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The Public Works Employment Act of 1976 established a program to provide State and local governments with antirecession assistance payments. It was designed as a means for strengthening the Federal Government's ability to stabilize the national economy by promoting greater coordination, during times of economic downturn, between national economic policy and budgetary actions of State and local governments. Initially Congress authorized \$1.25 billion to be paid State and local governments for the five quarters ending September 30, 1977, and then renewed the program for an additional year. As of April 7, 1977, \$1.18 billion was paid to recipient governments.

Findings/Conclusions: There was little evidence that the recession severely affected the budgets of 16 selected county governments. The interchangeable nature of moneys, shifting priorities and needs, changing revenue amounts from various sources, and the relatively small contribution antirecession payments made to the counties' resources impaired analysis of the program's actual effect on county budgets. However, the following effects were noted: (1) three counties' revenue collections were falling short of meeting expenditures, and antirecession funds helped balance the budgets and possibly avoided counterproductive steps; (2) five counties were collecting sufficient revenues to meet budgeted expenses and used antirecession funds to maintain or augment surpluses; and (3) six counties were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. Most counties appropriating antirecession funds reported using this assistance for salaries. However, assistance payments were substituted for other revenues that normally funded the positions. (PRS)

5468

REPORT TO THE CONGRESS



*BY THE COMPTROLLER GENERAL
OF THE UNITED STATES*

Impact Of Antirecession Assistance On 16 County Governments

This report discusses in detail the impact antirecession assistance had on selected county governments and provides information on the effects of the 1974-75 recession on their operations.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-146285

To the President of the Senate and the
Speaker of the House of Representatives

The Federal antirecession assistance program was established to help stabilize the national economy during recessionary periods by helping State and local governments maintain levels of services. A summary report on this subject was issued on July 20, 1977. This report discusses in detail the impact assistance payments had on county budgets and provides information on the effects of the 1974-75 recession on their operations.

This report was prepared pursuant to section 215(a), title II, Public Law 94-369, requiring the Comptroller General to investigate the impact antirecession assistance payments had on State and local government operations. Two other reports dealing with the impact on State and city governments are also being issued today.

We are sending copies of all three reports to the Secretary of the Treasury.

[Handwritten Signature]
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

IMPACT OF ANTIRECESSION
ASSISTANCE ON 16 COUNTY
GOVERNMENTS

D I G E S T

Section 215(a) of the Public Works Employment Act of 1976 (Public Law 94-369) required GAO to investigate the impact antirecession assistance payments had on State and local government operations. On July 20, 1977, GAO issued a summary report on this subject. This report discusses the impact that payments had on 16 county governments as of April 30, 1977. Two other GAO reports issued concurrently describe how the assistance affected 21 city and 15 State governments. GAO is presently assessing the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

The antirecession assistance program was designed to target emergency aid to State and local governments substantially affected by the recession--i.e., experiencing revenue shortfalls or increased demands for services. Its objective is to reduce the occurrence of State and local budgetary actions which counteract Federal efforts to stimulate economic recovery. Counterproductive steps include employee layoffs, tax increases, and reductions in services.

GAO found little evidence that the recession severely affected the budgets of the 16 selected county governments, but some effects were noted. Inflation was perceived by the counties to be a bigger threat to budgetary operations. Antirecession assistance funds provided additional revenues to recipient governments and thus affected county operations favorably. GAO found a number of variations in the effects the funds had on the selected counties.

EFFECT OF PAYMENTS ON COUNTY BUDGETS

GAO could not measure whether or when the funds provided to the 16 counties might

achieve the program's objective of deterring counterproductive steps. The interchangeable nature of moneys, shifting priorities and needs, changing revenue amounts from various sources, and the relatively small contribution antirecession payments made to the counties' resources impaired analysis of the program's actual effect on county budgets.

Although these factors precluded any conclusive assessment, GAO found the following effects:

- Three counties' revenue collections were falling short of meeting expenditures. Antirecession funds were used to help balance the budget and possibly avoided counterproductive steps.
- Five counties were collecting sufficient revenues to meet budgeted expenses, and expenditure levels were not increased. In effect, antirecession funds were used to maintain or augment surpluses. Consequently, little or no impact will occur until subsequent fiscal periods.
- Six counties were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. It is very difficult to gage exactly what would have occurred without the funds, because the counties may have funded the expenditures by using surpluses or by taking counterproductive actions or they may not have made these expenditures.

The remaining two counties had not decided what to do with the funds at the time of GAO's review.

Most counties appropriating antirecession funds reported using this assistance for salaries. However, assistance payments often were substituted for other revenues that normally funded the positions. Little

new employment was reported and no county had rehired personnel previously laid off, but the funds probably made it possible for some counties to avoid layoffs.

These are reported uses as shown in financial records or as described to GAO. Because of the interchangeable nature of county resources, however, these reported uses may have little or no relation to their actual impact.

STATUS OF ANTIRECESSION FUNDS

The act requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean that the funds must be appropriated. The 16 counties appropriated essentially all of their first payments within 6 months. Fifty-eight percent of these funds were disbursed and another 26 percent obligated. (See p. 14.)

BUDGETARY ADJUSTMENTS NOT GENERALLY ATTRIBUTED TO RECESSION

Twelve of the 16 counties GAO visited raised property tax rates, laid off employees, or cut basic services for fiscal years 1974 through 1976 as follows:

- Five significantly raised property taxes.
- Eight laid off employees.
- Three cut basic services.

Officials of 11 of these governments cited inflation and other factors, such as increased State mandated services and elimination of inefficiencies, as the primary reasons for their budgetary actions. (See ch. 2.)

Two major factors helped the counties cope with recessionary pressures. Property taxes (the major tax source) were relatively

insensitive to recession, and a significant proportion of county activities was financed with funds received from other governments.

"Excess unemployment," as defined in current legislation, is not a reliable indicator of the recession's effect on governments and has resulted in some anomalies. Some governments in areas with high unemployment were in good financial condition and received large anti-recession payments. Conversely, some counties that received less assistance per capita because of low unemployment took actions that countered Federal efforts to stimulate the economy.

This problem was recognized by the Congress, which enacted Public Law 95-30, extending the program until September 30, 1978. The Secretary of the Treasury was directed to investigate other data for allocating payments that may be better measures of true economic conditions. Results are due the Congress by March 1, 1978. GAO concluded in its summary report on antirecession assistance that a better distribution formula would make the program more effective. GAO discussed certain alternative "triggering" and distribution statistics in its November 29, 1977, report to the Congress entitled "Antirecession Assistance--An Evaluation," PAD-78-20.

GAO discussed this report with representatives from the National Association of Counties and the Office of Revenue Sharing and considered their comments in its final preparation.

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CHAPTER 1

INTRODUCTION

Title II of the Public Works Employment Act of 1976, Public Law 94-369, established a program to provide State and local governments with antirecession assistance payments. Title II was to provide a means for strengthening the Federal Government's ability to stabilize the national economy by promoting greater coordination, during times of economic downturn, between national economic policy--as articulated at the Federal level--and budgetary actions of State and local governments.

To accomplish this goal, title II was to provide emergency Federal financial assistance to State and local governments hard hit by recessionary pressures to reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate speedier economic recovery. The assistance was designed to

- go quickly into the economy, with as little administrative delay as possible;
- be selectively targeted, by means of a formula, to go to only those governments substantially affected by the recession; and
- phase itself out as the economy improves.

A fundamental premise underlying title II was that the amount and quality of government services at the State and local levels should not be determined by national economic conditions over which State and local governments have no control.

Recipient governments were expected to use antirecession assistance payments to maintain basic services customarily provided by their jurisdictions.

Initially the Congress authorized \$1.25 billion to be paid State and local governments for the five quarters ending September 30, 1977. Public Law 95-30 renewed the program for an additional year, raised the authorized level by \$2.25 billion, and extended the program through September 30, 1978. As of April 7, 1977, \$1.18 billion was paid to recipient governments.

The Office of Revenue Sharing, Department of the Treasury, is responsible for administering the antirecession program, including distributing funds to State and local governments; establishing overall regulations for the program; and providing such accounting and auditing procedures, evaluations, and reviews as necessary to insure that recipient governments comply fully with the law.

METHOD AND BASIS FOR ALLOCATING FUNDS

Moneys are authorized to be paid out under the anti-recession program as long as the national unemployment rate exceeds 6 percent. Specifically, section 202(d) of title II states that

"No amount is authorized to be appropriated * * * for any calendar quarter if (1) the average rate of national unemployment during the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent, or (2) the rate of national unemployment for the last month of the most recent calendar quarter which ended three months before the beginning of such calendar quarter did not exceed 6 percent."

One-third of the available funds are distributed to State governments and two-thirds to locals. Individual amounts are based on assigned unemployment rates and revenue sharing amounts. Unemployment rates are used as a measure of how severely the recession affected a particular government, and the revenue sharing amount is used to measure the size of the jurisdiction. No government receives funds if its unemployment rate is below 4.5 percent, or if its computed allocation is less than \$100 for a quarter. For the first four quarters beginning July 1, 1976, \$259 million were distributed to county governments throughout the United States.

SCOPE OF REVIEW

Several major factors which affect State and local government budgets were evident during 1974-75. Recession reached its depth. Unemployment rose in 1975 to the highest levels since 1941. Inflation soared. Major population shifts continued.

In addition, governments' priorities and needs have changed as have revenues from other sources. Also, revenues a government receives often can be used interchangeably.

The interaction of the above factors made it difficult, if not impossible, to isolate and measure the specific effect or impact of any one economic factor or one type of Federal aid on a government's operations. However, to assist the Congress in determining the effectiveness of the antirecession program in meeting its stated objectives, we

--evaluated, to the extent practicable, the impact of antirecession assistance on the operations of 16 selected counties, and

--evaluated whether the counties were adversely affected by 1974-75 recessionary problems by examining trends in the counties' financial conditions from 1972 through 1976, by discussing with officials what they perceived to be the major factors influencing their fiscal health, and by eliciting from them the rationale employed in making budgetary adjustments.

Counties visited were:

| | |
|----------------------------|--------------------------|
| Alameda County, Calif. | Hennepin County, Minn. |
| Allegheny County, Pa. | Lake County, Ind. |
| Bernalillo County, N. Mex. | Montgomery County, Ohio |
| Cape May County, N.J. | Multnomah County, Oreg. |
| Clark County, Nev. | Norfolk County, Mass. |
| Comanche County, Okla. | Riverside County, Calif. |
| Essex County, N.J. | Robeson County, N.C. |
| Fulton County, Ga. | Worcester County, Mass. |

We obtained comments from the Office of Revenue Sharing, Department of the Treasury, and the National Association of Counties. These comments were considered and data added where appropriate. The National Association of Counties believed that the 16 counties we visited were not representative of all counties; however, the association agreed that unemployment was not necessarily a good indicator of a county government's financial condition.

We selected 10 counties at random from the 62 most populated counties in the nation. An additional six counties were chosen to provide a better geographical distribution across the country, a wide range of unemployment

rates, and different antirecession assistance payment amounts. This report discusses the information gathered at the 16 counties we visited. Because of the wide variance in the nature and scope of county government responsibilities and activities across the country, it was not possible to project this data to represent all county governments.

In addition to this report, we are issuing two other reports concurrently (GGD-77-69 and GGD-77-70) which describe how the program affected 15 State and 21 city governments. Our overall observations based on the information contained in these three reports were summarized in a report to the Congress on July 20, 1977 (GGD-77-76). A future report will describe the impact that antirecession assistance had on these 52 governments as of October 31, 1977.

CHAPTER 2

BUDGETARY ADJUSTMENTS NOT GENERALLY

ATTRIBUTED TO RECESSION

The principal objective of title II is to selectively target Federal assistance to those governments substantially affected by the recession, and thereby reduce the need for these governments to take budgetary actions which run counter to Federal efforts to stimulate the economy. The antirecession assistance program was proposed because national economic problems were thought to have imposed considerable hardships on State and local government budgets, particularly revenue shortfalls and increased demand for certain services due to the recession. Also, because of recession-related difficulties, some governments were being forced to take budgetary actions, such as tax increases, layoffs, and cuts in basic services, all of which can undermine Federal efforts to stimulate the economy.

During fiscal years 1974 through 1976, 12 of the 16 counties we visited made one or more budgetary adjustments which tended to contract the economy. In various combinations, five of the counties significantly raised property taxes, eight laid off employees, and three cut basic services. Officials of 11 of these governments cited inflation and other factors, such as increased State mandated services and elimination of inefficiencies, as the primary reasons for their budgetary actions.

There was little evidence to indicate that the recession severely affected county budgets, although some effects were noted. Generally, property tax revenues and intergovernmental funds continued to rise. While 8 counties reported an increased demand for recession-related services, such as social services, officials of all 16 counties stated these short-term demands were far less of a problem than inflationary pressures.

CHANGES IN PROPERTY TAX RATES

Property taxes are the primary source of county-generated revenues. In fiscal years 1974 and 1975, property tax revenues accounted for over 82 percent of county taxes and about one-third of total general revenues both nationwide and for the 16 selected counties.

Of the 16 counties we visited, 14 levied taxes. ^{1/} Of these, nine did not raise property tax rates more than 5 percent for any year from fiscal years 1974 through 1976. ^{2/} The five remaining counties raised tax rates more than 5 percent for reasons other than the recession.

--Bernalillo County officials cited population growth and the impact of inflation on county expenditures.

--The Robeson County manager pointed out that added revenues were needed to meet inflationary cost increases and demands for nonrecession-related services.

--Hennepin County raised property taxes primarily because the State mandated public assistance to human service programs, such as aid to the economically deprived; State and Federal revenue growth declined compared to the county's total revenue needs; and inflation averaged 8 percent annually.

--In 1976 Cape May County increased its tax rate primarily due to inflation, especially spiraling personnel and energy costs, and some cutbacks in State funding.

--Essex County raised taxes in 1976 due primarily to inflation increasing operating costs.

Two of the five counties that raised property taxes also had a property tax reduction at some time during fiscal years 1974 through 1976.

FEW LAYOFFS REPORTED

Eight counties reported layoffs during fiscal years 1974 through 1976. Layoffs affected the provision of basic services in only three counties--Multnomah, Riverside, and

^{1/}Two counties, Worcester and Norfolk, do not have any taxing powers. The amounts needed to operate the counties are set by the Massachusetts legislature and are raised through assessments on the cities and towns within the counties.

^{2/}Tax rates were adjusted to reflect any changes in the method of computing assessed value.

Montgomery (see p. 8). Officials from the eight counties cited mainly inflationary and efficiency reasons for the layoffs.

- Multnomah County (3,100) 1/ laid off over 100 employees due to such factors as inflation and increased State mandated services, such as health care.
- Montgomery County (3,600) laid off 55 employees because of increased operating costs. About 1 month later, Comprehensive Employment and Training Act moneys and other Federal funds were used to rehire 22 employees.
- Hennepin County (6,500) reduced employment in the public works department during 1974 and 1975 because of a reorganization and identification of inefficient operations.
- Fulton County (2,700) terminated 35 positions because a Federal grant for the juvenile court system ended. Seven other positions were abolished from 1972 through 1976 due to changes in job requirements. Between October 1974 and October 1975, 309 employees were added in such areas as police, health, public works, and data processing.
- Allegheny County (9,100) eliminated 576 positions in 1976 through layoffs and attrition. County officials attributed cutbacks to increased efficiency, such as the elimination of duplicate functions, and increased costs due to inflation.
- Cape May (900) cut 166 and 227 positions in 1974 and 1975, respectively, through attrition and lapsed positions. The county reported 670 new hires or rehires during these same years.
- Bernalillo County (1,600) reported some layoffs in administrative departments, such as finance and personnel. There have been large increases of personnel in departments that provide basic services, such as fire and parks and recreation.

1/The numbers in parentheses represent rounded total full-time equivalent employment as of October 1975. (Bureau of the Census data.)

--In fiscal year 1976 Riverside County (5,500) laid off 10 employees in its road department because of rapidly increasing costs and to a lesser extent because of recession-depressed gas tax receipts.

All 16 counties increased employment from 1972 through 1975, with full-time equivalent employees increasing 6 percent between 1974 and 1975 according to Bureau of the Census data.

BASIC SERVICES USUALLY MAINTAINED

Officials in 13 counties said no basic services were reduced or eliminated during fiscal years 1974 through 1976.

In two of the remaining three counties, basic services were cut primarily for reasons other than the recession. Officials in Multnomah County said that service cutbacks were caused primarily by inflation and increased State mandated services. Officials in Montgomery County said increased operating costs affected their services. However, Riverside County officials said a combination of inflation and recession-depressed gasoline tax receipts had resulted in a decrease in road maintenance.

PROPERTY TAX REVENUE GENERALLY INSENSITIVE TO RECESSION, BUT SOME EFFECTS NOTED

For fiscal years 1974 through 1976, property tax revenues for 13 of the 14 counties that have taxing powers (see p. 6) exceeded prior years' collections. The one county where revenues declined did so, in part, because the State began a property tax replacement program whereby the State reimburses the county for property tax credits given county taxpayers. Officials from this county stated that curtailed industrial expansion in an economically depressed area within the county adversely affected property taxes. These problems were particularly evident because industry comprised about two-thirds of the property tax base, and homes in one section of the county were selling below one-third of the 1969 assessed values. The county also had not reassessed property since 1969 and had chronic tax delinquency problems.

For the 13 counties whose property tax revenues increased, 8 did so without any significant rate increase. Most officials believed property taxes were not sensitive to the recession. Twelve of the 16 counties reported that

current year revenue collections from their own sources met or exceeded estimates. Three counties not achieving estimates were within 5 percent of expected levels. No information was available in one county.

Officials from a few counties said they believed property taxes were sensitive to a recession because of increases in tax delinquencies and reductions in new construction which would otherwise expand the tax base. Some officials also cited other reasons which restrict property tax growth, such as not being able to reassess soon enough.

HALF OF THE COUNTIES EXPERIENCED AN INCREASED DEMAND FOR RECESSION-RELATED SERVICES

Officials in eight counties stated that the demand for recession-related services, such as health, justice, and social services, increased noticeably during the recession. Although 7 of these 8 counties had the highest unemployment rates of the 16 counties included in our review, officials emphasized that these short-term increases in service demands posed far less of a problem than inflationary pressures, which tend to increase service costs. Additionally, some counties identified factors other than the recession or inflation as contributing to the general overall increase in the cost and demand for services. Counties cited, for example,

- better outreach to the community resulting in greater public awareness and
- increasing population, employment, and business development.

Officials in the other eight counties said the demand for recession-related services did not noticeably increase during the recession. One county that experienced some increased demand for health services expected the recession to have a major impact on the demand for social services and accordingly established an \$8.3 million contingency appropriation in its fiscal 1976 budget. This demand, however, never materialized.

SIGNIFICANT PROPORTION OF ACTIVITIES FINANCED BY INTERGOVERNMENTAL REVENUES

Funds obtained from other governmental units (inter-governmental revenues) are a significant portion of county

revenues. In fiscal 1976, intergovernmental payments comprised 45 percent of total general revenues of the 15 counties 1/ we visited and the same percentage nationwide for all counties.

Although intergovernmental revenue is a major revenue source, it is difficult to isolate how intergovernmental funding was affected by the recession. Simultaneous changes in responsibilities, programs, and funding patterns all affect the amount of intergovernmental funds passing to county governments. A few counties believed that the States had not provided some funding due, in part, to the recession.

From 1972 to 1976, intergovernmental revenues of the 15 governments increased, and the proportion of activities financed with intergovernmental funds either remained about the same or increased in 12 of the 15 counties. During this period, intergovernmental revenues in the 15 counties increased about 46 percent, while total general revenues rose 40 percent. Nationwide, county intergovernmental revenues rose about 68 percent, and total general revenues grew 56 percent.

INFLATION WAS PERCEIVED TO HAVE A GREATER IMPACT THAN RECESSION

Officials in all 16 governments said that inflation had a greater impact than the recession. Many cited inflation as the major long-term factor affecting their budgets. Between 1972 and 1976, total general expenditures increased in the 15 counties where comparable data was available. For these counties, total general expenditures increased 46 percent during this period; nationwide for all counties, general expenditures rose 57 percent.

Much of the 1972 to 1976 increase in expenditures was due to rising personnel costs. Over this period for the 16 counties we visited, 10 had increases in average monthly salaries of 30 percent or more, 4 experienced increases of 25 to 30 percent, and 2 had increases of about 10 and 15 percent. Nationwide, the average monthly salary for full-time county employees increased over 30 percent from

1/Data for 1976 was not available in one county. For this county, however, intergovernmental revenues increased between 1972 and 1975, as did the proportion of activities financed with these funds.

October 1972 to October 1976. For fiscal years 1972 through 1976, personnel expenditures accounted for about 39 percent of total general expenditures for all counties. Over this period, personnel costs for county employees rose 62 percent nationwide, while full-time equivalent employment increased only 17 percent.

Alameda County's fiscal year 1977 budget message cited the following inflation impacts:

"During the last ten years, Alameda County's salaries and wages increased * * * 189 percent * * * compared to a 48 percent growth in the number of employees * * *. * * * The average annual compensation for each employee increased 97 percent in the last ten years * * *.

"Employee benefits for Alameda County personnel have grown at an even more staggering rate than salaries and wages. Benefits increased * * * 393 percent * * * [over the last 10 years], * * * or an average annual growth of 39.3 percent. * * *"

Montgomery County officials cited the impacts of inflation on expenditures for hospitalization, telephone service, maintenance of prisoners, and insurance. For example, health insurance premiums increased 30 percent in both 1975 and 1976.

Officials also emphasized inflation's impact on energy costs. Cape May County records showed an increase of over 100 percent in gas and electricity costs from 1972 to 1976. Electricity rates in Clark County almost doubled in 2 years, and insurance and motor vehicle fuel costs increased substantially. Lake County officials said recent gasoline bids received by the highway department exceeded 40 cents per gallon, compared to 16 cents a few years ago. Officials said similar cost increases occurred in vehicle maintenance.

EXCESS UNEMPLOYMENT RATE NOT NECESSARILY
A GOOD MEASURE OF FISCAL STRESS

A county's "excess unemployment" rate, as defined in the current legislation, may not be a reliable measure of the severity of the recession's impact on it or of its general financial condition. Some counties with relatively high unemployment rates were in good financial condition. Others with lower unemployment rates were forced to take budgetary actions which countered Federal efforts to stimulate the economy.

Alameda County officials believe their government is in sound financial condition. No basic services have been cut. No employees have been laid off since 1972. Officials believe the county has been generating enough revenues to meet expenditures without significantly raising property tax rates. The general fund balance increased from \$13.4 million in 1972 to \$43.6 million in 1976. The county has no bonded debt. Yet Alameda County's unemployment rate exceeded 12 percent in each of the first three quarters of 1976, and it received \$3.15 per capita in antirecession payments as of February 28, 1977.

Montgomery County officials described their financial condition as "surviving." In 1976 the county laid off employees, and basic services were somewhat affected. The general fund balance decreased from \$5.1 million in 1972 to \$2.8 million in 1976. The county's unemployment rate averaged under 7 percent for the first three quarters of 1976 and it received \$0.49 per capita as of February 28, 1977.

The Robeson County manager stated that the government was fiscally sound and capable of continuing basic services. Although unemployment had risen, the economic condition of the government had improved in recent years. During fiscal years 1972 through 1975, revenues have more than kept pace with expenditures, and the county fund balances have increased from \$2.6 million in 1972 to \$5 million in 1976. Outstanding debt has diminished annually since 1972. Basic service levels have increased. Although fiscal year 1977 taxes were raised, the county manager stated that the increase could have been delayed; this, however, would have caused the county to dip into its reserves, which he and the county commissioners believed should be maintained at a sizable amount for contingencies. Robeson had an unemployment rate of over 10 percent in each of the first three quarters of 1976 and received \$4.71 per capita as of February 28, 1977.

Allegheny County plans to increase its property tax rate and reduce the discount rate for paying taxes early to raise revenues and offset increased operating costs. The county had to lay off employees to help offset deficits in its operating budget. A substantial revenue shortfall is expected in fiscal 1977. The county had an average unemployment rate of about 7.5 percent for the first three quarters of 1976 and received \$0.94 per capita in anti-recession funds as of February 28, 1977.

Few officials believed there was a strong correlation between the unemployment rate and their county government's financial condition.

When the Congress extended the antirecession program (Public Law 95-30), it recognized that anomalies could arise from using unemployment rates as a basis for allocating funds. The Department of the Treasury was directed to study the extent to which other data, which may be better measures of true economic conditions, could be used for allocating payments. Results are due the Congress by March 1, 1978. We discussed certain alternative "triggering" and distribution statistics in our November 29, 1977, report to the Congress entitled "Antirecession Assistance--An Evaluation," PAD-78-20.

CONCLUSIONS

There was little evidence to indicate that the recession had a severe impact on county government budgets, but some effects were noted. When counties we visited raised property taxes, laid off employees, or cut basic services during the fiscal year period 1974-76, they cited inflation as the principal cause in most cases.

Two major factors helped the counties cope with recessionary pressures. Property taxes, the major tax source, were relatively insensitive to recession, and a significant and often increasing proportion of county activities was financed with funds received from other governments.

Using "excess unemployment" as defined in the current legislation as an indicator of fiscal stress resulted in some anomalies. Counties with high unemployment, regardless of their financial condition, received large antirecession payments. Conversely, some counties with low unemployment were taking counterproductive budgetary actions, but receiving comparatively less in antirecession payments.

CHAPTER 3

IMPACT OF ANTIRECESSION ASSISTANCE

ON COUNTY OPERATIONS

Because antirecession assistance represents an addition to total available revenues, the funds will have a favorable impact on the counties' operations. Attempts to measure the actual effect, as well as when the impact will occur, are impaired by the interchangeable nature of moneys, shifting needs and priorities, changing amounts from other revenue sources, and the relatively small contribution antirecession funds make to total resources. Although these limitations preclude any conclusive evaluation of the impact of antirecession payments, the funds will probably fill a budgetary void for some counties, increase the level of expenditures in others, and help some increase or maintain surpluses for fiscal year 1977.

As of February 28, 1977, the counties we visited disbursed 25 percent of the total antirecession assistance payments they received for the first three quarters beginning July 1, 1976. As of April 30, 1977, 42 percent of the first payment was disbursed, and officials estimated that 58 percent would be disbursed by May 31, 1977, about 6 months after receipt.

Although most counties reported using the funds for salaries, the majority will substitute them to pay salaries of positions normally paid with revenues from other sources. Some layoffs may have been prevented. Little new employment was anticipated, and no county had rehired employees previously laid off.

STATUS OF ANTIRECESSION FUNDS

For the first three quarters of the antirecession program, the 16 selected counties received about \$13.9 million. One payment for the first two quarters was received in November 1976, and payment for the third quarter arrived in early January 1977. As of February 28, 1977, nine counties had disbursed some or all of the funds, two counties had appropriated but not disbursed any of the payments, and the remaining five had not appropriated or disbursed any of the funds.

The following schedule summarizes the status of funds received.

Status of Antirecession Assistance for the
16 Selected Counties
As of February 28, 1977

| | <u>Amount</u> | <u>Percent of total available for appropriation</u> |
|--------------------------------------|---------------------|---|
| Funds received | \$13,853,074 | 99 |
| Interest earned | <u>142,514</u> | <u>1</u> |
| Total available for appropriation | <u>\$13,995,588</u> | <u>100</u> |
| Disbursed | \$ 3,484,825 | 25 |
| Appropriated but not disbursed | <u>3,783,299</u> | <u>27</u> |
| Appropriated | 7,268,124 | 52 |
| Unappropriated | <u>6,727,464</u> | <u>48</u> |
| Total | <u>\$13,995,588</u> | <u>100</u> |

The act requires that the funds be spent within 6 months of receipt. Department of the Treasury regulations interpret this requirement to mean appropriated. The 16 counties appropriated nearly all of their first payments within 6 months.

REPORTED USES OF ANTIRECESSION FUNDS
MAY NOT MEASURE ACTUAL IMPACT

The uses of antirecession assistance payments described in this section and the status of funds described in the previous section are those indicated by financial records or as described to us. As we pointed out in our earlier reports on the revenue sharing program, ^{1/} the uses shown in the

^{1/}"Revenue Sharing: Its Use by and Impact on State Governments," B-146285, Aug. 2, 1973; "Revenue Sharing: Its Use by and Impact on Local Governments," B-146285, Apr. 25, 1974; "Case Studies of Revenue Sharing in 26 Local Governments," GGD-75-77, July 21, 1975; "Revenue Sharing: An Opportunity for Improved Public Awareness of State and Local Government Operations," GGD-76-2, Sept. 9, 1975.

financial records are solely accounting designations and may have little or no relation to the actual impact of the funds.

A government can identify the amount of antirecession funds received as well as the amounts and sources of all other revenues. However, once funds from different sources are commingled for budgetary purposes, it is often impossible to identify the source of the dollars that fund an expenditure category or a specific item.

For reporting purposes, it becomes somewhat meaningless to earmark one revenue source for a specific set of expenditures and a second source for another where both revenues can be used interchangeably. Antirecession assistance, revenue sharing, Federal categorical aid, State aid, and a local government's own revenues can often be used to provide the same service. This creates an environment where funds can easily be displaced or substituted.

When a government spends antirecession payments for activities that were financed, or would have been financed, with revenues from local or other revenue sources, considerable latitude exists for the use of funds thus freed. Freed funds may be used to increase expenditures in other program areas, to avoid a tax increase or postpone borrowing, to increase yearend final balances, and so forth. For example, Montgomery County accounting records show that antirecession payments were expended for sheriff's and recreation department's salaries and for gas and water utilities bills. The antirecession funds, however, simply replaced the county's general funds and resulted in the freed moneys being held as unappropriated reserves.

It can be misleading to conclude that recorded uses indicate a positive impact, i.e. increased spending in those programs for which antirecession funds are designated. The interchangeable nature of money can nullify the meaning of a report that relates specific expenditures to a specific source of revenue, such as antirecession assistance.

Reported uses of funds appropriated

As shown in the following table, the counties in our sample that appropriated antirecession payments reported using the funds for a wide variety of activities.

**Use of Antirecession Funds
Received as of February 28, 1977**

| <u>Function</u> | <u>Number of govts.</u> | <u>Amount disbursed</u> | <u>Amount ap- propriated but not disbursed</u> | <u>Total</u> |
|-----------------------------------|---------------------------------|-----------------------------|--|---------------------------|
| Education | 2 | \$ 3,871 | \$ 395,204 | \$ 399,075 |
| Highways and streets | 3 | 545,881 | 14,792 | 560,673 |
| Public welfare | 3 | 2,172 | 101,717 | 103,889 |
| Hospitals and clinics | 1 | 2,163,622 | - | 2,163,622 |
| Health | 3 | 2,768 | 102,572 | 105,340 |
| Police protec- tion | 6 | 109,548 | 533,705 | 643,253 |
| Local fire protection | 2 | 273,042 | 1,221 | 274,263 |
| Sanitation other than sewerage | 1 | 10,181 | 18,319 | 28,500 |
| Local parks and recreation | 5 | 168,032 | 213,712 | 381,744 |
| Natural resources | 1 | - | 3,618 | 3,618 |
| Housing and urban renewal | 1 | - | 106,000 | 106,000 |
| Corrections | 2 | - | 245,000 | 245,000 |
| Financial ad- ministration | 5 | 5,771 | 210,298 | 216,069 |
| General control | 3 | 7,466 | 744,631 | 752,097 |
| General public buildings | 2 | 139,826 | 129,000 | 268,826 |
| Libraries | 2 | - | 76,845 | 76,845 |
| Other <u>1/</u> | 6 | <u>52,645</u> | <u>886,665</u> | <u>939,310</u> |
| Total | | <u>\$3,484,825</u> | <u>\$3,783,299</u> | <u>\$7,268,124</u> |

1/This category includes such items as animal control, weed and pest control, unemployment benefits, civil defense, and insurance premiums.

Little effect on new hires or reemployment

As shown on the following page, about 58 percent, or \$4.3 million, of antirecession funds were reported as appropriated for salaries and wages as of February 28, 1977. An additional \$1.5 million was reported as disbursed for employee and wage fringe benefit increases.

| <u>Object class</u> | <u>Amount disbursed</u> | <u>Amount appropriated</u> |
|---------------------------------------|-----------------------------|--------------------------------|
| Salaries/wages | \$1,659,886 | \$4,253,234 |
| Wage and benefit increases | 1,529,100 | 1,529,100 |
| Supplies and equipment | 60,804 | 225,455 |
| Repairs and maintenance | 141,111 | 420,837 |
| Capital construction/ improvements | 602 | 156,035 |
| Other <u>1/</u> | <u>93,322</u> | <u>682,463</u> |
| Total | <u>\$3,484,825</u> | <u>\$7,268,124</u> |

1/This category includes such items as building insurance, utilities, and funds not yet assigned to a specific object class.

No county reported using funds to rehire previously laid off employees and only two hired new employees; however, the funds probably made it possible for some counties to avoid layoffs. Most of the counties which had appropriated the funds have substituted the money to pay salaries of positions normally funded by other revenues. In all, antirecession funds will be substituted for 1,775 full-time and 21 part-time positions. Only 27 new hires were reported by the counties we reviewed.

IMPACT OF ANTIRECESSION ASSISTANCE VARIED

As previously discussed, the substitution or displacement of funds severely impairs using the reported uses of antirecession payments to identify and measure the impact of such funds. The identification of antirecession funds' net fiscal effect is not only complicated by the interchangeable nature of money, but also by shifting priorities and needs, changing amounts of revenue from other sources, and the relatively small contribution antirecession assistance funds made to the governments' total resources. In every county we visited, total antirecession assistance payments for the first three quarters represented less than one percent of total fiscal year 1975 general revenues.

Notwithstanding these complications, judgments regarding the net fiscal impact of the antirecession funds can be made because this was the first period money was received. Our analysis and discussions with county officials about how the current year budget would be modified to include

antirecession assistance led us to conclude that the funds affected the counties' operations in various ways depending on the financial condition of the governments and their need to provide services.

Our assessment of the impact of the funds, because of the limitations discussed above, consists of subjective interpretations that cannot be demonstrated conclusively. They are based on our analysis of the governments' financial operations and what was perceived by officials to be the net effect of antirecession funds on their current year budgetary operations at the time of our review.

Antirecession funds used to help balance the budget

Three counties used their antirecession assistance payment to fill a revenue shortfall in their current year budget and to possibly avoid counterproductive budgetary actions.

An Essex County official stated that because of a State-imposed limitation on tax increases, revenues have fallen short of projected expenditures. Although records show the funds were spent for hospital wages, officials believe county funds were "freed" to grant unavoidable salary increases of over \$3 million to all employees without being forced to layoff personnel and cut back services.

An Allegheny County official said that 1977 revenues will fall short of estimated expenditures. He believed the scarcity of land available for construction and skyrocketing construction costs have limited the growth in the county's property tax base. While revenues have shown some growth, they are not sufficient to support projected cost increases. Antirecession payments are slated to fund parks and road employees' salaries. Without the funds, the county would be forced to either increase taxes or lay off employees. Even with the funds, the county will need to increase taxes.

Cape May officials stated that 1977 revenues were falling short of meeting expenses. They cited inflationary impacts, particularly rising utility costs, and unrealized State aid as major problems affecting their budgets. The county earmarked the antirecession funds to pay salaries of road and bridge personnel. Officials stated that without the funds they would have had to raise taxes or lay off employees.

Antirecession funds used to increase expenditure levels

Six counties used antirecession funds to finance activities or programs that were not included in the current year's budget. If antirecession funds were not available, these counties may have decided not to increase expenditure levels or may have funded the increased expenditures by either using surpluses or taking counterproductive budgetary actions. Officials described their use of the funds as follows.

Clark County officials said antirecession funds will allow the county to pay salary increases not included in its fiscal year 1977 budget. Without the funds, the county would have funded the unexpected raise by not replacing employees lost through attrition.

Lake County officials said antirecession payments will be used to fund services and positions cut from the proposed budget. These include mostly part-time help and contractual services.

Bernalillo County officials stated that they planned to use antirecession funds to transfer 30 Comprehensive Employment and Training Act employees to the county payroll because they feared the act's funding would expire. In March 1977 the county received a new contract. At the time of our review, the contract had not yet been accepted. The county also had some unappropriated funds it planned to use in fiscal year 1978 for salaries and replacing capital equipment in the road and sheriff's departments.

The Robeson County manager said new positions were added to the fiscal year 1977 budget when the payments were received. The positions were created to provide the county with its own trash disposal service, automate its financial administration, and to expand social services to meet increased demand. The manager said that the positions were needed to maintain services. However, the county would have funded these positions from other sources if antirecession funds had not been available. Much of the county funds had not yet been designated for use. The county manager said that part of these funds would probably be transferred to school districts and other government units within the county.

Multnomah County officials stated that the antirecession money would fund 22 projects, such as maintaining parks, home winterization, and a personnel recruiting program. Although none of these projects had been included in the final budget, officials stated that some of them probably would have been financed through contingency funds had assistance not been available.

Riverside officials said antirecession payments helped fund some positions which had already been budgeted, but also enabled them to add 15 employees. The county, however, had a \$1.4 million contingency fund which may have been used to prevent layoffs. The county also had unappropriated funds which an official stated would not be appropriated until after June 1977. Although there were no formal plans for using the funds, an official thought the money would go for salaries.

Antirecession funds used to maintain or increase surpluses

Five counties we visited were collecting sufficient revenues to meet expenses and did not use their antirecession payments to increase the current year budget. In these counties antirecession funds displaced county funds and allowed them to maintain or increase surpluses. Consequently, little or no impact will occur until subsequent fiscal years.

Comanche County officials said that its budget is based on revenues from its own resources and only these revenues are appropriated. Although available, antirecession assistance, like general revenue sharing, is held as an unappropriated reserve. The county's own revenues are usually not sufficient to meet expenditures incurred, and a supplemental appropriation is normally made to cover the impending deficit. In fiscal year 1977, the county had available, as unappropriated reserves, sufficient general revenue sharing funds to pay the entire projected deficit. Instead, the county appropriated antirecession funds to pay the deficit. As a result, the antirecession assistance enabled the county to retain, as unappropriated revenues, a corresponding amount of general revenue sharing funds. Officials stated that services would have been maintained at the same level without antirecession funds.

In Montgomery County, funds were used to pay employee salaries in the sheriff's and recreation departments and to

pay for gas and water utilities. A manager said the payments were used in place of general fund revenues. In effect, anti-recession payments were used to replace the county's funds which were being held as unappropriated reserves. If the payments had not been available, the county would have had a smaller yearend general fund balance.

Fulton County received over \$976,000 in antirecession payments, including interest. The county included \$500,000 of it in the fiscal year 1977 budget for existing positions. No new hires or rehires are expected, so the funds will replace county revenue which would otherwise have paid the salaries. Because these payments became an indistinguishable part of the budget, it is difficult to judge what would have occurred without them. The county may have financed these positions by using surpluses or raising taxes. The remaining \$476,000 is unappropriated, and officials said the funds may be used for purchasing operating equipment or supplanting county funds already budgeted for salaries. If estimated revenues and expenditures are realized as expected by officials, the funds may result in a yearend surplus.

Hennepin County reported it will use its funds for highways and streets. Officials consider highway maintenance to be consistent from year to year and planned to continue such funding irrespective of the recession or whether they received assistance. The highway maintenance salaries and fringe benefits had been budgeted before the county learned of the anti-recession program. Thus, 1976 antirecession funds replaced county funds which would have been spent on this function. Since no additional expenditure was planned and revenues were collected as anticipated, this may result in a surplus.

Alameda County officials said that antirecession assistance had virtually no impact in the county's current fiscal year ending June 30, 1977. The county plans to use the funds for service contracts and for expansion of the county jail. Most of the antirecession funds are being used to pay for services that otherwise would have been paid for with available county funds.

Officials said that Alameda probably would have continued funding existing programs for the remainder of the county's current fiscal year even if antirecession assistance had not been received. Antirecession assistance will help increase yearend county surpluses. The unappropriated end-of-year balance antirecession funds created have been committed to

long-range support of community-based service contracts and property tax relief. If the funds had not been received, the officials felt one of three actions would have occurred:

- The amount of revenue sharing funds used for property tax relief would have been reduced.
- Some of the less productive county service contracts would have been eliminated.
- The county would have reduced property tax relief and cut back on some service contracts.

CONCLUSIONS

Since antirecession funds provide an additional revenue source, they affect the counties' operations favorably. Attempts to gage the effect of the funds as well as to assess when such impact will occur are extremely impaired by the interchangeable nature of moneys, shifting needs and priorities, changing amounts from other revenue sources, and the relatively small contribution antirecession payments make to the counties' total resources. Although these factors preclude any conclusive assessment, we found the following effects:

- Three counties' revenue collections were falling short of meeting expenditures. Antirecession funds were used to help balance the budget and possibly avoid counterproductive budgetary actions.
- Six counties were collecting enough revenues to meet budgeted expenditures, and antirecession funds were used to increase authorized expenditure levels. If antirecession funds were not available, these counties may have decided not to increase their expenditure levels or may have funded the increased expenditures by either using surpluses or taking counterproductive actions.
- Five counties were collecting sufficient revenues to meet budgeted expenses, and expenditure levels were not increased. In effect, antirecession funds were used to maintain or augment surpluses. Consequently, little or no impact will occur until subsequent fiscal periods.

The remaining two counties had not decided what to do with the funds at the time of our review.

Because the limitations mentioned above severely limited the analysis of the actual impact of antirecession funds, the effect on county employment was difficult to assess. Most counties appropriating payments reported spending some or all of the funds for salaries; however, the majority of these will substitute the funds to pay for positions normally funded by other revenues. While in some cases layoffs were probably prevented, little new employment was reported, and no county we visited had rehired workers previously laid off.

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