Federal Budget Reconciliation Act Slices Into North Carolina

by Robin Hudson

When President Reagan signed the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) on August 13, 1981, he signaled the beginning of far-reaching changes in the nature and extent of federally-funded programs. Using a variety of fiscal techniques such as block grants, funding ceilings, elimination of entire programs, and altered eligibility standards, the Reconciliation Act set the maximum amount of money that Congress could appropriate for a wide range of programs. It is an "authorization" bill, which only sets limits on the amount of federal dollars potentially available for programs administered at the state and local level. Congress must then pass appropriation bills which set the actual amount of money available for each program; this process was still in progress as of this writing in mid-December. Consequently, the actual amount appropriated could be much less than the limits set in the Reconciliation Act. The numbers in this article represent the best estimate of cuts that will result in the next fiscal year from the passage of the Reconciliation Act.

The President heralded the Reconciliation Act as a great step towards the dream of "federalism," where states would gain much of the authority, responsibility, and money now based in Washington. Just two months later, however, government analysts had discovered that this Act triggered a set of events quite different from the one Reagan had promised. "In practice . . . state and local governments thus far have received a lot more responsibility, a little more authority, and much less money," summarized Ross Evans in the Congressional Quarterly News Service on October 27, 1981.

As governors, mayors, and other major policymakers at the state and local level began to understand what the Reconciliation Act meant for their areas, Reagan returned to Congress with a new round of proposed domestic budget cuts. This time, even Republican supporters of the President began to balk. The growing resistance to the extent of federal cuts (plus other Congressional actions such as the attachment of a school-prayer bill as a "rider" to an appropriation bill) tended to slow the progress of the appropriation bills through Congress. Consequently, when the federal government began its 1982 fiscal year (FY) on October 1, 1981, it had to operate primarily through a series of "continuing resolutions," a stop-gap legislative technique that keeps the government in business. In mid-December, a

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compromise between Reagan and Congress was reached. This compromise will result in a $4 billion reduction in federally funded programs.

The fiscal maneuverings in Washington have a major impact on the day-to-day life of North Carolinians. In the last two decades, literally hundreds of federally-funded, grant-in-aid programs have sprung up, programs administered and implemented at the state and local levels. And state and municipal bureaucracies have grown up around these federal programs and dollars. Now major new responsibilities for implementing these programs are being placed squarely on the shoulders of state and local officials, even as the amount of money available for the programs is being cut, in some cases drastically.

The way in which government operates has not gone through such a dramatic change since the New Deal. The sweep of federal funding changes and their effects on North Carolina demand a multi-level analysis of both the fiscal process and

Ten Largest Federal Budget Cuts to State Run Programs Resulting from Omnibus Budget Reconciliation Act of 1981

Federal Program[a]	Congressional Action in Reconciliation Act	State Division/ Department	Amount of Cut (FY 82) (millions of dollars)[b]
1. Construction Grants (water & sewer facilities)	set low ceiling on funding (possible zero)	Environmental Management, Natural Resources and Community Development	34.4[c]
2. CETA Title IID (public service employment)	set zero funding ceiling eliminated program	Employment and Training, Natural Resources and Community Development	26.0
3. Research Contract Grants	set low ceiling on funding	University of North Carolina System	20.0
4. Medicaid (entitlement program)	altered funding formula and eligibility standards	Medical Assistance, Human Resources	16.9[d]
5. Aid to Families with Dependent Children (entitlement program)	altered eligibility standards	Social Services, Human Resources	15.1
6. Title XX (Social Services Block Grant)	set funding ceiling on programs consolidated in block	Social Services, Human Resources	14.3
7. Food Stamps (entitlement program)	altered eligibility standards	Social Services, Human Resources	10.4
8. CETA Title VI (public service employment)	set zero funding ceiling eliminated program	Employment and Training, Natural Resources and Community Development	10.0
9. Child Nutrition (National School Lunch Program)	set low ceiling on funding	Public Instruction	9.9
10. CETA Title IVA (youth training and work experience)	set low ceiling on funding	Employment and Training, Natural Resources and Community Development	8.0

[a]Although transportation-related cuts were not part of the Reconciliation Act, budget reductions in transportation bills still being considered by Congress are likely to place in this top-ten list such programs as Interstate Construction and Federal Primary (highway) Aid.

[b]These are the minimum cuts and, depending on Congressional deliberations still in progress, could be much higher.

[c]Minimum cut; could be as much as $80 million depending on Congressional action.

[d]This figure for reduction in federal funds refers to the last three quarters of state FY 82, and is derived by taking 65.8% (the new required share) of $24.6 million and does not include administrative costs.

the program content. Examining the financial dimensions of the changes – both the techniques used and the amount of the budget cuts – provides an overview of the scope of the transitions taking place.

The Federal Ax – Swinging Through the Budget Bill

The Reconciliation Act reduced the amount of federal dollars available to the state through three basic techniques: 1) by consolidating into nine *block grants* some federal programs which had been funded individually; 2) by changing funding formulas and various legal requirements for public assistance (*"entitlement"*) programs; and 3) by placing a *ceiling* on the amount of money that Congress could appropriate for a program (in some cases the "ceiling" was zero, which effectively eliminated the program entirely).

Block Grants. The Reconciliation Act combined into nine block grants some 50 "categorical" programs for which federal money had previously been specifically earmarked. These new block grants contain groups of programs that the Reagan administration had determined to be related in purpose. The Act also passed the responsibility for administering these block grants to the states, seven of them as of FY 82 and the other two in FY 83. A state does not have to administer a block grant; it can choose to have one or more blocks administered from Washington, a choice that in most cases would mean a loss of money to the state. In its appropriation bills, Congress is in the process of voting a specified amount of money directly to each block, an amount which the appropriate federal agency will then divide among the states. For those states that have chosen to administer the blocks, the entire sum will be sent directly to the state, which can then distribute it to the local level according to federal and state guidelines.

The guidelines and timetables for administration vary from block to block, but several common threads run throughout. Most importantly, the amount of money available to most block areas will be approximately 25 percent less than the total amount formerly available for the consolidated categorical programs within each block.* Thus the states now have the authority and discretion to decide how to apportion the money

*Community Development increases slightly, and Primary Care does not decrease until FY 83.

Who Controls the Block Grants in North Carolina?

The first meeting of the Joint Legislative Block Grant Oversight Committee – as the 12 members refer to themselves – did not resolve the differences between the General Assembly and the Governor over who has ultimate control over the new block grants. Held in the Legislative Building on the morning of December 3, the meeting provided a setting for the legislative fiscal research staff to give the members a very basic education on the fundamentals of the nine block grants. The staff also briefed the committee members on recent developments in the ongoing federal appropriations process, specifically, the final funding levels expected to pass Congress.

After these presentations, the legislators sparred in a polite – if not chummy – fashion with John A. Williams, Jr., state budget officer and one of Gov. Hunt's chief aides. The committee members and the fiscal research staff expressed concern that the Governor's budget office and some program administrators had taken actions regarding block grants without input from the oversight committee. The block grant provisions of the budget bill passed by the legislature in October require that any action taken before October 10, 1981 (the effective date of the bill), is subject to review by the committee and that any action taken since October 10 must have prior approval of the committee.

When Williams rose to explain the executive branch's point of view, he prefaced his remarks with a caveat that symbolizes the current state of debate over block-grant control. "Anything I say [in working with this committee] shall not be construed as a waiver of our [the Hunt administration's] legal right to challenge the constitutionality of this committee," said Williams. With that, Rep. Allen Adams (D-Wake), co-chairman of the oversight committee, promptly moved that the committee pass a resolution approving what Williams said.

With both sides recognizing that what each said was okay with the other, they proceeded to go through a cautious first round of "who can tell whom what to do." The committee, for example, asked Williams why the administration among the categoricals within each block, but must do so with much less money. The chart on page 42 lists the nine block grants, the programs which were consolidated, the estimated amount available to North Carolina under each block in federal FY 82, and the federal allocations during federal FY 81.

The Reconciliation Act required the states to notify the appropriate federal departments of their intent regarding the block grant administration. In September, Gov. Hunt and Secretary of Human Resources Sarah Morrow wrote the Secretary of the U.S. Department of Health and Human Services (HHS), Richard Schweiker, that North Carolina intended to administer the six block grants available through HHS for FY 82. The seventh block which the states can administer in FY 82 – community development, to be run through the U.S. Department of Housing and Urban Development (HUD) – had not been picked up by North Carolina as of December 1. After HUD releases the regulations on the administration of this block, North Carolina will most likely assume it as well.

While the theory behind block grants is to give the states more control over federal money, the reality of administering the blocks put a great deal of pressure on the states. As Neal R. Pearce put it in a column syndicated by *The Washington Post* in late October 1981: "Are the states ready to handle the new responsibilities being handed them? And will needy program beneficiaries – especially poor people – be harmed in the process? . . . The public will view this [process] as a direct, unambiguous test of the states."

The first public test of North Carolina officials came in October when the General Assembly convened for a budget session. With very little time to study the federal actions regarding the block grants, the legislature generally did not attempt to appropriate money to make up for the reductions. Nor did it allocate funds among the various programs within the blocks. Instead, it "passed the cuts on" to state programs at the level set in Washington.

The General Assembly did, however, take an important action in creating a 12-member Joint Legislative Committee to Review Federal Block Grant Funds, composed of leaders of both the House and Senate. According to the block-grant provisions in the budget bill passed by the legislature, this committee must give prior approval before a state agency can devise a formula for distribution of funds, transfer funds between block grants or between departments, or take "any other final action affecting acceptance or use of

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cancelled Title XX funding to the Children's Home Society, a private, nonprofit agency which places children in adoptive homes. The administration cut off *all Title XX* funding projected for the Children's Home for the remainder of the state fiscal year, some $97,000.* But the Title XX social services program, the source of the Children's Home funds, was placed in the Social Services block grant, which will receive an approximate 25 percent reduction in federal funds. The General Assembly had decided early in the fall to reduce the various programs within a block grant at roughly the same proportion that the whole block grant was reduced in Washington. Why, then, did Williams' office cancel this program entirely, the committee asked. "[The action] was not that big of a deal," Williams responded, since the Children's Home Society knew it was coming. Williams added that he hoped the review committee would approve the action to cancel the Children's Home Society's contract. "It's easier to ask forgiveness [of the committee] than to get permission," he said with a chuckle.

While both Williams and the legislators relied on a casual, lighthearted tone to express their differences, both sides indicated that the dispute between them was quite serious. Some legislators, for example, expressed concern that actions such as the Children's Home's funding cancellation might well have violated the proper method of administering the block grant funds as well as the amount of program reduction that should have taken place.

Throughout the meeting, both the committee and Williams urged cooperation with the other. Williams invited the committee to send a staff member to meetings of the Interagency Task Force on Block Grants, a group working through Williams' office to help agencies comply with the block grant regulations. At the end of the session, Sen. Kenneth Royall, co-chairman of the committee, emphasized the cooperative spirit by endorsing a point Williams made early in his remarks. The public should keep in mind, Williams said, that "the problem is not between this committee and state government. The problem is in Washington, D.C." □

*A state grant-in-aid of $50,000, a different source of money, was not affected.

Photo by Paul Cooper

Budget officials confer during the first meeting of the Joint Legislative Block Grant Oversight Committee on Dec. 3, 1981. From Left: State Budget Officer John A. Williams, Jr., Rep. Al Adams (D-Wake), Fiscal Research Analyst Jim Johnson, and Sen. Kenneth Royall (D-Durham).

federal block grant funds."* The Governor and legislative analysts viewed this action as a possible unconstitutional encroachment into the gubernatorial power to administer the budget (see box on pages 28-29 for a discussion of the legal issues involved.) On December 3, the legislative review committee held its first meeting, providing a preview of future controversies in administration of the blocks (see box on pages 38-39).

The federal block grant regulations require a state to hold hearings on the proposed uses of the block grant money after the first year for all but the social services, maternal and child health, and education blocks (the education block is exempt from most block grant regulations). While the procedure and scope for these hearings has not yet been determined, the hearings will certainly create additional responsibilities and duties for state officials.

While administrative demands and legislative maneuvers have captured much of the initial attention concerning the block grants, the most difficult long-term task facing all those concerned with block grants is how to divide up the limited funds among the programs within the blocks. In FY 82, the impact of the reductions will be softened slightly because many programs have money left over from FY 81. In FY 83, however, further cuts in federal money – plus a lack of carry-over money from FY 82 – will exacerbate existing hardships. These factors, combined with continuing inflation, mean that the true test of the creativity of the legislature, the Governor, and program administrators will come in preparing for the days after July 1, 1982, the beginning of the state and county FY 83.

Entitlement Programs. This term refers to those programs under which a person must be provided the program's benefits if the person meets proper eligibility standards. While entitlement programs operate in very different ways, all are designed to help the needy – the poor, elderly, ill, blind, and disabled. The largest entitlement programs affected by the federal actions are Medicaid, Aid to Families with Dependent Children (AFDC), food stamps, and some of the Title XX (social services) programs under the Social Security Act. The techniques used to cut these programs are primarily new federal and state regulations which reduce the number of people entitled to benefits.

The Medicaid program uses federal, state, and local appropriations to reimburse health care providers for medical services performed for eligible persons. The Reconciliation Act reduced the federal percentage of the reimbursement and thereby increased the share required from state and local governments. In October, the General Assembly passed regulations limiting the kind and number of services covered by the program. This gave the legislature a way to avoid increasing state and local payments for Medicaid above the amount in the biennial budget passed in June. The

* G.S. 120-84, as enacted in Chapter 1127 of the 1981 Session Laws (HB 1392).

federal and state actions together meant that the Medicaid reductions were the fourth highest of any federal funding cut for FY 82 (see chart on page 37 for the top ten cuts). The article on pages 43-48 explains why Medicaid cuts totalled as high as they did.

The AFDC and food stamp programs both give benefits directly to eligible low-income persons. The cuts in these programs were made by tightening eligibility standards so as to eliminate people from the program. Some counties have thus far not experienced as deep a reduction as expected in the number of people eligible for AFDC and food stamps. In Lee County, for example, Director of Social Services Donn Gunderson reported in early November that out of 1,584 eligible households, 16 had been terminated and 134 had had benefits reduced. In October the General Assembly softened the impact of federal cuts somewhat for AFDC recipients by raising the standard of need (see footnote 5 on page 30 for an explanation of how such an action effectively results in fewer persons losing their eligibility). The changes in eligibility standards also affect some Title XX programs because people receiving certain entitlement-program benefits also qualify for some Title XX programs. Thus, the eligibility standards for some Title XX benefits were also changed.

Funding Ceilings. The funding ceilings put on various federal programs resulted in the largest money losses to North Carolina. As the chart of the ten largest federal cuts shows, the top three came as a result of funding ceilings. One of these, the CETA Title II public service employment program, was totally eliminated through this fiscal technique. Water and sewer construction funds and research grants for the University of North Carolina system were greatly reduced through the placing of funding ceilings on these programs.

Through these three methods – block grants, changes in entitlements, and ceilings – Congress and the Reagan administration have reduced the amount of federal dollars available for North Carolina to spend through the state budget process. These fiscal techniques, and others, have also reduced the federal funds available to North Carolinians through programs that are not part of the state budget. For example, the Reconciliation Act increased the interest rates on loans to farmers, students, and others who have depended upon low-interest federal loans for business ventures and higher education. These increased interest rates, while not an actual federal reduction in dollars to the state, will have a very real impact on potential borrowers.

Other types of federal reductions which involve specific programmatic cuts will take place as a result of federal actions that are independent of the Reconciliation Act. A major budget cut to North Carolina will come, for example, from two federal transportation acts, one of which passed in mid-December. In addition, reductions are under consideration for such programs as Medicare, Social Security and the Legal Services Corporation (the principal source of funds for the legal aid programs in the state), all of which are outside the state budget.

What Kind of Safety Net for North Carolina?

Through the use of fiscal techniques, the Reagan administration and Congress have dramatically altered, and will continue to transform, domestic policy. By focusing on macroeconomic issues – "supply-side" economics, a balanced budget, tax cuts, and a "trickle-down" economic philosophy – the Reagan camp in Washington has in one fell swoop recast 50 years of federal domestic policy. And they have managed this with only minimal debate on the relative merits of each of the programs affected by the cuts. The "balance-the-budget" mentality has resulted in sweeping changes through fiscal measures. If a policy debate is to resume on the relative merits of various affected programs, it must now come at the state and local levels.

As a result of the federal actions, many people are losing their jobs and many needy people are losing services they once received, even as the country is moving into a recession. Can long-term planning and priority-setting at the state and local levels avoid some of the serious consequences of the federal actions? In a recent interview, a reporter asked President Reagan how he felt about the federal cuts resulting in varying standards of services from state to state. President Reagan answered that if a person doesn't like where he lives, he can respond to the changes "with his feet."

North Carolina officials place great pride in this state as a good place to live. But the federal budget cuts have caused the quality of life for many North Carolinians to decline. State and local officials must not be limited by an instinctive desire to lay blame in Washington and to compete over control of the federal funds that remain. It may not be possible for the state to weave a safety net of its own, to catch those programs and people who have fallen through the holes in the federal net. The sweep of the federal fiscal process reaches so far and wide that even determining the extent of the effects on people's lives is difficult at this point. The challenge for officials in North Carolina is both to understand the process as it unfolds and to react with creativity and sensitivity to the hardships the federal actions have spawned.□

Block Grants

Block Grant[a]	N.C. Dept. That Will Administer the Block[b]	Amt. of Funding for FY 81 under Categorical System	Estimated Amt. of Funding for FY 82 under Block Grant System[c]
		– (millions) –	
1. Social Services Title XX Social Services, Day Care, and Training	DHR	$76.2	$61.9
2. Maternal and Child Health (MCH) MCH Crippled Children, Sudden Infant Death Syndrome, SSI-Disabled Children, Adolescent Pregnancy, Hemophilia, Genetic Disease, and Lead-based Paint Poisoning [d]	DHR	$10.8	$ 8.8
3. Health Prevention Services Hypertension Control, 314(d) Health Incentive Grants, Health Education Risk Reduction, Fluoridation, Emergency Medical Services, Rodent Control, Rape Crisis, and Home Health	DHR	$ 3.2	$ 2.4
4. Primary Care Community Health Centers	DHR	$10.1	$7.6 (FY 83)
5. Alcohol, Drug Abuse & Mental Health Hughes Funds (community services), Decriminalization/Alcoholism, Community-based Alcohol Program, State Drug Abuse Prevention, 409 Funds (crisis intervention and prevention), 410 Funds (drug abuse treatment), Occupational Alcohol Program, and Community Mental Health Centers	DHR	$12.0	$ 9.0
6. Low Income Energy Assistance Low Income Energy Assistance, Crisis Intervention, and Weatherization	DHR	$38.6	$33.2
7. Community Services Community Action Agencies	NRCD	$13.0	$10.8
8. Education Title IV-B (libraries & learning resources), Title IV-C (support and innovation), Title V-B (state education agencies), Title II (basic skills), Career Education, Federal Teacher Centers, National Diffusion Network (information dissemination), Gifted and Talented, Emergency School Aid, Arts in Education, Pre-college Science Teacher Training, Teacher Corps, Community Education, Metric Education, and Law-Related Education	DPI	$15.4	13.5
9. Community Development Existing Community Development Program	NRCD	$41.0	$45.0 (small cities share)

NOTES:

[a] Block grant numbers 1-7 are administered by the U.S. Dept. of Health and Human Services, number 8 by the U.S. Dept. of Education, and number 9 by the U.S. Dept. of HUD. Under each block grant heading are listed the programs consolidated into that block. All of the blocks are available for state administration in FY 1982 except Primary Care and Education, which are available in FY 1983.

[b] All block grants are administered through a state department – either the Department of Human Resources (DHR), the Department of Natural Resources and Community Development (NRCD), or the Department of Public Instruction (DPI).

[c] Source: Office of State Budget and Management. These figures do *not* include the money that goes directly to local programs (i.e., not though the state budget). These are the minimum cuts and, depending on congressional deliberations still in progress, could be much higher.

[d] The last four programs are not in the state budget. If funded in North Carolina, these funds go directly to the local program.