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BLOCK GRANTS:

PAST, PRESENT, AND PROSPECTS

PANEL THREE: POLICY EXPERTS

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P R O C E E D I N G S

MR. HASKINS: Well, we get accused at Brookings of being way too abstract. So we are ending this exploration of block grants by focusing our attention on very specific programs that have been proposed as candidates for block grants--you weren't here, Wade, but Belle said in the introduction, quasi block grants, because the administration and others would like to draw some distinctions between especially Head Start and other kinds of block grants.

And so we thought the way we would do that since the Bush Administration has proposed so many block grants is that we will invite a spokesman from the Bush Administration to talk about the Administration's view of block grants, and, of course, we are fortunate to have Wade Horn here. And I would like to point out that Wade Horn is the gentleman on my far right, but that would be your far left.

And then, we also didn't want to have a panel of gargantuan proportions, so we just selected block grant proposals. We couldn't cover all of them. And we were very fortunate to have Alan Weil from the Urban Institute to talk about Medicaid. Among many other things, Alan is a former advisor to Governor Romer on health policy. So he sees this from a state level as well as a federal perspective.

And then, we also invited Barbara Sard to come. Barbara is a great expert on housing, and I will bet you a nickel that she will rebut the views that Robert Rector just made. Now that is a wild guess on my part, but we will find out soon.

And then, finally, I invited my old friend, Fred Wulczyn, who I believe is the only provided some sustenance to the proposal for a block grant in the area of child protection almost a decade ago. I probably shouldn't say, right? But he worked very closely with the Ways and Means Committee and testified, met with the members and so

forth. And we had two quite large national meetings to try to explore this idea, invited many Congressional staffers. So Fred is here to talk specifically about the child protection proposal that the Administration has made.

So without any further discussion, I will turn the program over to Wade Horn. Each person has seven minutes.

MR. HORN: Thank you, Ron.

I worked for two former Governors, one from Texas and one from Wisconsin. And as two former Governors who the record shows a record of innovation, it should come as no great surprise that one of the things that they bring with them to the Bush Administration is the perspective that is important to provide a good deal of flexibility to the states so that they can function as the laboratories of democracy and experiment with different ways of providing services to the poor and the vulnerable.

And so it shouldn't be a great surprise, given that, that the Administration has proposed some block-grant proposals, several state option proposals and finally the so-called super waiver proposal. All of these share a common theme, which is to provide greater flexibility to the states, to innovate and experiment in new ways of providing services.

I want to talk about three briefly and then address two objections I hear to these generally.

First, the Head Start proposal. First, I want to emphasize that the Head Start proposal is not a block-grant proposal. I would not even describe it as a quasi block-grant proposal but as a state option. What it would simply do is allow states the option of submitting a plan to the federal government for its approval. The federal government could disapprove it. They would simply indicate how to better coordinate

Head Start with state pre-school programs and, if they were given additional administrative control over the Head Start program, how they would restructure things in a way that would produce better outcomes for children.

A second example is the Child Welfare state option. Again, it is not a block grant; it is a state option. It would simply allow states the opportunity to submit a plan to the federal government in which if the plan were approved they would be able to use Title 4E foster care funds more flexibly, so that they could, if wanted, to put more investments upfront, particularly in prevention .

And then finally, the grand-daddy flexibility proposal of them all, the Super Waiver, would allow states the option of submitting plans to five different federal agencies in which they would outline how, if they were able to have some flexibility in the Administration of programs across five different federal agencies, they would create a more seamless system of services for low-income families than currently exists.

Now the two most frequent objections to these proposals are: one, the federal government is abdicating its responsibility to oversee these programs. Well, at least in the ones I am familiar with, the answer is absolutely not. For the Head Start proposal, you have to have an independent third-party evaluation. For the State Option proposal under Child Welfare, the same thing. And then finally, under the Super Waiver proposal, the same thing. That is the focus becomes one on results. What are the results of actually doing different kinds of innovations if we give states that flexibility.

But perhaps the proposal I hear most frequently, and I heard repeatedly here today, is that it simply is an article of faith, that if you do provide states with this flexibility, block grants, whatever, and particularly in block grants, it is invariably so that there will be less money in future years available than currently.

We have given you two handouts to try to disabuse you of that notion. The first is called federal matching funds versus block grants. Now my time is short. So I won't go through all of the description of this, but basically this is what this handout says.

Let's pretend that the reduction in the caseloads in TANF were due to the economy. Now I hear that all the time. I hear it from a lot of people in this room. And so I am going to suspend my complete and utter disbelief in that theory and just simply take as an article of faith that the entire caseload reduction was due to this wonderful booming economy.

Well, if that were the case, we have a nice little sort of way of looking at the last six years. How much money did the states have to spend under the block-grant proposal or under AFDC? As Robert pointed out, under AFDC when caseloads fell, you have less money available from the federal government.

If you look down at the fourth bullet, what we find is that between 1997 and 2002 the total amount of funds that would have been available under AFDC, given the caseloads, would have been \$55.8 billion. As it turns out, they actually had \$98.4 billion under TANF, a difference of \$42.6 billion. That is, if we had kept AFDC, not block granted and created TANF, the states would have had \$42.6 billion less in federal funds to spend in the welfare program. Even Bob Greenstein and Mark Greenberg I would assume \$42.6 billion is a lot of money.

If you add in the matching funds that are required, we have \$106.9 billion spent under the TANF arrangement, federal and state dollars, and \$103 billion under the old AFDC arrangement, a shortfall of \$57.6 billion.

Now that was a good deal for the states. Let's go back to 1991 when a younger staffer for House Ways and Means Committee was proposing along with the first Bush Administration block grants the 4E Foster Care Maintenance not making its payments for administrative cost and training cost, leaving the Foster Care Maintenance payments untouched as an open-ended entitlement.

The state said, no, no, no, we can't do that; we are going to lose money. That is the handout that says the \$1.5 billion mistake. We now know what would have happened had the states taken that deal. And that is in that first column by year, 1991 CBO baseline estimates. That is the amount of money they would have locked in over those five years under a Child Welfare block grant proposed by the first Bush Administration and the younger Ron Haskins in Ways and Means.

We also know what the states actually got under that program, because they didn't take the deal. That is coincidentally under the fifth column that says "actual". The difference cumulatively was \$1.5 billion less. That is by not accepting a block grant in 1991, the states not only lost the flexibility to use 4E admin and training dollars more flexibly, they lost \$1.5 billion. And that is not a small amount when you are talking about the amount of money that is available in child welfare.

So the point I am trying to make is that what the Bush Administration is interested in is primarily providing flexibility to states in order for them to be the laboratories of democracy that they were meant to be, and to try to convince you, at least with two examples, that this is not, in fact, despite Bob Greenstein's assertion earlier, not being driven by fiscal concerns.

MR. HASKINS: Thank you, Wade. Very good.

Alan.

MR. WEIL: The two most important things to know about the administration's proposal on Medicaid is, first, that they vehemently deny that it is a block grant, and, second of all, it has never been put in legislative language. So all we have are a few paragraphs in the budget and a number of speeches, the contents of which are not all entirely consistent. So I am not going to focus on the details of the proposal because there aren't any. What I will do is cover what we do know about it, the proposed rationale, and the practical questions about the proposal along the lines of the questions Senator Talent asked.

What do we know about the proposal? It is voluntary to states. So that makes it I think a voluntary block grant. It does define large chunks of the program consolidated into big buckets and provides a defined level of funding, federal funding, in advance to the states to administer those portions of the program.

States would be given tremendous and perhaps complete flexibility in the design and administration of either some or all of the program, depending on who you listen to. And the administration recently has made a large issue out of the notion that the mandatory portions of the Medicaid program would remain an entitlement as in the current system, and this would only affect the optional part of the program.

Now for those of you not familiar with the intricacies of Medicaid, here is the analogy I would give you. If you live in a three-bedroom house and you pay rent every month, if you go into the Washington Post and looked under the classified ads and the find the cheapest three-bedroom house in the Washington metropolitan area, the rent for that house would be the mandatory Medicaid program. And everything you pay between the cheapest house and what you actually pay would be optional. So you can

decide from your own perspective whether or not you think that differential is really optional.

There are two proposed rationales for moving to this voluntary block grant. The primary one is flexibility which would yield efficiency. The poster child in Medicaid is a program that is cited in about every other sentence of those who propose this block grant, something called cash and counseling, which is a very innovative, important and useful waiver program that has changed how we think about delivering personal care services to a small portion of the Medicaid caseload. This is an interesting and innovative program, and what we have learned about it has, I think, significant implications. But it has no implications for the major portions of the Medicaid program, and the cost drivers in that program, namely nursing home care, in-patient and out-patient hospital care, prescription drugs. It is simply a small but important program off on the side.

I found Senator Talent's comments about community health centers compelling, and I think there is a lot there about what we could do with more community-oriented service delivery. But again, we have no silver bullet or even potential model that we know of that would yield the kind of efficiency that is hypothetically available if states are given more flexibility.

Recently, the primary rationale suggested by the administration is the need for fiscal integrity in the Medicaid program. There is no question that the matching financing structure of Medicaid is inherently expansionary and it does give states incentives to move dollars into the Medicaid program so they can draw down federal dollars instead of spending their own funds. But I think the right analogy here is to the tax code. In the tax code we have lots of incentives for behavior, incentives to buy a

house and take out a mortgage, incentives to invest in low-income housing or alternative energy sources or all kinds of things that I don't know anything about.

We put those in the tax code because we want people to do things and then we enforce the tax code or sometimes we enforce and we use enforcement as a way to try to be sure that the policies are actually achieving the objectives we desire.

The primary impediment right now to the fiscal integrity that is used as the justification for Medicaid block grants is really a political impediment, which is that there are only 50 plus taxpayers, if you will, in Medicaid, namely the states and territories, and they have representation in this town, and they are an impediment to achieving the kind of fiscal integrity that the Medicaid program deserves.

That doesn't mean that you need a block grant to get rid of the problems in the system, and it is also I think important to note that financial integrity is not a trivial matter within block grants. So I think we need to separate the issue of fiscal integrity from the issue of block granting.

Now to take a practical question of what we would achieve with Medicaid block grants, I think it is important to compare it to the experience with welfare reform. And I am only going to get through a few of the comparisons, but I think these are very different animals.

Primarily, Medicaid is a much more volatile program than the old AFDC program. AFDC made a fixed cash payment to people; Medicaid costs are highly variable. Try as an employer to get a five-year contract with an insurance company for what your premiums are going to be in 2007. You can't do it. That is basically what the federal government is asking states to do in the Medicaid block grant.

Second of all, Medicaid is not tarred as the old welfare program was with the notion that it is a disincentive to work or that it is anti-marriage. Medicaid basically achieves the goals we set out for it, to provide health care services to people who need them.

Third, we have no alternative model along the lines that Robert Rector suggested where you can save money and thereby reduce caseloads and reinvest those dollars to create this virtuous cycle. There is no model for that virtuous cycle in health care. People talk a lot about prevention. It is a very complicated issue, but that is not a model for that kind of cycle.

I will just skip over to the last two major differences. The governors have not come out and supported the administration's proposal. I don't think this is because they don't understand it. I think it is because they understand that the risks they would take on are dramatic.

And finally and perhaps most important, the Medicaid system interacts with very complicated and very dynamic private employer based systems, the Medicaid program and the health care system as a whole. And to just carve out Medicaid and say we are going to treat it alone is something that you can't do. And the dynamics are very complex, whereas the old welfare system in many respects stood alone and separate from other programs and systems.

So given that we have no details on the proposal made by the administration, I think at this point what we have to do is think about the broader issues that it raises, which hopefully I have tried to do and to go back to an issue raised in the last panel. I think primarily this proposal is a political statement about whether or not the federal government should cap its responsibility for addressing these needs and have

the states bear those responsibilities. If they should, then I think this is a path you might go down. If you are concerned about that kind of capping, then I think the proposal is not one that warrants much more attention.

MR. HASKINS: Barbara Sard.

MS. SARD: Well, you have heard a lot today already about the housing voucher program, but I thought it might actually help people to learn a little more about it for its specifics as we talk about what the administration has proposed and what it might do.

The housing voucher program now serves about 2 million families; about 1.2 million of those or about 60 percent are families with children, most of the remainder are elderly or disabled individuals or couples.

The program is now administered by about 2,500 local entities, very close to the community-based empowerment model that Senator Talent spoke about originally, but 32 state also administer housing voucher programs of different sizes. So it is a mixed model.

Interestingly--and we will get back to this--only about 13 percent of the households getting housing vouchers rely primarily on welfare benefits. The statistics on work effort in the program are not what Mr. Rector suggested.

The average benefit in the program is large by comparison to other income assistance programs. It is now more than about \$6,000 per family per year. But the important contrast there is with housing costs. Housing costs for modest decent housing in this country now would take an income of more than \$30,000 a year for a family to pay only 30 percent of its income for housing costs, and 30 percent is more than your average household in this country now pays.

So that is the background. From the assessment point of view, we have recently had a bipartisan commission that has looked over federal housing policy. And its judgment on the voucher program is important to remember, call the voucher program flexible, cost-effective, successful in its mission and that it should be and remain a linchpin of national housing policy.

In addition, there is a small but increasing body of research that indicates that, in fact, the voucher program does promote work, that it improves school performance, another of our primary goals, and it enables families to live in safer environments and experience better of health. Some of you may have seen the article in this past Sunday's New York Times which talks a lot about that issue.

Only five years ago, Congress made major reforms in the program to increase efficiency and flexibility at the local level and to give local agencies more options. There is probably a little more that could be done in that area, but that would be tinkering within the current program.

The real question is: Why, given the success of this program, the administration has proposed its radical overhaul? I will give you some of the administration's reasons.

The first one they usually emphasize is that there has been too much unused money in the program, and we need to prevent that from happens. Well, Congress itself has already fixed this problem. It changed the funding system, just this year. It should prevent future recaptures. To the extent that unused money represents unused housing vouchers, which have been authorized but aren't being used, that is a real problem.

Local agencies are well on their way to fixing it for the most part.

Current data shows that about 97 percent of the authorized housing vouchers are going to be in use in fiscal 2004, which is a dramatic improvement. To the extent that there are performance issues at some agencies, and there are, HUD has the tools to deal with those problems now. It doesn't need to rip up the entire framework.

The administration has also said it would be better to coordinate the voucher program with TANF. Having worked for six years to promote the coordination housing and welfare programs, I am the last one to say that would be a bad idea. The question is really: Do you transform the program to do that and would it accomplish the goal? And I think the answer is that with only a small fraction of the households assisted by the program, 13 percent rely primarily on welfare benefits. You do something at the margins to accomplish this goal. You don't totally change the program.

And we already know from having more than 30 states administer the program that having two different state agencies running programs does not necessarily promote coordination.

Finally, the administration has said, well, it would be manageable if we had fewer than 2,500 agencies to contract with. And there is some merit to that argument. But again, you could achieve consolidation where it is justified without changing the entire funding structure of the program.

So I think the big question for the housing voucher program is what is the administration's real agenda. And I find it difficult to identify any real agenda, except primarily to cut funding and possibly--and this may be mixed within the administration--to covertly, silently, without admitting it, try to foster the goals that Mr. Rector talked about of promoting work and possibly marriage without a willingness to engage in a

genuine debate about whether those are appropriate goals for the housing voucher program and what it might take to actually achieve them.

Bob talked a lot about the importance of the funding structure in the voucher program, now where funding is linked to actual costs, which is important because housing costs vary, also important because incomes vary. As the economy goes down, tenants can pay less and voucher payments go up.

Interestingly--I will try to do this in one minute--the states have not fallen for this proposal. Very few states, only a handful of Republican governors have said they liked it at all. The organizations representing states have not endorsed it. There is very little support in Congress that has been evidenced so far, although the rumor is anyway that the administration will continue to propose it perhaps in a slightly altered form.

Ron asked me to address, well, would the block grant address any of the major goals of housing policy. Quickly, three.

The first is this equity problem which is a real problem. Only about one in four eligible households receive federal housing assistance. But the problem is the voucher block grant wouldn't that. The likelihood is that funding would go down, as Bob discussed. If the funding goes down, you assist fewer households or, at best, states would spread a declining amount of money relative to housing costs among more households making the benefit less adequate, meaning that families can't achieve the central housing goal.

The second major goal is location. We have a real need in this country to improve access to better neighborhoods that are not racially or poverty concentrated, that are near jobs. Vouchers do that better than any of our other housing programs. A block

grant might help in some respects. Bob gave some reasons why states might, in fact, discourage households from moving into better neighborhoods, and I think money is the big issue.

Finally, the last real goal of the housing program ought and needs to be in many areas to increase the housing supply. The shortage is largely what is driving up prices these days. We have basic laws of supply and demand we have got to work with, and by undermining the reliability and adequacy of funding, the voucher block grant would undercut the ability of the voucher program to work as a tool of housing development.

MR. HASKINS: Thank you.

Fred.

MR. WULCZYN: Well, thanks to Ron for remembering the Child Protection Program amongst these large social programs, and it is good to be here.

I agree with the gentleman from GAO. Block grant is a single term that has come to describe a variety of proposals, and it is very important to unpack what we are talking about here. I think, as I have heard the discussion today and as I think about the administration's proposal, they share in common a core, and that is the programs currently are inefficient, that they don't deliver services to who need the services when they need and the amount they need, and that creates problems for people who are on the front lines trying to meet the clients, and that to some extent they are sustained by funding formulas in the regulatory framework. And in order to create more efficient service delivery systems in the Child Protection Program--I can't speak for the other ones--we need to unlock the systematic structures that are imbedded in those regulatory

and funding formula and just basically start moving money around in a more flexible way which is the code word.

And in the Child Protection Program, the inefficiency is measured simply by ratio of Title 4E dollars, compared to Title 4B dollars. There is a lot of other federal money that is in there but, generally speaking, that ratio has grown over time. The 4E dollars, representing board and maintenance, which from a public policy perspective, is the expenditure we really don't want to be making. We would much rather support families in communities and in their families, and that allocation which is a capped entitlement and has a variety of funding formulas behind it, that has not kept pace with the demand, if demand is measured by the number of kids in foster care.

And it is hard to argue with the idea of a block grant in the abstract when you look at the article in the New York Times about the TANF funding and how much of it has left the cash assistance side of the house and has gone over to the services child care side of the house. That is exactly the kind of transformation that we would like to see in the Child Protection Program.

Let me say that the problems are very real. When we start thinking about running the Child Welfare Program, there is a great of inefficiency, measurable inefficiency in the system, and it is hard to get providers to move from their current mode of operation, given the fact that, once they start getting better at what they, they will lose federal funding, if the state is the way you are thinking about it, or even if you are thinking about it at the community level, we are basically asking communities to take a larger share of responsibility for the care and maintenance of the children. And when that happens, foster care utilization goes down. The first dollar to leave the table is the federal dollar, and communities object quite loudly and I think rightly about that.

So it is a problem that has to be solved. So if those community representatives care as much about the issues around federalism and all those other big arguments that we have heard here today, these are very practical problems at the local level.

And so the idea of advancing more flexible funding at the federal level is, I think, fundamentally a good one, but I think it is important to think carefully about sort of what would a good block grant or proposal at the federal government look at from the Child Protective Services side of the house.

Well, first of all, it would be useful to have another name. Again, I agree that block grant has just become a code word for lots of things which really aren't very helpful again in the day-to-day world of what is going on. I have heard the term "reinvestment". It is a classic model for what happens when inefficiencies are squeezed out. Revenue is left over; you want to capture that revenue and use it--there is a variety of ways of describing that, having the money follow the family, the child. But that is essentially the dynamic, this virtuous cycle that we want to try and establish.

The administration's proposal, as I understand it, does manage this issue of risk sharing. And risk sharing is--again it has been described here in a variety of ways--what happens when the demand is such that it exceeds the amount of money and whatever capped formulae there are. And one way of managing that is to make this a state option. Some states are more risk averse than others. So those that have the energy to try and manage this in this risk context, they will go for this and those that aren't. So they have managed the risk sharing in that way.

And there are also provisions--and I am not sure how the administration's proposal is coming out, whether or not it mimics the TANF idea, where if there are

certain changes in underlying conditions, the money in the grant amount would go up, or whether there is an opt out provision. But that is all helping the states manage the risk where there is the potential for a limited amount of federal revenue.

I would suggest that we raise the bar with regard to risk sharing, and specifically in the area--again an idea that has been kicked around--is in the area of outcomes and what would make a better block grant proposal in the child protection area, and that is rather than have a virtual link between the outcomes and the way the money is flowing, I would prefer to see a very direct and explicit link.

There is an assumption in a lot of the debate that flexibility begets outcomes. Our research in the child 4E waiver programs suggests that that is not always a strong enough stimulus to generate better outcomes. You can give flexibility but you don't necessarily get outcomes. I think it would be useful to sort of reverse this and say if you get better outcomes, then flexibility will follow.

And it is possible to create accountability systems in the child protective area where that explicit link is possible. It raises the accountability standards far above what they currently are. But it does I think undermine one of the arguments that have been advanced that sort of creates a favorable spin for flexibility funding, and that is that somehow you would loosen the administrative burden on states or localities or the federal government. And I think quite the opposite is the case.

In order to know whether or not these flexible dollars are going to those areas and to those families and children that require those dollars, it means you have got to know where the dollars are going. And that actually is quite a significant administrative burden.

And I think at the local level, it would strain a fair number of even your better finance departments in local governments. So rather than limiting this sort of demand for accountability and the burden of accountability, I actually think it raises it, and I think it is important to be more upfront about that particular issue.

And I do think that accountability, accountability rules provide a way, if not strictly speaking, protect the entitlement that is from a political perspective very important in the child protection area. It offers a very close facsimile of protecting the entitlement and I think if properly done, you would actually, in fact, manage to protect the entitlement but at the same time grant flexibility.

MR. HASKINS: Thank you very much; very nicely done.

Before I open up to audience participation, I would like to ask a couple of questions to the panelists. I think generalizing across all the panels this morning, the major concern that is raised about block grants, I believe, is money. I mean, there are other issues too, but I think that was the number one issue that people who are skeptical or out-and-out opposed to block grants are worried about the funding. And it can occur in either of two ways.

One is that a lot of people think that Congress can create a block grant and then get all the money in one basket and then put a hole in the basket and sink it. Title XX is the model for this approach.

The other one, and perhaps more difficult, is where you have an open-ended entitlement, and the Congress ends the open-ended entitlement and either captures all the dollars that are on a baseline or somehow caps the funding and then gives the money to the states, and the concern is that the states won't get their growth.

And there is a second aspect to this that was very nicely captured--I would like to give a quiz right now to the audience of how many people understood what he meant by sharing of risk--and that is in many programs you face some external conditions that are going to whack you.

And the classic case in child protection is the drug addictions that increased so much, especially in the inner-city areas, in the 1980s, and the foster care kids. I think in some years I think there were 15, even 20 percent increases in the number of kids in foster care and the costs.

So if you have a capped funding mechanism like you have in a block grant, what in the world is going to happen? And, of course, Alan made it very clear that in Medicaid we don't even need an emergency. Those health care costs, they just go up all the time. Some years they went up 15 or 20 percent as well.

So the question is: For each of your areas, first, could you imagine a block grant that had some kind of mechanism that offset these funding problems and, if so, what is it?

Let's start with Barbara.

MS. SARD: Well, your question assumes that there is value to be accomplished by the block grant transformation and that, if you could solve the money problem, you would have accomplished these other good things.

In the housing area, I don't see the good things. I think the reasons that the administration has put forward explicitly are specious and I think on the work and marriage side, one can genuinely dispute both whether there is a current problem in the housing programs and whether it is the point of those programs to solve whatever problems might exist. And even if you got there, I think you could say, well, maybe we

should do some little bit experimentation, but we certainly don't know the answers on whether or not any kind of changes in the housing program design would affect work or marriage.

So I disagree with the premise. But even then, getting into the funding question, Bob pointed out a lot of reasons that I don't want to repeat about why you can't anticipate either the changes in housing costs locally, well enough nationally, nor can you anticipate the changes in the economy and how they are going to affect tenants' incomes.

You don't have a static population in the housing program. Even though you have got about 2 million vouchers, you have got constant turnover, and the program is well designed to keep serving the neediest people. And so that is always going to affect the flexibility on costs.

But the other problem is the political one. And I think it is important to focus on this, which is now there is enormous power in the funding formula for vouchers, because the idea of inadequate funding is the idea of kicking people out of their homes and putting little old ladies and families with kids on the street. That matters. If you lose that link where Congress people no longer have to think about are they responsible for evictions, then you are going to lose the motivation to keep the money going.

And so I think it is important not just if one could be smart enough to design appropriate triggers, which I don't think we can, but also I think even with triggers you would lose the direct link between the dollars and the consequences at the federal level. And I think we need to keep it there and not push responsibility.

MR. HASKINS: I am going to take that as a no. And evidently, you are unfamiliar with the Buckley rule that you can't challenge the premise of a question.

Alan, don't challenge the premise.

MR. WEIL: I will accept the premise of the question and say that I am glad that you continued the question, because I think from my perspective the issue is much more risk than level. And that is the harder issue, particularly in the proposal of this administration, unlike ten years ago, where the Medicaid block grant proposal had huge cuts off of baseline. The more recent proposal is along the same lines as baseline, and that creates very different dynamics.

What I think we have to do is what good conservatives say we should do, which is to look at what the private sector does. What does the private sector do? They have things called reinsurance or stop loss. And how do does work?

The primary risk is borne by the primary risk bearer, and then there is some other entity with a deeper pocket, we always call that the federal government, and they kick in when things are out of whack. And you share the cost and the benefit, depending on how things are out of whack.

But how does stop loss work? You have to have a defined population and a defined set of benefits and some agreement on how you are going to pay the claims for all of those things that are in the shared area. If you don't agree on that, you are just going to spend your whole time fighting over what the stop loss looks like.

So my easy answer to your question is if we want to share risks between the states and the federal government, we should look at the kinds of models used to share risk in the private sector, but my "then" is if you give states complete flexibility

with respect to any one of those three parameters, there is no way to reach agreement on which portion of the risk should have been borne by which group.

So somehow--and here I am really trying to go with your premise--you have to define for the purposes of risk sharing something that you could agree on, even though from the perspective of actually running the program you let the states do something very different. That sounds to me more complicated than the current program, but that is the way I would think.

MR. HASKINS: Right. Liberals would not like this, but you could imagine that the federal government would say here is a defined set of benefits. We are going to guaranteeing these. We are going to have the deep pockets. If you get in trouble, we are going to share the cost of this set of benefits with you. Anything else you have, you are on your own, buddy, you will have to cut them or something like that. That would be an example of what you are looking for, right? I mean, you might not like that example.

MR. WEIL: Yes. I am just not sure how it differs from the current Medicaid program. We have mandatory services and populations and benefits and we have optional ones. And when your budget gets tied at the state level, you cut the optional ones. Do you like to or do you want to? No. Do you share the risk with the federal government? Yes, it is a matching program.

So what you just described as something liberals wouldn't like is the current Medicaid program.

[Laughter.]

MR. HASKINS: I think liberals a lot of Medicaid.

This question is actually set up for you, of course.

MR. WULCZYN: Well, I think it is possible, and my answer is sort of purely on the technical grounds. The political storms and currents that are flowing through this conversation are very powerful, and so I want to set those aside for the time being.

The advantage of the Board and Maintenance Program, the Title 4E program which is the primary target of flexible funding ideas is a defined benefit. So it has the advantage of being fairly well understood in terms of what it is the federal government is sharing the costs with. So generally, when I think the risks and the way I unpack them goes along the lines of what we heard a moment of ago. It has to do with what are the volumes, duration, case mix and unit cost effects and how are those risks going to be shared.

And I think that from the child protection perspective, the issue that we are most worried about, the drug epidemic in the late 1980s, that was largely a volume risk. What happens when the system is inundated with large numbers of kids that it suddenly has to manage substitute care for, those are risks from the child welfare's perspective that are volatile. They can change over a short period of time, because you don't know when these social calamities, these epidemics, if you will, are likely to occur. And so they are highly unpredictable. So I think you would want a very favorable risk sharing arrangement around those kinds of issues.

At the other end of spectrum are unit costs, that is what you pay in the way of board and maintenance, those are less volatile, they are highly predictable, and you might opt for a different risk sharing arrangement around those costs.

The long and the short of it is I do think again from a technical perspective it is possible to baseline these issues, and in the current claiming

environment protect the ability of states to claim rare risks, depart from an agreed upon baseline. Where those departures occur, there is a mechanism for sharing those risks. It would look an awful lot like the entitlement program. It would grant states the flexibility that they need to move money around as they create greater efficiency. It would protect them in the event that unanticipated social calamities cause things to fall out of the equilibrium that is built into the baseline, and it would ensure that the federal government has the accountability it requires to know whether or not its federal funds are going to the intended populations.

So I think it creates a nice middle ground that would diffuse some of the political tensions that emerge in the child protection areas.

MR. HASKINS: Before Wade answer, let me just point something that maybe there are few people not familiar with child protection. I would say that this area is one where if I were going to be the champion of block grants, this is where I would start my argument, because you have a very interesting situation that Fred alluded to. You have what he called 4B, which is a fixed block grant, and that is for the good stuff. It is to help families, to prevent, to give services, to save people. And that is about \$600 million and the constant dollar hasn't changed in fifteen years.

Then, on the other hand, you have 4E, which is open-ended entitlement money. It is actually six different streams of open-ended entitlement money. But to get a dime, you have to remove a kid from his home. And so this system is really out of whack. Everybody wants to prevent and give services and help families and prevent removing kids from their homes. And a lot of people think they can do that efficiently, but the big bucks to provide the services are locked in over here.

So if you could give a block grant, there are a lot of people in the states and they will take this deal. They will say, yes, we could promote adoption better, we could give services to families and keep the kids in the home, and we could use this money a lot more efficiently if we didn't have to take the kids out of the home. So this is an area where I think there really is a wonderful example where a block grant would really help because it would give the states exactly what we associate with block grants, which is flexibility.

And if you think about it for a minute, this is what happened in welfare, because you had two systems. You had a cash payment system and you had a work and marriage system. And the idea was if we could get more people over here and get them out of the cash payment, we would save money. And that is exactly what happened when we created the block grant.

But the problem, I think--and what everybody in one way or another has recognized here--is that the other systems that we are talking about, housing, Medicaid and so forth, they are not like these other two systems. There are very important differences. And that is why Fred and many others say we need new vocabulary. We shouldn't call all of these block grants, even though all of them attempt to give the states more flexibility.

Wade.

MR. HORN: I will remind you we don't call most of our proposals block grants.

MR. HASKINS: You are wise.

MR. HORN: I think this question of risk, managing risk is exactly the right point. And it is one of the lessons that I learned in the first Bush Administration

when we were absolutely convinced in proposing the block grant in 4E just for maintenance payments and training, that the increases that we saw were unsustainable.

And so when the budget agreement was passed back in 1990 and created these five-year outlooks and so forth, we were convinced, I was convinced anyway and the Bush Administration was convinced, that this would be a good deal for the states.

And as it turns out, it would have been a good deal for the states.

The problem is the states didn't believe it. The states said this is an open-ended entitlement. This is too risky for us. So how do you help states manage the risk?

And one of the ways that we have tried to do that is by not proposing block grants.

There are some exceptions. Clearly the TANF is a true block grant, but rather to focus on state options. And they basically say if you think this is a good deal, take it.

It is true. It is a state option in the Medicaid proposal. It is a state option in Child Welfare. It is a state option in Head Start. If you think it is a good deal, take it. If you would rather stay under the old system, fine.

What I find interesting is that these governors who sent letters particularly by the Head Start proposal--I guess the one I found most interesting was the former Governor of California, in which he basically said, please, don't give me this option, because if I take it, I will ruin the Head Start program, which is an extraordinary statement for a governor to make, because our response is if you think you are going to ruin the Head Start program, don't take the option; leave it exactly the way it is now.

And so one of the ways to manage the risk is by making it an option for a state as opposed to a mandatory block grant. The other way is to build a mechanism as you suggest. And we have tried to do this in the Child Welfare proposal. Fred alluded to it, but one of the things that we proposed is that, if a state saw an increase in the need

for out-of-home care, the last thing you want in a child welfare is financial constraints such that a kid that needs to be pulled out of a home and placed in home care, you don't have the money to provide that service.

And so we were very concerned about that and said, you know, if we see an increase in the need for out-of-home care in a particular, they could draw down additional funds from--up to this point after six years of experience with it--completely untapped TANF contingency fund.

MR. HASKINS: I think New Mexico used it in 1997.

MR. HORN: They met the triggers but they didn't pull any money down. I think that is what happened.

So we have got this \$1 billion out there. It is floating around TANF; obviously, we have been through a recession, no need to draw down on that fund. So we said the money is right there. As a way to help states manage the risk who want to take this option say, look, we understand if the caseloads explode, you are going to be able to draw down additional funds. But there is a third way to manage risk--I don't know if managing risk is the right word--but to help states, by allowing them the option of frontloaded assistance.

But again, it is an option. The Child Welfare proposal, you can take more money upfront, build a system of prevention and then have less need for out-of-home care in the out years or not. And there is an interesting, sort of friendly amendment that Nancy Johnson has given to the Child Welfare proposal. It says if a state chooses not to frontload the system, but take increments over five years in the Child Welfare flexible state option, one of the options is they could opt out, you know, at any point during the five years and go back to the entitlement system, if they feel that is better for them.

So I do think managing the risk is very important. We have tried to address those issues, particularly with the idea of state options, some contingencies for unforeseen circumstances where needs arise, you know, due to unforeseen circumstances.

MR. HASKINS: Okay. Here is what we need for you to answer, Wade. This is why you make the big bucks.

A theme throughout this conference, starting from the very first panel, and in the literature on block grants and flexible funding proposals since the Bush budget came out is the administration has a desire to cut spending in all these programs. It has been said several times on this panel, and that is the real goal, to cut spending.

You're a member of the administration. Is that correct?

MR. HORN: No. First of all, if this were a proposal to cut spending, why would we allow these programs to grow over the next five years under current baseline assumptions, and particularly--and we are very upfront about this--in Child Welfare I guarantee you five years from now we will be in the same situation at that table that states if they don't choose the option, they will have spent less money in five years. Why?

Because one of the things that we know about Child Welfare right now and 4E is the percentage of kids who qualify for 4E, because states don't get matching payments for kids who are non-4E eligible, only for the kids who are 4E eligible. And what is happening is the percentage of kids who are 4E eligible are shrinking, which means the baselines are being adjusted, ratcheted down every year, in fact, frankly not every year but every six months.

And so what we are saying to the states is grab the money on the baseline--and the reason it is ratcheting down, by the way, is because one of the criteria to be 4E eligible is--this is the way the law reads--the family you were removed from had to have been eligible for AFDC at the time of removal if AFDC still existed as a program or it doesn't. It is six years out of date, and so it is becoming harder and harder to qualify people for 4E because of this look-back provision.

Now if all we wanted to do was save money, do you know what we could do, leave Child Welfare alone. Because I guarantee less money will be spent over the next five years under the current system than is being spent now. So at least for the programs that I am aware of and the discussions with the administration--and, by the way, let me give one last example, Head Start.

One of the little untalked about requirements in the Head Start state option is if you choose this as a state, there is a maintenance in the provision that says whatever you, the state, is already spending on state pre-school programs, you cannot reduce that. Now right now, can states reduce their spending on pre-school? Absolutely, the federal government has no hook in states spending on pre-schools. And, in fact, they are doing it because of the budget crisis.

So if a state were to get this option, they couldn't reduce their spending. Now if all we cared about was simply spending less dollars, why would we put that provision in? So I cannot speak for every single initiative that is being--and certainly there are budgetary constraints, but certainly from our standpoint there is no concerted effort from the administration simply to save money.

MR. HASKINS: Questions from the audience.

Doug in the back. Wade, stand by here.

MR. STEIGER: Doug Steiger with the Senate Finance Committee.

The Title 20 program has come up repeatedly as an example of sort of bad things happening to good programs. This year in the Senate version of the faith based bill there is a bipartisan aspect of it to restore funding to that program. Yet, the administration objected. That leads to people being suspicious about the administration's long-run agenda for funding of these programs. Could Dr. Horn explain why they objected to that funding increase?

MR. HORN: Well, you have to look at the budget as a whole, as Robert said, and there are lots of other areas where the administration supports increases. And so you can always find some place in the budget where the administration does not agree with increases, as it should be, and you will also find some places in the budget where it will recommend decreases, as it should be, as is the case with our administration, I am sure is the case in the Clinton Administration. Every year your budget will not increase program account.

And so you have to look at the budget as a whole. But if you look at, for example, child welfare, the administration still continues to stand firmly behind a \$1 billion increase over five years in safe and stable families. So there are areas where the administration agrees with increases and areas where we don't.

MR. STEIGER: I don't believe that funding increase you just mentioned for safe and stable families is actually in the Senate Labor H bill to the extent that you proposed it. Would you work to make sure that that happens?

MR. HORN: We have been working to try to make that happen. Yes.

MR. STEIGER: I hope you are successful.

MR. HORN: So do I.

MR. HASKINS: Sciamanna.

MR. SCIAMANNA: John Sciamanna, Child Welfare, League of America.

Dr. Horn, one of the fundamental principles of your foster care proposal is that if states lock in a five-year period of funding, they can frontload some of their money from the out-years into the first years for prevention services. And then the argument is that in years four and five and then the late years there will be a reduction in out-of-home placement.

I guess our concern is if prevention--and we support an expansion to prevention and support services--why not take the current 4E program, extend the state flexibility to address prevention and support services. And if that does result in a savings, you won't have a concern about cost neutrality that your budget proposal does.

MR. HORN: How would you do that?

MR. SCIAMANNA: I mean, the argument is that if states invest in prevention in the first couple of years, they will see a reduction in their years, whether it is three, four, five, in out-of-home placement. Why not do that under the current entitlement structure, open up state flexibility under 4E, let them invest in prevention services under 4E, support services under 4E so they don't always have to chase the dollars through out-of-home placement?

And if that results in a reduction of out-of-home placement, you don't have to worry about the cost neutrality factor of any proposal over a five-year period.

MR. HORN: I cannot imagine CBO would not score that as an increase in spending. CBO is scoring the administration's proposal/now the house proposal as an

increase in spending, even though it is by definition supposed to be cost neutral over five years.

So that would be an increase in costs. What we are suggesting, at least in the Child Welfare, within 4E, that the 4E flexible funding be cost neutral over five years. And that is an important principle that we are holding to. But it doesn't mean that there aren't other areas in the budget where we are asking for increases for Child Welfare services. As I have just pointed out, we asked for--in fact, I think your boss was in the East Room with the President when he announced a year-and-a-half ago--a \$1 billion increase over five years in safe and stable families.

We haven't gotten all of it, as Doug has pointed out, and it is still on the President's budget. We are still trying to convince folks that we are serious and we would like to have that money in the budget.

So in terms of at least the Child Welfare flexible funding, we think it ought to be cost neutral. It is very hard for me to see what you are describing as being cost neutral over five years.

MR. HASKINS: Next question.

MS. HUTSON: Rutledge Hutson from the Center for Law and Social Policy. I don't know if this question is for Dr. Haskins, Dr. Wulczyn or Dr. Horn. So I will just throw it out there and anybody can answer it.

I think you made a comment, Ron, that to compare to TANF. And I would disagree with you about that, because I think the notion that we have a bunch of kids in foster care who should get out of foster care if they would engage in the appropriate behaviors is not right.

And the reason I think that people argue that there are too many kids in foster care, some people argue that it is because 4E encourages states to go and grab kids up. I don't believe that. I think the reason there are too many kids in out-of-home placements is because there is not enough infrastructure to provide the services that we need to keep them in their home. If you accept that proposition, then you have got to invest some more money upfront in order to be able to drop the foster care caseloads at all.

So you are not going to have a caseload decline like you did in TANF to reinvest back in other services until you have invested money on the front end to provide services that kids need to be able to be kept in their home. And I don't hear anything in the administration's proposal about frontloading that money in a significant way. You talk about the option in terms of risk sharing, that you can take your 20 percent each year. But if you do that, then you have lost the ability to opt back in into the entitlement if your caseload goes up. And then, you are only able to rely on the contingency fund for TANF. And I think it is a little bit misleading to say it hasn't been needed.

I agree it hasn't been utilized. I think most people agree that is because there are problems with the trigger for that. And I would argue that a lot of the same things that are going to cause states to need to tap into a TANF contingency fund are the same things that might cause them to need to tap into some extra resources for child welfare.

And so what I am afraid is that the risk sharing that you are talking about is not really risk sharing between the state and the federal government, but it ends up being risk sharing on the backs of kids.

MR. HASKINS: I can give a quick answer to this question. It is a good point and you could be right. I don't know if you are right. But I do know that there are many states that have frequently for more than a decade now said that they would like to take this deal. So I don't know if they have a reserve of money that they are planning to use, that they think the payoffs from prevention and better services for families would be very quick and they could realize money very quickly, savings on the end from removing kids from the home.

But that is the kind of evidence that applies here, that the states that run these programs say they would like to try this. Now it is true that they also say they would like to have some money upfront. So maybe that needs to be part of the proposal. It is definitely a good point.

One more question. This lady on the right here.

MS. BESS: I am Roseana Bess with the Urban Institute. And I actually just wanted to highlight a point that Fred brought up early which probably most people may not necessarily agree with.

But since 1997, we have conducted surveys of all fifty states in the District of Columbia, looking at their child welfare spending, not just from 4E and 4(b), but TANF, Medicaid, kind of all the federal funds that they can use to provide services involved with the child welfare system.

I think Fred's point about linking flexibility to outcomes, so holding states accountable is important. Our last round of the survey collected data from fiscal year 2002, and in that survey we found that there was this huge increase in TANF money that was being spent on child welfare services, and TANF obviously being more flexible than 4E, you would think, well, here is an opportunity for the states to use funds flexibly.

And I think when you look at those TANF funds, they were using about \$2.3 billion in TANF funds in child welfare services. And a majority of that was going towards children who were in out-of-home placements, not what we kind of define as other services, which would be prevention, family preservation and what have you.

So I think it is important when people do talk about states having flexibility with respect to Title 4E, it is important to look at all these other programs that they have available to them, and what are they doing, and I think states need to be held accountable in that respect.

And I think the idea, Fred, of linking flexibility to outcomes is very important.

MR. HASKINS: Do you have any comment on this?

MR. WULCZYN: I do have a comment, because there are a couple of currents here that I think highlight why this is so important, and it goes immediately to the question of we need upfront money to prevent children from coming into foster care.

Well, that assumes that the inefficiencies that states are facing are volume related inefficiencies. That is they are admitting more kids into care because the internal bundle of services don't exist in the community. If they did, they would stop coming into care and that would lower the demand for foster care.

The problem is that that is not where most of the inefficiency resides in many state and local child welfare systems. It is mostly on the duration side. And so in a five-year context, the inefficiencies and where the savings will be are in accelerating the rate at which kids find permanent homes.

So if in the context in the state's thinking they allocate a bunch of money in anticipation of volume effect, when really what their problem is a duration effect, they

are going to be spending money in a five-year context that really is not optimal with regard to generating savings.

It is very important, therefore, that the expected effects be tied to these outcomes. Are you talking about prevention outcomes? Are you talking about shortening length of stay outcomes? And that has to be the thing that drives not only sort of how the flexibility is embodied in the way the state is thinking about it, but it has to be embodied in the baselines, and in the fundamental decision-making about where are we going to address the inefficiencies in the system from the first day we start down this road, because a wrong step at the outset will have ripple effects throughout and it is very dangerous.

So that link has to be absolutely explicit, not sort of in the abstract.

MR. HASKINS: Now, Wade, 30 seconds. Only you are between this audience and their lunch. So quick.

[Laughter.]

MR. HORN: We have done a series of 4E waivers over the last five or six years. And one of them is precisely on this point, which is to provide intensive wrap-around services not for kids who have not been removed, but for kids who have been removed.

And the results of those generally have shown a decrease in the length of stay in foster care for those children. The problem is you can't currently use 4E funds to provide intensive wrap-around services for this kids.

And Toshio Tatara when he was still at Child Welfare League and so forth has conclusively shown that the increase of kids in foster care is not because the inflow is dramatically increased but because the outflow is slowed down.

And so one way to reduce the need for foster care is for providing those intensive wrap-around services for kids already in care which they could do if they chose this option.

MR. HASKINS: I thank the members of the panel for the excellent answers and presentations. And I would like to congratulate this audience too. It is the only time that I have ever seen an audience that had more questions about child protection than about Medicaid.

Thank you.

[Applause.]

[Conclusion of proceedings.]