Tracking the Fiscal Footprints of Welfare Reform in North Carolina:

Exploring County Variations in Reaching Maintenance-of-Effort Requirements

By

Will Alexander

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Executive Summary

According to State law, all 100 North Carolina counties are required to expend a specified amount of local funds on welfare reform activities, known as a maintenance-of-effort (MOE) requirement. County-level welfare reform expenditure data indicate that only 35 counties met or exceeded their MOE requirements during state fiscal year (SFY) 1999-2000. Using a statistical approach, this paper demonstrates that four factors – level of fund balance, average per capita income, political orientation, and a county's status as an Electing or Standard county (a designation unique to North Carolina signaling a county's desired level of local welfare reform autonomy) – were significantly associated with the counties' variations in fulfilling their MOE requirements. Of these findings, the discovery that Electing county status has a negative impact on meeting MOE requirements – the only factor examined in this study that is under the control of policymakers in North Carolina – deserves particular attention in light of the upcoming welfare reform reauthorization process.

SCOPE OF THIS STUDY

Many research efforts have focused on evaluating the impacts of welfare reform on program recipients.[1] Fewer studies are aimed at measuring how the various levels of government - national, state, and local - have responded to welfare reform legislation.[2] This welfare reform study is unique in that it establishes local government, in this case the 100 counties of North Carolina, as the primary unit of analysis. Focusing on SFY 1999-2000, it tracks a trail of fiscal footprints by describing county-level welfare expenditure data and offering factors associated with its variations. In describing the contours of this trail, this study has been guided by two primary research questions:

> 1) Are counties meeting the financial requirements established by North Carolina welfare reform legislation?
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> 2) What factors explain county variations in reaching these requirements?

Before addressing each of these questions, it is important to provide some background information regarding the broader public policy environment in which this analysis takes place as well as some of the unique features of the welfare reform process in North Carolina.

PUBLIC POLICY ENVIRONMENT

The Personal Responsibility and Work Opportunity Reconciliation Act (PROWA) of 1996 (P. L. 104-193) forms the chief legislative cornerstone for welfare reform efforts in the United States. This legislation converted the former welfare entitlement program – Aid to Families with Dependent Children (AFDC) – to the new Temporary Assistance to Needy Families (TANF) program. A major component of welfare reform, in the spirit of devolution, was the establishment of a block grant funding system for each of the 50 states. The amount of these block grants is based on each state's 1994 AFDC spending level. In order to access its total block grant funding each state must reach 85 percent of its former spending level - this mandate is referred to as a state's maintenance-of-effort (MOE) requirement.

In North Carolina the welfare reform process is referred to as Work First and the delivery of social services is a county-administered and state-supervised process. As the nation devolved the responsibility for the welfare entitlement program to the states, North Carolina experienced a second-order devolution by providing counties with the opportunity to assume more responsibility over the program. While both Standard and Electing counties are affected by the general requirements and goals of the Work First program, Electing counties "also have the opportunity to establish their own eligibility criteria and benefit levels."[3] While all 100 North Carolina counties were eligible to apply for status as an "Electing" county, only 25 counties applied. From this group of 25, 21 were chosen randomly.[4]

Just as the State of North Carolina is required to meet a MOE expenditure level to receive its total national TANF block grant funds, each county in North Carolina is required by State law (G.S. 108A-27.12) to reach a pre-determined welfare reform expenditure level. Counties must reach this MOE requirement to access their total allotted amount of state and national funding.[5] The MOE spending level for each of North Carolina's counties is determined by their Aid to Families with Dependent Children (AFDC) budgets from state fiscal year (SFY) 1996-97.[6] County welfare reform expenditures do not include Work First cash assistance, which is comprised of federal and state dollars only. County welfare reform outlays cover the salaries and benefits of Work First administrators and staff as well as direct services expenses including job training, education, transportation, and other services for recipients.

1) ARE COUNTIES MEETING THEIR FINANCIAL WELFARE REFORM OBLIGATIONS?

Despite the statutory requirement, 65 counties in North Carolina did not reach their required MOE levels during SFY 1999-2000 (See Appendix 1, Table 1). Taken together, this MOE shortfall represented $4.4 million of combined county funds that could have potentially supported more welfare reform activities at the county-level. On the other side of the spectrum, the 35 counties that met or exceeded their MOE requirements contributed $1.2 million above the minimum required outlays. When these combined shortfalls and surpluses are reconciled, the net result for the 100 counties was a $3.2 million shortfall.

2) WHAT FACTORS EXPLAIN COUNTY VARIATIONS IN REACHING THEIR MOEs?

To explain why some counties are reaching their MOE requirements and others are not, this study focused on four main hypotheses:

> Hypothesis #1: *Counties with proportionately higher fiscal well-being are more likely to meet or exceed their MOE expenditure levels than counties with lower fiscal well-being.* The theory behind this hypothesis is that counties with proportionately greater financial resources have more capacity to raise local dollars and draw down more State and national dollars than counties with less fiscal well-being.
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> Hypothesis #2: *Democratic counties are more likely to meet or exceed their MOE expenditure levels than Republican counties*. Democratic counties tend to be more ideologically sympathetic to public welfare programs and thus are more willing to commit local resources to such programs than are Republican counties.
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> Hypothesis #3: *Counties with proportionately larger Work First caseloads are more likely to meet or exceed their MOE expenditure levels than counties with lower Work First caseloads*. The rationale here is that counties with proportionately larger Work First caseloads are willing to spend more local dollars than counties with smaller caseloads because their need to draw down supplementary State and national dollars is more acute.
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> Hypothesis #4: *Standard counties are more likely to meet or exceed their MOE expenditure levels than Electing counties*. Standard counties, as evidenced by the fact that most chose to be Standard counties, are more receptive to state-centralized public welfare programs than the Electing counties that sought greater local autonomy over public welfare programs. As a result of their ideological support for a more state-centralized welfare reform process, Standard counties may be more likely to spend local dollars on welfare reform efforts than Electing counties.

REGRESSION ANALYSIS

To test these four hypotheses the following multivariate regression equation was specified:

$$MOE = \alpha_0+\beta_1F+\beta_2I+\beta_3P+\beta_4C+\beta_5S+\beta_6T+\varepsilon$$

where

MOE = ratio of the county's MOE level obtained to its required MOE level
α = y intercept
β = parameter estimates (i=1...6)
F = fund balance as a percentage of the county's total general fund expenditures
I = per capita income as a percentage of the state average per capita income
P = political orientation
C = number of Work First cases as a percentage of the county's total population
S = status as Electing or Standard county
T = interaction term (product of political orientation & status as Electing/Standard county)
ε = error.

The dependent variable in this analysis is the level of MOE reached by each of the 100 counties during SFY 1999-2000. This variable is expressed as ratio of the county's actual welfare reform expenditure amount divided by its required MOE expenditure level. It is necessary to point out that while it is important to standardize the dependent variable to account for variations in population, budget, and other salient differences between the 100 counties, the effects of this standardization can be dramatic. For example, while Perquimans County and Cabarrus County reported (in absolute terms) similar gaps in their MOE requirements, $58,598 and $57,485 respectively, this amount represented only a 4 percent MOE shortfall for Cabarrus, while for Perquimans it amounted to a 31 percent shortfall. Data for this variable were collected by the Office of the Controller at the North Carolina Department of Health and Human Services (NC DHHS).[7] Two former and two present NC DHHS officials have verified that these data are the most reliable welfare reform expenditure data available. These officials cited that all 100 counties are required to have a single-county audit ensuring that the financial information related to all social service programs is, in all material respects, accurate.

Fiscal well-being for each county was measured via two independent variables: fund balance and per capita income. Both of these fiscal well-being measures were taken as percentage measures, as opposed to absolute dollars. This ensures that these indicators are standardized across all 100 counties. Fund balance was taken as a percentage of the county's total general fund expenditures while per capita income was taken as a percentage of the state average for per capita income. Both measures were included for their different areas of emphasis: the fund balance ratio is more reflective of a county government's current financial health while the per capita income ratio is more representative of the overall financial health of the entire county. Per capita income figures were collected from the February 2002 edition of *Business North Carolina.* Fund balance information was collected from the Office of the State Treasurer.[8]

A county's political orientation was represented in the regression analysis with an ordinal coding scale. Using this scale, the number "1" was entered for counties where all the county commissioners were Democrats between 1992 and 1998 and the integer "5" was used to indicate counties where only Republicans served on the board. The other counties were coded depending on which political party held the majority sway, with a value of "2" indicating mostly Democratic control, the number "4" representing mostly Republican control, and the integer "3" signaling a shared amount of control between both parties. Political orientation data were collected from the North Carolina Association of County Commissioners.

A county's Work First caseload was calculated as the number of Work First cases (not recipients) as a percentage of the county's total population. As with the fiscal well-being measures, this measure was taken as a percentage measure to ensure proportionality across counties. Caseload data for each county were collected from the NC DHHS.[9]

A county's status as a Standard or Electing County was measured via a dummy variable where the integer "1" was used to indicate that a county was an Electing county and a "0" was entered for Standard counties. County status data were collected from The Tracking Welfare Reform in NC Counties Project.[10]

An interaction term was also included in the model to account for the combined effects of political orientation and a county's status as Standard or Electing. The interaction term allows one to assess the strength of the combined effects of these two variables in explaining variations in the level of MOE reached.

RESEARCH FINDINGS

Overall, the six aforementioned independent variables explain 41 percent of the county variation in reaching MOE requirements. Before describing the specific results, it is important to note that by analyzing an entire population (all 100 counties in North Carolina) this regression model describes the exact relationships found in the population as opposed to a sample of a larger population. Therefore, the statistical significance of each variable, while reported in Appendix 2 (Table 1), is not germane to this analysis. Instead, this report focuses on the standardized and unstandardized coefficients of the independent variables (see Appendix 2, Table 1). These regression results for each variable will now be discussed in the order of the hypotheses they tested.

Testing Hypothesis #1. The unstandardized coefficient for the fund balance variable (-1.59) suggests that for each 10 percent increase in the county's fund balance ratio (an increase from 60 percent to 70 percent for example) the county's shortfall in reaching its required MOE amount increases by 1.6 percent. This result appears to contradict *Hypothesis #1* by suggesting that counties with larger fund balances have greater shortfalls in reaching their required MOE amounts. One potential explanation for this result is that counties with larger fund balances are more fiscally conservative and thus less willing to front local resources for social service programs. Oppositely, as the county's per capita income ratio increases by 10 percent its MOE gap decreases by the unstandardized coefficient of 1.89 percent. This result confirms *Hypothesis #1* which had predicted that counties with greater fiscal well-beings were more likely to meet their MOE requirements. Based on their different results, it may be important to consider these variables as discretely different as opposed to uniting them under the more abstract concept of fiscal well-being.

Testing Hypothesis #2. As for the political orientation variable, its unstandardized coefficient implies that Republican counties trail Democratic counties by .872 percent in reaching their MOEs. This result seems to confirm the general notion behind *Hypothesis #2*.

Testing Hypothesis #3. The standardized coefficient value for the Work First caseload variable (.016) suggests that its explanatory power in regards to the variation in the dependent variable was relatively insignificant. This result may be a function of the fact that cash assistance, which is the direct financial benefit received by the Work First clients, is comprised entirely of national and state (not county) dollars. Therefore, this result appears to contradict the thought behind *Hypothesis #3*.

Testing Hypothesis #4. The unstandardized coefficient for the independent variable measuring a county's status as an Electing or Standard county suggests that Electing counties are 4.5 percent behind Standard counties in reaching their required MOEs. This result appears to confirm the theory behind *Hypothesis #4*.

Testing the Interaction Term. The unstandardized coefficient for the interaction variable suggests that Electing counties with Republican political orientations are 3.4 percent behind other counties in reaching the required MOE levels. Of the six independent variables, the interaction term had the largest standardized coefficient (-.460) and therefore the largest relative impact in explaining county variations in reaching their MOE requirements. The standardized coefficient value for the interaction term was double the value of the next closest variable, per capita income (.223) and four times greater than the values for fund balance (-.161), political orientation (-.109), and a county's status as Standard or Electing (-.139).

WHAT IMPLICATIONS CAN BE DRAWN FROM THESE FINDINGS?

Now that this trail of fiscal footprints has been tracked and explanations for its twists and turns have been proposed, it is time to make sense of the overall map. However, before suggesting some of the implications that might be drawn from this analysis, it is important to identify the limitations in this research study.

The most significant limitation of this study is that it only examines one year of fiscal data: SFY 1999-2000. Based on this fact, one should be cautious when generalizing from this study.[11] A second limitation concerns the validity and reliability of the dependent variable data. While these are the most reliable data available, it should be noted that this information is reported by each county's Department of Social Services to the NC DHHS. As a result of this reporting structure, it is possible that counties have different understandings in regards to what can be coded as a Work First expenditure. For example, some counties included a Work First expenditure line item for Child Protective Services (CPS) while other counties did not have any Work First line items related to CPS activities. Another example of a potential limitation of the data is that certain counties may rely on volunteers and faith-based organizations to provide in-kind Work First Services that are not reflected in the existing reporting forms. Finally, since this regression model only explains 41 percent of the variation in counties reaching their MOE requirements, there are clearly other significant factors or motivations that were unidentified by this study. Such phenomena may prove critical to a comprehensive understanding of this topic.

After weighing these research limitations, state and county officials in North Carolina need to collectively determine the implications of the fact that a majority of counties (65) are not reaching their required MOE expenditure levels. After all, despite the $3.2 million shortfall in local funds, counties have played an indispensable role in assisting the State reach its required MOE expenditure level. The 100 counties have collectively, each of the past three SFYs, contributed over $90 million in local funds towards the Work First program. This contribution has constituted over 56 percent of the State's required MOE spending level ($164.5 million) each of these years. As a result of this sizable contribution by the counties, the State has not, since the implementation of Work First in 1997, had to provide additional State funds to cover local shortfalls when attempting to draw down national funds. However, future increases in the counties' combined MOE shortfall could require that the State contribute additional resources to continue accessing its total allotted national TANF funds. Moreover, given the present deficit in the State's budget of nearly $1 billion, it may prove worthwhile to determine if the combined shortfall of local Work First dollars is having any direct impact on the State's deficit.

Future research efforts need to explore the motivations of Standard and Electing counties in reaching their MOE requirements. Particular effort, however, needs to be placed on understanding Electing counties motivations. For while a majority of both Electing (95 percent) and Standard (58 percent) counties reported MOE gaps during SFY 1999-2000, the combined MOE monetary shortfall of the 19 Electing counties ($2.9 million) was nearly twice that of the 58 Standard Counties ($1.5 million). Likewise, while a majority of Standard counties are not reaching their MOEs, most (67 percent) are only short by less than 5 percent; whereas, nearly all Electing Counties (86 percent) report MOE gaps ranging from 5 percent to 68 percent. In-depth case studies are also needed to determine if there is a strong relationship between political orientation and a county's obtainment of its MOE expenditure level. For example, are the Electing Counties with strong Republican political orientations actively sending an ideological message of resistance to the State or are there less partisan factors that can explain their similar behaviors in not reaching their MOE requirements? Additional research efforts are also required to determine the degree to which program recipients have been affected by these county-level MOE shortfalls.

An even broader set of questions emerges from this study regarding the fiscal accountability of inter-governmental block granting. For example, have the MOE requirements that have accompanied the TANF block grant process clarified or confused the issue of funding accountability? Are states striving to maximize the substitution of local funds for state funds when pursuing their MOE requirements? Are local governments taking advantage of ambiguous enforcement measures by states when they have not anted up their required levels of welfare reform funding?

All the aforementioned questions and implications that emerge from this study are particularly timely for North Carolina policymakers who will make key decision regarding the reauthorization of welfare reform in the coming months. In highlighting the MOE process in more detail, this paper has offered some insights into the nature of funding relationships that exist between the State and the counties. This insight may be of interest to officials exploring ways to reduce the State budget deficit. Finally, by tracking this trail of fiscal footprints through the welfare reform policy landscape in North Carolina, this study has provided one conceptual compass with which state and local officials can orient themselves when evaluating the overall impacts of the welfare reform process to date.

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[1] See the following websites for a sample of existing welfare reform research studies that are underway: [http://ssw.unc.edu/workfirst/reports.html]; [http://www.ces.ncsu.edu/depts/fcs/humandev/welfare1.html]; [http://www.ncga.state.nc.us/LegLibrary/studies/welfare.htm]; and [http://aspe.os.dhhs.gov/hsp/welf-ref-outcomes00/chapter3.htm].

[2] See "Changes in State Spending on Social Services Since the Implementation of Welfare Reform: A Preliminary Report." Deborah Ellwood and Donald J. Boyd. The Nelson A. Rockefeller Institute of Government. February 2000.

[3] See North Carolina's Temporary Assistance for Needy Families State Plan (P.L. 104-193): The Work First Program. North Carolina Department of Health and Human Services, FFY 2002-2003, p. 2.

[4] See The Tracking Welfare Reform in NC Counties Project's article entitled "Welfare Reform a Condensed Chronology" which can be found online [http://www.unc.edu/depts/welfare/chron.pdf] for a more in-depth description of how Electing counties were randomly chosen.

[5] This statute can be viewed online at the following website: [http://www.ncga.state.nc.us/Statutes/GeneralStatutes/HTML/BySection/Chapter_108A/GS_108A-27.12.html].

[6] Ibid. Note: Standard counties are required to expend 100% of their 1996-97 AFDC budget in order to meet their MOE requirement. Electing counties, on the other hand, if they can demonstrate that their Work First goals are being met, are only required to reach 90% of their AFDC budget after one year of welfare reform implementation and just 80% by the second year.

[7] Only one county, Graham County (Standard), was omitted from this otherwise complete population of data. Graham was considered an outlier as it only reached 5.04% of its MOE. The required MOE data (the dependent variable) has been scaled for those Electing counties that are only required to reach 90% of their former AFDC budget.

[8] See this website [http://ncdst-webt.treasurer.state.nc.us/lgc/units/unitlistjs.htm].

[9] See this website [http://www.dhhs.state.nc.us/docs/reportcard.htm].

[10] See this website [http://www.unc.edu/depts/welfare/chron.pdf].

[11] A four-year panel regression is underway by the Tracking Welfare Reform in NC Counties Project to test these and other hypotheses across time.