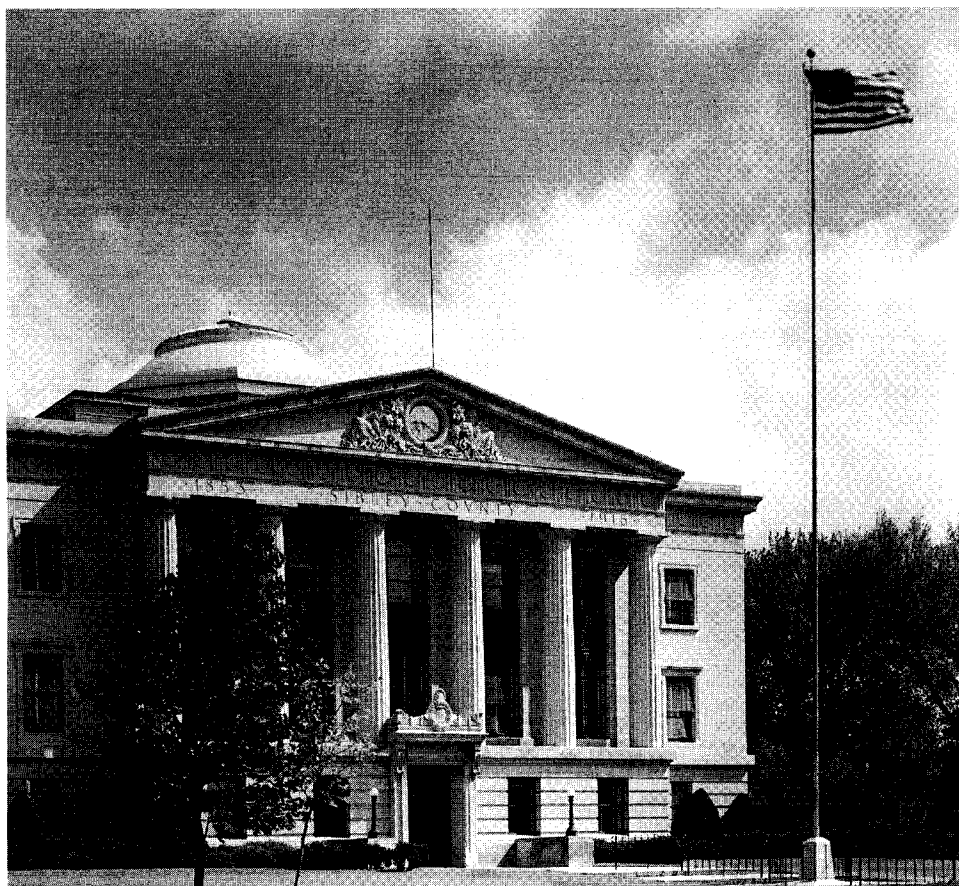


# Federal Cutbacks and the Local Economy

by Thomas F. Stinson, Barry M. Ryan, and Carole B. Yoho



America is moving toward an economic and social system in which the federal government will have a smaller presence. Whether it will actually be possible to balance the budget by 2002 remains a question, but it is clear that the federal government will play a smaller role in the future financing and delivery of public services. Additional responsibilities are expected to devolve to the states and to local governments. That devolution, in turn, is likely to increase financial pressures on state and local governments. In some instances, federal cutbacks may also affect the local economy.

Stronger than anticipated economic growth in 1996 has improved the budget outlook, but the long term spending projections in the president's 1997 budget still offer an indication of how future federal spending could be affected. For entitlements—programs such as food stamps and family support assistance, where baseline future spending levels are determined by the number of eligible individuals and the expected cost of the services mandated under current law—cuts averaging 10 percent from the 2002 baseline were proposed. Medicare and Medicaid, the two largest and fastest growing entitlements, were expected to receive cuts of 11 percent and 13 percent respectively from 2002 baseline levels.

For non-defense discretionary programs, where spending levels are tied to annual appropriations, cuts averaging 20 percent from current spending levels adjusted for inflation were included. Defense spending would have been cut by 10 percent from the baseline levels for 2002 under the president's fiscal year 1997 budget plan.

Spending reductions of the size necessary to balance the federal budget will

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create significant tensions in state and local budgets. Public officials everywhere need to begin planning how they and their communities can best deal with the financial challenges posed by the coming federal downsizing and devolution.

States will need to determine how much of the lost federal revenue they wish to replace through increased state spending. Existing programs to be maintained at current levels will need to be explicitly identified, as will those to be cut back, eliminated, or delegated to local government. In Minnesota, as in most states, it is not realistic to believe that state funds will be available to fully cover all the projected federal cutbacks.

At the local level, where final responsibility for service delivery typically rests, the impact of federal cutbacks will vary depending on the importance of the federal sector to the local economy, and on the programs the state chooses to continue. Impacts will differ by community and program, but all Minnesota localities need to begin now to identify how they might be affected by cuts in federal spending. Careful planning at both the state and local level will be necessary if unnecessary service disruptions and dislocations are to be avoided.

### Federal Spending in Minnesota

Minnesotans and their governments received more than \$18.8 billion in federal spending during the 1995 federal fiscal year, about \$4,122 per capita.\* Federal spending in the state was 19 percent of personal income.\*\*

But, while the federal presence in Minnesota's economy is large and significant, the amount residents of this state receive falls well below the national norms. Nationally, federal spending exceeds 24 percent of personal income, and averages \$5,161 per capita. Minnesota ranks 46th of the 50 states in federal spending as a percentage of personal income, and 48th in per capita federal spending. Only Wisconsin and Indiana receive less than Minnesota on a

\* U.S. Bureau of Census, *Consolidated Federal Funds Report*, 1995.

\*\* Since personal income measures only income received by households, the ratio of federal spending to personal income overstates the importance of the federal sector when payments for goods and services in an area go for items other than wages and proprietors' incomes. Personal income is, however, the only relatively comprehensive measure of economic activity compiled at the county level on a consistent national basis.

In general, this article compares spending for programs whose primary impacts are on the local economy to county personal income. Programs that principally provide aid for state or local public services are compared on a per capita basis so as to provide an indication of the size of the tax increases necessary to continue the programs at their baseline level.

**Table 1. Federal Spending in Minnesota Per Capita, fiscal year 1995**

Program	\$ Per Capita	U.S. Average	U.S. Ranking
Direct payments	2,315	2,714	47
Aid to state and local government	807	866	30
Salaries and wages	361	636	46
Procurement	349	765	38
Other	290	178	10
Total	4,122	5,161	48

Note: Numbers may not add to total due to rounding.

Source: Bureau of the Census.

per capita basis. The state ranks 46th in federal salaries and wages per capita, 38th in procurement receipts, and 30th in per capita state and local grants and aids received (Table 1).

Spending in Minnesota on the largest federal programs is also below the U.S. average. Minnesotans received \$1,189 per capita in Social Security payments in 1995, about 95 percent of the U.S. average of \$1,252. Medicare receipts were 85 percent of the U.S. per capita average of \$681. Federal reimbursements to Minnesota's Medicaid program (which provides medical assistance to the poor and nursing home care for the elderly) were right at the U.S. average of \$337 per capita.

About a third of every federal dollar coming to Minnesota goes to pay retirement and disability benefits to state residents. Medicare and Medicaid account for an additional 25 percent, while federal purchases and wages and salaries paid to federal employees constitute another 17 percent. The remaining 25 percent funds all the other well known federal programs, such as highway construction and farm supports, food stamps and low income housing, unemployment compensation and school lunches.

### Cuts Will Differ By Region

Local impacts of federal spending cutbacks will depend on the programs cut and the relative size of the cuts. Social Security and Medicare, for example, are a larger portion of the economy in counties with large proportions of their residents over the age of sixty-five, while agricultural program payments are most important where corn and wheat are major crops. Potential cuts in research funding (which totalled more than \$300 million statewide in 1995) will be concentrated in Hennepin and Olmstead Counties, the locations of the University of Minnesota and the Mayo Clinic. Some indication of the differences across the state is

provided in the maps\* and discussion that follows.

**Total Spending** of federal dollars in Minnesota can be examined in a number of ways. Residents of Hennepin County and their local governments received more than \$5.25 billion in federal payments in 1995, nearly double the amount received by second place Ramsey County. Federal spending was only \$16 million in Lake of the Woods County, less than anywhere else in Minnesota. But, when the importance of federal dollars to the local economy is considered the picture changes. In Hennepin County, federal spending as a percentage of personal income was only slightly below the state average of 19 percent, while in Lake of the Woods County it amounted to more than 22 percent.

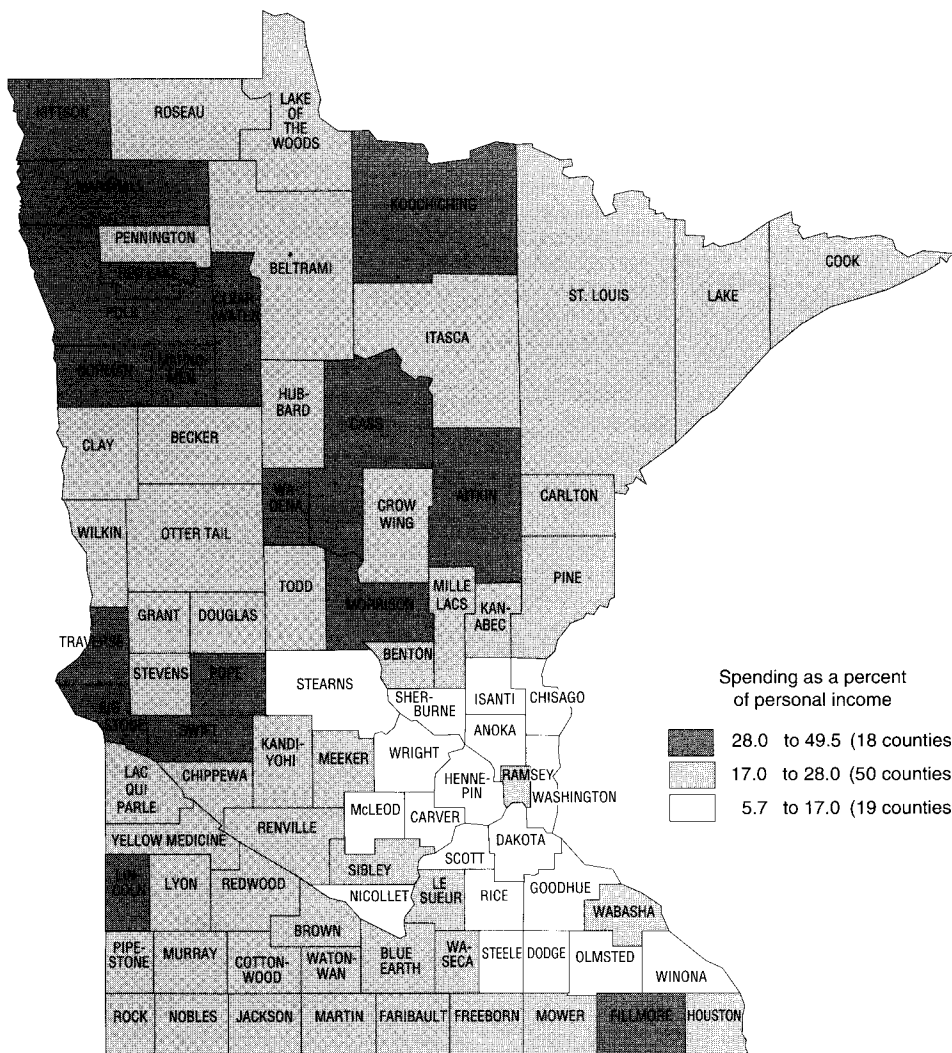
Statewide, there were substantial differences in the local importance of the federal sector (Figure 1). In nineteen of Minnesota's eighty-seven counties, federal spending was less than 17 percent of personal income. At the other end of the scale, federal spending exceeded 28 percent of personal income in eighteen counties. In four counties—Washington, Carver, Scott, and Dakota—federal spending was less than 9 percent of personal income, while it exceeded 35 percent of county personal income in Norman, Kittson, Marshall, Red Lake, and Mahanomen Counties. Federal spending exceeded 49 percent of county personal income in Red Lake County.

**Retirement and Disability Payments** are direct payments from the federal government to retired or disabled citizens. In 1995 they amounted to 6.7 percent of Minnesota personal income. Federal pensions and veterans' benefits, as well as programs providing income supplements to the disabled, are included in this spending category, but Social Security benefits are more than three-quarters of the total.

\* Map shadings were chosen to highlight counties most likely and least likely to be affected by federal budget cuts. Usually about one-sixth of Minnesota counties were in each of the extremes.

**Cover photo: County governments across the state, like that in Gaylord for Sibley County, need to look at how they will be affected by federal spending cuts.**

**Figure 1. Total Federal Spending, fiscal year 1995**



Most analysts believe there will be little more than token cuts from the projected baseline growth for retirement and disability spending. This means that, if all other things are equal, in communities where Social Security and federal pension payments are a greater than average proportion of the local economy, federal budget changes will have little impact.

Retirement and disability payments ranged between 7.5 and 12 percent of personal income in approximately 60 percent of all Minnesota counties (Figure 2). At the extremes, however, there were wide differences. In six counties—Aitkin, Lake, Cass, Wadena, Big Stone, and Hubbard—retirement and disability payments to local residents totalled more than 14 percent of personal income, while in five Twin Cities suburban counties—Anoka, Dakota, Scott, Carver, and Washington—those payments amounted to less than 4 percent of county personal income.

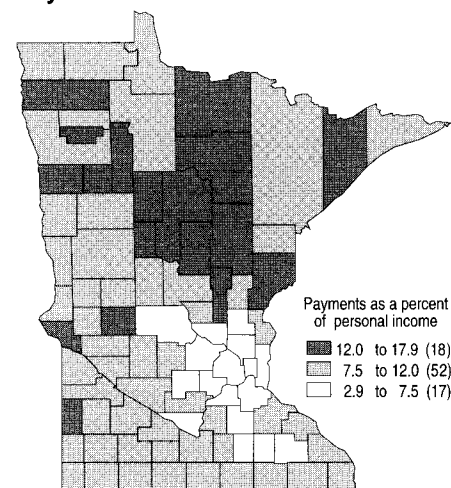
**Medicare** spending in Minnesota reached \$2.6 billion in 1995, but as with retirement and disability payments, there were large differences among counties. As would be expected, suburban counties received substantially less as a percentage of personal income, and rural counties with larger populations of senior citizens received more (Figure 3). In seventeen counties, Medicare spending as a proportion of personal income exceeded 4.7 percent. In eleven counties, it was more than double the statewide average of 2.6 percent; and in Lincoln and Big Stone Counties, Medicare payments exceeded 6.5 percent of personal income. In sixteen counties, Medicare payments were less than 2.75 percent of personal income; and in Anoka, Dakota, and Washington Counties, Medicare spending was less than 1 percent of personal income.

**Wages and Salaries** paid to Minnesotans by the federal government in 1995

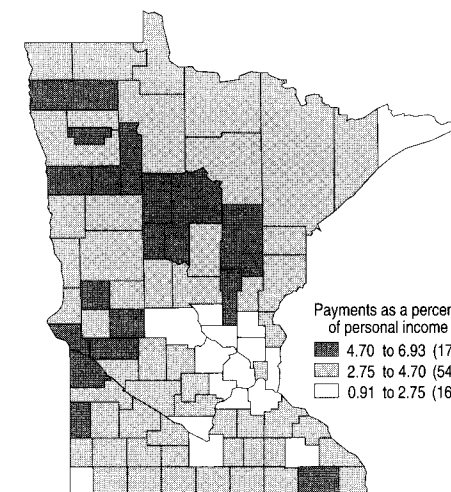
totalled \$1.6 billion, about 1.6 percent of state personal income. More than 60 percent was paid to postal employees. Indeed, almost 5 cents of every federal dollar received in Minnesota goes for postal service wages. Residents of Hennepin County received about 40 percent of the total, state-wide federal salaries and wages, \$657 million. Federal employees living in Ramsey County received \$269 million. Those in St. Louis and Dakota Counties also received more than \$100 million in wages and salaries. In eighteen counties federal salaries were less than \$2 million.

In some counties even though the actual dollar amounts were relatively small, federal wages paid were a large percentage of county personal income (Figure 4). Federal wages and salaries were more than 2.5 percent of county personal income in eight counties—Kittson, St. Louis, Cass, Beltrami, Stearns, Cook, Pine, and Morrison. They were less than 0.75 percent of personal income in sixteen counties; and

**Figure 2. Retirement and Disability Payments**



**Figure 3. Medicare Payments**



in Anoka, Washington, Nicollet, and Carver Counties—less than 0.5 percent of personal income. In Hennepin and Ramsey Counties federal wages and salaries accounted for 2.1 and 2.2 percent of personal income, respectively.

**Procurement** spending by the federal government in Minnesota was estimated to be \$1.6 billion in 1995, about 1.5 percent of state personal income. The allocation of procurement spending across states and localities is less reliable than that for the other federal spending data compiled by the Census Bureau, however. Attempts are made to allocate procurement spending to the location where the work is done and not to the location of the prime contractor, but not all subcontracts can be identified and included. The data we present probably overstate federal procurement's importance in locations where prime contractors are concentrated, while understating its impact elsewhere.

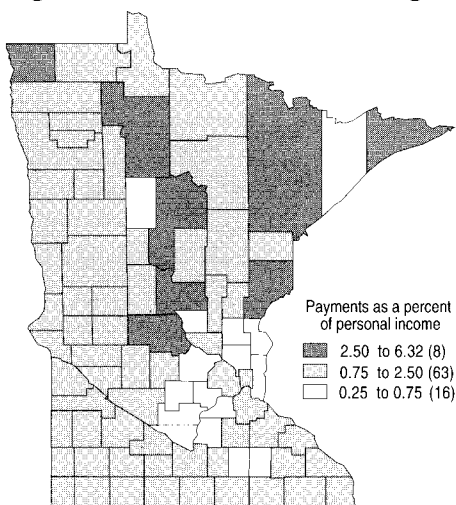
The *Consolidated Federal Funds Report* for fiscal year 1995 assigns nearly two-thirds of all procurement spending in Minnesota to Hennepin County. Hennepin and Ramsey Counties, combined, account for nearly 80 percent of the \$1.55 billion in federal purchases made in the state, and in Hennepin County procurement was 3.2 percent of personal income. Again, however, relatively small amounts were important parts of some local economies. Federal procurement in Red Lake, Koochiching, Watonwan, Marshall, and Pope Counties exceeded 3.5 percent of personal income. In Red Lake County federal procurement was 8.9 percent of personal income.

**Agricultural Payments** are an example of a program where changes are already underway. Decisions about future funding cuts were made as part of the 1996 farm bill. These changes will affect the outlook for the agricultural sector in Minnesota and in other states where agriculture is important.

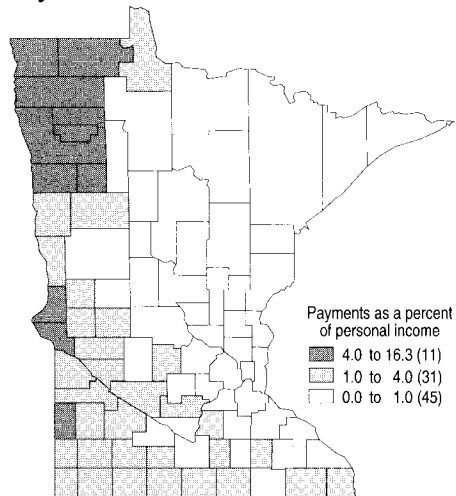
Farm program payments, broadly defined to include the conservation reserve and specialty programs as well as the better known commodity programs for feed grains and wheat, add significantly to personal income in some Minnesota counties. Farmers in two counties, Marshall and Polk, received more than \$25 million in federal payments during the 1995 fiscal year, while those in Kittson, Norman, and Roseau Counties received more than \$10 million.

Farm program payments exceeded 4 percent of personal income in eleven counties. In four of those counties—Marshall, Kittson, Norman, and Red Lake—they exceeded 10 percent of personal income (Figure 5). Farm program payments were less than 1 percent of personal income in forty-five of Minnesota's eighty-seven counties.

**Figure 4. Federal Salaries and Wages**



**Figure 5. Agricultural Program Payments**



Not all of the federal government's support for agriculture is reflected in these payments, however. The farm program provides an indirect subsidy to the dairy industry through its purchase of butter, cheese, and non-fat dry milk from processors. Those purchases, which are scheduled to be eliminated in 1999, are included in the procurement spending discussed earlier.\*

#### Local Government Programs Will Also Be Cut

Direct federal aid to local governments, and aid for which the location of the recipient or the recipient government can be identified even though funding passed through state

government, totalled nearly \$4 billion in Minnesota in 1995.\*\* Hennepin County received roughly one-third of those funds, and Ramsey County \$500 million. Dakota County and St. Louis County also received more than \$150 million.

Statewide, per capita grants and aids to state and local governments averaged \$863, including \$348 per capita in Medicaid. Two counties—Red Lake and Beltrami—each received more than \$1,400 per capita, and twenty additional counties received more than \$1,000 per capita. At the other end of the scale, eighteen counties received less than \$600 per capita, and Washington, Carver, and Sherburne Counties received less than \$350 per capita. The distribution of some of the better known federal aid programs is discussed below.

**Medicaid** reimburses state governments for a portion (54 percent in 1995) of the costs incurred in providing medical assistance to the needy and long term care for the elderly. Medicaid reimbursements accounted for more than 40 percent of all federal aid received by state and local governments in Minnesota in 1995.

Federal Medicaid reimbursements averaged \$348 per capita in Minnesota in 1995. Sixteen counties received more than \$465 per capita, while twenty counties received less than \$300 per capita (Figure 6). Seven counties—Norman, Clearwater, Kittson, Red Lake, Big Stone, Traverse, and Wadena—received at least 50 percent more than the statewide average, while six counties—Scott, Carver, Dakota, Anoka, Sherburne, and Washington—received 40 percent less. Per capita receipts in Hennepin County (\$427) and Ramsey County (\$443) exceeded the statewide average.

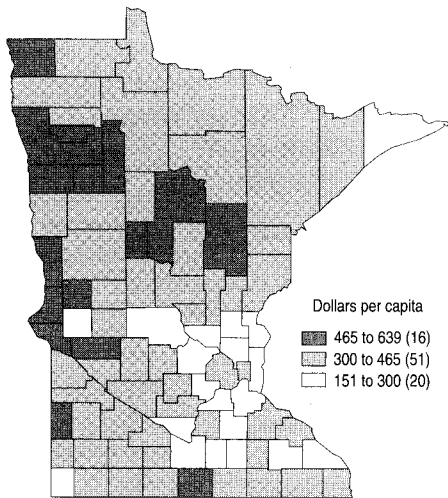
**Highway Planning and Construction Aid** to Minnesota governments reached nearly \$316 million in 1995, just over 8 percent of all aid to state and local governments. Since these local grants depend on the number and cost of projects currently in the planning stage or under construction, the amount received in any particular county varies over time. Hennepin County (\$73 million in 1995) and Dakota County (\$28 million) received about one-third of the statewide total in 1995.

When spending is viewed on a per capita basis, counties with smaller populations often appear to receive disproportionately large amounts of funding. In six counties federal highway planning and construction

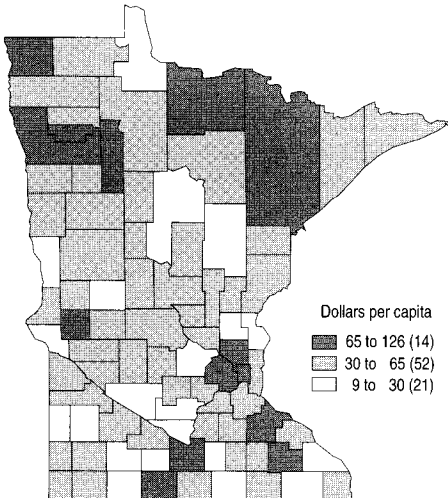
\*\* An additional \$2 billion in federal spending (\$432 per capita) was unallocated at the county level. Much of this spending came in the form of direct assistance to individuals through unemployment compensation and the earned income tax credit, but a portion was redistributed by state government to various localities. That spending is not included in the analysis which follows.

\* Low interest loans are also available to some farmers. Federal lending and loan guarantee programs, including student loans, are not included in this analysis.

**Figure 6. Medicaid**



**Figure 7. Low Income Housing Assistance**



spending exceeded \$400 per capita in 1995, while in thirteen counties spending was \$10 or less per capita. The statewide per capita average was \$69.

**Low Income Housing Assistance** programs provided more than \$291 million to Minnesotans in 1995. While almost two-thirds of those funds went to individuals living in the Twin Cities metropolitan area, four of the five counties receiving the greatest per capita amounts—Polk, Kittson, Martin, and Red Lake—were located outside the metropolitan area. Low income housing assistance exceeded \$65 per capita in fourteen counties and was below \$30 in twenty-one counties (Figure 7). Twenty-three counties received less than half the statewide average of \$64 per capita.

**Family Support Assistance (AFDC, now known as Temporary Assistance to Needy Families, TANF)** payments were the fourth largest source of federal aid for

Minnesota governments. Spending on this program reached \$243 million in 1995, about 1.5 percent of all federal spending in Minnesota and about 8 percent of federal aid to state and local governments. On a statewide, per capita basis federal payments for family support assistance in Minnesota were right at the U.S. average.

In twenty-one Minnesota counties family support assistance exceeded \$55 per capita (Figure 8). In two counties, Beltrami and Mahanomen, federal family support assistance payments exceeded \$128 per capita. Cass and Ramsey Counties also received family support assistance which averaged over \$90 per capita. Twenty counties received less than \$25 per capita.

**Food Stamps** also accounted for about 1.5 percent of all federal spending and about 8 percent of federal aid to Minnesota's state and local governments. Total food stamp funding in 1995 was \$240 million, or about \$52 per capita. Residents of Hennepin and Ramsey Counties received just under half the total amount of federal food stamp assistance provided to Minnesota, but the per capita amounts received were higher in several rural counties. Food stamp assistance was less than \$30 per capita in twenty-one counties (Figure 9). In twenty counties food stamp receipts exceeded \$60 per capita.

**Other Spending** was distributed across Minnesota in various ways. For some programs, such as child support enforcement and school lunch subsidies, per capita amounts were relatively constant in all counties. For programs, such as the low income home energy assistance program, where eligibility depends on household income or poverty status, lower income counties received proportionately more. And, for programs providing project-specific subsidies for construction of housing, or water and sewer projects, payments were concentrated in a relatively small number of counties. For these programs it is likely that different sets of counties receive funding each year.

**Looking Ahead**

The financial outlook for local governments in 2002 is sobering, but not calamitous. State officials have already begun to plan, hoping to identify the changes that will be necessary during the next few years. Local policy makers need to follow their lead and identify the likely impacts of changes in federal spending on their communities. Then, strategies for dealing with the financial challenges posed by financial devolution can be developed.

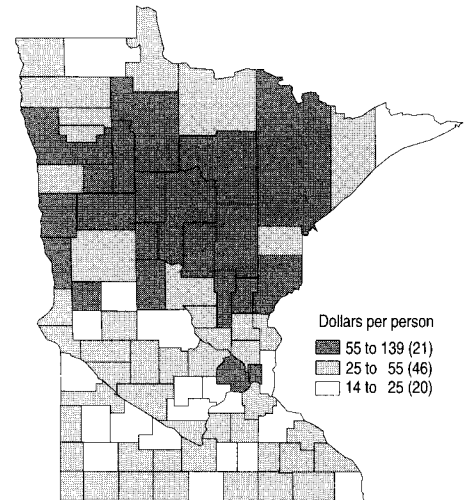
Federal funding for some services currently supported by the federal government will simply be dropped. For others, respon-

sibilities and some funding will devolve to the states and local governments. And, as the struggle to find spending reductions to balance the federal budget proceeds, it will be no surprise if federal funding for the devolved programs is insufficient to maintain baseline service levels.

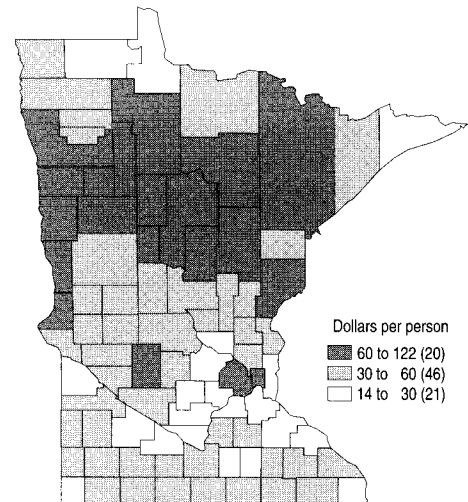
Local governments are unlikely to be able to raise taxes sufficiently to offset all the federal dollars that will be lost, but tax increases necessary to continue essential services may be possible. Fewer federal restrictions on state programs will help ease the problems of transition, as will increases in local productivity. The key will be to focus on establishing priorities and redesigning service delivery systems, so that communities are able to do more with less.

Policy makers will have time to devise strategies for providing services in programs that have been returned to the state and local levels by the federal government.

**Figure 8. Family Support Assistance**



**Figure 9. Food Stamps**



Under current plans, the baseline budget cuts increase as we approach 2002, and the largest are delayed until after the turn of the century. That gradual phasing in of the cuts offers a window within which state and local officials have the opportunity to design, test, and modify new approaches to providing services before the spending reductions appear.

Local officials will need to make their own analyses of the likely impacts of changes in federal spending as they form their strategies for managing through the financial challenges posed by federal devolution. But that task will be easier if they begin making plans now for those changes which are surely underway.

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**This article summarizes federal spending by county in Minnesota as reported by the U.S. Bureau of Census. Data for the report have been drawn from a complete and comprehensive set of federal spending profiles for Minnesota counties that is available on request from the authors. For further information, contact Carole Yoho in the Department of Applied Economics (612/625-1941 or on e-mail at cyoho@dept.agecon.umn.edu). This project was supported by CURA, the Minnesota Extension Service, and the Agricultural Experiment Station.**

# New Languages in Minnesota

by William J. Craig

According to the 1990 Census, nearly 80,000 Minnesotans did "not speak English very well" at the beginning of this decade. Most were new immigrants to the state—refugees from war-torn countries or ambitious folk looking for better economic opportunities. Most of these people quickly picked up enough language to deal with day-to-day activities, but they still needed help in dealing with more complicated issues, such as talking to a doctor about health concerns or reading the fishing regulations. CURA estimates that the number of people needing such help has grown dramatically since 1990, perhaps even doubled.

In order to better communicate with people not fluent in English, translation and interpretation services are needed. In fact, Minnesota law requires that qualified interpreters be provided (without cost) in every official encounter between a person "handicapped in communication" and any representative of state government. This includes all people with limited proficiency in English. In addition, the Civil Rights Act requires the same thing of every agency receiving federal funds (and thus virtually every hospital). But what languages are needed? And where are the services needed?

Translation is needed for written documents and most often this means translating English documents into another language so that they can be read by the immigrant. Fishing regulations is an example. One or a few centers could handle most needs if we knew which languages are most needed.

Interpretation is needed when speakers of English and speakers of other languages need to communicate directly with each other. Often this is when immigrants need to communicate with professionals, such as lawyers or judges in a courtroom or doctors in a hospital. The Mayo Clinic, for example, sees 8,000 non-English-speaking patients a year, with a growing number of them residing in the Rochester area. The clinic expects to have ninety interpreters available by this summer. Hennepin County Medical Center has a combined full-time and freelance staff of forty interpreters, assisting 4,000 patients a month, 48,000 patients a year. As with translation services, estimating the need for more interpreters requires an estimate of the number of speakers of each language. But, in addition,

because oral communication requires both participants to be present, we need to know where those foreign languages are spoken across the state.

The Twin Cities Reader publication *Employment Weekly* for December 4-10, 1996 carried a story about the potential for a career in this field. The article said that the University of Minnesota's Program in Translation and Interpreting is the only academic curriculum in interpretation offered in the Midwest. The program is "held in high esteem by both Hennepin and Ramsey County Medical Centers as well as many area law firms."

The state legislature has shown an interest in meeting the need for translators and interpreters in Minnesota. It asked Minnesota State Colleges and Universities (MnSCU, the new consolidation of state universities, community colleges, and technical colleges) to work with the University of Minnesota in preparing a plan to meet the need. MnSCU asked CURA for assistance in estimating the nature and location of foreign language speakers around the state. Because the results appear interesting, we are sharing them with a larger audience. In the meantime, a bill has been introduced into the 1997 legislative session calling for MnSCU and the University of Minnesota to put in place a state-wide program for training bilingual people in the skills of translation and interpreting and for certifying those skills.

## Data Sources

The basic problem was finding relevant data. The 1990 Census, which asked about language spoken at home and skill with English, is already seven years old. Federal immigration data shows "where people got off the boat," but does not track people as they move around the country in search of a better life. One source, however, is current if not perfect. The Minnesota Department of Children, Families, and Learning (CFL, formerly the Department of Education) collects annual data from public school districts across the state about the number of students who 1) speak a language other than English at home, and 2) are enrolled in English-as-a-second-language (ESL) classes. In both cases, the schools report