human service programs continue to increase, or will the state help counties reduce those waiting lists?
- Will the quality and availability of basic human services, such as programs for people with disabilities, become primarily a function of the tax base of the county that a needy individual lives in?
- Will the state continue to freeze the funding level for community aids and shared revenue, and channel virtually all the growth in local assistance to school aids?
- Is the two-thirds commitment for school funding a good or bad model for a state-local partnership? Should the growth in funding for that source of equalization aid result in a shift away from principles pertaining to the funding of human service programs?
- Will the Commission's proposed changes in state and local responsibilities and cost-sharing reduce or exacerbate the current incentives for providing care in state institutions, rather than in less expensive local programs?

Community and Youth Aids: The Historical Perspective

Two major sources of state support for county human service programs are the Youth Aids and Community Aids appropriations. Youth Aids funds most of the cost of the juvenile justice system. Community Aids is essentially a block grant to the counties, which they use for the full range of human services, including such items as foster care and other child welfare services, and programs for persons with disabilities.

The historical context of these programs is critical to understanding their current status. 1980 saw the first allocations under both the Community Aids and Youth Aids programs. Community Aids combined state and federal funding for services in the areas of mental health, developmental disabilities and substance abuse, but now also funds general social services for low-income families and child protective services. The Legislative Fiscal Bureau's 1999 Information Paper on Community Aids, cited the five objectives of the original Community Aids proposal in 1978, which echo concerns voiced today by Commission members:

- a. reaffirm the **state/county partnership** in providing community services
- b. provide a **funding increase** for human service programs that **reflected inflation**
- c. provide **greater equity** in distributing aids
- d. create **no “unfunded mandates”**
- e. provide continued **funding for state-initiated special needs**

The analysis below will show that the state/county partnership is largely failing to meet these concerns:

- Far from keeping up with inflation, Community Aids now covers half the county costs that it covered a decade earlier.
- The effective massive drop in funding has left counties saddled with state mandates that they must cover from their property tax bases.
- The distribution formula has not kept up with changing state demographics and needs of targeted populations, and it has become increasingly inequitable in its application.

Youth Aids was created to fund community-based juvenile delinquency programs, and to help cover Department of Corrections (DOC) charges to counties for juveniles committed by county judges to state Juvenile Corrections Institutions (JCIs). Counties cannot predict from year to year how many families or individuals will require the most expensive services. Larger counties now use their Youth Aids funds entirely to pay JCI charges, which are “taken off the top” of their allocation by the DOC.

Community Aids funds can also be used for juvenile delinquency services when Youth Aids funds are exhausted, which for most counties is about halfway through their budget year. In reality, the analysis below shows that Community Aids funds are already over-committed, and nearly all counties subsidize over half of human service costs from local (primarily property) taxes.

The programs that Community and Youth Aids fund are “state mandates” in the strictest sense – state law requires that counties provide these services. Community and Youth Aids were specifically designed to meet county costs for these mandates, and to “equalize” the costs to taxpayers.

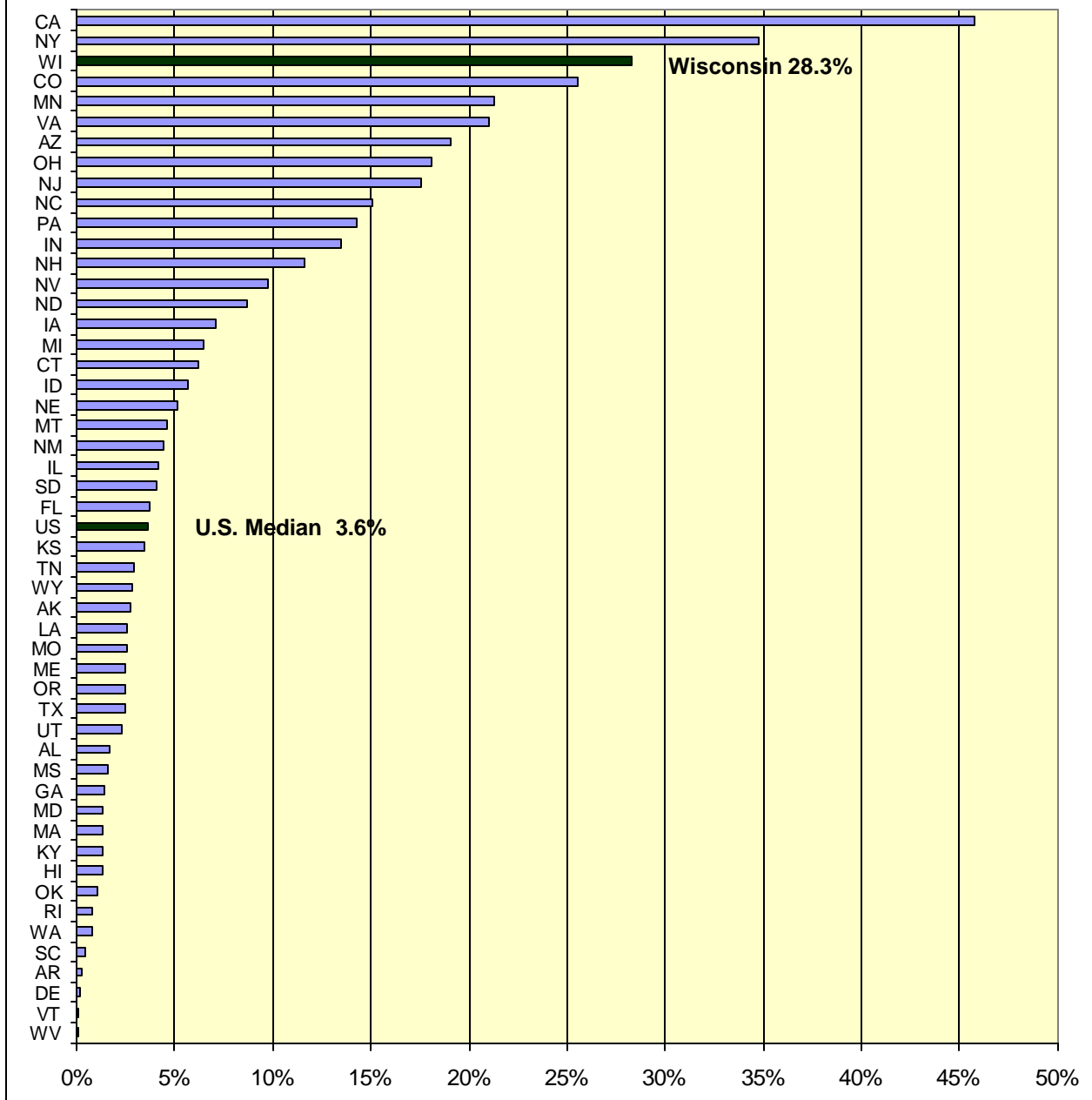
Comparing Wisconsin to Other States

In the vast majority of states, human service programs are almost exclusively a state obligation. Wisconsin is part of a small minority of states in which many human services are delivered at the local level and where a significant portion of the funding is also from the local level.

The U.S. Census Bureau collects data on state and local spending. The most current such data is for the 1995-96 fiscal year. We examined the spending category that includes human service and welfare spending, and we calculated the ratio of local spending to total state and local human service spending for each state.

Chart 1 illustrates the proportion of total human service spending that occurs at the local level. It shows that in the majority of states local government are responsible for less than 4 percent of total state and local expenditures for human services. In Wisconsin on the other hand, 28.3 percent of that spending is at the local level. Only two other states have a higher proportion of human services delivered by local governments: New York (34.8%) and California (45.7%). The median ratio for all the states is just 3.6 percent.

Chart 1: Local Spending as Percentage of Total State-Local Human Service* Spending (FY 1996)



Spending for human services varies substantially from state to state, but the variation shows little correlation to the proportion of spending at the local level. Human service spending in Wisconsin is \$761 per person, which is about 4 percent above the national average and ranks Wisconsin 14th highest. Although the states with a relatively high proportion of human service expenditures at the local level generally tend to be above average in spending, many of the states with low ratios also spend more than the national average. Of the 13 states with per capita human service expenditures greater than Wisconsin's, seven have local spending ratios of less than 3 percent.

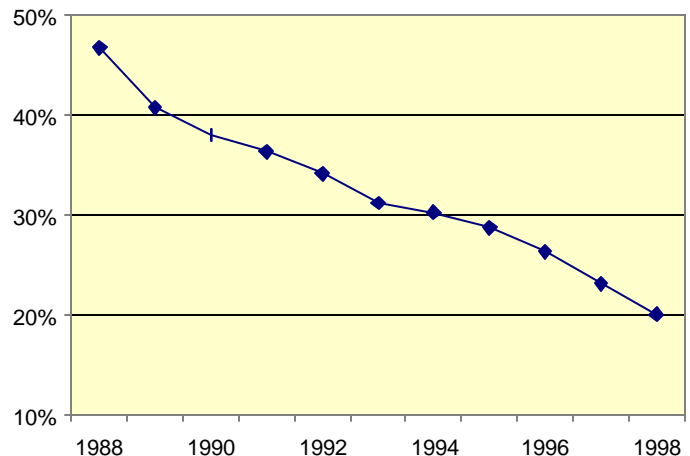
The Census Bureau figures on human service spending only show the level of government that spends the money, not who collects the revenue. Although the Census Bureau also assembles and reports figures on federal, state and local revenue sources, these figures are available only for total state and local spending and not for each category of spending. However, we can use state-level data sources to examine how much of the spending in Wisconsin for human services comes from federal, state and local revenue streams.

Trends in State and Local Human Services Spending

The Department of Health and Family Services collects data on state and county expenditures through the Human Services Reporting System (HSRS). Analyzing these reports over the last decade, in conjunction with Legislative Fiscal Bureau reports, reveals the following trends from 1988 to 1998:

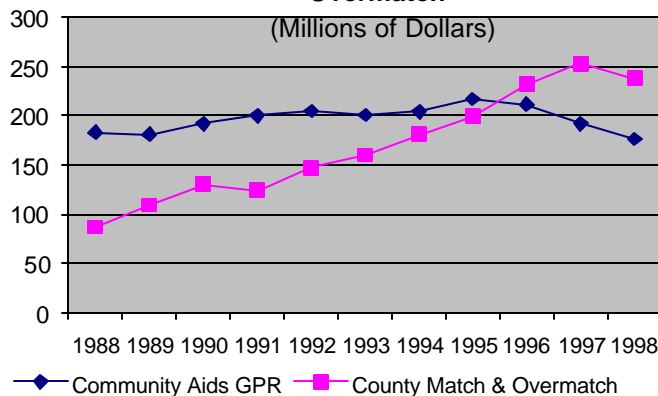
- County human services expenditures increased by 139 percent during that time period.
- State general fund spending on Community and Youth Aids increased just 2.4 percent.
- County matching funds and “overmatch” for Community Aids increased by 174 percent.

Chart 2. Percentage of County Human Services Costs Covered by GPR for Community Aids & Youth Aids, 1988-98



Most of the funding for Community Aids is from state general purpose revenue (GPR), but a growing share of this appropriation comes from federal revenue sources. Chart 2 illustrates that the portion of total county human service expenditures derived from the GPR share of Community Aids and Youth Aids declined from nearly 47 percent in 1988 to 20 percent in 1998.

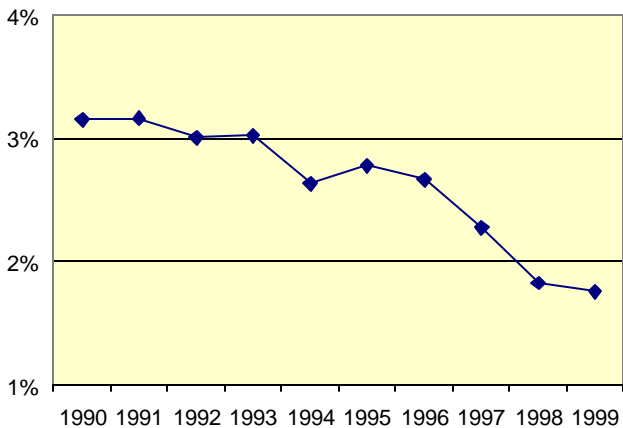
Chart 3. Community Aids GPR Compared to County Match & Overmatch



Looking at the most recent HSRS data, from 1997 to 1998 county human service expenditures grew by 9.5 percent, whereas state funding for Community Aids and Youth Aids decreased by 5 percent. The reduction in the state support for Community Aids reflects a state decision to lower the GPR appropriation when additional federal funds became available for Community Aids.

Counties are required to contribute a 9.89 percent match for their Community Aids allocation. However, almost all counties contribute much more than that percentage, and the additional amount is known as the “overmatch”. Chart 3 shows the growth over the last decade in the county share of human

Chart 4. Share of Total State GPR Allocated for Community Aids (1990-1999)



service programs versus the relatively flat level of state funding for Community Aids. From 1988 to 1997, the combined county match and overmatch increased by 191 percent, but that total declined in 1998 by 5.8 percent from the level the previous year. (This decline is probably related to the state assumption of responsibility for the Milwaukee Child Welfare System that year.)

Chart 4 shows the trend during the 1990s in the percentage of the state's total GPR budget that is allocated for Community Aids. This program accounted for about 3.2 percent of total GPR spending in 1990, compared to less than 1.8 percent in 1999.

Waiting Lists

A recent survey by UW-Madison graduate student Aaron Bishop documented the growing unmet human service needs across the state. Responses to his survey from 48 (two-thirds) of Wisconsin's 72 counties revealed the following:

- Over 94 percent of the responding counties report having waiting lists for people needing long-term care services.
- The developmental disability waiting lists have climbed to over 6,000 people, and there are over 11,000 elderly and disabled individuals on the Community Options Program (COP) waiting list.
- Waiting lists of two years or more were reported by 69 percent of counties for the CIP-1B program and by 64 percent of counties for the COP-R program.
- Only three of the 48 responding counties reported that they did not expect to be adversely affected by the lack of growth in Community Aids (8 counties reported being unsure and 37 expected to be detrimentally affected).

To put these figures in perspective, consider that there are more than 2,100 people with physical disabilities on the COP waiting list, yet just 581 COP slots for this group. There are more than 2,300 families on the waiting list for the Family Support program, which nearly equals the number currently served (2,113 families receiving full services and 535 getting partial services).

Rethinking the Partnership: Policy Considerations

The decisions facing the Governor's Commission have sometimes been framed as a tradeoff between the principles of "equalization" and "accountability". Proponents of increased accountability contend that spending grows and becomes less cost-effective when a government unit that spends public funding does not have to raise those funds. It is argued that revenue transfers between government units make the spenders more removed from the taxpayers, thereby decreasing accountability and easing the pressure to use the money efficiently.

On the other hand, Wisconsin has a long tradition of using the state income tax to equalize resources between communities. Advocates of equalization argue that state revenue should level

the playing field between rich and poor areas of the state. Distribution formulas for shared revenue and school aids ensure that an individual's access to fundamental government services is not primarily a function of the wealth of the community in which that individual resides.

Equalization proponents also tend to question the notion that local officials are less accountable for their expenditures of state funds; and they argue that local delivery of programs tends to be inherently more efficient and more responsive to the community than state-operated programs.

Of course, another argument for revenue sharing programs such as Community Aids and Special Education Aids is that they serve to pay for mandated services. And an argument that has not gotten much attention within the Kettl Commission is that revenue sharing prevents government units from competing with each other in cutting taxes by eliminating or scaling back critical human service programs. State governments frequently cite that principle when they oppose efforts to reduce federal funding for welfare-related purposes.

As the Commission balances the principles of accountability and equalization, it is contemplating ways to dramatically redefine where and how various programs are delivered. The committee is looking for programs or services that might more logically be paid for and offered by the state, instead of local governments. State takeover of certain responsibilities is intended to make it possible to give local governments full fiscal and programmatic responsibility for other services.

Although redrawing state and local responsibilities may have some merit, it is fraught with problems. Chief among these is drawing arbitrary lines between program areas. The reality is that the web of social service problems and services is so interwoven that it can be very difficult to find sensible and effective ways to draw logical boundaries between one type of service and another. And drawing those lines in a rational way is critically important to reduce, rather than increase, the incentives for the "gate-keepers" who make placement decisions to choose state-paid care over less expensive and more cost-effective community programs.

The juvenile justice system illustrates this problem. The high, uncontrolled expense of institutional alternatives was a major reason for the creation of the Youth Aids program. Historically, there existed a "perverse incentive" for counties to recommend commitment of juvenile delinquents to a juvenile correctional institution, since the state paid the full costs—regardless of whether cheaper, more effective community-based alternatives were available. The Youth Aids program was created in large part to remove that incentive. We will examine this issue in more detail in a subsequent paper.

Wisconsin has been a leader in developing innovative programs to allow services to be provided in ways that are more efficient and humane, rather than in ways dictated by the limitations and boundaries established for a particular funding source. The Family Care program is a recent example of these innovations. The Kettl Commission will need to proceed carefully as it reapportions program responsibilities -- to make sure that what appears at first blush to make spending more "accountable" does not actually bias the system toward less cost-effective options.

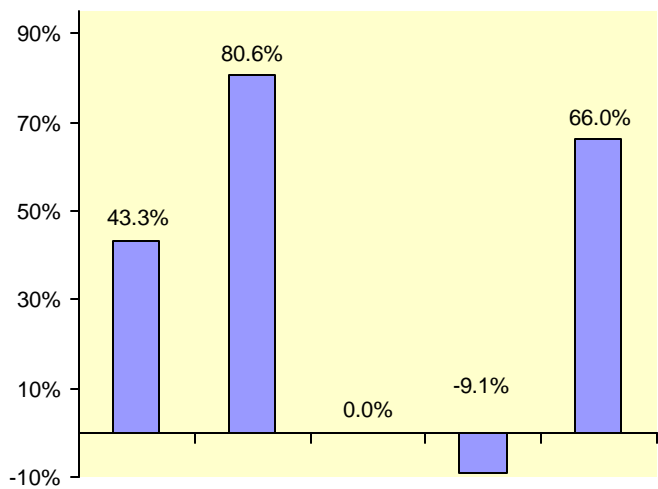
The School Aids Model

The cost of Wisconsin's public school system has historically been primarily a local responsibility. However, the state has gradually increased its share of school funding. That trend culminated in the Legislature's decision to fund two-thirds of school costs, starting in 1996.

The state's "two-thirds commitment" has proven to be very popular, but also very expensive. School aids have grown to 42 percent of the state's GPR budget. As the Governor and Legislature have increased spending for school aids, other state aid programs have suffered. Chart 5 compares

the changes in state support for the major aid programs and the corrections system since fiscal year 1995.

Chart 5. Change in GPR Funding for Selected Programs (FY 1995-2001)



Total GPR	School Aids	Shared Revenue	Community Aids	Corrective
GPR Funding FY 2000 (\$ in millions):				
\$10,616	\$4,186	\$930	\$183	\$675

In theory, the question of how schools are funded is one of the items “on the table” for the Kettl Commission’s deliberations. Thus far, however, commission members have shown little inclination to alter the school funding commitment. The two-thirds initiative has become a politically popular model for financing a locally run program primarily with state funds.

The growth in state spending for school aids appears to have been a key factor in the decision to create the Kettl Commission. Ironically, this popular model for increased revenue sharing may lead the commission to curtail or reduce the revenue sharing programs for counties and municipalities. Equalization of access to human service programs could suffer as an indirect consequence of the state’s increased financial commitment to K-12 education.

Conclusion

Wisconsin is one of the few states in the country that relies on local governments to deliver a large portion of human service programs. In fact, Wisconsin ranks third highest in the percentage of welfare and human service expenditures that are made at the local level.

When our state first mandated that local government provide an array of local human service programs, the state paid nearly the full cost of these services. However, the local share of funding for human services has steadily increased over the last decade. State aid for counties and municipalities has been virtually stagnant since the “two-thirds initiative” for public school funding began in 1996. For counties the result has been increased pressure on property tax payers and increased waiting lists for human services.

As the Governor’s Commission on State-Local Partnerships tackles its daunting assignment, it will consider a number of proposals that would dramatically realign state and local responsibility for human service programs. One of the committee’s challenges is to make such changes in ways that do not increase disparities in the services and opportunities available in less wealthy communities.

Another critical challenge is to find ways to emphasize prevention and not to encourage use of the more expensive parts of the human service system. The Commission will need to proceed very carefully to be sure that its recommendations will reduce, rather than exacerbate, the current incentives for providing care in state institutions, instead of developing and using less expensive community programs.