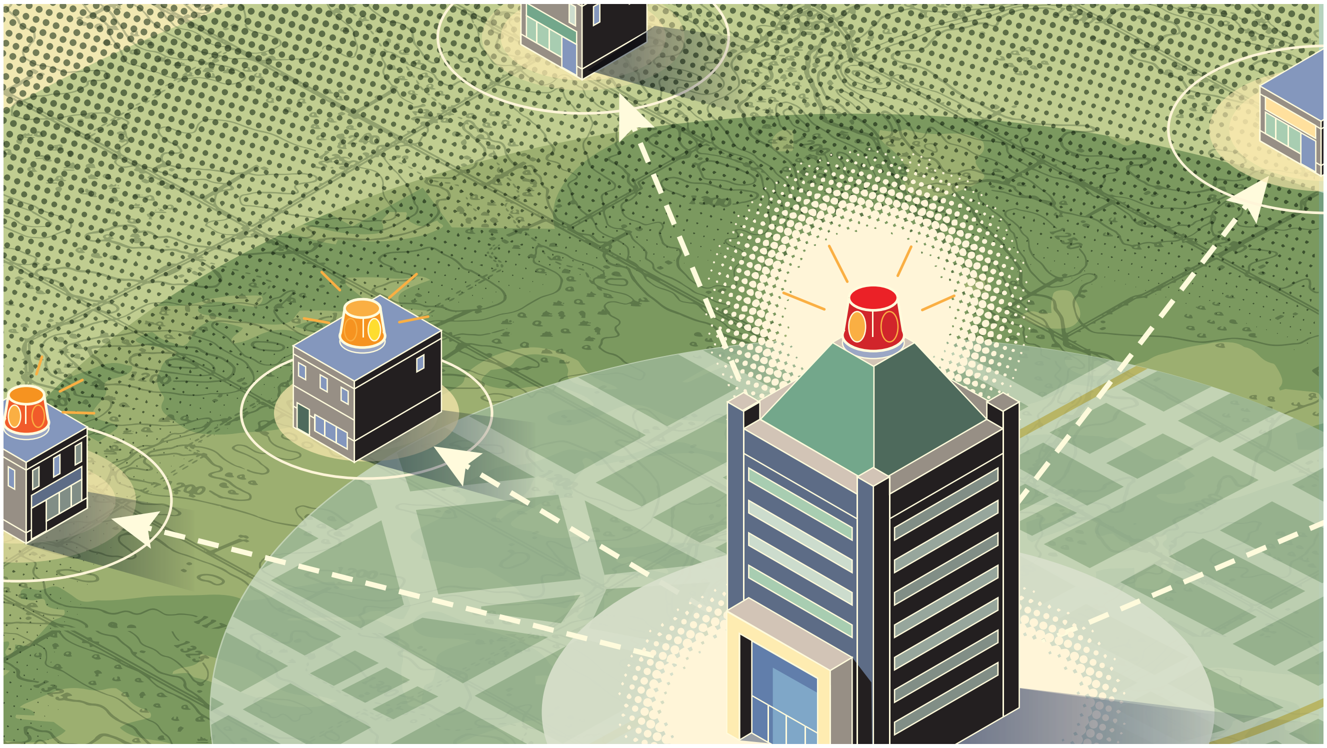

PERSPECTIVE

Reallocate the Police?

A case of new financial innovation

BY JUSTIN MARLOWE

“Financial innovation” can be a genteel way of saying “a technical solution to a political problem.” Large projected budget gap and no agreement on how to close it? A “scoop and toss” debt refinancing can help. Council wants a new fire truck but can’t agree on how to pay for it? Make those dollars appear with a mid-year budget adjustment—and so forth. This type of innovation can clear a path to political agreement. But it can also allow elected officials to ignore structural financial problems that become exponentially worse with time. Today’s state and local finance officials continue to grapple with the broader ethical and policy questions that surround this type of financial innovation.

But sometimes this chain of events is turned inside out. In other words, the political consensus presents a technical financial problem. What happens when a popular parks improvement can’t be funded through a dedicated local capital projects sales tax? Or that state law won’t allow a particular type of developer subsidy for a broadly agreed on and badly needed investment in a blighted, underserved neighborhood? The answer is often “find a way.” And it’s here that a different type of financial innovation happens. A recent experience with regional community crisis response illustrates this type of innovation in action, and how we might replicate it elsewhere.

The defund the police movement stoked some of the most contentious local political debate in recent memory. Leaders of and against that movement disagreed on basically everything. But they did agree on one key point: police are too often dispatched to situations they're not equipped to manage. This is especially true for emergencies rooted in substance abuse, untreated mental illness, developmental disabilities, and behavioral health concerns. An obvious solution is for social workers to accompany police—known as the "co-responder" model—or to "respond instead of police" as part of a "community responder" approach.

These alternatives to policing are appealing, but they require scale economies. Most municipal police departments receive enough calls to need co-/community responders, but not enough to justify a fully staffed, stand-alone responder team that offers round-the-clock coverage. Experts also point out that individual crises are rarely confined to a single community. All that suggests the community responder model is an excellent candidate for a regional approach.

That's precisely how leaders in five municipalities in greater Seattle—Bothell, Kenmore, Kirkland, Lake Forest Park, and Shoreline—saw it. After a few months of local experiments, they agreed to stand up a fully staffed regional entity offering 24/7 coverage across all five communities. The new entity, known as the Regional Crisis Response agency (RCR, or "Racer"), will launch in early 2023 with a budget of $5.4 million and 13 FTEs. RCR also plans to add a crisis response facility and community responder vehicles in the near future.

Community responders were the clear political solution. But to make that happen, financial leaders in the participating municipalities had to address three interrelated technical financial challenges. That's where the real innovation began.

An immediate challenge is that this new model requires more flexibility than a typical regional or shared service. Much of that need for flexibility is dictated by revenue volatility. Local property taxes in the State of Washington, like in many other states, are subject to state caps on annual growth. That means any new investments in community responders will likely come from sales taxes, a revenue stream that's inherently volatile. To deal with that volatility, the authority needs the flexibility to set aside and deploy financial reserves, to adjust service delivery expectations, and to dial up or down the individual jurisdictions' contributions, all in real time. Most interlocal agreements don't offer that flexibility.

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That's why the RCR communities agreed the best path forward was to form a new independent nonprofit. That new organization is governed by a representative board appointed from across the five jurisdictions. That board is empowered to adjust policy on the fly, rather than renegotiating the parameters of an interlocal agreement. It also has the flexibility to receive many types of funding that might not work with an interlocal agreement, including general fund contributions from each jurisdiction, state grants, and in-kind contributions from local healthcare providers, among others. In an interview about the new entity, Beth Goldberg, Kirkland deputy city manager and a key figure in this effort, characterized this emphasis on flexibility as essential because "if we're seeing impacts and opportunities to adjust allocations of funding, I'm sure that both the nonprofit and the individual jurisdictions will have those discussions."

This nonprofit structure also helps optimize financial efficiency and accountability. Kirkland serves as the nonprofit's fiscal agent for the time being. In that role it is responsible for finance, payroll, human resources, and other back-office services. That minimizes the new nonprofit's overhead and allows for a quick scale-up. It also allows the nonprofit to comingle general fund revenues from five jurisdictions but still offer the transparency of a traditional independent financial audit. Interlocal agreements may or may not allow that kind of assurance.

A shift to community responders also begs some challenging questions about effectiveness and impact. How will each partner know if community responders protect public safety more effectively than police? Does this model prevent future behavioral health crises? And perhaps the biggest question: does it ultimately save money? Proponents claim the community response model means those affected by mental and behavioral health crises are more likely to receive appropriate ongoing treatment. That reduces crime, eliminates expensive emergency room trips, and assures that assistance for housing and food security are more effectively deployed. All this, the logic suggests, will save money compared to policing. Relative to a typical interlocal agreement, a well-structured nonprofit should be much better equipped to facilitate careful analysis of these questions.

The RCR approach shows how a new type of financial innovation, one that deliberately blurs the lines between nonprofit and local government finance, can help address one of the most salient issues in local government today. Local financial leaders everywhere should consider applying this approach to a range of other challenges going forward.

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