

AS POLICY BECOMES PRACTICE: DEVOLUTION IN ARIZONA

DEVOLUTION: PUBLIC POLICY EVERY ARIZONAN SHOULD UNDERSTAND

Dev-o-lu-tion – delegating of power or authority by a central government to local governing units

Webster's New World Dictionary 2nd College Edition

Everyone who cares about government – every public employee, every taxpayer, every business owner, every Arizonan – should understand devolution, the federal public policy that is bringing more and more decisions about government programs closer and closer to the public. Devolution is important in Arizona because it affects Arizona's choices on budgets and programs and many of the public services that Arizonans use every day.

Many leaders and citizens have been advocating devolution for years without calling it that. The proponents have argued that state and local governments can do a better job with federally sponsored programs in such areas as social services, welfare, and health care than the federal government. Lower levels of government better understand their residents' needs and can solve problems in new ways, so the argument goes. Opponents of devolution worry that state and local entities may not have the necessary capacity to carry out quality services, even with the federal funds that come with the programs.

Devolution is a gamble in some ways. High levels of state and local capacity may truly mean better services tailored to a locality's unique needs. Insufficient capacity, on the other hand, may leave citizens vulnerable to unintended, negative consequences. Shifting budgets and responsibilities does not guarantee capacity – the gamble may result in larger state and local governments with lesser performance.

THE DEVOLUTION ROAD

Money and Responsibility Go From Washington to State Capitols to City Halls to Community Organizations

For example,

- In a national program, such as welfare, Congress tells states what must be done, why it is important, and the amount of federal dollars available.
- Governors, state legislatures, and local policy makers and administrators decide specifically who will be served, where and how they will be served, and by which state or local government agency, nonprofit organization, or for-profit entity.

Since 1996 devolution has increased – so what is happening in Arizona and across the country? Do state and local entities have the administrative capacity and human and financial resources to follow through? To help find the answers to these important questions, Morrison Institute for Public Policy and the School of Public Affairs at Arizona State University are working with the Nelson A. Rockefeller Institute of Government at the State University of New York in Albany. Funding for the Arizona portion of the research is sponsored by St. Luke's Charitable Health Trust and The Flinn Foundation.

DEVOLUTION IN CONTEXT: KEYS TO UNDERSTANDING THE CHANGES

States have always administered federal programs. But, states usually have had very little say in how they carried out programs. All states could generally do was follow the rules laid out by federal agencies. But now, devolution is giving states more power over programs. And, in general, Americans have said that they approve of the idea.

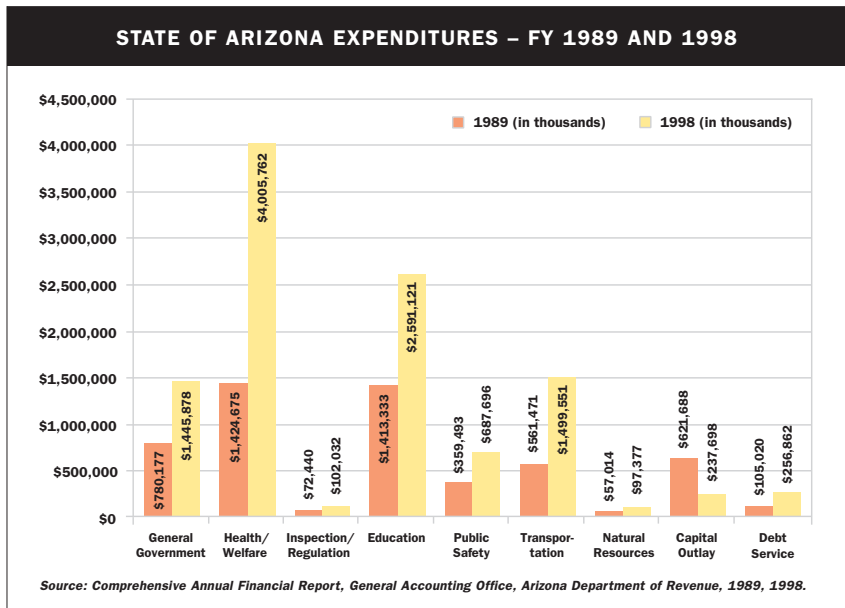
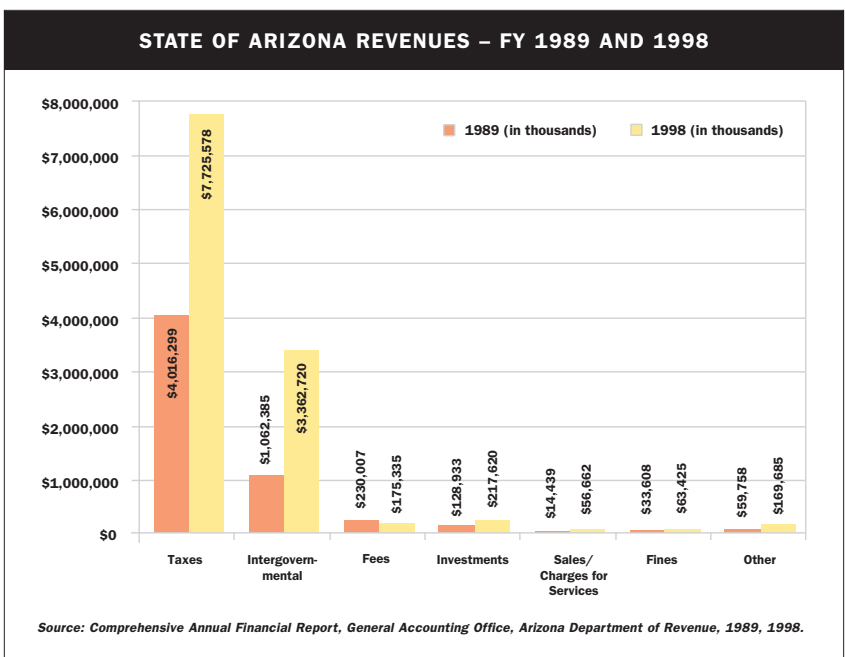
A 1998 nationwide poll, funded by The W.K. Kellogg Foundation, showed that a majority of Americans perceive devolution to be a positive development for the country. For example,

- Seventy percent of respondents believe that devolution would enable more people to have a say in how government programs work in their communities.

- More than 80 percent of the participants think that residents would be motivated to voice their opinions about programs if they knew that decisions were being made at the state and local levels, instead of in Washington.

Think Individual, Not Mass Produced

The program administration changes brought by devolution are similar to the differences between painting-by-numbers and working with a blank canvas. Each results in a painting, but only the blank canvas generates a work of art that fulfills the artist's goal and needs. The painting-by-numbers will be the same time after time, regardless of who the painter is and what the painter wants to



communicate. Devolution gives state and local governments the opportunity to make individual works of art from what used to be paint-by-number efforts.

Impact on State Budgets and Priorities

The State of Arizona's annual budget is about \$5 billion. Devolution directly affects more than one third of the state's budget. It gives the legislature and the governor more choices about federal funds and more responsibilities for quality services.

The graphics to the left show the state's general expenditures and revenues for the fiscal years ending in June 1989 and 1998. The largest programs affected at this time by devolution (welfare and the Arizona Health-care Cost Containment System or AHCCCS, Arizona's Medicaid program) are in the Health and Welfare Category. Note that expenditures and revenues may not match exactly because of a variety of accounting factors.

Devolutionary Programs That Mean a Lot to Arizona

Federal programs in law enforcement, community development, social services, the arts, and others are important to Arizona. The following examples in Table 1 show a range of programs that devolution has brought closer to Arizonans, primarily through AHCCCS and federal block grants. "Block grants" are essential tools of devolution. In a block grant, states are given more discretion about how to spend federal funds for government activities in general areas such as health, public safety, and education.

Best Example of Devolution Now

Welfare reform is the best example of devolution at this time. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act gave states the authority to determine how to spend welfare funds within broad guidelines and offered new opportunities to tailor programs to meet specific state and local needs. Temporary Assistance to Needy Families (TANF) is the

**Table 1
SELECTED DEVOLUTIONARY PROGRAMS IN ARIZONA FY 1998**

Program	Total Federal Funds for Arizona	Beneficiaries in Arizona
Child Care and Development Block Grant (child care subsidies for low-income families)	\$5,861,300	64,000 children aged birth to 12
Social Services Block Grant (funds for services to many people from homeless to domestic violence victims)	\$36,181,900	566,718 children and adults
Arizona Healthcare Cost Containment System (Arizona's Medicaid system)	\$794,493,500	445,118 children and adults
Community Development Block Grant (revitalization support in low and moderate income areas)	\$25,526,800*	N/A
Law Enforcement Block Grant (support for crime prevention)	\$913,700	All residents in selected municipalities

*This amount was received by the state for the State CDBG program and does not include CDBG funds sent directly to cities within the state.
Source: Arizona Governor's Office of Strategic Planning and Budgeting, Statement of Federal Funds: Fiscal Years 2000 and 2001.

Table 2

Fiscal Year	Number of Recipients in Arizona	Total payments (federal and state funds)
FY 1988	96,750 (29,249 adults and 67,501 children)	\$103,601,282
FY 1998*	129,311 (38,650 adults and 90,661 children)	\$173,064,300

*FY 1998 reflects only the first 7 months of the fiscal year.
Source: Arizona's Welfare Reform Experiment, John Stuart Hall and Gerald J. Kubiak, School of Public Affairs, ASU 1998.

cash "welfare" portion of the 1996 law. TANF replaces the previous cash assistance program called AFDC or Aid to Families with Dependent Children. TANF puts greater emphasis on work and limits the time people can receive cash benefits. Table 2 shows the size of cash assistance in Arizona in 1988 and 1998.

LOOKING AT STATES' CAPACITY TO MANAGE DEVOLUTION

The research on devolution and state capacity in Arizona is part of a national study organized by The Nelson A. Rockefeller Institute of Government at the State University of New York. The 20-state study explores the ongoing devolution of responsibility to states for substantial public programs and the states' capacity to manage them in acceptable, and even innovative, ways. In other words, the research in Arizona and across the country will answer the questions: How are states doing with implementation? What is happening as changes in welfare and healthcare policy become practice?

One major focus of the research is *governance* or the capacity of state governments to create adequate management systems. The states involved in the study include: Arizona, California, Florida, Georgia,

Kansas, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New York, North Carolina, Ohio, Rhode Island, Tennessee, Texas, Utah, Washington, West Virginia, Wisconsin. Scholars in each state are carrying out the same research design so that themes and results will be comparable across states.

The research began in 1997 and extends through 2000. In addition to welfare, "managed care" as a tool for states as they become more active in the federal Medicaid program for low-income residents will also be studied. Some highlights of findings from the research nationally and in Arizona are included below.

Field Research Study

Lead Organization:

Federalism Research Group
The Nelson A. Rockefeller Institute
of Government
State University of New York, Albany

Arizona Partners:

School of Public Affairs and
Morrison Institute for Public Policy
Arizona State University

Arizona Funders:

St. Luke's Charitable Health Trust
and The Flinn Foundation

FIRST FINDINGS NATIONALLY

Not Just Talk

- States' desire to operate welfare programs locally was not just talk. States have taken advantage of this significant example of devolution to turn welfare programs upside down. Almost three years after the 1996 Personal Responsibility Act was signed, across the country the research documented deep, widespread changes in the bureaucratic behavior and operations of organizations that administer a wide range of social programs. Since big bureaucracies rarely change this much and this fast, liberal and conservative observers alike have been surprised.

Striving for Results Puts Focus on People, Not Rules

- Programs do have similarities, but also many differences. While moving recipients into the workforce quickly is the basis for all state programs, the “signals, services, and sanctions” in state programs across the country vary widely. How families are treated may differ substantially from state to state and even among case workers in different offices in one state. However, there is also evidence of a broader range of services to support independence.
- Some efforts to “divert” residents from welfare programs or prevent them from using any assistance may be causing people eligible for Medicaid and other social benefits not to take advantage of them. This could have negative consequences in an economic downturn.

Devolution Moves Programs Closer to Recipients

- Many states are devolving greater responsibilities to local entities — local offices of state governments and private for-profit as well as nonprofit agencies. There is much diversity in how this “second-order devolution” is occurring. For example, in Arizona, the Department of Economic Security (DES) is still the primary service provider, but nonprofit organizations have also been providers for a long time. More and more services though are being contracted to organizations outside of DES, and in eastern Maricopa County, welfare to work services are being provided by Maximus Inc., a private for-profit firm.

The First Information Age Social Program Plays Catch-up

- Information systems developed for a centralized federal program are not up to the challenge brought by state-run systems with individual services, integration, and

OVERVIEW

A Study of Six Elements of Management Systems

The state capacity research across the 20 study states focuses on the following six elements:

1. The explicit policies or programs of the state and the local governments
2. The assignment of institutional roles and responsibilities
3. The distribution of budgets and staff
4. Control, oversight, and accountability
5. Management information systems
6. The operations of local welfare systems

a desire for results. Information management may be a “make or break” part of welfare reform, and thus of devolution. DES in Arizona has spent millions of dollars upgrading its information systems. Time will tell how effective the new systems are.

Source: The Relationship Between Welfare Reform and Medicaid by Frank J. Thompson and Richard P. Nathan, February 1999.

FIRST FINDINGS IN ARIZONA

The following paragraphs present some of the first results of the research on devolution and state capacity in Arizona. The research focuses on how the 1996 welfare reform program is being implemented. Unlike other national studies that are looking at the outcomes of the program changes for welfare recipients, this research studies state and local agencies’ ability to administer the programs. The initial Arizona results are available now and further findings will be published nationally along with those from the 20 other states in the study. The results will be used to continue to improve welfare and health programs and to understand the effects of devolution at the state and local levels.

- **The Pros and Cons of Continuous Change** — Arizona’s welfare programs have experienced constant changes since the mid-1990s. For the past five years changing policy, rules, budgets, and duties have been the norm. On balance, implementation was probably facilitated by the way DES managed the years of change. But, this process has been challenging for administrators, line managers, and staff. Morale problems, associated with constant change, are believed to have eroded momentum and led to some speculation that the nuts and bolts of welfare reform might be more easily achieved in states that shift gears more quickly and directly from Aid to Families with Dependent Children (AFDC) to Temporary Assistance for Needy Families (TANF).

- **Different Perspectives on Purpose Threaten Progress** — The new goals of welfare have been put into place in a top-down manner. In Arizona, this has resulted in some degree of “goal conflict.” Legislators and DES administrators articulate “the support of work activities and family well being,” while some local office personnel perceive their goals to be “ensuring correct eligibility decisions and thereby minimizing program costs.” It seems evident that legislators/administrators and local personnel perceive somewhat different realities. The former tend to see new types of empowerment, opportunities, and challenges, while the latter see raised expectations accompanied by a shortage of the discretion, resources, and tools that could help them meet those expectations.

- **Changes Are Real** — When it comes to welfare reform in Arizona, devolution is real. Major components of state government have made substantial changes to encourage work and self sufficiency among recipients and promise more. Changes to date have been possible because of state management capacity, and that capacity is changing rapidly in response to policy demands. In Arizona, new welfare policy and its implementation are the result of sustained collaboration between state leaders and program experts over the past five years. While it is early, all signs suggest a substantial and continuing commitment to the management integration and resource tools required to achieve the law’s goals.

Source: Arizona’s Welfare Reform Experiment by John Stuart Hall and Gerald J. Kubiak July 1998.

Major publications thus far from the Rockefeller Institute and the Arizona State University School of Public Affairs include:

- *Implementing the Personal Responsibility Act of 1996: A First Look* by Richard P. Nathan and Thomas L. Gais
- *Arizona’s Welfare Reform Experiment* by John Stuart Hall and Gerald J. Kubiak
- *Arizona’s Welfare Reform Experience* by John Stuart Hall and Gerald J. Kubiak
- *Managing Accountability in Medicaid Managed Care: The Politics of Public Management* by James Fossett and Associates
- *Symposium: Implementing Welfare Reform —A First Look, Rockefeller Institute Bulletin 1999*

For more information about the research in Arizona and across the country:

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Additional copies of As Policy Becomes Practice: Devolution in Arizona may be printed from the Morrison Institute Website at www.asu.edu/copp/morrison. Links to other devolution-related sites may also be found there.

MILESTONES IN DEVOLUTION AND PUBLIC POLICY

During the last four decades (and indeed throughout most of the country’s history), which level of government should do what has been debated continually. Since the early 1990s, states have successfully bargained for greater administrative flexibility in areas such as welfare and health programs in exchange for greater responsibility and more results. Now that states seem to have won the upper hand, many programs that touch millions of Americans are being “devolved” to them from the federal government. As the federal government changes the rules for states, the effects are felt by local governments, community service providers, program participants, and, of course, taxpayers.

Today’s emphasis on state power is not new. Nor is it favored by only Republicans or Democrats. But today’s measures, such as welfare reform, are notable for dramatic changes in both operations and philosophy. Some past examples of devolution are provided below.

1970s

President Nixon introduced “new federalism” to increase state and local governments’ ability to determine the use of federal funds. “Block grants” became the accepted technique for sending federal dollars to state and local governments for many purposes. The Community Development Block Grant, offered to cities for urban revitalization, is an example from this era that continues today.

1980s

President Reagan’s terms saw a marked shift toward state responsibility and the relaxation of many federal programs’ regulations. For example, nine block grants were created to consolidate 54 specific grant programs. President Reagan’s Executive Order 12612 gave

maximum flexibility to states in the delivery of federal programs.

1990s

Devolution today is illustrated well by the Personal Responsibility and Work Opportunity Act of 1996 (or “welfare reform”) and the Workforce Investment Act of 1998 (the replacement for the Job Training Partnership Act). The welfare reform statute particularly gives states flexibility to experiment with how to change from a program of unlimited cash assistance to temporary help on the way to work.

AN IMPORTANT PARTNERSHIP

The Nelson A. Rockefeller Institute of Government

The Nelson A. Rockefeller Institute of Government is the public policy research arm of the State University of New York (SUNY) in Albany. Known nationally for large-scale research on policy and its implementation, the Rockefeller Institute relies on in-house experts, SUNY faculty, and other scholars throughout the country to do its often groundbreaking work. Rockefeller Institute’s scholars publish widely through the Rockefeller Institute Press and other policy organizations such as the Brookings Institution in Washington, D.C.

Research areas for the Rockefeller Institute currently include: the capacity of state and local governments and nonprofit organizations to manage social programs; urban neighborhood development; performance measures and management; state finance and budgeting; public higher education; and the institutions of government and politics.

The School of Public Affairs, Arizona State University

The School of Public Affairs (College of Public Programs) is a NASPAA-accredited comprehensive school offering graduate degrees in Public Administration. The mission of the School is to serve the public policy-making needs of Arizona and the nation, prepare students for leadership in

public service, and advance research in discovering, integrating, sharing, and applying knowledge of public affairs. The School performs these activities through its teaching programs, the research of its faculty, the research of Morrison Institute for Public Policy, and the training activities of the Advanced Public Executive Program.

Morrison Institute for Public Policy

Morrison Institute for Public Policy conducts research that informs, advises, and assists Arizonans. A part of the School of Public Affairs (College of Public Programs) at Arizona State University, the Institute is a bridge between the university and the community. Through a variety of publications and forums, Morrison Institute shares research results with and provides services to public officials, private sector leaders, and community members who shape public policy. A non-partisan advisory board of public and private sector leaders assists Morrison Institute with its work.

Research areas for Morrison Institute currently include: urban growth and quality of life; human services; employment; government capacity; and the new economy. In addition, Morrison Institute is known for its annual publications: *What Matters in Greater Phoenix: Quality of Life Indicators* and *Arizona Policy Choices*.

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Here are some **links to other web sites concerning devolution**

- The Rockefeller Institute's **Citizen's Guide**
<http://rockinst.org/citizen/default.html>
- An Urban Institute Project: **Assessing the New Federalism**
<http://newfederalism.urban.org>
- A Kellogg Foundation Special Opportunity for Programming: **Devolution**
<http://www.wkkf.org/programminginterests/devolution>
- The Brookings Institution's **Devolution Monitoring Project**
<http://www.brook.edu/gs/cpm/devolution.htm>
- From the Cato Journal: **Federalism and Individual Sovereignty**
<http://www.cato.org/pubs/journal/cj15n2-3-8.html>
- The Cato Institute's **Handbook for Congress**
<http://www.cato.org/pubs/handbook/hb105-3.html>