MANAGING CUTBACKS AT THE WASHINGTON STATE DEPARTMENT OF SOCIAL AND HEALTH SERVICES (A)

It was late one hot August evening in 1981, six months after Alan Gibbs, the new Secretary of Washington State’s Department of Social and Health Services (DSHS), had taken office. Gibbs and several of his most trusted advisors had been gathered in his office for several hours, working against the clock on strategies to ensure that upcoming public hearings on DSHS’ drastic budget-cut proposals went smoothly. Gibbs had worked hard to improve departmental communication and build trust in the agency, but the progress they had made could easily be reversed if angry constituents felt that their concerns hadn’t been heard during recent budget deliberations.

The Department’s budget recommendations were due to the Governor by mid-September, which was only four weeks away. It wasn’t hard to imagine how a well-timed, emotional outburst from DSHS service recipients or advocates could shatter the hard-won peace between DSHS and the state legislature. “This is all the stuff that makes for great TV,” Gibbs said to DSHS Special Assistant Judy Merchant. “We have to keep these hearings from getting out of hand,” agreed Merchant. But they wondered if there was really a way to handle these public forums in a way that minimized political fallout. They needed a final plan by the following morning, when state legislators and local media would be calling the Secretary’s office to get more specific information about the hearings.

The Situation at DSHS

Gibbs and the staff at DSHS faced a tight deadline due to the Federal government’s announcement of budget reforms just prior to Secretary Gibbs’ appointment. The Washington State Legislature was required to act on them early in the new federal fiscal year, which began October 1.

A lot had been required of Gibbs over the last six months. This was normally a time reserved for a new manager--especially one who hailed from outside state government--to
Managing Cutbacks at the Department of Social and Health Services (A)

get to know his department and build relationships with elected officials, the press and constituents.
It had all started, as Gibbs recalled, when President Reagan initiated a far-reaching program of reforms designed to balance the federal budget while returning control of social programs to the states. Reagan announced plans to cut domestic expenditures by 25% and pledged to combine a large number of categorical grants into a few block grants which states would administer with reduced federal oversight.

Recently-elected Washington State Governor John Spellman had appointed Gibbs with the hope that he could successfully lead DSHS through the difficult process of adjusting to shifts in federal policy. DSHS was the largest agency in state government and had been characterized by its critics as suffering from mediocre management, a poor public image, and sinking employee morale. As the largest state agency with the largest budget, some state legislators saw DSHS as an obvious target for major program cuts whenever sizable state revenue reductions occurred.

DSHS employed 12,000 people and had a $2.4 billion biennial budget, $1.3 billion of which came from state revenues. The Department’s top management team oversaw such diverse operations as Medicaid, Aid to Families with Dependent Children (AFDC), Vocational Rehabilitation, Aging and Adult Services, Mental Health, Juvenile Rehabilitation, Alcohol and Drug Abuse services, Refugee Assistance, and Children’s Services. Unlike many other states, Washington chose to provide welfare, Medicaid, children’s services, and a number of other social services directly through a state agency with local offices rather than delegating that responsibility to counties or other local governments. Other services like drug and alcohol treatment, mental health counseling, and programs for people with developmental disabilities were offered by counties and local contractors. But tens of thousands of children, senior citizens, and families were directly touched by DSHS services every day.

DSHS had six regional offices to supervise sixty-three district centers throughout the state where actual services were delivered (see Attachment 1). Advisory committees, established before Gibbs’ arrival, were in place for each of the six regions, to represent clients’ interests and ensure the coordination of services. These six advisory committees worked with all of the services from DSHS’ twenty-nine major programs.

Recent Cutbacks

Both Governor Spellman and Secretary Gibbs realized that President Reagan’s proposals carried sizable potential for local political turmoil. The estimated $110 million in federal funding cuts that DSHS foresaw for the next biennium would closely follow cuts of $438 million the state had instituted prior to Gibbs’ appointment, in response to state budget shortfalls. Significant, highly visible program reductions were implemented at that time, including:
• the elimination of Aid to Families with Dependent Children (AFDC) benefits in cases when there were two parents considered employable, whether they could find a job or not; this cut alone affected 26,000 parents and children;
• an increase (from $200 to $1,000 dollars) in the amount 8,000 indigent patients had to pay out-of-pocket before receiving Medicaid benefits;
• a reduction in the number of hours of Chore Services assistance an older frail citizen could receive, a move affecting another 8,000 individuals.

Gibbs considered these examples of legislative action to be “irrational, meat-ax” approaches. For example, Chore Services, a visible program with widespread public support, had caught his attention the week he arrived at DSHS. Legislators had recently slashed the program’s funding due to concerns over its increasing costs. The Chore Services program had grown exponentially over the last four years by expanding its caseload at the direction of the previous Governor, Dixie Lee Ray. The elderly population the program served was only marginally able to get along at home and required basic help with housework--or buying groceries and medicine--to maintain independent lifestyles. With the program cutbacks, seniors’ ability to stay in their homes was threatened. However, the state could then be responsible for more costly nursing home care if former Chore Services clients could no longer stay in their homes. After having reviewed the legislators’ earlier haphazard cuts to AFDC-E, Medicaid, and Chore Services, Gibbs saw clearly that legislators could benefit from more information and education.

Despite his misgivings about the way in which previous cuts had been implemented, Gibbs knew that anticipated federal policy changes would require another round of cuts which could easily follow the same pattern, but with even more public outcry. He had therefore spent his first six months on the job working on a strategy that would enable budget cutbacks to proceed sensibly, i.e. to protect vital DSHS programs while improving the agency’s morale and performance. At first glance, this task seemed formidable, but Gibbs had managed to hold the Department together through the summer of 1981. However, the political, economic, and organizational environment surrounding the Department seemed to be closing in on him once again as community pressure threatened to explode at public hearings. Since that spring, advocate groups had been alerted to pending trouble and were gearing up to mount a legislative campaign against further cutbacks.

A Sea Change in Federal Policy

Budget cuts affecting state services were part of President Ronald Reagan’s “Program for Economic Recovery,” introduced during the national recession in the early 1980s. The program proposed to reduce business and personal income taxes, cut domestic spending, and restructure grant-in-aid programs to states. In the immediate postwar years, whenever federal money had come to state and local governments, it had tended to be channeled directly to the states. This changed in the 1960s and 1970s when more federal funding flowed directly to cities, counties, and to private or nonprofit service providers.
By 1979, federal grants to states and local governments accounted for about one-fourth of all state and local outlays. Approximately three-fourths of this funding came in the form of “categorical grants” which had to be used for specific purposes designated by Congress. The federal grants came with guidelines and regulations controlling the type and amount of services from these funds that could be delivered locally. States and localities thus had little or no ability to tailor services from these funds to their individual situations. In the 1970s, there was thus increasing criticism over regulation and burdensome paperwork. While Presidents Nixon, Ford, and Carter favored more flexible “block grants” to states and localities, only small gains were made in pushing such initiatives through Congress.

The Reagan Administration resolved to continue to push for a more flexible method of disbursing federal money. This budget strategy intended to roll eighty-four categorical grant programs into seven block grants, most of which would channel money through state governments. Total expenditures would decrease by 25%, but the federal government expected to realize some buying power by eliminating much of the paperwork associated with categorical grants (thus eliminating staff time), and by consolidating most administrative controls at the state level.

This policy of “new federalism”, the Reagan Administration argued, allowed more efficient and flexible implementation of policies. As Governor of California, Reagan had resented federal intrusion into what he considered the state’s budgetary domain. He intended to change the role of the federal government in such matters, ensuring that states, not the federal government, would play the greater role in deciding how money would be spent on services in their states and municipalities. With federal spending reductions would come a reduction in service levels. Furthermore, a greater proportion of federal money would be channeled through state government rather than go directly to local governments as it had in the past.

Against this backdrop of changing federal policy, Gibbs was enthused by the increased flexibility that the President’s proposal would provide states. At the same time, he understood that Washington State’s ability to accommodate Reagan’s plans would be complicated not only by the Federal cuts, but by constraints imposed by the state’s own internal financial situation.

**Washington’s Taxes, Economy, and Fiscal Status**

Washington State has a tax system based on consumption and a relatively narrow economic base. Washington is one of only a few states having no personal income tax, relying on sales and business taxes for most of its revenue (74%, compared to under 50% in most states). Both of these taxes are closely tied to business volume and consumption, which vary more than personal income. Therefore, revenues fluctuate widely with economic cycles.
In 1981, the State’s narrow industrial base further weakened its economic resilience. The state’s two major industries, aerospace and timber, produced big ticket goods for which sales tend to be deferred during hard times. When sales declined, state tax revenues also declined because they resulted from taxes on consumption instead of income. Unfortunately, state government’s responsibilities to its citizenry, as reflected in social service caseloads, generally increased during poor economic times.

Despite Washington State’s revenue difficulties, its part-time Legislature and the bulk of its residents were not inclined to alter their tax system. Like many other “citizen” legislatures, Washington’s is traditionally pragmatic and conservative. Its elected officials are generally leery of “big government” and of tax reform. Each January, legislators go to the state capital in Olympia for a 60-day session, or, in alternating years, a 105-day session. Many legislators go to Olympia with the intention of fighting what they perceive as government’s bias to grow too big and spend too much. In 1981, both Governor John Spellman and the majorities of both legislative houses were Republican and fiscally conservative. It was doubtful that any major changes in the state’s tax structure would occur to enhance the state’s revenue picture.

Not surprisingly, legislators had a history of cutting taxes whenever possible. Since 1972, the Washington State Legislature had approved sweeping tax cuts on numerous occasions (see Attachment 2). Concurrently, the courts and the Legislature had in 1979 mandated a dramatic increase in the state’s financial support of elementary and secondary education, thus significantly increasing the state’s obligations at the same time that the state’s revenue base was cut.

The national recession of the late 1970s had hit Washington hard in the early 1980s. Personal spending shrank from a 1979 high of 72% to 62% in 1981, affecting both employment and income. By late 1980, foreseeing probable declines in revenues, and upset by agencies’ overspending their budgets, legislators ordered cutbacks in spending for the last six months of the biennium ending June 30, 1981.

Even with these drastic budget reductions on 1980-81, very few elected officials in the state considered adopting a personal income tax. They increased sales taxes minimally but stressed sound management, less government spending, and levying higher fees for services received. Conservative legislators, in the majority, shunned the idea of seeking more federal money. On the contrary, they advocated less state dependence on federally-funded social and health programs.

Washington state government spending patterns had generally followed federal grant funding patterns, i.e. if the federal government curtailed the amount it provided for general financial assistance by 7%, the typical response was to do the same in Washington State. The legislature’s assumption appeared to be that if the federal government did not want to support the program, Washington State had no obligation to do so. Therefore, as he looked ahead to another round of budget and program reductions, Gibbs faced not only major shifts in amounts and types of federal funds, but a
conservative legislature with little sense of ownership of those state programs that depended heavily on federal funding. Gibbs knew that he needed to act quickly to evaluate his agency if DSHS were going to present a united front to legislators and constituents before the budget ax fell.

A Leadership Vacuum at DSHS

In the 1970s, Washington state government reflected a widespread national trend in consolidation of diverse, disparate functions into large, multi-division “umbrella” agencies. Then-Governor Daniel Evans wanted to coordinate programs to eliminate redundant services and client confusion. Following the reorganization, Governor Evans named Charles Morris as Secretary of DSHS to help the agency function as a single unit, rather than twenty units with twenty constituencies. Morris had a strong managerial background and came close to running DSHS as an integrated operation.

With the change in governors in 1976, the new Governor, Dixie Lee Ray, installed an old political ally at DSHS, who, according to one close observer, was “totally out of his depth from the first day.” Her next appointee, Gerald Thompson, an executive from Pacific Northwest Bell, was able to coordinate across programs but did not show a strong commitment to DSHS’ clients or services. Critics said that he had a temper, was insensitive, and hired abrasive subordinates. Secretary Thompson left the agency in early 1980 and an Assistant Secretary had served in an acting capacity until Gibbs was appointed in 1981 by Governor Spellman.

Although Governors Evans and Ray had tried to streamline DSHS and appoint strong managers to run it efficiently, neither effort was successful. Individually, Morris and Thompson had been competent, but they each lacked in-depth experience in social services and could not settle turf issues. “Neither was strong enough to knock heads together,” observed a former chair of a regional advisory committee. Consequently, to many observers, DSHS retained its unwieldy image and its reputation for poorly coordinated services.

Alan Gibbs

When he was appointed Secretary of the Department of Social and Health Services in 1981, Alan Gibbs was largely unknown in the state of Washington. He was an Easterner, an outsider, and a Democrat in a Republican administration. Gibbs had served as a health services administrator under Mayor John Lindsay in New York City. In New York, he had forced a major reorganization through a reluctant bureaucracy and had sought to introduce planning-programming-budgeting techniques into the Health Department in an effort to focus budget decisions on the outcomes produced by expenditures. He had also served as second in command in New Jersey’s Human Services Agency, where he used “zero based budgeting”, an alternative, systematic approach to reaching agency program goals. Later he had been Assistant Secretary of the Army under President Carter. Having also served with the National Labor Relations
Board, and with the Equal Employment Opportunities Commission, he brought a great deal of experience in the field of employee relations. His reputation as a strong manager was a major factor in motivating Governor Spellman to bring Gibbs to Washington State. Social service advocates, the Governor, and the Legislature felt that DSHS needed an able administrator. However, “some were dismayed by his [Gibbs’] lack of substantive experience in the field,” recalls Scott Briar, Dean of the University of Washington’s School of Social Work, and former chair of the DSHS Region 4 advisory committee, “but DSHS was in disarray, and economic stormclouds were on the horizon.”

The frequent turnover in the Department’s top post had affected morale among DSHS workers who could not depend on stable departmental direction. Other factors influenced morale as well. As the end of the 1979-1981 biennium neared, an increasingly conservative legislature -- citing both DSHS’ budget overruns and evidence that revenues would sag -- imposed a hiring freeze. The hiring freeze produced noticeable consequences: more work for fewer employees, the bumping of junior staff, and job rotation as employees moved to handle unmanned functions. Surmounting such problems seemed improbable at best.

Citizens React to Pending Cuts

Citizens with anti-“big government” biases believed that DSHS was large enough to absorb budget cuts without noticeable effects. Social workers and administrators of local services, however, were concerned as the recession continued. They saw the needy population growing and the funding to provide services shrinking. Some cynics surfaced. A senior DSHS staff person voiced a typical reaction to Reagan’s proposed lumping of categorical grants into a few block grants to produce efficiency in the use of federal tax moneys: “That was a myth, an excuse for cutbacks in domestic spending.”

Others, like Nancy Walker, former chair of one of DSHS’ regional advisory committees and an advocate of a streamlined Department of Social and Health Services, realized right away that cross-program coordination would again fall as a priority, this time to be replaced by competition for survival of individual programs. Her Region 4 advisory committee covered Seattle and King County, the state’s largest, most urban area. The committee members had been active and influential in representing King County’s needs and suggesting appropriate programs, and they intended to be as involved as possible when DSHS drafted a new budget to accommodate anticipated cuts. Region 4 wanted to push its own priorities, which included training, coordination of programs across divisions, preventive care, and measures (such as instituting fees or holding down vendors’ rates) aimed at maintaining services at current levels.

Local service providers wondered what might happen to the federal money they had been receiving directly from the federal government now that it looked as if it would come through the state as a conduit, especially since it would lack federal restrictions on how it could be spent. What, for example, would happen to Senior Citizens’ Service Act funds
that were used to help fund programs such as Chore Services? Would state legislators cut Chore Services’ share and spend the money on some other program? Judy Merchant, Gibbs’ Special Assistant, recalled providers’ reaction to the prospect of losing direct federal grants: “It was our money. What are you going to do with it?”

Advocates of services to urban areas were concerned because a majority of Washington’s legislators come from rural, more conservative areas. Urbanites felt that legislators would neither fully understand the cities’ problems -- like the homeless, the mentally ill, clusters of elderly -- nor fund solutions. Many legislators, in fact, were surprisingly uninformed about DSHS and its use of a large share of the state budget. “Even those on the DSHS legislative committee knew much less than I would have thought they should know,” reported one advocate for social services. Some legislators, especially those from urban areas in need of social service money to help substantial populations of low income people, were supportive and helpful. Others, who represented upper middle class suburbs, were deaf to concerns raised by advocates of social services. A third group was comprised of vocal and vehement opponents of social spending. Sometimes opponents’ views stemmed from philosophical convictions, sometimes they were the result of anecdotal evidence of welfare abuse. If advocates could present their views and have them considered, as one experienced lobbyist asserted, that was all they could hope for. Any number of pressures might sway legislators’ opinions on a particular vote.

**Gibbs’ Early Assessment**

For Gibbs, the proposed federal cuts presented a budget problem, since 45% of DSHS funds came from the federal government. “I saw the problem as positioning DSHS for the next several years of fiscal and service delivery stress. Reagan was in many respects continuing what Carter had started -- putting a lid on the growth of federal aid. This problem was going to last for a long time. We knew there was little chance that state funds would make up for lost federal dollars. We faced a conservative Legislature and poor economic conditions.”

After arriving at DSHS in mid-February of 1981, Gibbs wanted to define and quickly set in place a process to respond to the cuts expected October 1. He knew that DSHS management needed to satisfy the Governor, the Legislature, and local governments. Gibbs also wanted support from providers of services, client advocates, clients themselves, and DSHS employees. Otherwise a plan of action could be sabotaged in a variety of ways. If the Legislature were alienated by the process or by the decisions it yielded, DSHS would feel the consequences in future budget allocations. If clients felt unfairly treated, they might turn to lobbying, or to their surrogates, the DSHS regional advisory committees, which would represent their own causes rather than those of the Department. If DSHS staff or providers felt that the departmental leadership’s plans were ill-conceived, they would be likely to avoid implementing them. Support for the plan was therefore essential to a reasonable outcome.
To gain the support of these important internal and external constituencies, Gibbs wanted to convey several messages:

1. There was a clearly-defined process for making program cuts and changes, and it would be orderly and fair.
2. The process would examine the impacts of proposed changes.
3. All affected parties could participate in the process in a substantive, meaningful, and satisfying way.

Gibbs wanted everyone affected by program cuts to feel confident that he would act to direct the course of events and not merely react or be driven by them. Merely to react, to let someone else set the parameters of problems and their possible solutions, was to forfeit control. Gibbs wanted reason--not just the need for budget reductions--to prevail in dictating program changes.

**Becoming Known**

Beyond efforts to gain DSHS staff and client support, Gibbs sought the backing of other key players. He met with members of the press whose editorials and reporting would educate citizens about the budget process. As a newcomer to the state, he made a point of conferring with editorial boards all over Washington to let editors take his measure and explain what he planned to do. To forestall reporters' guessing about his motives or plans, he visited the halls of the Legislature when it was in session and chatted informally with reporters. Judy Merchant recalled that he “set the tone of an open agency and made it easy for us to answer questions.” Gibbs made himself available to the press and let Merchant do so too. Problems and possible solutions were not secret. Inquirers had access to current departmental thinking and were invited to comment. At the same time, Gibbs implied to the press that it had a responsibility to the public. Merchant observed, “we brought people in and told them, ‘This is how we are trying to deal with this situation. You would do us a disservice by sensationalizing the process’ ”. In the end, the press was neither helpful nor hostile, but neutral.

As an initial step toward forging good relations with legislators, Gibbs reversed Gerald Thompson's policy of having to personally clear all legislative inquiries to DSHS and related staff replies. Gibbs made it plain to lawmakers that they should go directly to the best information source they knew within DSHS when they had questions. Gibbs also took the time to meet with legislators on his own. He planned to preside over a more orderly, rational process for handling the second round of cutbacks required by President Reagan's new federalism.

**Building Legislative Support**

In the spring of 1981, Senator George Scott and Representative Rod Chandler, chairs of the House and Senate Ways and Means Committees, and a White House spokesperson met with Alan Gibbs. The White House representative outlined areas in which President
Reagan wanted to cut federal funding. Scott and Chandler thought that the state should continue its practice of matching federal cuts dollar for dollar, program for program. Gibbs was appalled. Congress might not approve Reagan's substantive proposals, yet state legislators were thinking of imposing them in Washington State in advance. Gibbs realized that he must help legislators and staff see the advantages of a process which looked closely at the impact of each cut and then systematically produced plans to minimize the damage to vital programs.

Secretary Gibbs convinced the two legislators not to follow their formulaic approach, arguing instead that the state would need some flexibility -- not only in what services it provided but in how it financed programs -- to deal with changes in the type and amount of federal grants.

In support of this strategy, Gibbs met with Representative Bill Polk, Speaker of the House, and suggested that, since DSHS faced massive cuts, the agency needed to be allowed to move money around to ensure that its critical programs remained funded at adequate levels. “As a matter of equity,” he stated, “the Department has chosen to review all of its programs, not just those directly affected by the proposed federal budget reductions. In order to meet essential needs, it may be necessary to shift some state funds from one program to another to make up for the loss of federal funds.” He told Joe Taller, Director of the Washington Office of Financial Management, and the Governor and his aides the same thing. They agreed to give him unprecedented free rein in developing the agency’s budget, shifting available funds to areas of need. In return, he promised to give Governor Spellman the DSHS budget plan before any proposals were made public so that the Governor could adjust them at his discretion. The Governor was an executive who wanted to know what the problems were and how the Department planned to deal with them, but he did not seek involvement beyond that and gave Gibbs considerable leeway.

Gibbs met with other key Republicans to give them his overview of the situation. After talking with Republican legislators (“I spoke with them first, because they were in control,” recalled Gibbs) he met with Democrats. Not all of Gibbs' meetings with legislators were held at their state capital offices. When traveling, he dropped in on legislators in their home districts. He saw them casually at lunch in the halls of the capitol, over a beer, not pressing any position but letting them get to know him.

**Bringing Communities on Board**

During this period, Gibbs was attentive not only to media and legislative perceptions of his agency, but to the needs and concerns of local governments and key nonprofit organizations. He kept in close contact with the county executives of two of the state’s largest counties, as well as with the Mayor of Seattle, in order to stay apprised of how proposed DSHS cuts would affect their communities. Gibbs also met extensively with various United Way chapters, seeking their input on how DSHS cuts would affect the ability of United Way-funded programs to deliver services.
In an effort to systematize this type of communication, Gibbs pulled together an external steering committee to deal exclusively with the budget-cutting process at DSHS. This committee included state legislators, the State Superintendent of Education, and representatives from several Washington counties and cities. Although this group only ended up meeting a few times, thereby playing less of a role than Gibbs had originally anticipated, it was another mechanism for keeping key players updated and involved in an open deliberative process.

**Setting Ground Rules**

Gibbs’ attention to educating and involving local and state legislative leaders paid off: during the summer of 1981, he was invited to speak in the chamber of the House of Representatives about the budget process he was developing and how he envisioned it proceeding. For an administrator to speak in this setting was unique, but “the leadership knew what I would do,” Gibbs recalled, “and had the sense that I was competent.” Gibbs emphasized that the state was not obliged merely to “take” what the federal government doled out but rather had some control over its own programs. “What is clearly needed,” he said, “is a process [which will] facilitate an effective allocation of state and federal resources in concert with priorities for client services, fiscal control, and efficient management.”

Gibbs suggested that DSHS administrators set aside the issue of reductions in budget and evaluate in a straightforward fashion what the Department did, or should do, and for whom. However, several uncertainties—such as which categorical grants would be eliminated and when, how much flexibility would in fact be granted to states, and exactly how much Congress would reduce funds the states would receive—made planning difficult. The Department would have to plan how to implement budget adjustments on October 1, 1981, even though final congressional action would follow that date. In addition, a second round of federal cuts was anticipated. Despite these uncertainties, Gibbs refused to postpone budget decisions until Congress and the President negotiated a compromise or appropriated money. Instead, he outlined the assumptions on which budget alternatives could be built. Chief among them were that cuts would total $80-$90 million, and that the state could administer federal funds with maximum flexibility according to its own, not federal, service priorities. Gibbs described these working assumptions and the process he planned to use in a paper circulated May 8, 1981. (See Attachment 3.)

**Gibbs’ Plan**

Early in May, with the assistance of Judy Merchant, who had researched the implications of a shift to block grants and strategies for dealing with federal cutbacks, Gibbs was ready to present his budget strategy. The plan presented a schedule as follows:

1) By mid-June each DSHS program director was to submit a document called “A Program Perspective of Basic Client and/or Service Responsibilities.” The
program directors would specify what their programs did for whom and then prioritize services and clients. As part of this process, the program directors were required by Gibbs to share documents and to work closely with their respective citizen advisory committees. (This was no small charge, as DSHS had 36 such advisory committees in all: 1 statewide committee that met monthly with Gibbs; 6 regional committees that monitored all DSHS programs within their regions; and 29 programmatically-focused groups.)

The program director would then develop further analyses of: the effects of cuts on communities, the communities’ ability to deliver services after the cuts, and the legal and administrative implications of the proposed cuts.

2) During the last two weeks in June, these program perspectives were to be sent to state and regional DSHS advisory committees, as well as to advisory groups associated with specific programs.

3) By July 1 the DSHS executive committee (Gibbs, his Assistant Secretaries, Bruce Ferguson and Jerry Thomas, DSHS’ Budget Director, Ken Miller, and two Special Assistants, Judy Merchant and Steve Hosch) would review these program perspectives and compose a department-wide perspective detailing DSHS’ clients’ basic needs and DSHS’ basic service responsibilities.

Responsibilities were organized into three key categories:
   I. basic life support
   II. services to avoid or reduce the need for basic life support services, and
   III. services designed to improve access to the service delivery system.

The department-wide perspective also suggested generic methods program directors could use to save money (see Attachment 4). Many of the ideas bubbled up from advisory committees’ comments as the committees reviewed drafts of program perspectives. Some ideas came from caseworkers. A case worker recalled, “My desk partner and I drew up a memo on what we thought they [DSHS executive committee] should do, and when their approaches came out, it was as if they had read our memo.” The executive committee also suggested ways in which the general guidelines could be tailored to specific programs. For example, the Bureau of Aging and Adult Services should review each service offered and consider the implications of eliminating the service, or charging for it.

4) During early August, program directors would create “decision packages” or detailed budget proposals showing how they could deliver priority services on a reduced budget. Gibbs instructed program directors to begin with the assumption that their budgets would reduced by 40%. At that level of funding, what services could they provide? Program directors were to describe in each decision package the impacts they expected each proposed cut would bring. How many clients would be affected and in what way?
What savings would accrue? Which laws would need amending? Program directors were to boil this information down to one page per proposal. Subsequent decision packages would describe incrementally larger budgets. In the end, a division might offer ten decision packages, each one describing the effects of a certain change -- either increase or decrease -- in services that its programs furnished to DSHS clients (see Attachment 5).

During the same time period, regional advisory committees would review the decision packages and the resulting draft budgets. Advisory committees and various levels of staff would comment on what had been proposed. Gibbs personally sat in on some of the Regional Advisory Committee meetings to hear the discussion first-hand. In addition, the proposals were circulated to 8,000 citizens who had demonstrated interest in DSHS programs. One thousand letters with comments were received. Judy Merchant replied to each one.

5) By mid-September, the DSHS Executive Committee would settle on a budget proposal for the department as a whole. The committee would have a final round of meetings with program directors, consider what had been said in hearings and in advisory committee meetings, and take a hard look at what the law actually gave DSHS management the authority to do.

The Hearings

Originally, Gibbs had envisioned that the advisory committee structure would serve as a ready-made forum for public discussion of his agency’s budget recommendations. However, during the regional advisory committee meetings in early August 1981, the subject of holding separate public hearings had come up. Advisory committee members and Gibbs himself began hearing concerns from citizens and advocacy groups that citizens statewide had not yet had a direct opportunity to comment on the DSHS budget reduction plan.

The demand for public hearings had thus come relatively late in the game and threatened to derail the entire process. Some DSHS administrators feared that citizen concern about access to the process would be so great that the content of the recommendations could be overwhelmed by protests when the proposal finally went to the Governor and the Legislature.

Washington is a physically large and geographically diverse state. Gibbs knew that it would be complicated to design a public hearing process which would guarantee genuine access to a forum for public comment on proposed DSHS budget reductions. Thousands of people would want to be involved. Logistics alone seemed overwhelming, not to mention the potential political landmines.
However, Gibbs knew that the hearings were necessary to shore up critical support for his department’s recommendations. It was clear that he needed to align the Department, its advisory committees, advocacy groups, clients and local community leadership behind the recommendations in order to ensure DSHS’ success with the Legislature.

**The Eleventh Hour**

After another two hours of strategizing about the upcoming hearings, Gibbs sent his staff home for the evening. Everyone was tired and it would be essential to get a fresh start first thing the next morning. The phones would be ringing by noon.

Time was not on Alan Gibbs’ side and he knew it.
## Attachment 2

### Reductions in Washington State Tax Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>Limit growth of local regular property tax levies to 6% annually.</td>
</tr>
<tr>
<td>1974</td>
<td>Exempt prescription drugs from the sales tax. Grant business and occupation tax credit against the business inventory tax.</td>
</tr>
<tr>
<td>1975</td>
<td>Cut property tax rates by 10%.</td>
</tr>
<tr>
<td>1977</td>
<td>Limit local property tax levies for schools and fund basic education from state sources.</td>
</tr>
<tr>
<td>1978</td>
<td>Exempt groceries from the sales tax.</td>
</tr>
<tr>
<td>1979</td>
<td>Allow business and occupation surtax to lapse. Limit growth of state property tax levies to 6% annually.</td>
</tr>
<tr>
<td>1981</td>
<td>Repeal the inheritance and gift tax.</td>
</tr>
</tbody>
</table>

Attachment 3

DSHS Process for Developing a 1981 Budget Reduction Plan


General

1. The 1981-83 biennial budget is the department funding base from which the proposed reductions in federal financial participation will be subtracted. The program and staffing reductions this budget already requires will make any additional reductions extremely difficult. Current federal proposals may require an additional 4-6% reduction.

2. All department divisions and bureaus will participate in developing a reduced agency budget; some programs will be reduced more than others.

3. Additional appropriations from the state legislature to alleviate the impact of the federal reductions will not be assumed at the start of the process.

4. Each program director will be responsible for defining and prioritizing program responsibilities in conformance with department policy guidance. Proposed budget reductions should be consistent with these assessments.

5. The availability, or potential availability, of community services provided by local government, churches, civic groups, volunteers, etc., will be taken into account in defining secondary program responsibilities.

6. Administrative and support functions will be reduced to those essential for service delivery and program management.

7. Alternative organizational structure and service delivery mechanisms will be considered, e.g., contracted services rather than direct service, technical and consultative assistance to communities in lieu of services, minimal monitoring and regulatory functions.

8. Current federal laws, regulations, and reporting requirements in programs to be consolidated into block grants will be substantially reduced or eliminated. They should not constrain budget building.

9. Amendments to state laws may be necessary to implement program changes. Current administrative codes should not constrain budget building.
Attachment 3
DSHS Process for Developing a 1981 Budget Reduction Plan (cont.)

Implementation Steps

The process for reallocating funds will begin by requiring program directors to prioritize state service responsibilities without regard to cost. This step will facilitate a dialogue regarding general social, health and administrative problems which DSHS should address, the principle measures or actions it should take to alleviate these problem(s), and identification of realistic options available to the department. Programs serving the same clients or responding to similar kinds of needs will be expected to confer and propose coordination or consolidation. This initial step will help formulate a department policy statement outlining primary service responsibilities which must be met and client groups that must be served.

Concurrently, each program will begin building a budget that ultimately will display its services at different funding levels. Each level will reflect program and department priorities for clients and/or services and will contain descriptions and data describing the impacts of the reduced funding.

Step #1: The Program Perspective of Basic Client and/or Service Responsibilities.

Program directors will prepare a document entitled, “The Program Perspective of Basic Client and/or Service Responsibilities” and submit it to the Executive Committee no later than June 15, 1981. The document will be discussed with and reviewed by program advisory committees prior to its June 15 submittal. It will address client needs, primary service responsibilities, community impacts, legal implications, and an assessment of the administrative support requirements attendant to these service responsibilities.

Regional offices and management committees will also receive copies and will comment in writing to the Executive Committee no later than June 30. Regional advisory committee comments will be incorporated into the regional office response.

1. Clients: Current and potential client populations should be identified as well as current definitions or eligibility for services. Criteria for prioritized groups of clients and potential clients should be set forth as well as proposals for changing definitions of eligibility concomitantly.

2. Services: Current services should be displayed indicating both clients served and levels of services. Primary services should be defined and displayed. Primary services are those which are mandated by law or which must be provided as the core of any program.
Attachment 3
DSHS Process for Developing a 1981 Budget Reduction Plan (cont.)

3. Community Impact: This section should contain an assessment of the ability of local communities to pick up services currently provided by DSHS.

This section should also identify any community programs currently receiving federal funds directly which are likely to be folded into larger block grants. An assessment should be made of the impact of the reduction or loss of such direct federal funding on the local community.

4. Legal Implications: Federal regulations, state statutes or state regulations which conflict with choosing any service option should be identified.

5. Administrative and Support Services: Programs should clarify their assumptions of the administrative requirements, quality control activities, and other essential management functions.

Step #2: The Department Perspective: Basic Client and/or Service Responsibilities

The Executive Committee will review each program perspective and develop a department perspective of basic client and/or service responsibilities. This document will set forth a departmental mission statement and specify program and budget guidance for use by program directors in developing any budgets. The document will be reviewed before its publication on or about July 1, 1981.

Step #3: Developing Program Budget Scenarios

The program directors will begin preparations of a program budget concurrently with Step I. Detailed guidance will be provided, requiring programs to develop alternative budgets, starting at a level equal to 60% of the 1981-83 biennial budget and building back in incremental blocks to the 1981-83 level. Any required changes in program structure or budget guidance resulting from Step II will be detailed in a Secretary's memorandum.

Program budgets will be submitted to the Executive Committee by August 17, 1981, after full discussion and review with program advisory committees.

Step #4: Program Budget and Decision

The Executive Committee will review each program budget and develop a departmental budget by September 15, 1981. The state and regional advisory committees, the regional management committees, and the Interagency Task Force will participate in the review of this budget proposal.
Guidelines For Specific Programs

Listed below for each DSHS program are issues that will be addressed during the current budget building process. Decision packages will be prepared examining the feasibility of each item listed.

Aging and Adult Services

- Substitute direct grants to clients for adult family home and congregate care payments in order to reduce state licensing, regulatory and other placement-related activities.

- Control adult family home and congregate care costs by reducing the financial eligibility criteria or reducing the scope of care purchased.

- Divert nursing home admissions through the use of direct payments to individuals for the purpose of purchasing in-home support services.

- Reduce Chore Service costs through absolute eligibility limits or increasing the client share in the cost of services.

- Review each service component (e.g. social day care, minor home repairs, nutrition education) funded through the Senior Citizen Services Act from the standpoint of complete elimination or the use of standard client fee schedules where none exist now.

- Reduce expenditures for Area Agency on Aging planning, administration, coordination, monitoring, and contracting functions.

Source: Prepared by DSHS staff.
Attachment 5
DSHS Decision (8-9) Package Summary

Division/Bureau: Bureau of Aging and Adult Services (BAAS)

Issue: Reduce Senior Citizens Services Act (SCSA) expenditures by the required percentage during the 81-83 biennium through policy directions to eliminate and reduce services.

Present Service: SCSA funds are used to provide a broad range of access, in-home, and other services to low-income older persons who are physically, mentally or otherwise impaired and need such services to enable them to remain in their customary homes. The legislation requires means testing for some services and persons with incomes between 41% and 100%. SMI must pay for part of the cost of these services based on a sliding-fee scale. Means testing for other services is prohibited by the legislation. SCSA services are currently provided to 83,225 persons during a biennium and the current biennial budget is $14,960,000.

Proposed Service: Reduce Area Agency on Aging (AAA) allocations for the period October 1, 1981-June 30, 1983, with the amount of reduction based on which step depicted on the attached chart is implemented. Direct AAAs to fund the services listed for each step. Reduce funds for AAA Administration/Coordination to correspond with reductions in service dollars. Continue the Volunteer Chore Program at current level as funding cannot be changed without legislative action.

Impact:
   a. Clients: Dependent on which step is implemented.
   b. Fiscal: Dependent on which step is implemented.
   c. FTEs: No FTEs affected.
   d. Other Services: Division of Developmental Disabilities affected by elimination of Foster Grandparent Program. Increased demand on CSOs for Information and Referral, Transportation, Chore Services and Residential Care. AAAs less able to monitor remaining services and coordinate local services. AAA subcontracts with private agencies terminated with resulting increase in unemployment. Increased demand on local government to fund services eliminated or reduced.

Required Statute/WAC Changes: None

Potential Implementation Problems: DSHS contracts with AAAs and their contracts with service providers would need to be amended or terminated by September 30, 1981. Consolidated Plan and AAA Plans would need to be amended by same date. Can expect strong objections from local government, AAA, Senior Lobby and the community in general because of the shift from local to state planning. Possible legal action because state is changing intent of legislation through policy directives.

Estimated Effective Date: October 1, 1981.

Source: Working papers provided by Alan Gibbs.