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Local Response to Federal Budget Policies

A Study of Nonmetropolitan Communities in Ohio

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LOCAL RESPONSE TO FEDERAL BUDGET POLICIES: A STUDY OF NONMETROPOLITAN COMMUNITIES IN OHIO. By Philip A. Russo, Jr., Douglas H. Shumavon, H. Kenneth Hibbeln, and Frank McKenna, Jr. Agriculture and Rural Economy Division, Economic Research Service, U.S. Department of Agriculture. ERS Staff Report No. AGES 89-24.

ABSTRACT

Federal financial support to rural local government and nonprofit service providers declined during 1981-86. But, local officials deflected crisis conditions by anticipating revenue declines and responding with short-term coping policies. When Federal General Revenue Sharing was terminated in 1986, local governments, who expected the program's end, had formulated contingency plans to offset revenue losses. County and city officials used revenue replacement or spending cuts or a combination of the two strategies to offset funding losses. This report investigates how declining Federal funding affected six nonmetro counties and six small cities in Ohio. The study examines the following programs: General Revenue Sharing, Community Development Block Grant, Social Services Block Grant, Community Services Block Grant, and the Older Americans Act.

Keywords: Local governments, budget policies, Federal aid reductions

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FOREWORD

The findings in this report on the impacts of changing Federal aid policies on nonmetropolitan communities in Ohio should be regarded as preliminary. While the report focuses on nonmetro communities, the final section presents some comparisons with Ohio's large cities and urban counties. The report is based on the first round of field research carried out in the winter of 1987. A second round of data collection was carried out in the spring of 1988.

In setting up a two-stage project, we envisioned the first round as a general survey to determine some basic facts about State and local responses to Federal budgetary changes and to reveal some of the major related issues found at the local level. The second round of data collection will have focused on some of these critical issues in more detail, which should lead to a more definitive picture on what is happening at the local level. Have Federal budget cuts resulted in reduced services or have service providers, public and private, found ways to compensate for fewer Federal dollars? Has the mix of services provided changed as a result of Federal policies? If so, who has benefited? Who has lost? To what extent are the service users themselves helping to fill the funding gap? What, if any, policy and programmatic gaps have appeared in local service delivery? What has the State done to assist local governments and service providers? And, what have local governments and the service providers done for themselves?

We present some preliminary answers to these questions in this report. We expect to say more in our second round of field research.

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SUMMARY

Federal financial support declined for many rural local governments and nonprofit service providers during 1981-86. Many observers feared that these Federal aid reductions might cause short-term financial crises and major reductions in essential public services. This study of selected rural jurisdictions in Ohio (six counties and six municipalities) found little evidence of such problems. The rural local officials interviewed in this study appear to have anticipated many of the aid reductions and responded with policies that deflected short-term crisis conditions.

For example, rural local governments had originally used Federal General Revenue Sharing (GRS) funds to support both current services and capital expenditures. But, in anticipation of the termination of GRS, some local governments transferred funds from essential current services to marginal services or postponable capital projects. When GRS was terminated in 1986, essential current services were not affected. Local officials coped with the loss of GRS funds by cutting postponable capital spending, increasing taxes, spending down their accumulated surplus revenues, or by combining some of the above.

What remains to be seen is what the long-term implications of these coping strategies will be. If they persist for more than a few years, reductions in capital spending and in surplus cash reserves can lead to trouble later. In some cases, rising tax rates can also have some undesirable economic effects, reducing a jurisdiction's competitive position in attracting and retaining industry.

Although conditions varied from one Federal program to another, similar findings were observed for most of the programs examined. This study covered five Federal programs: General Revenue Sharing, Community Development Block Grants, Social Service Block Grants, Community Services Block Grants, and the Older Americans Act.

While most of the nonprofit agencies examined in this study have done reasonably well during the 1980's, some of the smaller, single-clientele agencies are struggling for survival. In contrast, there has been significant growth of large, mega-agency nonprofits as service providers in nonmetro Ohio. These mega-agencies are more flexible than single-clientele agencies, obtaining revenues from a variety of sources, and they benefit from economies of scale which allow them to develop personnel and technical expertise not found in most rural local governments and small nonprofits.

Local Response to Federal Budget Policies

A Study of Nonmetropolitan Communities in Ohio

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INTRODUCTION

This report presents the findings of research on the effects of recent Federal fiscal assistance policies on nonmetropolitan local governments and nonprofit agencies. Specifically, this study focuses on six nonmetropolitan counties and a municipality in each of these counties in Ohio from 1980-86.

Over the past 15 years, the nature of fiscal federalism has undergone dramatic changes. The enactment of General Revenue Sharing (GRS) in 1972, the consolidation of numerous categorical assistance programs into block grants, and attempts to deal with increasing Federal budget deficits introduced a new era in Federal aid policy with the goal of decentralizing a greater share of decisionmaking to State and local governments. Federal decentralization policy gave impetus to a significant research effort to determine the effects of policy decentralization. Until the 1980's, that body of policy research was carried out within the context of a growing amount of Federal assistance. The major research question of the 1970's focused on how State and local governments used their increased discretion, and their increased money. The Reagan Administration's "New Federalism" strategy changed significantly the context within which such policy-effects research was conducted, as many domestic programs were cut back and some others were eliminated. A central research question has been how do State and local officials establish program priorities in times of declining Federal resources?

Several national studies based on a representative sample have analyzed the effects of funding cuts on State and local governments and individuals, rural and urban, since 1980. In addition, there have been several national studies on the effects of cuts in particular programs, such as community development and manpower training. These effects fall generally into the categories of fiscal, programmatic, and institutional. Among the policy effects addressed in this study of nonmetropolitan communities are:

Fiscal effects. Changes in State or local expenditures and/or revenues in nonmetropolitan areas resulting from changes in Federal assistance.

Programmatic effects. Changes in the level and distribution of types of local services resulting from changes in Federal assistance.

Institutional effects. Changes in local governance and service delivery arrangements and the implications for the allocation of grant funds.

The programs examined are GRS, the Community Development Block Grant, and the several human services block grants to State governments. General Revenue Sharing was conceived as a "no strings" transfer of Federal funds to State and local governments. It was of special significance for nonmetropolitan local governments because it allowed "home grown" responses to local problems, supplemented "stressed" local budgets, and brought for the first time a majority of smaller nonmetropolitan local governments into the intergovernmental fiscal web. The Community Development Block Grant to the States for nonentitlement areas and the various human services block grants (Social Services, Community Services, and Older Americans Act) offer an opportunity to examine the relationship between Federal budgetary cuts and the actions of State executive and legislative officials who make the distributional decisions for these funds.

BACKGROUND

The study is based on the methodological and measurement techniques that have been applied to similar major national policy studies over the past decade, including studies sponsored by the Brookings Institution, Princeton University, and Cleveland State University. This report presents the findings of one part of a larger study of 25 local governments in Ohio, including 7 large cities, 6 urban counties, and 12 nonmetro communities.

The project involved the active participation of research associates from political science, public administration, and economics faculty and research professionals from 10 universities in Ohio. Dr. Paul R. Dommel, Cleveland State University, directed the project which used a cooperative field network approach, assuring that analyses of the sample jurisdictions were carried out by people familiar with the communities. Dr. Philip A. Russo, Jr., Miami University, coordinated the research on nonmetro local governments. The field research associates used a uniform field analysis instrument to assure comparability in data reporting and interpretation. The field research was conducted during the early months of 1987 and, in some cases, before final local budget decisions for fiscal year 1987 were made.

SAMPLE COMMUNITIES

Six nonmetro counties and six nonmetro municipalities in Ohio comprised the sample jurisdictions for the study (fig. 1). These 12 jurisdictions reflected characteristics normally associated with nonmetropolitan local governments. The sample was not selected randomly, and statistical generalizations cannot be drawn. The findings presented in this report, therefore, do not represent the general fiscal impact of changing Federal policies nationally or for all Ohio communities. Instead, the results of the field research highlight some of the emerging issues for nonmetro communities affected by changing Federal fiscal policies.

Ohio counties are governed by a three-member Board of County Commissioners elected at large for staggered 4-year terms. Although the county commissioners are the principal executive and legislative officers of the county, their authority is limited by State law. They can act or bind the county only within limits of such authority. The commissioners choose one member as chairman, who presides over the commission meetings. Other elected county positions include county auditor, prosecutor, treasurer, and recorder. Table 1 presents data on the nonmetro counties of the sample.

Figure 1--Sample nonmetropolitan jurisdictions in Ohio by counties and cities

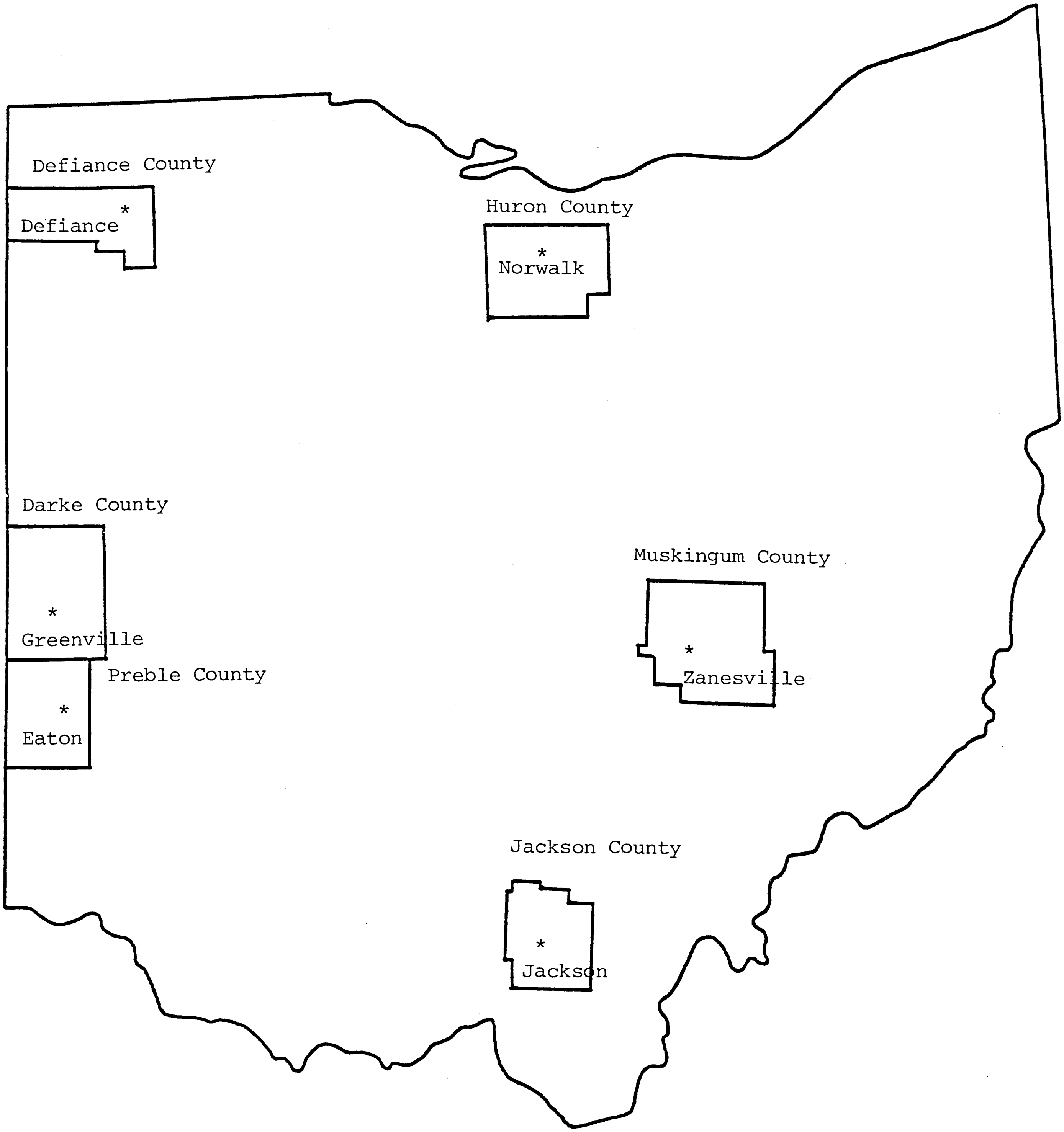

Table 1--Characteristics of sample counties

County	Population (1980)	Nonurban portion (1980)	General fund receipts (1986)
	Number	Percent	Million dollars
Darke	55,096	76.4	4.95
Defiance	39,987	48.1	3.56
Huron	54,608	56.0	5.63
Jackson	30,592	58.5	2.11
Muskingum	83,340	65.6	8.04
Preble	38,223	92.1	3.51

Source: 1980 U.S. Census and field research reports.

Ohio municipalities may be either cities or villages. City status is automatically reached after a community acquires a population of at least 5,000. Both cities and villages in Ohio are considered "municipal corporations," and under the State constitution have the authority to "exercise all powers of self-government." Under the general Ohio law, three forms of municipal government are recognized: mayor-council, council-manager, and commission form. Most large municipalities have adopted a home rule charter that permits them to draft variations of government which best meet the community preferences. Most of Ohio's smaller cities and villages operate under the general law or "statutory" mayor-council form of government. Table 2 provides some sample data of six nonmetro municipalities.

The focus of this study is the fiscal impact of Federal budget policies on nonmetro local governments, but local fiscal decisions are also influenced by State policies. Ohio earmarks financial assistance to support local programs, such as education, parks and recreation, streets and roads, and libraries. Through the Local Government Fund (LGF), the State also provides a substantial amount of general assistance annually.[1] Since FY 1982, the LGF has increased by about 20 percent, from $261 million to $314 million in FY 1986, while GRS funds for Ohio have decreased by about 9 percent from $185 million to $167 million.

The State plays a central role in other important aspects of local fiscal policies besides direct fiscal assistance. For example, State law sets the nature of local tax structures and limits to local revenue generation, establishes the rules for local borrowing and debt limits, defines the nature and use of local fees, and other revenue sources. On the expenditure side, the State mandates certain local government spending in such fields as court-related operations, welfare payments, and other human service programs for which local governments are required to provide a share of funds from local revenue sources. Clearly, changes in any one of these State-controlled revenue or expenditure policies, or some combination of several, may have a significant fiscal impact (independent of or interactive with Federal policies) on local government's policies.

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1 Revamping Ohio's State and Local Government Fund: A Report to the State and Local Government Commission, Fiscal Futures Service, College of Urban Affairs, Cleveland State University, OH, 1985.

Table 2--Characteristics of sample municipalities

City	Government form	Population (1980)	General fund receipts (1986)
		Number	Million dollars
Defiance	Mayor-council	16,800	3.34
Eaton	Council-manager	6,839	1.26
Greenville	Mayor-council	13,000	3.75
Jackson	Mayor-council	6,670	1.01
Norwalk	Mayor-council	14,348	3.23
Zanesville	Mayor-council	28,700	33.01

Source: 1980 U.S. Census and field research reports.

The fiscal year for local governments runs from January 1 to December 31. For all of the sample jurisdictions, budgeting and finance reflected a routine and uneventful process. According to field researchers, local budgetary decisions are internally set, with little outside pressure from organized groups. Local officials for the most part identified recent increases in liability insurance, State social service mandates, Federal water and sewer mandates, and basic infrastructure needs as the current fiscal pressures on local budgets.

Among our sample communities, expenditures (nominal dollars) have remained stable or gradually increased. Four sample counties have earned increased revenues since 1980, while the remaining two counties have had revenue declines. Darke County's spending decreased because of a smaller share of the State's local government fund (the State equivalent of general revenue sharing). Jackson County's revenues decreased due to the 1982 repeal by referendum of a Jackson County sales tax imposed by commissioners. No major revenue changes occurred for the sample cities of Greenville, Jackson, and Zanesville. However, the city of Defiance gained revenues due to an increase in the municipal income tax. The city of Eaton posted increased revenues due to a rise in fees, licenses, and permits. And, the city of Norwalk saw additional revenues from increases in income tax and water fees.

Debt service does not appear to be a major fiscal burden for either the counties or municipalities. While only two counties had any debt to speak of (Darke for jail construction and Muskingum for sewer improvements), four of the municipalities had conservatively borrowed to finance mandated water and sewer improvements. The city of Jackson reported no debt, and Norwalk had tentative plans to borrow to build a new mandated water treatment plant.

Unencumbered end-of-year cash surpluses were modest in all cities except Greenville and Norwalk, where annual surpluses ranged over $1 million. Only one county, Muskingum, had any significant unencumbered cash surpluses each fiscal year. Muskingum County's steady increase in cash reserves over recent years exceeded $2 million by 1987.

FISCAL EFFECTS OF GENERAL REVENUE SHARING CUTS ON NONMETROPOLITAN LOCAL GOVERNMENTS

This section focuses on the effects of funding reductions and termination of the GRS program in our sample of nonmetropolitan counties and municipalities.[2]

Overview

The 99th Congress allowed the remaining local aid component of the GRS program to expire in 1986. Some observers maintain that nonmetro local governments may face difficulty because their budgets (after GRS) may not be large enough to deliver basic goods and services. The National Association of Towns and Townships estimated that in 1986 78 percent of the 36,000 local governments with populations under 25,000 would no longer receive any direct Federal aid once the revenue sharing program ended.[3] Smaller nonmetropolitan local governments have been unable to compete for categorical grants, but GRS provided Federal aid automatically, by formula, with minimal Federal involvement. For many of these small jurisdictions, GRS represented not only a significant source of discretionary funds that supplemented tight local budgets but also the first time many of these communities had received Federal dollars.

GRS and Local Budgets

Over the 14-year history of GRS, approximately $85 billion was channeled to local government budgets. In large part, the question of how dollars were budgeted remains confusing because of fungibility, the ability to exchange revenues of different sources. The fungibility of GRS funds complicates analysis of the effect of the loss of these funds because it is not a matter of simply identifying GRS-funded projects or items and looking for cuts. In some local governments, GRS funds were transferred into the general fund and cannot be traced through budget documents to individual expenditures. For example, a community may have maintained a special revenue sharing account for its GRS funds and drawn on the account for interest payments on local debt. With the termination of GRS, while the revenue sharing account was eliminated, the debt service still had to be paid. General fund transfers, spending cuts, or revenue increases (or some combination of each) were executed to make debt payments.

How significant these funds were to financing various programs in nonmetro local governments can be viewed from different perspectives. One is the percentage of the local general fund represented by the GRS dollars. The general fund is that part of a local government's budget that comprises revenues not specifically earmarked for particular expenditures. In 1981, GRS as a percentage of the general fund for the sample jurisdictions, ranged from a low of 3.9 percent in the city of Jackson to a high of 13.9 percent in Jackson County. In 1986, the range was from a low of 2.7 percent in the city of Jackson to a high of 10.1 percent in the city of Zanesville. GRS dollars were

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[2] For a discussion of the effects of the loss of GRS on the full study sample, see: Paul R. Dommel, Keith P. Rasey, and Associates, "Ohio Communities Adapt to Loss of General Revenue Sharing." Working papers, College of Urban Affairs, Cleveland State University OH, Oct. 1987.

[3] Moore, J.W., "Cutoff at Town Hall," National Journal, Apr. 19, 1987, 11: 862-66.

not necessarily budgeted to the general fund. Ohio's 1986 GRS allocations to all local governments ranged from $208 to Octa Village in Fayette County, to $12.3 million to Cleveland. The sample nonmetro jurisdictions showed a range from a low of $23,788 to the city of Jackson to a high of $694,797 to Muskingum County in 1986. GRS per capita among sample communities ranged from $3.36 in Defiance County to $17.86 in the city of Zanesville in 1986 (table 3).

Assessing the fiscal impact of declining real dollar allocations and termination of GRS is best seen in observing how nonmetro local governments spent GRS funds and in detecting any shifts in these spending patterns over time. Since GRS was conceived as an intergovernmental fiscal transfer with no Federal interference, how local communities spent GRS funds was a function of local officials' priorities. In some nonmetro communities these no-strings GRS funds were used for operating expenses which reflected basic community needs, such as salaries of police and other public safety employees. GRS funds were spent on capital projects in other communities because of the limited access to capital financing in Ohio. Earmarking GRS funds for operating purposes was not necessarily an indication of fiscal distress. But, allocating GRS funds for capital expenditures was not necessarily a signal that the community was fiscally well off. During 1981-86, GRS funds were used primarily in one of three strategies:

1. On an as-needed basis for routine and nonroutine purchases of supplies, equipment, and other capital items,

Table 3--GRS allocations per capita and percent of general fund 1981 and 1986

Jurisdiction	Total		Per capita		General fund	
	1981	1986	1981	1986	1981	1986
	Dollars				Percent	
Cities:						
Defiance	259,878	156,053	15.46	9.69	10.7	4.7
Eaton	30,017	71,978	4.39	10.16	7.1	3.7
Greenville	275,507	194,697	21.19	15.50	8.6	5.2
Jackson	6,420	23,788	3.93	3.50	3.9	2.7
Norwalk	202,992	156,523	14.14	10.80	7.8	4.8
Zanesville	466,928	506,137	16.30	17.86	12.6	10.1
Counties:						
Darke	371,096	268,031	6.73	4.97	9.1	5.4
Defiance	191,300	129,266	4.78	3.36	7.1	3.6
Huron	371,031	254,409	6.79	4.62	8.9	4.5
Jackson	224,106	166,176	7.33	5.55	13.9	8.0
Muskingum	668,725	694,797	8.02	8.25	11.1	8.0
Preble	197,757	161,387	5.17	4.19	8.4	4.6

Sources: GRS allocation figures based on data from Office of Revenue Sharing, U.S. Department of the Treasury. General fund data provided by field research associates from local reports.

2. For specifically budgeted capital improvements as a general supplement to the capital budget, or as principal funds for a specific capital project, and

3. On a specifically budgeted basis for operating expenditures, including debt service, supplements for personnel salaries, insurance, and benefits.

While the local governments in our study budgeted annual GRS allocations according to one of these three strategies, some slight shifts occurred in the GRS spending patterns during 1981-86. These local governments exhibited a general pattern of shifting GRS funds from operations to capital expenditures. The major budget categories for GRS funding in 1986 included storm sewers, street resurfacing, debt service, equipment, and other general capital expenditures. An average of 44 percent of the total GRS funds allocated to these communities was spent on capital expenditures in 1981 and 56 percent went to operating expenditures. The breakdown of GRS expenditures for the sample governments in 1986 was 49 percent for capital expenditures and 51 percent for operating expenditures.

Individual local governments varied uses of GRS from year to year, with a tendency toward capital expenditures in 1986. In the city of Zanesville, no particular shifts occurred in GRS allocations during 1981-86. Funds were allocated on an as-needed basis primarily for capital improvements. Zanesville routinely transferred GRS funds into the Auto-Gas Fund for street and road maintenance as needed. The city of Greenville showed no significant shifts either. Most GRS funds were earmarked for capital expenditures each year. The city of Eaton used about 70 percent of its GRS funds to supplement its operating budget, with no observable shifts in this use. Jackson County used all of its GRS funds for operating expenditures since the inception of the program. Muskingum County's shift of all GRS funds, from operating expenses in 1980 to capital outlay and debt service payments to the Ohio Water Development Authority in 1986, began in 1981. This shift resulted from the county commissioners' response to a perceived dependence of the county's general fund on GRS for operating expenses. Darke County officials, in anticipation of the loss of GRS funds, started in 1981 to shift GRS funds from operating expenditures for salaries, worker compensation, and health insurance to capital expenditures by 1986. Table 4 shows the primary use of GRS funds and operating/capital percentage breakdowns for each of the 12 sample nonmetropolitan communities in 1981 and 1986.

Differences may be observed in how GRS funds were used by counties and municipalities in the nonmetropolitan sample. According to 1981 data, counties budgeted a higher percentage of their GRS funds to operating expenditures (69 percent) than did municipalities (42.5 percent). However, by 1986, the county share dropped to 49 percent, while the municipal share increased to 53 percent. The municipal shift seemed to be affected more by yearly budgetary priorities than by the result of some long-term fiscal planning in the context of declining "real" GRS dollars and/or termination of the program.

Plans to Deal With GRS Termination

All local governments faced taking some action to cope with the loss of revenues when the GRS program ended in 1986. How nonmetropolitan communities spent GRS funds varied as much as the immediate actions communities took to redress the revenue loss.

Six of the 12 local governments adopted revenue replacement as their primary strategy. Three of the nonmetro municipalities adopted strategies primarily emphasizing replacement of GRS funds with new revenues. For example, officials in the city of Eaton observed that the loss of GRS was the major reason that led them to place the 0.5-percent municipal income tax increase on the November 1986 ballot. Eaton had been using GRS funds to supplement general fund operating expenditures on police salaries and benefits. GRS had supported the net addition of two full-time patrol officer positions over the past 6 years. When GRS funding stopped, local officials did not fill police positions. Jackson city council officials adopted a resolution for a 1-percent income tax on earned income and net business profits. The proceeds of the tax would be used to fund capital improvements, primarily in bridge and street maintenance and paving.

Defiance County adopted a mixed approach, cutting spending and increasing taxes. It closed the Children's Home because of GRS fund losses. Field associates, however, concluded that the shutdown had been on the agenda for some time. County officials also observed that the County Home for the Aged

Table 4--How local governments budgeted GRS, 1981 and 1986[1]

Jurisdiction	Primary GRS use[2]		1981		1986	
	1981	1986	Capital	Operating	Capital	Operating
			Percent			
Cities:						
Defiance	a	b	80	20	100	0
Eaton	c	c	0	100	0	100
Greenville	a	a	90	10	90	10
Jackson	b	c	50	50	0	100
Norwalk	c	c	35	65	0	100
Zanesville	a	a	90	10	90	10
Counties:						
Darke	c	b	0	100	100	0
Defiance	c	c	5	95	5	95
Huron	c	a	10	90	100	0
Jackson	c	c	0	100	0	100
Muskingum	a	c	70	30	0	100
Preble	a	a	100	0	100	0

1 We categorized street resurfacing and cars/equipment as capital spending, although they may be considered operating costs in some local fiscal plans.

2 a. On an as-needed basis for routine and nonroutine purchases of supplies, equipment, and other capital items.
b. Specifically budgeted for capital improvements as a general supplement to the capital budget, or as principal funds for a specific capital project.
c. Specifically budgeted for operating expenditures, including debt service, supplement for personnel salaries, insurance, and benefits.

Source: Field research reports.

increased its rates for room and board as GRS funds were removed from supporting this facility. According to field associates, the commissioners increased the county portion of the sales tax by 1 percent (effective for 1987) to counterbalance GRS termination.

Replacement strategies among three jurisdictions of our nonmetro sample reflected drawing on surpluses rather than generating new revenues. Greenville officials adopted the practice of generally budgeting about 10 percent of the annual GRS grant to various community groups, with the rest allocated to capital expenditures, such as street paving and purchasing fire equipment. City officials did not foresee any early need to undertake new major capital spending projects. Greenville showed cash surpluses each year, which could be drawn upon for any activities previously funded with GRS dollars. Replacement of GRS funding will come from surpluses in Muskingum County, where about 75 percent of the county's GRS funds went to debt service. The county anticipated having $200,000 to carry over into FY 1987 for road resurfacing, including GRS funds from 1985. Because the county customarily held substantial cash surpluses in its general fund, no problem should occur in covering the debt service costs that were funded from GRS funds in 1986. Norwalk city officials planned to draw upon surpluses to subsidize previously GRS-funded programs.

Four of our nonmetro jurisdictions planned to compensate for the loss of GRS funds by reducing spending levels from previous budgets or adopting a no increase spending policy. Jackson County increased property taxes based on a reevaluation to offset the loss of the GRS. However, general fund revenues remained at the 1986 level. Local officials, therefore, adopted a no-increase policy for the FY 1987 budget. Some nonmandated services will have to be sharply curtailed or eliminated to meet State-mandated local matching requirements, like the local match for child care services.

Preble County commissioners reported that since GRS funds supplemented the general capital improvement plan, the immediate response would result in fewer capital projects funded over the next few years. Jackson city council officials adopted a resolution for a 1-percent income tax on earned income and net business profits. The proceeds of the tax would be used to fund capital improvements, primarily bridge and street maintenance and paving. In Zanesville, where almost all of GRS funds were used for capital expenditures for street resurfacing and fire equipment, capital spending felt a major cut. A $75,000 limit on capital spending was set. A used pumper truck rather than a new one was purchased, and most GRS-funded streetwork was eliminated. Defiance city officials opted for private contracting for emergency rescue services. As early as 1984 officials were concerned about possible GRS termination, citing this problem as the principal reason for the elimination of the Economic Development Department's three jobs. Table 5 displays budgetary responses of our nonmetro jurisdictions to GRS termination.

Summary

The termination of the GRS program in 1986 did not result in an immediate fiscal crisis for any of the sample nonmetropolitan local governments. Based upon field research, local officials were not caught by surprise, having planned for the GRS loss. Some communities' contingency plans were implemented as early as 1981, mainly short-term coping tasks rather than long-term strategic planning. Local governments adopted coping strategies that fell into three categories: revenue replacement, spending cuts, or a combination of the two.

Unencumbered cash surpluses helped local governments cope with GRS termination principally through revenue replacement. Three of the 12 sample communities relied solely on cash surpluses to cushion the loss of GRS funds. For communities where revenue replacement took the form of increased taxes or fees, field research could not establish a direct cause and effect relationship. Revenue increases had been planned (or attempted previously) and were a function of varying local factors in most of these communities.

Four local governments, where spending cuts were the chief strategy to deal with the loss of GRS, focused most cuts on capital projects, with street improvements bearing the brunt. Most local officials observed that while their communities were not dependent on GRS, the loss of GRS funds would likely delay capital improvement plans or halt low-priority capital projects. National attention has recently focused on the poor state of basic infrastructure among local governments in general and nonmetropolitan communities in particular. Clearly, the potentially negative long-term impact of delaying capital improvements as the strategy for coping with the loss of GRS heightens this issue. Ohio has taken a number of important steps to address this issue. For example, in mid-1987, the Ohio General Assembly adopted a set of optional fees that county and municipal governments could add to the $15 auto license plate fee. These potential revenues could pay for some of the street and rural road costs that had been funded by GRS. Road and bridge construction will be aided by a 2.7-cents-per-gallon increase in the State gasoline tax. A November 1987 State referendum provided for $1.2 billion in bonds over the next 10 years for infrastructure improvements. These steps have the potential for raising new revenues to meet both State and local infrastructure needs.

Table 5--Budgetary responses to GRS termination

Jurisdiction	Spending cuts	New revenues	Other replacement	Primary strategy
Cities:				
Defiance	Streets, sewers	Income tax		Mixed
Eaton	Police	Income tax		Replacement
Greenville			Surplus	Replacement
Jackson	Streets	Income tax		Replacement
Norwalk		Income tax	Surplus	Replacement
Zanesville	Streets, equipment			Spending cut
Counties:				
Darke	Capital projects			Spending cut
Defiance	Close children's home	Sales tax Increase fees		Mixed
Huron		Sales tax		Replacement
Jackson	Operating costs			Spending cut
Muskingum			Surplus	Replacement
Preble	Capital projects			Spending cut

Source: Field research reports.

FISCAL EFFECTS OF CUTS IN SMALL CITIES COMMUNITY DEVELOPMENT BLOCK GRANT FUNDING ON NONMETROPOLITAN LOCAL GOVERNMENTS

This section discusses the effects of Community Development Block Grant (CDBG) funding shifts on the sample nonmetropolitan communities.[4]

Overview

The small cities portion was only part of the CDBG program established by Congress in the Housing and Community Development Act of 1974. Twenty percent of the funds were set aside on a competitive basis for nonentitled communities in nonmetropolitan areas. Legislation in 1981 increased the small cities share to 30 percent.

During 1975-81, the CDBG small cities program operated as a direct national-local program. States were eligible for discretionary funds under Section 107 of the act when they joined with local governments in pursuing national goals, but only 3 percent of CDBG funds were used for this purpose. The program changed dramatically in 1981 when the States were given the option of running the entire small cities program. In 1982, Ohio assumed administration of this program and established a system that allocated CDBG funds through both formulas and competitive proposals. Since the demise of GRS, the CDBG program became the largest single source of Federal assistance to nonmetropolitan communities. The Department of Housing and Urban Development's (HUD) role in the small cities program is now limited to overseeing the national CDBG goals to develop viable communities, providing decent housing and expanding economic opportunities, principally for persons of low and moderate income. Ohio has adopted this same goal.

All activities funded through the Ohio CDBG program must benefit low- and moderate-income persons, or aid in the elimination of slums or blight, or meet other urgent community development needs because existing conditions pose a serious and immediate threat to the health or welfare of the community where other financial resources are not available to meet such needs. The State's program is designed to give priority to activities that benefit low- and moderate-income persons. Not less than 51 percent of total CDBG funding should be used for activities benefiting low- and moderate-income residents. Ohio's CDBG program must meet three investment objectives: the expansion and retention of business and industry, the provision and improvement of housing, and the construction and reconstruction of local public works and infrastructure.

Approximately 41 percent of Ohio's small cities CDBG funds are allocated to 81 counties and 120 small cities through the Formula Allocation Program. Counties and cities (whose base formula allocation exceeded $25,000) received their own grants. The county administered the funds to targeted cities whose base formula allocation was less than $25,000. Counties that administered city formula funds could take up to 15 percent of the city's formula allocation for administrative purposes. Formula allocations for local governments were based on local population, unemployment rate, and per capita income, ensuring that

[4] For a discussion of the effects of changes in CDBG funding on the full study sample, see: Keith P. Rasey, Paul R. Dommel and Associates, "Changing Times for Community Development Block Grant Recipients," working papers, College of Urban Affairs, Cleveland State University, OH, Jan. 1988.

local communities with relatively greater economic distress receive a relatively larger CDBG per capita allocation.

The second largest segment of small cities CDBG funds (25 percent) went to local governments through the competitive CDBG Economic Development Program whose principal goals are to "create and retain permanent private sector jobs, principally for low and moderate income persons, and....expand and retain business and industry in Ohio communities." Eligible cities and counties may apply for up to $350,000 for financial assistance to public, nonprofit, or private enterprises to implement economic development projects, as well as general public improvements directly related to the creation, retention, or expansion of businesses. CDBG funds may be used to cover fixed assets, including land, building, and equipment costs. CDBG funds may also be used for infrastructure costs directly related to industrial development. Projects must create or retain at least five full-time jobs, 51 percent of which must be available to persons from low- and moderate-income households, with the CDBG cost per job not exceeding $10,000. Each CDBG dollar must generate at least one dollar of other public or private investment in the project. Competition for these funds revolved around four rating criteria: community distress (unemployment rate, per capita income, and low- and moderate-income population), program effectiveness (job creation/retention and leverage of private funds), program impact (percentage of jobs for low- and moderate-income persons, coordination with local economic development efforts, and local administrative capacity), and participation by Job Training Partnership Act and Minority and Women's Business programs (business to be assisted is owned mainly by minorities or women).

CDBG Allocations to Cities and Counties

Table 6 shows CDBG allocations to the sample communities during 1980-86. The variability of annual CDBG funding levels since 1980 to the sample of nonmetropolitan local governments largely came from the shift from Federal to State administration of the small cities program rather than from changing Federal funding levels. The total amount of CDBG funds allocated to nonmetropolitan local governments in the sample increased from $954,000 in 1980 to $1.46 million in 1986, up 52.2 percent. The increase came after Congress changed the nonmetropolitan share of total CDBG funds from 20 to 30 percent in 1981. Thus, while only five of our nonmetropolitan communities received CDBG funds before 1982 (totaling about $2.7 million), since 1982 all the sample counties and municipalities received $9.5 million in CDBG funds through the State. The principal factor accounting for increased participation of Ohio nonmetropolitan communities in the CDBG program was that the State adopted the formula allocation policy which "spread smaller grants to more communities" in contrast to HUD's approach of larger grants to fewer communities.

One county and four cities received CDBG money before State assumption of the CDBG small cities program in 1982: Huron County, Jackson, and Zanesville in 1980 and 1981, Defiance in 1981, and Eaton in 1980. Almost all of the CDBG funds received by the counties since 1982 have been allocated through the State formula program. Only Preble County received State competitive money, an economic development grant of $72,500 in 1984. The sample cities received CDBG funds through both the State formula allocation and competitive programs. Since 1982, both Eaton and Greenville have twice received CDBG grants and formula funds, while Jackson has received competitive CDBG funds since 1982.

CDBG funding through the competitive grant program, providing nonmetropolitan jurisdictions with the opportunity to obtain CDBG funding as well as formula funding, explains the large changes in year-to-year funding levels among sample jurisdictions. For example, both Jackson and Zanesville received sizable multiyear awards from HUD in the early 1980's to establish neighborhood housing rehabilitation grants and loan programs. In 1984, when HUD's multiyear competitive grant program expired, small city formula funds from the State were substantially lower, forcing abandoning of housing rehabilitation efforts in these communities. A major result of the State takeover in 1982, characterized by spreading funds to more jurisdictions through the Formula Allocation Program, has been the limited range of CDBG-funded activities that nonmetropolitan communities could attempt. Since the average CDBG formula grant to the sample jurisdictions was less than $100,000, it was only when communities obtained competitive grants that major local community development projects were allowed.

Shifts in CDBG Spending and Program Priorities

One of the defining characteristics of Federal block grant funding is the discretion or flexibility available to State and local governments in setting fiscal priorities for the expenditure of block grant funds. By decentralizing project selection to the local level, CDBG expenditures would theoretically shift in response to changing local priorities and fiscal circumstances. Tables 7 and 8 show CDBG expenditures for our sample counties and municipalities by type of activity for 1980, 1984, and 1986.

Table 6--CDBG funds by year, 1980-86

Jurisdiction	Federal administration			State administration			
	1980	1981	1982	1983	1984	1985	1986
Cities:							
Defiance	0	48.6	0	75.2	66.4	61.8	56.8
Eaton	250.0	0	25.0	25.0	375.0	155.0	22.1
Greenville	0	0	49.7	46.8	117.9	72.3	363.5
Jackson	170.0	857.0	996.0	623.0	30.0	28.0	24.7
Norwalk	0	0	0	156.0	65.4	65.0	62.0
Zanesville	398.0	700.0	843.7	916.0	119.2	121.3	104.9
Counties:							
Darke	0	0	157.9	154.8	152.9	151.8	149.0
Defiance	0	0	106.0	96.4	89.8	84.1	74.3
Huron	135.9	135.7	135.8	130.0	131.2	134.2	135.7
Jackson	0	0	92.8	84.8	83.2	78.8	114.0
Muskingum	0	0	93.8	212.4	211.8	216.0	216.0
Preble	0	0	0	118.9	181.5	104.6	102.7
Total	953.9	1,741.3	2,500.7	2,639.3	1,624.3	1,279.9	1,425.7

Source: Field research data.

Table 7--City CDBG expenditures and percentage distribution by type of activity

Activity	1980		1984		1986	
	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
Housing	559.8	73.4	25.4	3.3	65.0	10.3
Neighborhood conservation	100.0	12.2	23.8	3.1	22.1	3.5
General public improvements	0	0	42.2	5.4	50.8	8.0
Social service and facilities	0	0	0	0	0	0
Economic development	0	0	639.0	82.5	446.4	70.4
Planning and administration	118.2	14.4	44.0	5.7	49.7	7.8
Total	818.0	100.0	74.4	100.0	634.0	100.0

Source: Field research reports.

Table 8--County CDBG expenditures and percentage distribution by type of activity

Activity	1980		1984		1986	
	1,000 dollars	Percent	1,000 dollars	Percent	1,000 dollars	Percent
Housing	0	0	0	0	0.3	0.1
Neighborhood conservation	0	0	0	0	0	0
General public improvements	131.9	97.1	575.9	67.7	578.7	73.1
Social service and facilities	0	0	14.7	1.7	55.1	7.0
Economic development	0	0	191.1	22.5	75.1	9.5
Planning and administration	4	2.9	68.7	8.1	82.5	10.4
Total	135.9	100.0	850.4	100.0	791.7	100.0

Source: Field research reports.

Six CDBG spending categories were established for this study:

Housing--Includes rehabilitation loans and grants, code enforcement, modernization of public housing, and programs to increase spatial deconcentration of lower income groups through expanded housing opportunities.

Neighborhood conservation--Stabilizes and/or conserves residential neighborhoods experiencing decline, including public improvements such as street and sidewalk repair, storm and sanitary drains, and recreational facilities and parks.

General public improvements--Refers to physical improvements that are designed to upgrade local infrastructure, including streets, sidewalks, drainage systems, removal of architectural barriers, parks and recreational facilities, and historic preservation; these are single activities not specifically part of an economic development program or targeted to specific residential neighborhoods as part of a multiactivity neighborhood conservation program.

Social services and facilities--Includes programs for health, education, childcare, and senior citizens, and allocations for the construction, maintenance, and rehabilitation of facilities necessary for social services.

Economic development--Includes industrial and commercial development projects designed to enhance the local tax base and/or generate jobs such as the acquisition and preparation of property for new use through demolition, clearance, and infrastructure improvements, and technical assistance to small business; loans and financial assistance to industrial and commercial firms are also included under this category.

Planning and administration--Funds spent on CDBG program planning, management, and administration.

Three of the six nonmetropolitan municipalities received CDBG funds under the HUD-administered small cities program in 1980. Two of the three recipients, Eaton and Jackson, committed more than 65 percent of their grants for housing rehabilitation. The third, Zanesville, spent the bulk of its CDBG money for housing, public improvements, and development of a park in a primarily minority, low- and moderate-income neighborhood.

During 1980-83, housing was the largest program activity because CDBG funds allocated to the small cities were commitments by HUD for comprehensive housing purposes in Jackson, Zanesville, and Eaton. Eaton received $250,000 in 1980 and used it for housing rehabilitation. Jackson received a $170,000 housing grant, and during 1981-83 received CDBG funds as part of a 3-year housing and neighborhood conservation comprehensive grant. The State honored the 1981 Federal multiyear commitment for both Jackson and Zanesville in 1982 and 1983.

By 1986, the spending of nonmetropolitan communities had changed dramatically. After State assumption of the small cities program, the sample cities tended to use most of their CDBG funds for general public improvements and economic development projects. For example, in 1983, four of the cities received State-allocated formula funds: Defiance ($75,200), Eaton ($25,000), Greenville ($46,800), and Norwalk ($156,000). Defiance and Greenville used theirs for general infrastructure improvements, while Eaton and Norwalk used theirs principally for economic development.

In 1986, limited formula dollars (as distinct from competitive bid grants) from the State ranged from $22,100 to $121,300 for the sample municipalities but were insufficient to support a significant neighborhood or housing initiative. Because of the relatively low funding levels, local officials tended to select one-item, one-payment public improvement projects. Except for Norwalk, which used its grant for an emergency home repair program, the nonmetropolitan municipalities chose to spend available CDBG dollars on small-scale public improvement or economic development projects. Eaton, for example, funded water-line expansion and street resurfacing. Defiance funded downtown street resurfacing, and Jackson used CDBG funds to construct a new water and sewer line.

Greenville used its small cities formula money in 1986 for curb and sidewalk repairs and the purchase of land to develop a new park and recreation facility. Norwalk committed the bulk of its $62,000 in CDBG funds to a revolving loan fund for emergency home repairs, and Zanesville, with the largest formula grant amount ($121,000) among the sample nonmetropolitan municipalities, used its funds for a variety of purposes, including the purchase of land for a mini-park, planning for a riverfront park, rehabilitation of a downtown commercial structure, and payment for a fair housing contract.

Eaton also received a State economic development discretionary grant in 1984 and in 1985, as did Greenville in 1986. State imminent-threat monies were allocated to Jackson in 1985. Of the $8.1 million of CDBG funds going to all the sample cities from 1980 to 1986, $5.8 million or 71.7 percent, was direct or previously committed Federal dollars; $1.4 million, or 17.2 percent, was State formula money; and $907,500, or 11.2 percent, was State competitive money ($863,500 economic development and $44,000 imminent threat).

While project selection in the nonmetropolitan cities had been significantly constrained in recent years by grant size, the nonmetropolitan counties fared relatively better since new CDBG money was available for most jurisdictions. Nonmetropolitan counties in the sample received formula amounts ranging from $74,200 to $216,000 in 1986. A common attitude among the majority of county officials, as expressed by county commissioners in Preble County, was to "spread the funds around to different jurisdictions so they will all benefit." CDBG-funded projects and activities in Preble County in recent years have included basic infrastructure, like street resurfacing and water and sewer projects, fire and rescue equipment, pavement of a parking lot for a seniors program, heating and air conditioning repairs at a county children's home, and support for fair housing activities. Darke County commissioners rotated CDBG awards so that no individual jurisdiction would be a recipient in 3 consecutive years. Exceptions to the rule were allowed for projects that take longer than 2 years to complete. Commissioners in Jackson County rotated project funds among political jurisdictions within the county. The only drawback was whether sufficient funds existed in any 1 year for the proposed project.

In Darke County, recent additions to basic infrastructure projects supported by CDBG funds had included new fire protection equipment, improvements to local senior center facilities, the removal of architectural barriers to assure handicap access, and allocations to a revolving loan fund. Jackson County gave financial support for fair housing activities. However, a general pattern among the six counties was to use CDBG primarily for general public improvements and economic development projects. Darke County officials, for example, noted that their CDBG funds had been used for public works projects in the villages and townships. Defiance County had used their CDBG money for general public improvements during 1982-85.

Huron County began to shift its CDBG monies to the economic development category in 1983 when 38.5 percent of its CDBG funds were allocated for this purpose. The allocation increased to 43.5 percent in 1984 and 58 percent in 1985. But, in 1986, 17.7 percent was devoted to economic development purposes because of EPA pressure to improve water facilities and roadwork, necessary measures to reduce the likelihood of liability suits. Jackson County spent its CDBG money primarily on general improvements. However, in 1985, nearly 25 percent of its funds were earmarked for the social services and facilities category to provide handicap access to the Jackson city YMCA. Except for 2 years, all of Muskingum County CDBG funds were allocated for general improvements. The county spent 43.5 percent of its funds to rehabilitate the county home and the Avondale Youth Center in 1982, while it spent $64,000 (30.2 percent) of its grant to establish a county economic development revolving loan fund in 1984. Preble County received a State economic development grant in 1984. Preble allocated most of its CDBG money to the villages for general infrastructure improvements, excluding the grant. About 30 percent of its funds paid for a parking lot for the Council on Aging and renovation of the heating and air conditioning unit at the county children's home. None of the county CDBG funds were used for neighborhood conservation activities, which is not surprising given the general rural nature of these counties outside of the incorporated cities. A total of $2,300 was spent for housing (fair housing programs ($1,300) in Defiance in 1985 and 1986 and Preble ($1,000)). The counties spent an average 10.7 percent for planning and administration purposes for the 7-year period.

CDBG Targeting in Nonmetropolitan Communities

Social and geographic targeting were not focuses among the counties. The counties spread the CDBG money around each year so that no one jurisdiction received a large allocation from one year to the next. Darke County officials, for example, distributed their CDBG funds so that no jurisdiction received money for more than 2 years in a row unless a project took longer than 2 years to complete. Defiance officials allocated their funds based on merit, with a preference for funding infrastructure projects. Equal distribution among local jurisdictions was the preferred approach in Huron County, where infrastructure and economic development projects benefited the entire community, according to county officials. Jackson County officials preferred to rotate the distribution of funds among political jurisdictions, believing that infrastructure projects benefited low- and moderate-income persons in both a direct and an indirect manner. Even distributions over time is the pattern in Muskingum County. In Preble County, CDBG funds are distributed primarily to the villages, also on an equal basis over time.

No general pattern of social and geographic targeting occurred among the cities. Instead, individual municipalities used CDBG monies according to local priorities and needs. Defiance, for example, used most of its funds for either infrastructure improvements or economic development efforts, including some streetwork in the downtown area. All of Eaton's funds covered infrastructure purposes, either to replace water lines in the older low- and moderate-income sections of the city or to extend water service to business firms. Greenville used its funds for general improvements, except for economic development monies to replace curbs and to upgrade parks and recreational facilities. Jackson's housing was the main activity in the early years under Federal administration of the program. Once the State took over, the city began to use its funds for water and sewer line extensions for commercial development in 1984. Norwalk has funded economic development projects since receiving CDBG funds in 1983. The mayor even considered its housing efforts as oriented toward economic development in 1986. Zanesville, like Jackson, has made a significant change from housing projects to economic development efforts (downtown rehabilitation) over the 7 years, because both cities received extensive Federal funds either directly or through previous commitments for housing and neighborhood conservation efforts during 1980-83.

Institutional Effects

Some local bureaucratic changes resulted from changes in the CDBG program. However, decreases in the purchasing power of CDBG funds have not caused any "significant problems," according to officials in the sample governments. CDBG funding helped Muskingum County create a full-time administrator by adding administrative responsibilities to a part-time county coordinator. However, if CDBG funding is cut to such a point that it affects the administrator's salary, then the county may have to revert to its original part-time coordinator position.

Defiance was forced to close its Department of Community Development because of cuts in CDBG support. The city administrator assumed the functions of this department. Jackson's sharp loss in Federal housing and neighborhood conservation monies after 1983 forced personnel reassignments, but no jobs were lost. If CDBG funds continued to decline, however, city officials said that they "may have to eliminate the Office of Community Development."

Summary

When the State assumed the small cities program, more local governments received CDBG funds than under Federal administration. The smaller communities collectively received about the same amount of money ($6.1 million) in 1986 as in 1981 before CDBG funding was cut in Washington. However, steady funding in nominal dollars has meant a reduction in real dollars over the 7-year period.

Local officials have not considered CDBG funds significant in formulating their budgets. They seemed to indicate that they can live without CDBG money, even though they may have to struggle a bit. Recent CDBG fund declines have resulted in fewer general and economic development public works projects being funded.

Local funding decisions, primarily routine and short term, held little long-range or strategic planning. Continued reductions in Federal and State assistance, however, may hurt the capacity of nonmetropolitan local jurisdictions to plan, implement, and manage development programs. Local officials allocated CDBG funds, with little outside participation. The decision to move from a formula distribution system to one in which more funds were allocated under a competitive method has produced clear policy preferences at the State level. Not wanting to create any political problems by totally eliminating the formula program, the State sought a competitive method for distributing funds for economic development. More monies had become available for economic development projects rather than for housing and neighborhood revitalization efforts.

Changes in control of Federal assistance funds have resulted in a general decrease for major CDBG projects at the local level. When HUD administered the small cities program, housing and neighborhood conservation projects for persons of low and moderate income were a major priority. State programs featured spreading the funds among more local communities, where expensive and comprehensive projects no longer could be attempted without support from the State's competitive housing and neighborhood revitalization program. CDBG funds generally covered small-scale infrastructure and economic development projects. The CDBG program has become a limited program for public works projects.

FISCAL EFFECTS OF BUDGET CUTS IN SELECTED HUMAN SERVICES PROGRAMS OF NONMETROPOLITAN COUNTIES

This section focuses on the effects of shifts in national policies for three human services programs in the sample nonmetropolitan counties during 1981-86. Since block grants go to State and county governments, this discussion focuses on county departments of human services.

Social Services Block Grant

The Social Services Block Grant (SSBG) provides national funds to State governments which distribute the funds to counties. The SSBG was created in 1981 to replace Title XX of the Social Security Act. Both have provided a variety of social services to the needy. Table 9 shows data on the percentage change in social services block grant funds for individual counties.

Half the counties in the sample received an increase in SSBG funds between 1981 and 1984, with an average change of nearly 6 percent. The average percentage change between 1984 and 1986 showed an increase of 37 percent, with Huron County gaining 56 percent for a high, and Muskingum County gaining nearly 14 percent, the low. The average percentage change was 45.6 percent during 1981-86. (Jackson County had the high with 108.2 percent and Muskingum County the low, at a drop of 8.8 percent.)

The significant gains for the counties were largely the result of the so-called "Title XX lawsuit," brought by Butler County against the State of Ohio in 1983.

Table 9--Value and percentage change in SSBG fundings

County	1981	1984	Change 1981-84	1986	Change 1984-86	Change 1981-86
	- - Dollars - -		Percent	Dollars	- - Percent - -	
Darke	332,290	342,573	3.09	462,298	34.95	39.12
Defiance	180,442	200,695	11.22	273,154	36.10	53.38
Huron	310,366	294,630	-5.07	459,816	56.07	48.15
Jackson	454,049	696,753	53.45	945,328	35.68	108.20
Muskingum	891,538	715,343	-19.76	812,940	13.64	-8.82
Preble	237,940	220,612	-7.28	322,744	46.29	35.64

Source: Field research reports.

When Title XX funds first became available, many of the rural counties were not prepared nor professionally sophisticated enough to take advantage of the money. Consequently, many of the rural counties did not use all of the funds allotted to their jurisdictions--an amount mandated by Federal legislation. The unused portion was then redistributed by the State to the larger metropolitan jurisdictions that were not only capable of using the funds but had considerably more demand for services. The reverted funds then became part of the metropolitan jurisdictions' allocations for the succeeding years. The 1983 court suit challenged the State allocation practice and requested the State "reallocate" Title XX funds. Only after filing the lawsuit did Ohio's Department of Human Services agree to comply and provide rural counties with their "fair share" of the Title XX dollars. So, an additional $22 million was distributed to rural counties for the first time in 1985. This explains the significant amount of the 1984-86 increases reported by the nonmetropolitan counties. The losses in Muskingum County occurred when the county gave up funding children's services through the SSBG and shifted to property tax levies.

In most cases, changes in Federal funds did not result in changes in funding from any other sources, according to respondents. The changes that took place seemed mostly related to local events. The only case of locally generated funds in the sample counties was in Muskingum County, where residents passed a property tax increase to support children's services. In Muskingum County, 1982 saw the release of the children's services function from the Department of Human Services. The 1982 loss of funds in Preble County produced only staff reductions; no additional local revenues were raised.

According to State policy, counties may spend up to 40 percent of their total grant on contracted services. Table 10 shows principal services funded through SSBG. Most changes involved increases in services, attributable to the increased funds prompted by the Title XX lawsuit. Among the changes reported were the hiring of a legal services professional and a trainer for staff and foster-care parents, and service increases for family planning (two counties), homemaker services (three counties), and health aide and chore programs. In all cases,

Table 10--Major services contracted out

Services offered	Jurisdictions reporting services funded by SSBG/contracted out
Homemaker services	Darke, Defiance, Jackson, Huron, Muskingum, Preble
Children's protective services	Darke, Defiance, Jackson, Muskingum, Preble
Children's placement services	Darke, Defiance, Jackson, Muskingum, Preble
Transportation	Darke, Defiance, Jackson, Huron, Preble
Day care	Darke, Defiance, Jackson, Muskingum
Adult protective services	Defiance, Huron, Jackson,
Family planning	Defiance, Huron, Jackson,
Adoption	Jackson, Preble
Information and referral	Jackson, Muskingum

Source: Field research reports.

where service increases occurred, the jurisdictions reported that increased demand dictated how money would be spent. Local officials reported that the increased funding resulted in "smaller case loads" and "increased quality of care."

Table 11 indicates the mix among public and nonprofit organizations that received funding through the SSBG. Five of the six jurisdictions reported no shifts in funding nonprofit organizations. Only Preble County reported a change (an increase) in the number of nonprofit organizations that received Title XX money. The principal factor was the increase in Title XX funds resulting from the lawsuit.

Overall, minor changes have taken place during the 5 years, and none are anticipated now. Local staffs increased in Darke and Preble counties (one of Darke's net new additions actually resulted in a cost savings; Preble's partially replaced vacated positions). Huron County reorganized and reassigned duties.

Community Services Block Grant

The Community Services Block Grant (CSBG) has funded 900 antipoverty agencies throughout the country. Its beginnings can be traced back to the capstone of the Johnson Administrations War on Poverty, the Community Action Program (CAP), which was reorganized during the Nixon Administration at the same time that several of its component programs, notably Legal Services and Head Start, were dispersed to other Federal agencies. The Community Services Administration (CSA) was established to administer the program and disburse funds to the local Community Action Agencies (CAA).

The Reagan Administration wanted to combine several social services programs, including the CAP, into one large block grant. Congress, however, created a special block grant for the community action programs under the 1981 Omnibus Budget Reconciliation Act. The CSA was abolished and replaced by a smaller office in the Department of Health and Human Services, which carried a reduced staff of 55 (down from nearly 1,000) and an administrative budget of 10 percent of the level in earlier years. The funding level for the block grant itself was

Table 11--Number of public and nonprofit organizations that receive SSBG funding

County	1981		1984		1986	
	Public	Nonprofit	Public	Nonprofit	Public	Nonprofit
			Number			
Darke	NA	NA	1	5	1	5
Defiance	4	2	4	2	4	2
Huron	4	1	4	1	4	1
Jackson	4	1	4	1	4	1
Muskingum	3	1	3	1	3	1
Preble	1	3	1	4	1	6

NA = not available.
Source: Field research reports.

reduced by 25 percent. The CSBG program has required States to distribute 90 percent of their allocations to the local CAA's. CAA's organize and deliver services to low-income individuals at the local level. The block grant funds these agencies in part. The agencies also seek funds from other State and Federal programs for such activities as weatherization programs, Head Start, and meals for the elderly. The Federal block grant provides the seed money which allows the agencies to get additional funds.

The range of services provided by the CAA's in the sample is typical of those in other parts of the country. Community programming, outreach efforts, meals for the elderly, Head Start, neighborhood advisory groups, and energy conservation programs provided services during 1981-86. Other services included transportation for the elderly, weatherization, a food service, consumer education, and budget counseling.

Table 12 shows the amounts of funds received by CAA's in the sample counties under the CSA in 1981 and the CSBG during 1984-86. Four counties saw significant cuts. Between 1981 and 1984, three jurisdictions reported a loss in CSBG funds, averaging 22 percent. This corresponds with the general losses suffered nationally from the Omnibus Budget Reconciliation legislation of 1981. During 1984-86, the CAA's in Jackson and Preble counties showed an increase of 4 percent and 8.4 percent, respectively. CAA's in Muskingum, Defiance, and Darke counties continued to show losses, 10.5, 14, and 27 percent, respectively.

Although all CAA's continued the same range of services, program and staff cutbacks were significant. Jackson County, for example, cut its clinic operations and reduced the maximum medicine allowance by 50 percent to $50 per person. The Muskingum County CAP reported cuts in senior citizens' transportation services. Officials from nonprofit organizations in Muskingum, Darke, and Preble counties noted cuts in their outreach efforts. The change in policy in Darke and Preble meant that citizens had to seek out the program. Before, the county strategy involved a "more aggressive posture of the agency seeking clients."

Three of five counties maintained a "mega-agency," serving as the CAA for individual counties. Typical of this was SCOPE (Supportive Council on

Table 12--Community Services Administration/block grant funding

County	1981	1984	Change 1981-84	1986	Change 1984-86	Change 1981-86
	- - Dollars - -		Percent	Dollars	- - Percent - -	
Darke	65,977	61,623	-6.6	44,895	-27.2	-32
Defiance	NA	149,992	NA	129,608	-14.0	NA
Huron	NA	NA	NA	NA	NA	NA
Jackson	NA	118,030	NA	23,025	4.2	NA
Muskingum	209,000	151,786	-27.4	35,729	-10.6	-35
Preble	65,314	44,471	-32.0	48,223	8.4	-26

NA = Not applicable.
Source: Field research reports.

Preventative Efforts), a private nonprofit organization providing a variety of services in a nine-county region in southwestern Ohio. SCOPE is the CAP agency in both Preble and Darke counties and three other counties not in the sample. SCOPE provided a variety of other non-CAP services, some of which were funded through other State or national grants. For example, these grants supported a transportation program for the elderly and the administration of Older Americans Act Title III meals program in several different sites throughout three counties, including Darke and Preble. The same "mega-agency" concept was found in Defiance County, and apparently exists in Huron County.

The second pattern that emerged from the study was the more aggressive posture of the CAA's in seeking additional funds from a variety of sources. Active grant writing and the development of revenue-generating programs have begun and appear to be getting stronger. Following the shrinkage of CSBG funds from the Federal Government, the mega-agency CAA's appear to have developed an active concern for finding other programs to allow the organizations to hire or retain staff. A new effort has emerged that will allow the CAA's to venture into revenue-generation operations. Preble County produced a grant to begin a recycling center. Lobbyists that represent the CAA's in Ohio were successful in getting the Ohio Legislature to dedicate Ohio's share of the court-ordered Exxon windfall profits refund to the CAA's for the next 10 years. The program is designed to develop energy conservation programs throughout the State.

Older Americans Act

The intent of Congress in passing the Older Americans Act (OAA) in 1965 was to ensure the health, independence, and dignity of older Americans through community planning, delivery of services, and training. Area Agencies on Aging (AAA) were designated within States in 1973 to plan and coordinate the distribution of OAA funds and the delivery of services to the elderly. This study focuses on Title III of the OAA.

Title III money is used to provide social services and senior center activities (43 percent) and nutrition services (57 percent). Nutrition services have included both communal meals and home-delivered meals. Various assessments have repeatedly identified transportation and nutrition services as those most needed by the elderly. However, in-home and health services are becoming increasingly important as the number of frail elderly (over 75) continues to grow. The social services dollars go to five priority areas: access, in-home, legal, health, and other services. Muskingum County activities, funded through the OAA, included transportation, information and referral, escort services, housekeeping, and outreach. Legal services were performed under contract. Darke County's major funding was for transportation, outreach, home maintenance, and escort services. A nursing home ombudsman program was funded through SCOPE, and the Rural Legal Aid Program in Darke and Preble counties received money through Title III.

AAA expanded programs, especially in the social and recreational arena, within the senior centers during the 1970's. However, in the 1980's, the flow of Federal dollars began to level off and service maintenance rather than service expansion became the norm. During 1981-86, OAA allocations increased by only $200,000 in Ohio.

All sample counties, except Huron, had increases in Federal funding during 1984-86 (table 13). All sample counties have seen an increase in own-source funds generated from client contributions. Huron County's services fell in some areas, mainly nutrition-related services in one community where a food program

Table 13--Older Americans Act funding by county

County	1981	1984	Change 1981-84	1986	Change 1984-86	Change 1981-86
	- - Dollars - -		Percent	Dollars	- - Percent - -	
Darke	116,737	160,581	38	174,020	8	49
Huron	125,240	163,642	31	130,043	-21	4
Jackson	41,762	42,207	1	43,227	2	4
Muskingum	[1]65,197	166,812	NA	175,608	5	NA
Preble	[2]60,820	24,048	NA	149,075	20	NA

NA = Not available.
1 Title IIIB funds only.
2 Title IIIC funds only.
Source: Field research reports.

was discontinued because of widely separated citizens and a lack of volunteers and other personnel. Muskingum County's changes occurred where the CAA delivered the services in 1981 and 1984. In 1986, the county took over nutrition services (Title IIIC) because the CAA was considered the "poorest provider." Allocations for communal meals rose 71 percent, and home-delivered meals allocation rose 28.5 percent. Preble County saw Federal funds increase only slightly, but the United Way contribution to the Preble County Council on Aging increased by a substantial 50 percent. Preble also reported the development of "specialization" in service delivery. The Preble County Council on Aging at one time provided meals, but found it could no longer afford to. So, SCOPE provided all meals, while the Council on Aging supplied transportation to and from meal sites, establishing a pattern for the future among potentially competing agencies.

Summary

Both the CSBG and the OAA funding relied on nonprofit organizations rather than the county governmental structure. The most significant pattern was that multicounty, multiservice mega-agencies provided many of the services in our sample nonmetropolitan counties investigation, and that these agencies appeared to be growing.

The fiscal impact on the three programs differed depending on funding changes. The SSBG showed increases in our nonmetropolitan sample over the 5-year period of this study. However, these increases were largely attributable to a special circumstance in Ohio from a lawsuit and accompanying adjustment by the State, rather than a change in funding priorities at the national level. OAA funding remained stable during the 5 years. A small increase in nominal dollars could not keep up with the increased demand from a growing clientele and the rate of inflation, which affected programs for the aged under Titles III-B and III-C. Officials could not identify where cuts might occur, but service providers said that they could not keep up "without making service cuts in the near future." The CSBG showed a significant loss in funding during the 5 years. Loss of funds produced a loss of staff and a restructuring of program funding. To counter the decline in Federal funding, CAA's adopted an aggressive campaign in fund raising, seeking revenues from a variety of new sources.

EFFECTS OF FEDERAL SPENDING CUTS ON NONPROFIT ORGANIZATIONS AND THEIR NONMETROPOLITAN LOCAL GOVERNMENT CLIENTELE

Nonprofit agencies, as providers of Federal, State, local, and private services to nonmetropolitan residents, are the focus of this section.

Overview

Nonprofit agencies administer a variety of federally funded programs for local governments, mainly for senior citizens, home energy and weatherization, Head Start, and the Job Training and Partnership Act. Most nonprofit agencies in the sample nonmetropolitan communities experienced budgetary growth in the face of Federal cutbacks. A few services were cut, but most (not all) nonprofit agencies continued to broaden their clientele, entering new program areas and competing successfully with other agencies for wider jurisdictions. We studied nonprofit agencies in the nonmetropolitan sample who do not depend very much upon Federal funds provided by GRS or by block grant revenues. Thus, most nonprofit agencies in this study have done reasonably well, prospering during the 1980's, while some local governments are experiencing problems from losses in Federal revenues.

Profile of Ohio Nonprofit Agencies

We examined 12 nonmetropolitan nonprofit agencies. These agencies may be categorized into two types: small, single-clientele nonprofit agencies working in a narrow substantive policy area serving nonmetropolitan communities, and mega-agencies administering a variety of programs for local government to many nonmetropolitan clientele groups in a wide geographic area.

Senior centers, which serve senior citizens exclusively with funding primarily from the Older Americans Act, is an example of the small, single-clientele agency. The community action commission, which often administers OAA programs for seniors but also may administer education, job training, housing rehabilitation, and economic development programs, is an example of the mega-agency. Table 14 summarizes the services provided by the 12-agency sample. Seven of the agencies are essentially single clientele/single policy area organizations, and five agencies are multiple clientele/multiple policy area agencies. The key role played by the major agencies was shown by their budgets in 1986 (table 15). The combined budgets of the five mega-agencies was 92 percent of the total of the sample of 12 agencies.

Nine of the agencies provided a standard array of services to senior citizens under Title III of the OAA, and most of them have done so in the 3 years for which data were gathered (table 14). Four of the nine agencies served only senior citizens. Three agencies provided services for a single clientele in unique policy areas, such as day care, grants administration, and family health, functions usually found in city and county health departments. One agency, Wood, Sandusky, Ottawa, Seneca Community Action Commission (WSOSCAC), administered a GRS-funded project, accounting for only $15,000 of its $10-million budget. All five of the mega-agencies managed block grant programs.

Table 15 lists the gross budgets of each agency for the 3 years examined. The five mega-agencies are listed first. Only one, the Muskingum Economic Opportunity Action Group (MEOAG), had a declining budget and was the only mega-agency with a budget of less than $1 million. Of the single-policy agencies, two, the Jackson County Board on Aging and Services for the Aging, had declining budgets.

Table 14--Services provided by 12 Ohio nonprofit agencies; 1981, 1984, and 1986

Funding	1981	1984	1986
Title IIIB, Older Americans Act	SA, Inc.; MCSC; MEOAG; SCOPE; WSOSCAC	SA, Inc.; MCSC; PCCA; J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC	SA, Inc.; MCSC; PCCA; J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC
Title IIIC, Older Americans Act	SA, Inc.; MCSC; JCBA; PCCA; MEOAG; NWOCAC; WSOSCAC SCOPE	SA, Inc.; MCSC; JCBA; PCCA; MEOAG; SCOPE; NWOCAC; WSOSCAC	SA, Inc.; MCSC; JCBA; PCCA; J-VCAC; SCOPE; NWOCAC; WSOSCAC
Senior health wellness	MCSC; JCBA	MCSC; WSOSCAC;	MCSC; WSOSCAC; PCCA
Job Training Partnership Act	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC J-VCAC
Head Start	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC	NWOCAC; WSOSCAC
CSBG Children's Program	J-VCAC; MEOAG; WSOSCAC	J-VCAC; MEOAG; WSOSCAC	CSDCC; MEOAG; WSOSCAC
Home energy, weatherization	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC	J-VCAC; MEOAG; SCOPE; NWOCAC; WSOSCAC
Economic development	NA	NA	MVPO; WSOSCAC
Housing, community rehabilitation	SCOPE	SCOPE	SCOPE; WSOSCAC
Rural transportation	NA	SCOPE	SCOPE
Grant administration	MVPO	MVPO; WSOSCAC	MVPO; WSOSCAC
Medical services clinics	FHSDC	FHSDC	FHSDC

NA = Not available.

Note: SA, Inc. -- Services for the Aged, Inc., Huron County. MCSC -- Muskingum County Senior Center. MEOAG -- Muskingum Economic Opportunity Action Group. SCOPE -- Supportive Council on Preventative Efforts, Wright-Patterson AFB. PCCA -- Preble County Council on Aging. J-VCAC -- Jackson-Vinton (counties) Community Action Agency. WSOSCAC -- Wood, Sandusky, Ottawa, Seneca (counties) Community Action Commission. NWOCAC -- Northwest Ohio Community Action Commission. JCBA -- Jackson County Board on Aging. CSDCC -- Carey Street Day Care Center, Zanesville. MVPO -- Maumee Valley Planning Organization. FHSDC -- Family Health Services of Darke County.

Source: Field research reports.

Table 15--Gross budgets of 12 Ohio nonprofit agencies, 1981, 1984, and 1986

Nonprofit agency	1981	1984	1986
		1,000 dollars	
Wood, Sandusky, Ottawa, Seneca (counties) Community Action Commission	4,786	8,669	[1]10,300
Northwest Ohio Community Action Commission	3,736	3,659	4,437
Supportive Council on Preventative Efforts	2,333	2,218	3,375
Jackson-Vinton (counties) Community Action Agency	1,770	1,660	2,225
Family Health Services of Darke County	714	868	1,072
Muskingum Economic Opportunity Action Group	1,019	990	832
Muskingum County Senior Center	NA	154	183
Preble County Council on Aging	NA	82	140
Services for the Aging, Inc.	125	163	130
Maumee Valley Planning Organization	65	76	117
Jackson County Board on Aging	84	99	94
Carey Street Day Care Center	NA	26	46

NA = Not applicable.
[1] Estimated.
Source: Field research reports.

At least two conclusions may be drawn from the service and budget profile: little change in agency participation in the senior-citizen programs and senior-citizen budgets that showed small growth. Some mega-agencies have shown expansion in the variety of services performed for local governments (economic development, housing rehabilitation), and their budgets have risen steadily and rapidly. The mega-agencies appear, then, to be increasingly important in supplementing human service delivery in the sample nonmetropolitan local governments.

Viability of Nonprofit Agencies

Four points must be considered in assessing the fiscal effects of changing Federal policies on the viability of nonprofit agencies. First, some artificiality exists in the size of the increase in agency budgets, which were larger before 1981. They fell in the early 1980's due to a national economic recession and lower levels of private contributions, exaggerating somewhat the magnitude of 1984 and 1986 increases. Second, all agencies have not participated equally in the latest prosperity. Third, surviving agencies have grown, in part, at the expense of agencies no longer surviving, rather than by increases in Federal, State, or local spending. Fourth, budget increases may be misleading when inflation, increasing clientele demand, and increasing costs of doing business are considered.

Several agency directors described agency crises at the beginning of the 1980's. New programs required special personnel and expertise that were not always available or affordable, particularly for small agencies. Thus, survival frequently depended upon a single area of funding.

The mega-agencies have adjusted to their new environment in several ways, except for the Muskingum Economic Action Group, which lost its OAA funding in 1986 to another agency. Still, several of the single-clientele agencies are straining for survival. Two, Services for the Aging and Jackson Board on Aging, have reduced services and personnel. Each of these agencies has had to use volunteer employees, has eliminated some of their services, and has solicited funding from alternative sources, even from their own clientele. The problem is not that funding has decreased, but that it has not increased sufficiently to keep up with inflation. Each agency director concluded that possible alternatives have run dry. Directors maintain that Federal or State funding increases will be necessary for agency survival.

Although gross budget figures indicate a healthy Maumee Valley Planning Organization (MVPO), significant problems are down the road. MVPO's primary service to local governments is grantsmanship (mostly CDBG competitive proposals), and it receives administrative overhead to implement funded projects. MVPO has countered the decline in CDBG funding by increasing the number of governments it serves, but it has almost exhausted its clientele pool. MVPO's 1986 budget showed an increase because of a successful endeavor on behalf of two municipal clients to obtain two UDAG grants. MVPO has been advised by HUD, however, that the Urban Development Action Grant (UDAG) projects would not be refunded. Expansion to other areas will be difficult because MVPO must compete with two mega-agencies, WSOSCAC and the Northwest Ohio Community Action Commission.

Several nonprofit agencies have disappeared or lost funding or programs. MVPO, formed in 1978 by merging two three-county organizations, saw declining revenues. The Erie-Huron Community Action Council (EHCAC) has been facing difficulties because WSOS has encroached upon EHCAC jurisdiction. EHCAC has had trouble supporting basic administrative staff (WSOSCAC proposed a merger, which was rejected).

Although the mega-agencies lose revenue as block grant funding declines, their viability is not in immediate jeopardy because they receive funds from a wide range of public and private sources. They have the flexibility, given a wide variety of personnel skills and expertise, experience, and economic power, all designed to adapt to changes and new program opportunities. Single-policy agencies are most vulnerable. Without increases in OAA or other funding, their viability is threatened.

Revenue Trends and Program Shifts

Examination of gross revenues for nonprofit organizations only masks program trends that may indicate nonprofit directions. Tables 16-18 provide program revenue breakdowns, summarized as follows:

Senior Services--OAA funding has been fairly level, with individual agencies reporting small increases or small declines. Agencies showing large increases or

Table 16--Funding for seniors programs received by nine Ohio nonprofit agencies

Nonprofit agency	Title IIIC senior nutrition programs			Title IIIB other senior programs			Total senior services[1]		
	1981	1984	1986	1981	1984	1986	1981	1984	1986
	1,000 dollars								
Wood, Sandusky, Ottawa, Seneca (counties) Community Action Commission	542	584	585	130	133	133	812	798	791
Northwest Ohio Community Action Commission	NA	NA	67	487	387	280	487	387	347
Supportive Council on Preventative Efforts	NA	NA	532	NA	NA	162	384	446	714
Jackson-Vinton Comm. Action Agency	NA	NA	NA	NA	NA	NA	NA	119	131
Muskingum Economic Opportunity Action Group	161	162	NA	49	20	NA	NA	NA	NA
Muskingum County Senior Center	NA	95	115	NA	53	60	NA	154	183
Preble County Council on Aging	NA	NA	NA	NA	NA	NA	NA	82	140
Services for the Aging, Inc.	NA	NA	NA	NA	NA	NA	125	128	130
Jackson County Board on Aging	NA	NA	NA	41	42	43	84	99	94

NA = Not applicable.
[1] Includes Title IIIB, Title IIIC, in-kind, and other senior program revenues.
Source: Field research reports.

decreases had gained or lost a project. For instance, Northwest Ohio Community Action Center (NWOCAC) and MEOAG both lost their senior centers.

Head Start--Growth was very rapid for this program between 1981 and 1984 and continues but at a much slower pace. The program remains an important source of revenue for the mega-agencies.

Women, Infants and Children Nutrition Program (WIC)--WIC has grown modestly in recent years. Usually administered by city and county health departments, the program is important only to Family Health Services of Preble County among the

Table 17--Funding for Head Start; Women, Infants and Children (WIC); and Community Development Block Grant (CDBG), received by six Ohio nonprofit agencies

Nonprofit agency	Head Start[1]			WIC			CDBG		
	1981	1984	1986	1981	1984	1986	1981	1984	1986
	1,000 dollars								
Wood, Sandusky, Ottawa, Seneca (counties) Comm. Action Committee	761	987	1,005	NA	NA	NA	642	328	[2]740
Supportive Council on Preventative Efforts	149	200	203	NA	NA	NA	NA	213	482
Northwest Ohio Comm. Action Committee	424	527	601	NA	NA	NA	964	NA	NA
Jackson-Vinton Comm. Action Agency	132	322	345	NA	58	65	NA	NA	NA
Family Health Services, Darke County	NA	NA	NA	160	118	130	NA	NA	NA
Maumee Valley Planning Organization	NA	NA	NA	NA	NA	NA	NA	20	[3]27

NA = Not applicable.
[1] Does not include in-kind or special programs.
[2] Funding increase is from housing rehabilitation grants. An additional $1-million dollar grant was received for 1987.
[3] Increased number of cities and counties served. Increased total budget temporarily by obtaining UDAG's. No additional CDBG clients available. Current CDBG program is receiving decreased funding.
Source: Field research reports.

agencies examined in this study. One of the mega-agencies (Jackson-Vinton County CAC), however, has adopted this program area.

General Revenue Sharing--Termination of GRS and decreases in block grants and their effects on local governments were the primary focal points of this study. We had difficulty determining the effects of the loss of GRS on nonprofit agencies because GRS funds were rarely given directly for services. However, because GRS was so fungible, other locally funded programs that were contracted out, like economic development, might have been funded at lower levels due to the loss of GRS.

Community Development Block Grant--CDBG revenues for three of the reporting nonprofit agencies had risen dramatically. The increase in revenues came from receipt of new projects, not from increases for existing projects. The Maumee Valley Planning Organization (MVPO) administers the Defiance funds, while the WSOSCAC handles the Huron County funds. Economic development instead of infrastructure improvements recently became a high priority for nonprofit

Table 18--Funding received by five Ohio nonprofit agencies for job training (JTPA), home heating (HEAP) and weatherization (HWAP), and community services (CSBG)

Nonprofit agency	JTPA			HEAP/HWAP			CSBG		
	1981	1984	1986	1981	1984	1986	1981	1984	1986
	1,000 dollars								
Muskingum County Economic Opportunity Action Group	NA	NA	NA	361	558	408	45	151	135
Jackson-Vinton Comm. Action Agency	NA	NA	839	184	443	434	44	118	123
Wood, Sandusky, Ottawa, Seneca (counties) Comm. Action Comm.	1,310	3,920	5,760	626	883	879	181	179	179
Supportive Council on Preventative Efforts	NA	NA	NA	1,017	1,002	1,219	494	286	290
Northwest Ohio Comm. Action Committee	NA	1,011	2,791	NA	504	830	NA	150	129

NA = Not applicable.
Source: Field research reports.

agencies, such as SCOPE, as a means of increasing local revenues, satisfying political demands for development, and developing future grants and clients for their agencies.

Job Training and Partnership Act (JTPA)--JTPA has brought extensive and rapidly expanding resources to three of the mega-agencies, accounting for over a third of the Jackson-Vinton County CAA revenues and more than half those of WSOSCAC and NWOCAC.

Home Energy Assistance Program and Home Weatherization Assistance Program (HEAP/HWAP)--All five mega-agencies participate in these programs. Funding levels grew rapidly in the early 1980's but leveled off during 1984-86, although NWOCAC and SCOPE have expanded funding by expanding geographic size and clientele.

Community Services Block Grant--All five mega-agencies also service CSBG programs and projects, and this source of funding has changed little since 1984.

Social Services Block Grant--SSBG programs, generally implemented by county health and human services departments, sometimes employ nonprofit organizations for administration. Only the Jackson-Vinton Community Action Agency reported receipt of this type funding, $155,549 in 1981, $91,031 in 1984, and $77,776 in 1986.

Coping Strategies Among Nonprofit Agencies

Single clientele/service agencies appear to be particularly vulnerable to cutbacks in Federal assistance. MVPO responded by expanding its clientele (offering CDBG services to more counties and municipalities). MVPO also tried to expand into new policy areas (UDAG). Both strategies were temporarily successful. However, the agency has since had to cut its staff, and any more revenue losses, according to agency officials, will jeopardize the organization. No more jurisdictions exist for expansion, at least without encroaching upon other organizations. The agency has little program development expertise, relying on its grant writing and administrative skills. The other single-policy agencies appeared less threatened because they provided direct client services, and funding levels had not changed significantly. However, each agency faces rising costs of service delivery without increases in revenue. The general strategy has been to cut operating costs, appeal to alternative funding sources, and cut services.

The mega-agencies have developed a defense capacity. Although cuts in government spending generally hurt, the mega-agency has few threats to its survival. Growth in revenues continued for four of the five mega-agencies (the fifth mega-agency had lost revenues due to losses in the senior citizen programs). The ability of mega-agencies to grow in the face of declining Federal revenues was the result of a number of related strategies.

Mega-agencies can invest in new programs because of their size, economic resources, and organizational structure. WSOSCAC, for instance, expanded its expertise into housing rehabilitation, economic development, and water and waste water technical assistance. Reflecting an entrepreneurial spirit, the agency searched for new clientele and new service delivery opportunities. The agency currently has 169 employees and a wide area of expertise. While the other mega-agencies were not as varied in expertise, they, too, had an advantage in competing with single-policy agencies that might wish to expand.

Mega-agencies frequently grow at the expense of single-policy agencies and other mega-agencies. For example, SCOPE was able to win Title IIIC senior nutrition programs from Preble County Council on Aging because its size and resources enabled it to perform those services more efficiently. WSOSCAC has aggressively competed with other agencies, threatening the viability of the Erie-Huron CAC. WSOSCAC has won JTPA, economic development, and a $1-million housing/downtown rehabilitation program in Huron County and a number of contracts in Erie County. WSOSCAC has also attempted, thus far unsuccessfully, to win projects from MVPO and from NWOCAC. While the single-policy agencies tread water, the mega-agencies prosper despite Federal cuts because their resources and strategies enable them to monopolize new programs and win a disproportionate share of programs that already exist.

Summary

Single-policy agency changes affect senior citizens most. Real dollar losses (from flat current dollar budget trends) caused losses in services, as the cost of these services shifted to the senior citizens themselves. For example, senior citizens were hired at low wages to deliver services. Service recipients are encouraged to "make donations." Reliance upon unpaid senior volunteers continued. Senior services are highly dependent upon nonsenior volunteers and must be reduced or eliminated when they are not available. Every senior citizen service agency, including mega-agencies, reported reductions or elimination of services.

Local governments appeared to be significantly affected by the responses of nonprofit agencies to changes in Federal spending. Local government in nonmetropolitan areas (often lacking the personnel, expertise, or other resources) often depended upon nonprofits to acquire and administer funds for human service programs. Nonprofit agencies relieved local governments of significant burdens by administering a wide variety of federally funded programs. Nonprofit organizations can provide grantsmanship, policy, and general program expertise that local governments often lack.

FISCAL IMPACTS IN METROPOLITAN LOCAL GOVERNMENTS: A PRELIMINARY COMPARISON

The metropolitan governments listed below include seven cities with over 100,000 population and six urban counties (Lucas County was not part of the sample). We compared these jurisdictions to the sample jurisdictions:

Counties	Cities
Summit	Akron
Hamilton	Cincinnati
Cuyahoga	Cleveland
Franklin	Columbus
Montgomery	Dayton
Lucas	Toledo
Mahoning	Youngstown

General Revenue Sharing

One of the principal differences between the metropolitan and nonmetropolitan local governments in this study was their use and shifts in spending GRS funds during 1981-86. The larger metropolitan cities and counties tended to spend the majority of their GRS funds on operating expenditures. The practice among metropolitan jurisdictions of allocating GRS funds to operating budgets tended to increase in 1986, when 3 of the 13 metropolitan jurisdictions spent GRS funds for capital expenditures.

The sample of nonmetropolitan local governments experienced an average decline in GRS dollars of 30.4 percent during 1981-86, while the metropolitan jurisdictions saw a decline in GRS funds of only 4.9 percent. How GRS funds were budgeted in metropolitan and nonmetropolitan jurisdictions was a matter of local decisionmaking, accounting practices, and local fiscal factors, reflecting the view of GRS as a general support grant for local governments.

The strategies for dealing with the loss of GRS in metropolitan local governments reflected the same basic approaches observed in nonmetropolitan communities (revenue replacement, spending cuts, spending cuts mixed with revenue replacement) (table 19). Metropolitan areas were able to replace lost Federal funds more easily than nonmetropolitan areas. Three metropolitan jurisdictions and four nonmetropolitan areas relied solely on a budget-cutting strategy. Metropolitan jurisdictions tended to put more of their GRS funds into operating budgets that were more difficult to cut. The sample nonmetropolitan local governments

Table 19--Budgetary responses to the loss of General Revenue Sharing

Urban jurisdiction	Spending cuts	New taxes/user fees	Other replacement funds	Dominant strategy
Akron	Streetwork; cars and equipment			Spending cuts
Summit County	Position management; across-the-board cuts		Revenue growth	Mixed
Cincinnati	Selected operating cuts		$3-million replacement fund	Mixed
Hamilton County		Real estate transfer tax	Carryover GRS funds	Replacement
Cleveland	Position management	Fee increases; parking, licenses, permits	Surplus; debt repayment	Replacement
Cuyahoga County	County hospital subsidy; across-the-board cuts (6-percent elected offices; 12-percent nonelected)	0.5-percent sales tax	General fund; special cash reserve	Mixed
Columbus	Selected budget cuts	Fee increases; transfer zoo funding to county	General fund; debt financing	Mixed
Franklin County			Revenue growth; surplus	Replacement
Dayton	Position management		Revenue growth; surplus	Replacement
Montgomery County	Operating budgets; waste treatment capital spending	0.5-percent property tax increase	Cash reserves	Replacement
Toledo	Position management		Surplus; recovery of funds from city investments	Replacement
Youngstown	Position management; privatization; street efficiency		Sales of assets for parking deck; city hall annex	Spending cuts
Mahoning County	Position management; operating efficiency	Increase fines and court costs; levy for jail facility		Spending cuts

generally did not maintain separate operating and capital budgets. Half of the metropolitan communities used cash surpluses for part of their replacement funds, compared with a quarter of the sample nonmetropolitan communities. The termination of GRS meant not only a direct loss of funds but an indirect loss of some benefits for cities and counties. Metropolitan counties sometimes spent GRS funds that directly benefited metropolitan cities. For example, Montgomery County spent about 14 percent of its 1986 GRS funds on parking facilities in Dayton, and Cincinnati directly benefited from Hamilton County's spending on a convention center. The largest share of the Cuyahoga County's GRS funds over the final 2 years of the program was budgeted for hospital operations that mostly served Cleveland.

The loss of GRS funds did not trigger a fiscal crisis for any municipality or county (metro or nonmetro) in the sample. The field associates reported neither an immediate "need-for new-taxes" crisis as a result of the loss nor the end or a major reduction of a vital or basic community service. It should be noted that the sample did not include townships that have more limited revenue sources than municipalities and counties and that, therefore, may have a more difficult time finding replacement funds. However, townships also provide a very limited range of services.

Because the demise of GRS had been discussed widely throughout 1986, its end came as no great surprise and contingency planning for the loss of GRS at the end of 1986 was done in some communities. However, the overall pattern of responses was to cope with the near-term problem of dealing with the 1987 budget year, which extended from January 1, 1987, through December 31. Thus, the initial response to the loss was more one of coping than the necessity to develop a long-term strategic fiscal plan.

Coping, particularly in nonmetro communities, was a feasible approach initially because in many of the sample communities the loss of GRS represented 5 percent or less of the municipality's or county's general fund in 1986, and that share was declining.

Cash surpluses were important to the immediate budgetary patchup in a number of communities. For some of these communities, sizable surpluses tended to be an annual occurrence, but for others, surpluses appeared to be less predictable and thus less reliable for fiscal years beyond 1987.

For several nonmetro communities, tax increases during 1986 and early 1987, although not levied directly or solely because of the anticipated loss of GRS, were expected to yield revenues in excess of the loss of revenue sharing funds. Consideration of fiscal solutions such as the politically more difficult alternative of increased taxes, which were adopted in some of the sample jurisdictions, tended to be related more to long-term revenue needs and to the general fiscal context than to immediate problems created by the loss of GRS.

Community Development Block Grant

CDBG funding to metropolitan local governments fell by 33.4 percent in nominal dollars from 1980 to 1986. Nonmetropolitan local governments experienced a much smaller decline, 6.9 percent (table 20). CDBG funds declined by 14.8 percent nationwide. The losses in real dollars because of inflation were higher. The varied effects of changes in CDBG funding mainly resulted from State assumption of the small cities portion of the program in 1982, rather than Federal budget

Table 20--CDBG allocations to survey jurisdictions in Ohio

Jurisdiction	1980	1986	Nominal dollars	Real dollars
	- 1,000 dollars -		- - - - Percent - - - -	
Urban:				
Akron	9,661	6,456	-33.2	-52.6
Summit	2,937	1,362	-53.6	-67.1
Cincinnati	19,229	12,612	-34.6	-53.7
Hamilton County	5,007	2,989	-40.3	-57.7
Cleveland	39,293	24,471	-37.7	-55.8
Cuyahoga County	4,189	3,061	-26.9	-48.2
Columbus	9,863	6,669	-32.4	-52.0
Franklin County	3,308	1,816	-45.2	-61.1
Dayton	9,774	6,525	-33.2	-52.7
Montgomery County	3,082	2,112	-31.5	-51.4
Toledo	7,366	6,363	-13.6	-38.7
Youngstown	6,127	4,331	-29.3	-49.9
Mahoning County[1]	0	504	0	0
Nonmetro:				
Defiance	0	56.8	0	0
Defiance County	0	74.2	0	0
Eaton	250.0	22.1	-91.2	-93.7
Preble County	0	121.9	0	0
Greenville	0	363.5	0	0
Darke County	0	[2]149.0	0	0
Jackson	170.0	024.7	0	0
Jackson County	0	114.0	0	0
Norwalk	0	62.0	0	0
Huron County	135.9	135.7	-.1	-29.1
Zanesville	398.0	121.3	-69.1	-78.4
Muskingum County	0	216.0	0	0

[1] Beginning in 1982, the county received funds from the State's small cities CDBG program.
[2] Estimated by authors.
Sources: U.S. Department of Housing and Urban Development and field research data.

cuts. Losses in the metropolitan cities and urban counties were the result of the operation of the Federal formula system and a reduction in overall funding.

Sample metropolitan local governments' CDBG spending for housing programs and general public improvements remained the top two priorities during 1980-86. These activities also represented the greatest funding losses, at 27.1 percent and 47.2 percent, respectively. More than half of all 1986 CDBG funds in the metropolitan sample were spent on housing and general public improvements. Nonmetropolitan local governments spent 54 percent of all CDBG funds on economic development projects; there was also an increase in economic development spending in the metropolitan areas.

Program differences related to two factors: local needs and priorities as expressed by local decisionmakers, and grant amounts. Metropolitan jurisdictions with sizable grants earmarked CDBG funds for large-scale, multiyear expenditures, such as housing rehabilitation and related neighborhood improvement projects, while nonmetropolitan jurisdictions with small grants generally funded small-scale, single-year projects, such as industrial site preparation and water/sewer extensions for economic development. The housing-related projects in sample nonmetropolitan communities virtually disappeared after the State took over the small cities program and chose a strategy of smaller grants to more jurisdictions.

Metropolitan jurisdictions regularly spent between 5-10 percent of CDBG funds on social services and facilities, while the nonmetropolitan local governments spent almost no CDBG funds on these programs. Metropolitan CDBG spending on social services declined from an average of 9.7 percent to 5.3 percent in 1986.

Declining CDBG funding prompted staff reductions and organizational adjustments within the metropolitan jurisdictions. Among the hardest hit were Cleveland, Akron, and Youngstown, each losing 15-20 percent of CDBG staff between 1980 and 1986. Metropolitan staffs had grown because of the large grant increases. As grants declined beginning in 1981, so did staff.

Sample nonmetropolitan communities saw major drops in administrative spending, mainly in jurisdictions which had received large grants from HUD and experienced big cuts in their grants after the State takeover in 1982.

The study shows that CDBG funding levels fell precipitously after 1980 for all but the nonmetro counties in the State. The big losers were the large entitlement cities and urban counties. Cuts resulted from both a drop in the level of Federal program funds and the adverse effects of the Federal formula system.

While the overall reduction in CDBG funding for Ohio fell nearly $52 million between 1980 and 1986, the sample nonmetro counties actually increased their funds since the State assumption of the Small Cities Program in 1982. A group of big losers in the nonmetro areas of the State were communities that had received large discretionary grants from HUD prior to 1982.

A general effect of Ohio's Formulation Allocation Program to distribute CDBG funds to small communities has been a spreading out of program funds across the State.

One effect observed in both urban and nonmetro municipalities has been a major reduction in local CDBG spending on housing rehabilitation. Given housing's generally weakened position in the Federal budget overall since 1981 and the general problem in Ohio of preserving older housing stock, the need for funds for housing preservation becomes even greater.

While the dollar amount spent on housing in the metropolitan cities has declined, the data show that the importance of housing preservation to these cities has not changed. Roughly a third of the CDBG funds going to the sample cities continues to be allocated for housing preservation. Similarly, about 75 percent of the funds continue to go collectively for the categories of housing, neighborhood conservation activities, and general public improvements.

In the nonmetro areas, because of the end of the large HUD grants for housing to a small number of communities, the overall shift has been away from housing and neighborhood conservation toward economic development and general public improvements. In the nonmetro counties, the big winners with the State takeover, the largest share of CDBG dollars is directed to general public improvements, typically under a county policy of spreading available funds among different communities over time.

Between 1980 and 1986, targeting program assistance to lower income groups in Ohio appears to have undergone some change toward a lower level of such benefits. As Federal funding has declined, competition for block grant funds has increased at the lower level. The two vulnerable program categories appeared to be housing rehabilitation and social services, both of which tend to produce generally higher levels of benefits to lower income groups. Economic development, which tends to yield a lower level of such benefits, has been receiving higher priority in both metro and nonmetro areas.

Human Services Block Grants and Nonprofit Agencies

Comparing the effects of changes in Federal funding policies on human services and nonprofit agencies between sample metropolitan and nonmetropolitan jurisdictions points to some interesting findings.[5]

Most of the nonmetropolitan counties in the sample had large increases in SSBG funds, while about half of the metropolitan counties had decreased funding between 1981 and 1986 (table 21). This was more the result of a successful lawsuit in Ohio which modified the State allocation system than the outcome of changes in Federal allocation policies. Ohio lost about 7 percent of SSBG funds over the 5-year period, while funding changes in the sample counties ranged from -22 percent in urban Montgomery County (Dayton) to 108 percent in rural Jackson County.

Metropolitan jurisdictions coped with SSBG funding losses by increasing locally generated revenues to maintain social services program levels. For example, Cuyahoga County (Cleveland) increased its general fund contributions to social services from 40 percent in 1981 to 54 percent in 1986. Mahoning (Youngstown) and Hamilton (Cincinnati) counties passed special children's services levies to replace declining SSBG funds.

Unlike SSBG, funds from the OAA remained relatively stable over the 5-year period, 1981-86. Differences appeared to be emerging between the metropolitan and nonmetropolitan jurisdictions in the sample.

Among the metropolitan jurisdictions, services to the elderly like home-delivered meals, personal care, and homemaking/health aid activities, have moved increasingly in the direction of in-home programs for the frail and/or confined elderly. Researchers in the Dayton area noted a significant shift in the nutrition program between 1984 and 1986 from congregate meals to home-delivered

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[5] For additional discussions on nonprofit agencies, see: Cynthia J. and James A. Stever and Associates, The Impact of Federal Funding Changes on Elderly Services in Ohio Communities; and Keith P. Rasey, Paul R. Dommel and Associates, Changing Times for Community Development Block Grant Recipients in Ohio. College of Urban Affairs, Cleveland State University, OH, 1988.

Table 21--SSBG allocations and percentage change

Jurisdiction	Entitlement 1980	Entitlement 1986	Change
	--- 1,000 dollars ---		Percent
Metro counties:			
Cuyahoga	10,529,077	11,964,772	13.6
Franklin	2,804,252	3,247,328	15.8
Hamilton	16,577,000	15,992,000	-3.5
Mahoning	6,665,826	6,835,139	.4
Montgomery	6,928,881	5,369,236	-22.5
Summit	25,963,198	5,359,470	-2.3
Nonmetro counties:			
Darke	454,049	945,328	108.2
Defiance	332,290	462,298	39.1
Huron	237,940	322,744	35.6
Jackson	891,538	812,940	-8.8
Muskingum	180,442	273,154	51.4
Preble	310,366	459,816	48.2

Source: Field research reports.

meals. The Akron elderly agency added a number of services for the frail elderly, including respite care, care coordination, adult day care, and in-home medical treatments. The Columbus area shifted from outreach and recreational activities to hard-core services involving nutrition and in-home health and homemaker services.

The nonmetropolitan jurisdictions emphasized programs such as outreach, communal meals, and transportation. Five of the rural counties offered a home-delivered meal program, but only Muskingum and Preble counties had a homemaker program.

Several possible explanations exist for what appears to be a growing difference in elderly services between metropolitan and nonmetropolitan communities:

Home-delivered meals, homemaker, and other in-home services are among the most expensive services. Only transportation has similarly high costs. Because of limited funding, nonmetropolitan counties apparently have chosen to serve as many people as possible through information, referral, outreach, and visitation.

Nonmetropolitan populations are more widely dispersed, making delivery of in-home services both difficult and expensive. But, rural populations often have a stronger informal support network to care for their sick and elderly. Extended family, neighbors, and church groups are more likely to provide the needed in-home assistance.

The decline in Federal funds in nominal and/or real terms has required nonprofit service providers to expand their resource base. The data from a small sample of nonprofit organizations that operated in the study area indicated that they have managed to cope with these losses.

In some cases, new funding sources have been found by expanding the range of services offered, making possible the tapping of other funding sources, both public and private. This appears to be particularly true in the nonmetropolitan areas where the mega-agencies discussed earlier have become a major force in the delivery of a wide range of supported services. In both metropolitan and nonmetropolitan areas, there has developed a greater reliance on the use of client fees based on the ability to pay. Thus, the consumers of the services have become increasingly a significant funding source for the services.

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