Coping with Federal Cuts at the County Level

The Trickle-Down Theory of Government...

by Durward Gunnells and Patrice Roesler

For the last seven years, John Link has gone through the laborious process of getting a budget approved for the agency which he directs, the Stanly County Department of Social Services (DSS). Every spring since the midseventies, Link has presented a projected budget to the Stanly County Board of Social Services, an independent body that oversees the operation of the county DSS. After approving Link's figures, this board then has sent them to the N.C. Department of Human Resources for that agency's okay. Finally, each year the Stanly County Board of Commissioners has incorporated the DSS needs into the overall county budget, which by state law has to be in operation by July 1, the beginning of the state and county fiscal year.

In the spring of 1981, when it came time to start the budget process, even an experienced administrator like John Link had to begin a guessing game that continues to this day. President Reagan had just announced his intention to cut federal funding for a wide range of social service and education programs administered at the county level. "Last April, all of us (DSS directors) based our budget on cuts of 15-20 percent in federal funding," explained Link. But since the spring, Reagan has asked Congress for increased cuts in domestic programs. As the end of 1981 approached – already three months through the federal fiscal year that began October 1 – Reagan and Congress had still not agreed on the level of spending for services for this federal fiscal year, services which are ultimately delivered by people like John Link.

"The President and Congress are still acting on programs for this fiscal year, even though we're already into the year," says Link. "That puts a great burden on county and municipal government." In recent years, over three-quarters of county budgets in North Carolina have gone to fund federal and state prescribed programs, particularly in the education and human resources areas. The county budget which took effect last July 1 must accommodate the federally-mandated programs still under debate. "If there are additional cuts made," Link pondered in a late November interview, "I and most of my colleagues would face a shortfall. We would have insufficient county funds."

Since the President began his campaign to cut federal spending and reduce federal controls over states and localities – the "new federalism" – most analysis and attention have focused on the macroeconomic questions being debated in Washington and on the politics of this fiscal "revolution" at the federal and state levels. But while the "trickle-down" theory of economics may lie behind the Reagan economic goals, there is a "trickle-down" reality to how government operates as well – from the federal to the state and finally to the county level. Consequently, the results of the federal actions hit the counties last.

"The full impact of the cuts isn't known yet," said Grover C. Lancaster, Craven County commissioner and president of the N.C. Association of County Commissioners (NCACC), in a December interview. "Most commissioners realize the cuts had to be made, that the spending levels couldn't continue. But we don't know yet what the consequences will be when we get to next July and the 1982 budgets."

In Washington, Congress and the Reagan administration are still negotiating the budget for a fiscal year already one-fourth gone. And in Raleigh, the legislative leaders and the Hunt administration are only beginning to hammer out new mechanisms for coping with block grants and other new fiscal measures. Down in Albemarle, the Stanly County seat, how can John Link and other county officials even begin to cope with the realities of paying the bills? How can they keep enough social workers on staff – paid for out of that county budget approved back in July – to administer new and complex welfare requirements? "We're faced with reacting to those cuts while still trying to run a program on

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a day-to-day basis," said Link.

What will happen if Congress passes additional food stamp cuts, for example, and Stanly County runs out of money in the spring for the food stamp program? How will Link and his staff cope? And what lies down the road? "Another critical point is next July 1," warned Link. "Reagan's budget proposals are going to hit us hard next year."

The Best Federal Programs . . . and the Worst? Looking Through the Commissioners' Eyes

In May of 1980, the N.C. Association of County Commissioners surveyed commissioners throughout the state regarding the programs that they felt could be cut in funding at the federal level. The survey was conducted at a time when reductions in federal revenue sharing were under active consideration by Congress. These responses reflect the commissioners' mood at that time, before Ronald Reagan was elected.

Below is a summary of the responses, ranked according to the most important and the least important federal programs. In the most important list, the percentage indicates the portion of the respondents who indicated "no reduction" in funding for a particular program. In the least important list, the percentage indicates the portion who indicated "reduce" or "eliminate" a particular program.

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Most Important Program	"No Reduction" (% Response)
1. General Revenue Sharing	92
2. Child Support Enforcement	80
3. Elementary/Secondary Education	69
4. Vocational Education	61
5. Highway Construction	60
6. Medicaid	57
7. Public Health	54
8. Drug Abuse	53
9. Aging Grants	53
10. Maternal/Child Health	52

Least Important Program	"Reduce" (% Response)	"Eliminate" (% Response)
1. CETA Grants	33	63
2. Community Action Agencies	40	52
3. Law Enforcement (LEAA) Grants	29	42
4. Work Incentive Program	26	36
5. Personnel Act (IPA) Grants	36	30
6. Women, Infants, Children Nutrition	39	27
7. Health Planning	54	26
8. Section 8 Housing	52	21
9. Outdoor Recreation Grants	52	19
10. Community Development Grants	58	14

Reacting at the County Level

County officials, particularly county commissioners, are generally of a conservative fiscal bent. By state law, the county budget must be balanced, and each year the commissioners in every county levy a property tax – a highly visible and unpopular tax – just high enough to meet its annual budget. In North Carolina, revenues from the property tax amount to about 80 cents of every dollar collected by the county for locally-assessed taxes (the one-cent, local-option sales tax amounts to another 15 cents of each dollar). In May of 1980, even before Ronald Reagan was elected, NCACC surveyed the commissioners throughout the state regarding potential federal budget reductions. "Commissioners favored cuts in most existing physical development assistance grants and loans, some of the smaller human service programs, and those programs in which there is noticeable waste, red tape, or inefficiency," the NCACC reported in its newspaper, *County Lines,* on May 14, 1980. "In general, commissioners did not favor major reductions in programs that allow a high level of local control, those that are important to the main service functions of counties, or are useful in reducing welfare costs." Commissioners particularly favored continuation of federal revenue sharing with state and local governments, a program which has allowed counties in North Carolina to receive "non-earmarked" federal dollars and has been used mainly for financing one-time capital expenditures such as jails, courtroom facilities, and schools. (See box on this page for a summary of the survey results.)

In responding to the NCACC survey, most commissioners not only identified potential cuts but also felt that a "reduction in funding for certain programs should be accompanied by a reduction in federal and state-mandated activities. Without a reduction of mandates, any cutbacks in appropriations may simply shift additional costs to the states and counties." Commissioners singled out Title XX social services, food stamps, and Aid to Families with Dependent Children (AFDC) as programs where mandated services should be reduced.

Since President Reagan took office, the commissioners have gotten far more cuts than they wanted. At the federal level, funds for mandated programs like Medicaid, AFDC, and food stamps are being reduced to a greater extent than are the services. Consequently, counties or states have to either find new funds to cover mandated services or cut the existing level of services. In addition, the reduction of one service may actually cause an increase in another; as AFDC eligibility standards are tightened, for example, some additional people are qualifying for food stamps. (See article

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The N.C. Association of County Commissioners' 1981 annual meeting.

on page 36 for details on specifics on federal actions.)

The vast reductions in federal funds and the apparent shifts in program responsibility away from Washington have precipitated a greatly increased role for the states, counties, and municipalities. In some cases, services are already being cut at the state level to accommodate the federal cuts, such as the reductions in Medicaid services passed by the General Assembly in October (see pages 43-48). The October "budget" session provided an early glimpse of how state officials will cope with changes in programs caused by federal actions. More federal cuts are coming, particularly in the second year of Reagan's economic program.

The Washington-based National Association of Counties (NACo), in the October 5 issue of its *County News,* identified the central transition taking place: "In a few short months, the federal government has dumped responsibilities on state and local governments . . . (which it) had assumed gradually in the half century since the depression. State and local governments will not have 50 years, or maybe even 50 weeks, to adjust to 'going it alone.' For counties, the changes come cold turkey." The tone of the NACo report marks a shift from the early county-level support for federal cuts, expressed to some extent in the NCACC survey results in 1980. And the NACo bulletin sounded an alarm without speculating on the precise changes ahead.

In September 1981, the U.S. Advisory Commission on Intergovernmental Relations identified an important arena where county officials might have to adjust their way of doing business: "One of the most significant features of block grants is the designation of the state as primary recipient and decision maker. Many of the superseded categoricals involved a federal-local relationship, but all nine of the new (block grant) programs are directed to the state level. . . . In the future, the states will be responsible for administering more programs and with fewer federal dollars."

The state's role has increased suddenly and dramatically to that of primary actor in distributing funds and making programmatic decisions for most intergovernmentally-funded programs. Consequently – and quite naturally – legislative leaders and the Hunt administration have begun a tug-of-war to gain control over as many federal funds as possible (see box on page 28 for a summary of the legal issues in one dispute). While Congress and the President haggle in Washington and state officials vie for increased power in Raleigh, county administrators must go about the day-to-day business of certifying families for AFDC, delivering meals to the elderly, and subsidizing day care for low-income, working mothers.

The state of flux in the Washington-Raleigh corridor accentuates the hazy lines of responsibility that stretch from Raleigh into Albemarle and the other 99 county seats. The principal actors at the county level range from the board of county commissioners to the county manager, from the local social services and mental health boards to the directors of the local social services and mental health agencies. As funding and program decisions filter through the intergovernmental strainer down to the county seat, these various actors – along with their municipal counterparts – must somehow determine who has the power and discretion either to cut services or find more county money. "In North Carolina, we have a county-administered, state-supervised (social services) set up," explained Link. "The crux is going to be: How much can we do at the county level?"

County officials have begun the important task of defining the legitimate boundaries of responsibility between the various local actors. And they have begun to develop new working relationships with state officials as well.

Last summer, for example, John Link and three other county officials joined with two division directors in the state Department of Human Resources (DHR) as an Ad Hoc Block Grant Committee to plan for changes resulting from federal cuts.* A week before the legislature convened for its October session, this Committee, sponsored jointly by NCACC and DHR, released its report. The Committee recommended specific ways to cope with the block grants in the health and human service areas and with changes in AFDC and Medicaid. It also endorsed four gen-

* The other five members of the Committee were: Henry E. Dick, Craven County manager; Larry Thompson, director, Blue Ridge Mental Health Center and president of the Area Mental Health Directors Assn.; Hugh Young, health director, Edgecombe County; Barbara Matula, director, Division of Medical Assistance, DHR; and Robert Fitzgerald, director, Division of Plans and Operations, DHR.

eral principles: 1) joint planning between local agencies and the state; 2) minimizing administrative overhead so as to maximize services; 3) in the first year, keeping funding allocations to the counties as they are now rather than shifting program funds as a result of the cuts; and 4) cutting all programs within block grants on an equal basis for the first year rather than transferring funds from one program to another.

Recent events in Stanly and Edgecombe Counties illustrate how officials have decided that certain administrative functions are within their power and have acted accordingly. In Stanly, John Link has made several administrative changes to reduce the workload of the DSS social workers. For example, with the approval of the county board of social services, he changed the way the county determined eligibility for Title XX funds from a "verification" to a "declaration" method, from verifying a client's income sources to taking the client's word on income. Consequently, Link has neither had to fill positions open because of attrition nor hire new staff at a time when strict new AFDC regulations from Washington are causing social workers to spend substantially more administrative time per client. Since Link does not have enough funds in the budget passed by Stanly County Commissioners last July to hire more social workers, such streamlining of workload is extremely important.

In Edgecombe, as in many other North Carolina counties, the commissioners passed a resolution saying that the county would not pick up any reductions resulting from federal cuts. "This (resolution) was a signal to me not to go to them for extra money," said Hobart Freeman, the director of the Edgecombe DSS. When the federal fiscal year began October 1, Freeman knew he didn't have the funds to maintain all the services of the previous year. Consequently, with the approval of his board of social services, he has quit funding a group home for pre-delinquent girls and has reduced day care services. While services have been reduced somewhat, no staff have been laid off; four positions, however, have been terminated through attrition.

1982 and Beyond

In the immediate future, county officials must live with the uncertainties that remain both in Washington and in Raleigh. For example, county officials throughout the state have been taking applications for low-income energy assistance through a process that ended December 11. But as of this writing, Congress had not yet determined the amount of the appropriation for low-income energy assistance, now contained in a new block grant. "We're administering it on faith," said an official at a recent gathering of county commissioners.

Counties face a similar situation under Medicaid. In October, the legislature limited some optional services and put a lid on the rate at which hospitals could increase reimbursement fees, estimating that such actions would save enough money to make up for the federal reduction in the Medicaid reimbursement formula. But if the estimates upon which the October actions were taken are too low, Medicaid provider groups might well come to county commissioners asking for additional funds. Or county-supported hospitals will have to absorb losses in Medicaid revenues and then recover those losses from the county general fund.

In the 1983 and 1984 fiscal years, much deeper budget cuts are forecast at the federal level. While county-level officials have to juggle uncertainties today, they may have to face wide-scale hardship in the not too distant future. Truly needy people will feel the effects of the cuts at the local level. And county and municipal officials will be under tremendous pressure to heal the wounds.

County commissioners, however, lack the flexible financial resources for the most part to make up for cuts that have already come, much less for those that lie ahead. County commissioners have to adopt a balanced budget and levy a property tax every year. Increasing county budgets to make up for cuts at the federal or state level means raising the property tax, a step which hardly any county commissioner favors. In addition, commissioners have little flexibility to transfer funds between programs within the year. Finally,

"Commissioners are skeptical of picking up anything else (by using) the property tax."

Grover Lancaster

commissioners control only about 25 cents of every county dollar they appropriate. In North Carolina, about 75 cents of each county dollar funds services prescribed by federal or state law.

Grover Lancaster, NCACC president, identifies the catch-22 that county commissioners feel. "Most of the commissioners I've talked with are supportive of the cuts, but there's always a proviso: 'If it doesn't impact on me – if the state doesn't say (to me) to pick up the cuts.' Commissioners are skeptical of picking up anything else (by using) the property tax."

County commissioners have two principal avenues of action available to help them with their funding dilemma: 1) mount a sophisticated lobbying effort at the state level; and 2) institute major innovations at the county level. Using both these means together may help minimize the coming hardships.

Raleigh will become a far more important power center than it has been in the past, especially during meetings of legislative and executive branch bodies like the newly created Joint Legislative Committee to Review Federal Block Grant Funds. Under the new federalism, state legislators and administrators have extended powers and responsibilities by:

- appropriating and allocating funds that previously had been distributed from Washington;
- shaping program design in Title XX, Medicaid, and other social services areas;
- directing counties in how to determine eligible recipients, keep records, and meet other administrative requirements originating in Washington; and
- deciding the county share of funding formulas (i.e., how many county dollars must be spent in support of state-mandated programs).

To have a voice at the "front-end" of policy-making, county officials must direct their attention to Raleigh. The Ad Hoc Block Grant Committee demonstrates one means of state and county cooperative planning. The report from that committee is already serving as a lobbying tool. In addition, individual boards of county commissioners must develop closer working relationships with their own legislators and other state officials. Finally, there are collective ways to voice local concerns in Raleigh, through groups like the N.C. Association of County Commissioners and the N.C. League of Municipalities.

While efforts to influence policies in Raleigh are important, county officials ultimately must cope with budget cuts at home. If food stamp funding runs out, county officials must find a way to keep people from going hungry. Trimming services and streamlining administrative costs will help, but counties may have to take the difficult

Photo courtesy of the N.C. Assn. of County Commissioners

Grover Lancaster, president of the N.C. Association of County Commissioners.

step of beginning to charge fees for services that have been free, from adoption to day care to mental health. "Next year will be extremely difficult," cautioned John Link. "There's a lot of talk about fees. How much can we do that's free versus how much that may require a fee? That's the crucial question."

The federal cuts have been felt at the local level, even before Congress completes the 1981 budget. Social workers have to follow more stringent rules in certifying a person eligible to receive AFDC. Counties can no longer afford to provide subsidized day care to some low-income, working mothers. The trickle-down reality of how government operates is at work. And the trickle is just beginning. As John Link and his counterparts across the state begin to shape their budgets this spring, they anticipate the trickle turning into a torrent.

When hardship hits at the county level, the people who holler the loudest or twist arms the hardest will be the ones who soften the blow of the cuts. County commissioners may, in fact, be moving into an era ruled not by federal rules and regulations but by that age-old political philosophy: "The squeaky wheel gets the oil." But it's becoming clearer every day that there won't be enough oil to go around. Some wheels will keep on squeaking. ☐