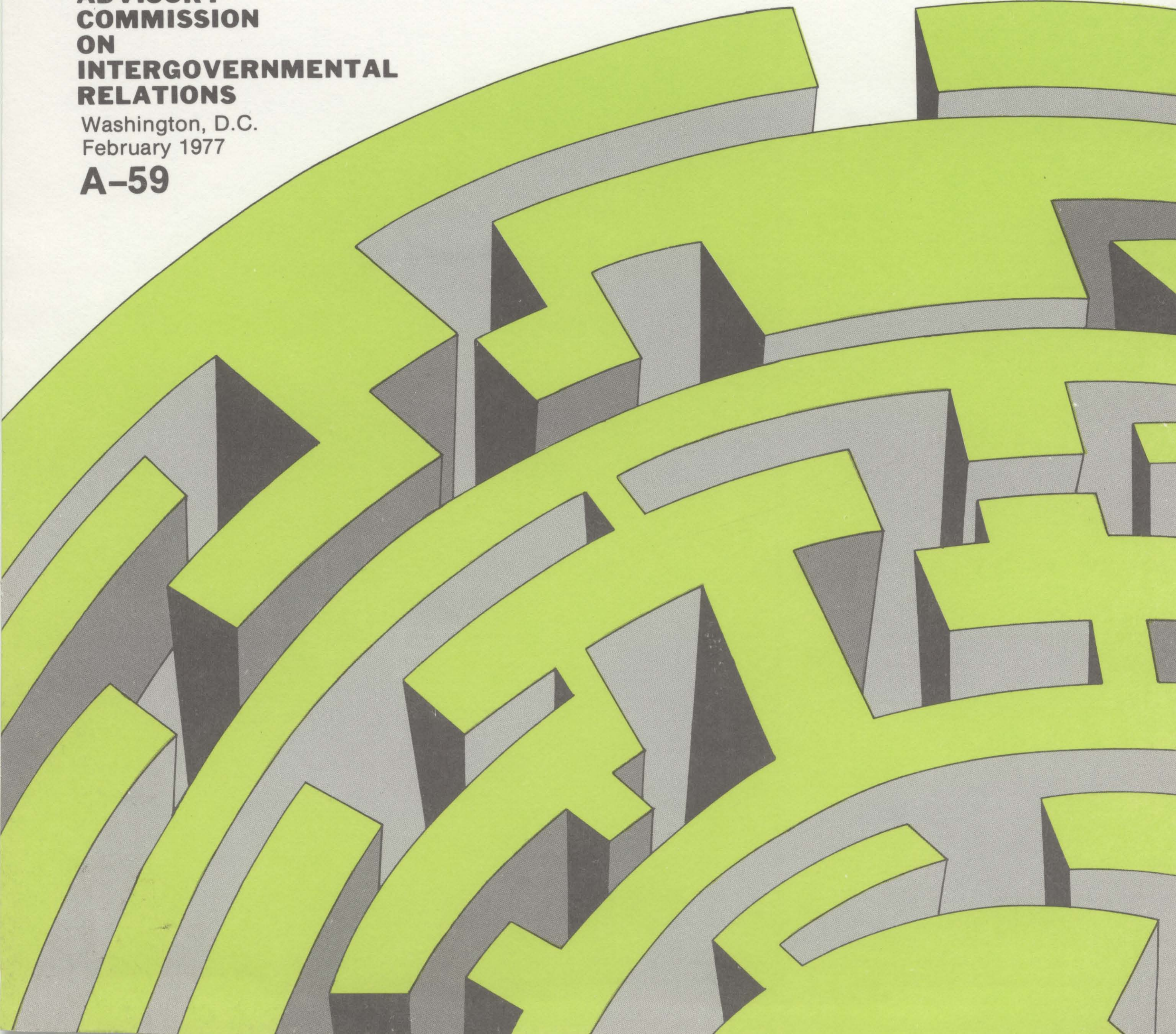
The States and Intergovernmental Aids

THE INTERGOVERNMENTAL GRANT SYSTEM: AN ASSESSMENT AND PROPOSED POLICIES

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

Washington, D.C.
February 1977

A–59



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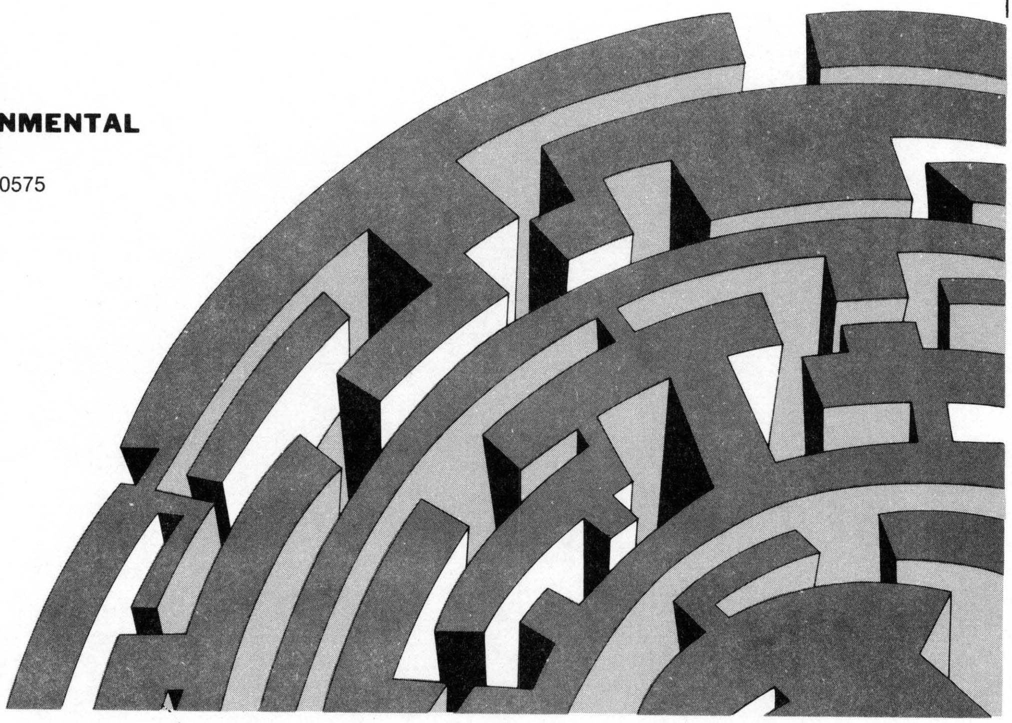

Preface

Pursuant to its statutory responsibilities authorized in Section 2 of Public Law 380, passed during the first session of the 86th Congress and approved by President Eisenhower on September 24, 1959, the Commission selects for study and recommendation particular problems impeding the effectiveness of the federal system.

The current intergovernmental grant system was identified as such a problem by the Commission in the spring of 1974. The staff was directed to probe four features of this system: categoricals, the range of reform efforts that stop short of consolidation, block grants, and the changing State servicing and aid roles. This report is the eighth that resulted from this Commission decision. It deals with the States and intergovernmental aid, examining the State both as recipient and provider of grants-in-aid. This report was approved by the Commission at its meeting on August 30-31, 1976.

Robert E. Merriam
Chairman

Acknowledgements

This report, *The States and Intergovernmental Aids,* represents the eighth volume in the Commission's overall study of the Intergovernmental Grant System. Staff responsibility for this report was assigned to L. R. Gabler.

The statistical materials of Chapter II, analyzing the impact of State aid and the estimates of Federal pass-through funds on a State-by-State basis for the four major intergovernmental functions, were provided by Roy Bahl, David Puryear, and Seymour Sacks of the Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University, under a contractual arrangement with this Commission.

ACIR staff members contributed to this report in various ways. Albert Richter, who prepared and tabulated the questionnaire materials in addition to helping with the recommendations, deserves special mention. David Beam, in particular, along with Harriet Halper, Bruce McDowell, Will Myers, and John Shannon helped to sharpen the issues and clarify the presentation.

Lavinia B. Clarke provided the lion's share of secretarial services in producing this report. Linda Silberg and, at critical times, Pat Alston and Gloria Thomas gave major assistance.

During the course of preparing this volume, the Commission staff benefitted from the perceptive comments, advice, and criticism of individuals knowledgeable in this topical area. Those participating in the critics session or providing written or verbal critiques were: Wayne Ayers, George Bell, John Callahan, Alan Campbell, Maurice Criz, Philip Dearborn, John Fava, Edward Gramlich, Albert Hair, Harold Hovey, Martin McGuire, Selma Mushkin, Robert Rafuse, G. Ross Stephens, Emil Sunley, Frederick Stocker, and Ronald Welch.

The Commission also wishes to acknowledge the financial support received from the U.S. Department of Health, Education, and Welfare for both the research and publication of this report. Appreciation is also expressed for the cooperation of the National Association of State Budget Officers (NASBO) and the Urban Data Center of the International City Management Association (ICMA) in the development of the questionnaires cited in this study.

This report was materially strengthened through the cooperation and assistance of the persons and agencies cited above. Full responsibility for the content and accuracy rests, of course, with the Commission and its staff.

Wayne F. Anderson
Executive Director

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Chapter I

Distinguishing Characteristics of State Aid

STATE APPROACHES

Three possible approaches exist that State governments can, and do, pursue to provide financial assistance to localities. First, financial responsibility can be assumed directly by State governments, thus freeing local fiscal resources for other public purposes. Second, States can authorize local governments to impose a variety of tax, fee, and charge instruments—a revenue diversification policy designed to permit a more balanced use of local revenue resources. This approach helps to shield local officials from taxpayer hostility, which is traceable to the present levels of, and recent rate and assessment increases registered by, local property taxes.

Perhaps the most frequently thought of form of State financial assistance, however, is the grant-in-aid device. This shared responsibility approach was designed, in general, to provide partial financing for public programs that are of more than local concern, or to enhance intergovernmental financial equity within a particular State.

Each time State financial assistance to local governments is contemplated, these three approaches are best considered as alternatives. Although differing in administrative and, sometimes, program performance respects, each approach—State grants-in-aid, direct State assumption of financial responsibility, and authorization of local revenue diversification—offers a mechanism for assistance in the financing of public programs or services. In actual practice, of course, the present picture of State aid reveals that all three approaches are pursued simultaneously. Representing the summation of myriad past, and largely unrelated, decisions, the existing pattern of aid, at a given point in time in any State, reveals that two or, indeed, all three of these approaches are utilized concurrently.

At the outset, it should be noted that the scope of activity for the public sector differs considerably among the States—both in total services provided and in the State share of that total. Direct general expenditures per capita varied during fiscal 1974 from peaks of $2,501 in Alaska and $1,448 in New York to $609 in Arkansas, with the U.S. average at $940. The State government share of this activity ranged from 79 percent in Hawaii and 60 percent in Vermont to just under 24 percent in New York, with the U.S. average being 37.2 percent.

State governments also vary widely in their relative reliance on the three State aid approaches. Hawaii is an example of a State government that pursues a strong, direct, provision-of-services approach, while the two largest States—New York and California—stress intergovernmental grant mechanisms. In terms of local revenue diversification, 27 States presently authorize local sales taxes for some local jurisdictions, and in 16 such States, the local sales tax is in widespread use. Local income taxes are authorized in ten States and are used widely in the States of Maryland, Ohio, and Pennsylvania.

Table 1

State Intergovernmental Expenditures, General Expenditures, and Local Revenue Diversification

States	State Intergovernmental Expenditure as Percent of Total State General Expenditure, 1975	State Intergovernmental Expenditure (in millions), 1975	All State General Expenditures (in millions), 1975	Local Sales Taxes: Number of Jurisdictions (July 1, 1975)	Local Sales Taxes: Percent of State-Local Taxes, 1973-74	Local Income Taxes: Number of Jurisdictions (January 1, 1975)	Local Income Taxes: Percent of State-Local Taxes, 1973-74
United States, Total	37.6	$51,978.3	$138,304.0	4,704	2.8	4,048	1.8
Alabama	28.7	587.7	2,049.8	247	7.0	6	1.1
Alaska	22.4	178.6	797.8	85	8.1	–	–
Arizona	44.1	644.4	1,459.7	37	5.8	–	–
Arkansas	30.5	346.0	1,135.6	1	0.1	–	–
California	48.7	7,444.0	15,271.7	438	4.3	1	–
Colorado	37.3	602.9	1,616.2	111	7.9	–	–
Connecticut	23.5	453.6	1,930.2	–	–	–	–
Delaware	23.8	122.4	515.0	–	–	1	2.0
District of Columbia	–	–	–	1	20.4	1	31.1
Florida	40.8	1,845.9	4,528.4	–	–	–	–
Georgia	29.1	804.5	2,764.5	2	2.1	–	–
Hawaii	2.1	23.2	1,082.5	–	–	–	–
Idaho	29.0	155.5	536.4	–	–	–	–
Illinois	35.9	2,556.0	7,119.2	1,340	3.7	–	–
Indiana	40.6	1,098.3	2,707.0	–	–	38	(N.A.)
Iowa	36.4	643.8	1,770.6	–	–	–	–
Kansas	28.7	352.6	1,228.4	4	0.2	–	–
Kentucky	22.0	447.8	2,032.5	–	–	59	4.7
Louisiana	31.9	824.8	2,585.1	173	11.1	–	–
Maine	27.4	201.5	736.7	–	–	–	–
Maryland	42.2	1,322.9	3,136.5	–	–	24	9.8
Massachusetts	30.9	1,348.9	4,360.8	–	–	–	–
Michigan	34.3	2,230.7	6,499.6	–	–	16	2.6
Minnesota	47.2	1,380.3	2,922.1	1	0.1	–	–
Mississippi	35.8	513.1	1,433.6	–	–	–	–

(Continued)

Table 1

State Intergovernmental Expenditures, General Expenditures, and Local Revenue Diversification (continued)

States	State Intergovernmental Expenditure as Percent of Total State General Expenditure, 1975	State Intergovernmental Expenditure (in millions), 1975	All State General Expenditures (in millions), 1975	Local Sales Taxes		Local Income Taxes	
				Number of Jurisdictions (July 1, 1975)	Percent of State-Local Taxes, 1973-74	Number of Jurisdictions (January 1, 1975)	Percent of State-Local Taxes, 1973-74
Missouri	29.1	645.5	2,219.8	124	2.7	2	3.0
Montana	24.2	115.1	476.5	–	–	–	–
Nebraska	27.3	223.6	818.8	3	1.9	–	–
Nevada	29.3	120.8	411.6	11	2.9	–	–
New Hampshire	19.1	83.1	434.0	–	–	–	–
New Jersey	38.3	1,656.7	4,325.8	–	–	–	–
New Mexico	25.6	306.8	857.6	3	0.2	–	–
New York	54.6	8,582.5	15,704.7	66	7.0	1	4.7
North Carolina	45.0	1,453.3	3,226.5	96	4.0	–	–
North Dakota	26.3	122.2	464.4	–	–	–	–
Ohio	35.9	$1,954.4	$5,449.4	31	1.0	385	8.0
Oklahoma	27.0	415.6	1,536.6	345	6.5	–	–
Oregon	25.1	377.0	1,499.5	–	–	–	–
Pennsylvania	32.6	2,585.0	7,933.8	–	–	3,515	5.8
Rhode Island	20.4	134.4	656.0	–	–	–	–
South Carolina	26.5	490.8	1,854.9	–	–	–	–
South Dakota	15.2	61.9	406.8	15	2.1	–	–
Tennessee	29.3	640.0	2,187.8	110	8.6	–	–
Texas	29.4	1,694.6	5,754.5	822	3.5	–	–
Utah	32.4	262.0	809.3	204	3.2	–	–
Vermont	19.0	78.1	411.1	–	–	–	–
Virginia	31.8	967.5	3,041.0	134	4.4	–	–
Washington	29.9	796.6	2,665.8	299	2.6	–	–
West Virginia	23.8	293.1	1,230.7	–	–	–	–
Wisconsin	50.2	1,708.5	3,406.7	0	–	–	–
Wyoming	26.6	80.1	300.6	3	0.2	–	–

Source: ACIR, *Federal-State-Local Finances: Significant Features of Fiscal Federalism* (Washington, D.C.: Government Printing Office), November 1975; U.S. Bureau of the Census, *State Government Finances in 1975* (Washington, D.C.: Government Printing Office), 1976; and *Governmental Finances in 1973-74* (Washington, D.C.: Government Printing Office), 1975.

In the aggregate, intergovernmental expenditure,[1] expressed as a percent of total State general expenditures, has increased modestly in the recent past—rising from 34.9 percent in 1962 to 35.7 percent in 1967 and 37.2 percent in 1972. By 1975, State intergovernmental expenditures increased further—to 37.6 percent of total State general expenditures (see Table 1). In 1975, this percentage ranged among individual States from a low of 2.1 percent in Hawaii to less than one-fifth of all State general expenditures in South Dakota (15.2 percent), Vermont (19.0 percent), and New Hampshire (19.1 percent). At the upper end of the spectrum was New York, 54.6 percent, and other States heavily using intergovernmental expenditures, such as Wisconsin (50.2 percent), California (48.7 percent), and Minnesota (47.2 percent).

Before examining the States' grant-in-aid system, it is pertinent to determine whether or not there is a discernible and systematic relationship between the grant-in-aid and direct State spending approaches. To this end, a correlation was performed between direct State spending and intergovernmental aid for several functional areas—all State functions together (excluding capital outlays), public education (other than higher education), highways, and welfare. If the direct servicing and shared financial responsibility approaches for providing State aid to local governments are, in fact, alternatives, then a negative or inverse relationship between these two forms of State assistance is to be expected.

This expected negative relationship did, in fact, show up—although modestly—in highway and public welfare categories. State governments that supported relatively heavily each of these services by means of direct State expenditures were also those State governments that tended to be relatively low in the provision of intergovernmental grants-in-aid. Thus, for highway and welfare categories, there is some evidence that direct State spending and State aid are substitute approaches. The expected relationship between these two State aid approaches, however, was not evident either for the education function or for the State function aggregate; no systematic relationship—either inverse or direct—was apparent.

The dual State financing approaches—direct spending and intergovernmental aid—can be further highlighted by examining shifts in State financing roles over a period of time. For each of the 48 States (excluding Alaska and Hawaii) and for each of 24 expenditure functions, the percentage point change between 1957 and 1972 was calculated for two ratios: (1) State direct expenditures as a proportion of total State and local spending, and (2) State intergovernmental expenditures as a ratio of total local spending. Both measures show that, for most of the expenditure functions analyzed, the State share has increased.

This general upward shift in financing, of course, is subject to exceptions. Although constituting the predominant pattern, increased State financing is neither a uniform movement (for some functions, more States show a decline in one or both of these ratios) nor an equally intensive one (some States and some functions have shifted their financing ratios dramatically, others more moderately). Further, many States did not provide direct or intergovernmental assistance for several expenditure functions in either 1957 and 1972 and are registered as having no change. Despite these qualifications, the general picture is one in which when shifts do occur in either the State direct or intergovernmental expenditure ratios, the change is predominantly toward increased State financing.

During the 1957-1972 period, a majority of the States increased their direct expenditure role in nine functional areas: total direct general expenditures, public highways, public welfare, public health, police protection, natural resources, libraries, financial administration, and general public buildings. In four additional functional areas—local parks and recreation, housing and urban renewal, airports, and water —State changes were more toward a positive, rather than a negative, direction. The predominant finding for these four functional areas, however, is that direct State expenditures remained constant over this time period. Those functions for which a majority of the States decreased their ratio of direct expenditures to total State-local spending were higher education, public hospitals, corrections, and general control. More States also registered a decline, rather than an increase, for local schools, although the predominant result was no change (see Table 2).

More than half (248) of the total 439 upward shifts registered by various States for the spending categories included in Table 2 were of less than 10 percentage points; slightly more than 20 percent of the upward shifts, however, were decisive—an increase of 30 or more percentage points. These more distinct movements are concentrated in financial administration (48), general public buildings (11), and public welfare (9) functions—the latter, of course, involves the largest amount of dollars. In contrast, only 246 negative shifts occurred in the State direct servicing ratio. Of these, 160 (nearly two-thirds) were of 10 percentage points or less, and only 14 (5.7 percent) exceeded 30 percentage points.

The State intergovernmental aid ratio illustrates increasing State financial participation during the

Table 2

Percentage Point Change in Ratio of State Direct Expenditures to Total State Local Expenditures for Selected Functions, 1957–1972

Percentage Point Change 1957 to 1972	Direct General Expenditures	Higher Education	Local Schools	Public Highways	Public Welfare	Public Hospitals	Public Health	Police	Local Parks and Recreation	Natural Resources	Housing and Urban Renewal	Airports	Water	Corrections	Libraries	Financial Administration	General Control	General Public Buildings
90.0 to 100.0											1		3					
80.0 to 89.9					1						1		1					
70.0 to 79.9					2							1				2		
60.0 to 69.9																7		
50.0 to 59.9											1	1	1		1	21		2
40.0 to 49.9					1							1			2	14		1
30.0 to 39.9					5	1	2		1				2	1	2	4		8
20.0 to 29.9				1	2					1				4	8		2	
10.0 to 19.9	7			12	7	5	12	4		5			1	2	15		4	8
0.1 to 9.9	25		6	21	16	13	14	40		27	11	15	6	10	18		14	12
0	0	16	28	0	0	0	0	0	47	0	32	25	26	1	2	0	1	1
–0.1 to –9.9	14	15	11	10	14	16	11	4		11	2	2	3	21			18	8
–10.0 to –19.9	2	10	1	4		10	5			3		3	1	7			8	7
–20.0 to –29.9		4				3	2			1							1	
–30.0 to –39.9		2	1				2						1	2				1
–40.0 to –49.9		1											1					
–50.0 to –59.9			1										1					
–60.0 to –69.9																		
–70.0 to –79.9																		
–80.0 to –89.9													1					
–90.0 to –100.0																		

Source: U.S. Bureau of the Census, *Census of Governments: 1957*, Vol. IV, No. 2, *State Payments to Local Governments* and Vol. III, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1959; *Census of Governments, 1972*, Vol. 6, No. 3, *State Payments to Local Governments* and Vol. 4, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974.

Table 3

Percentage Point Change in Ratio of State Intergovernmental Expenditures to Total Local Expenditures for Selected Functions, 1957–1972

Percentage Point Change 1957 to 1972	Total General Expenditures	General Government Support	Higher Education	Local Schools	Highways	Public Welfare[1]	Hospitals	Health	Police	Fire	Sewers and Sewage Disposal	Other Sanitation	Parks and Recreation	Natural Resources[1]	Housing and Urban Renwal[1]	Airports[1]	Water Transport and Terminals[1]	Parking	Corrections	Libraries	Financial Administration	General Control	General Public Buildings	Transit[2]
90.0 to 100.0			1					1																
80.0 to 89.9							1	1			1								1					
70.0 to 79.9			2					1			1													
60.0 to 69.9			2																					
50.0 to 59.9			1			2		2						2		1								
40.0 to 49.9			5	1			1	1			1			3		1				2				
30.0 to 39.9			7		1	4	1	1	1	1	1	1	1			1			1	1				1
20.0 to 29.9	1		1	8	6	6		6	2		2		1			2			1	4				1
10.0 to 19.9	15		2	17	11	7		6	10	1	8		2	2			1			14	1			
0.1 to 9.9	22	24	3	14	16	8	3	12	31	7	7	2	22	17	14	16	1	1	13	19	5	11	2	4
0	0	7	24	0	2	10	4	9	3	26	27	45	20	8	32	16	45	47	27	8	42	34	46	41
-0.1 to -09.9	10	17		8	8	4	28	4	1	12			1	12	1	4			3			2		
-10.0 to -19.9					4	2	4	4		1			1	3		1			2					
-20.0 to -29.9						3	2									1						1		
-30.0 to -39.9							1									1								
-40.0 to -49.9							1									2								
-50.0 to -59.9							1									1								
-60.0 to -69.9							1																	
-70.0 to -79.9																								
-80.0 to -89.9																								
-90.0 to -100.0																								

[1] Data excluded for two States.
[2] Data excluded for one State.

Source: U.S. Bureau of the Census, *Census of Governments: 1957*, Vol. IV, No. 2, *State Payments to Local Governments* and Vol. III, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1959; *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* and Vol. 4, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974.

1957-1972 period even more clearly than does the State direct expenditure ratio. Only public hospitals registered a decline in a majority of States, although State aid for fire protection—generally showing no change—recorded more declines than advances. For the remaining expenditure functions—including general local government support, sewers and sewage disposal, other sanitation, parking, and transit (functions that were excluded from the State direct spending ratio because no direct State expenditure was made in either 1957 or 1972)—more States registered an increase than a decline in the State aid ratio. Moreover, in 11 of these functional areas—total general expenditures, general government support, higher education, local schools, highways, welfare, health, police, parks-recreation, natural resources, and libraries—a majority of the States registered an advance (see Table 3). These increases reflect, at least in part, the influence of certain Federal aid programs and program effects of legislation reapportionment.

As is the case in the State direct expenditure ratio, most of the recorded changes—both in positive and negative directions—in the State intergovernmental assistance proportions were changes of less than 10 percentage points; 58 percent (274) of the 470 increased ratios are in this category, as are 115 (76 percent) of the 152 declines. The more decisive movements—30 percentage points or more—totalled 58 (12.3 percent) of the total positive changes, and only 8 (5 percent) of all the declining State intergovernmental aid ratios. Higher education (18), public health (7), and public welfare (6) are functions in which these dramatic increases were centered most heavily.

By combining these two State financing ratios and using a six-fold classification scheme, changing State participation can be summarized by expenditure function. Fourteen of the 24 functions—including the four functions with the greatest expenditures (local schools, highways, welfare, and health, but not hospitals)—are characterized in most States by both a heavier State direct expenditure and intergovernmental aid role (see Table 4). Only one expenditure function—public hospitals—registers a decline in both State financing ratios. Four functions—sewerage, other sanitation, parking, and transit—that show no change in the State direct share record increased aid from the State, while one—fire protection—shows a declining intergovernmental ratio, with no change in the State direct share. Higher education, general control, and corrections all generally are marked by a declining State direct expenditure role but an increasing aid proportion. The employment security function—exclusively financed in all States by the State itself—thus shows no change over the 1957-72 period in either State financing ratio.

AN OVERVIEW OF STATE AID

Growth

Perhaps the most obvious and significant fact concerning State aid[2] is its virtually uninterrupted growth during the 20th century. Between 1902 and 1975, State financial assistance to local governments, measured in current dollars, rose from $52 million to $52.0 billion (see Table 5). Although rates of increase have differed throughout this period, the most dramatic expansion in State aid has taken place during the past quarter century. Not until 1952, for example, did State financial assistance reach the $5 billion level; ten years later, it had more than doubled. In the most recent ten-year period, however, State aid rose more than three-and-a-half times—from $13 billion in 1964 to $45.9 billion in 1974.

As a proportion of total local revenue, State aid also has increased dramatically during this century—from 6.1 percent in 1902 to 33.9 percent in 1974. In striking contrast to the dramatic postwar expansion in current dollar magnitudes, there has been only a slight increase (4.1 percentage points) of the relative importance of State aid in local government revenue systems—from 29.8 percent in 1952 to 33.9 percent in 1974.[3] This increased State role in the total State-local fiscal sector mainly occured prior to World War II and undoubtedly was influenced heavily by the initial development of State aid and the subsequent Federal social programs established during the Depression. Since 1950, however, the expansion in State aid has more nearly paralleled, although not totally, the growth in the local tax and revenue base. Thus, the State-provided portion of local revenues, although continuing to rise, has slowed from its former pace. Based on the index, an evolution of State aid is suggested: State aid outpacing the growth of local revenue prior to 1940 (from 5.6 percent in 1913 to 23.8 percent); continued expansion during the 1940s (to 30.1 percent in 1950); a marking-time period that lasted until 1965 (29.4 percent); growth through 1970 (to 35.7 percent); and a holding position through 1975.

State aid to local governments has continued to rise, even with corrections for changes in the price level. Although the ideal correction factor is not available, a generally accepted proxy is the implicit gross national product price deflator for State and local government purchases of goods and services.

Table 4

State Direct and Intergovernmental Aid Ratios Combined, by Function, 1957–1972

Increased State Direct and Aid Ratios

- Total general expenditures
- Highways
- Welfare
- Health
- Police
- Local parks and recreation+
- Natural resources
- Housing and urban renewal*+
- Airports*+
- Water transport and terminals*+
- Libraries
- Financial administration*
- General public buildings*

Decreased State Direct and Increased Aid Ratios

- Higher education
- General control*
- Corrections*+
- Local school+

No Change Direct and Increased Aid Ratios

- Sewerage and sewerage disposal*
- Other sanitation*
- Parking*
- Transit*
- General government support

No Change Direct and Decreased Aid Ratios

- Fire Protection*

No Change Direct and No Change Aid Ratios

- Employment security

Decreased Direct and Decreased Aid Ratios

- Public hospitals

*Indicates most frequent change in aid ratio but for less than half the States.
+Indicates most frequent change in State direct ratio but for less than half the States.

Source: U.S. Bureau of the Census, *Census of Governments: 1957*, Vol. IV, No. 2, *State Payments to Local Governments* and Vol. III, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1959; *Census of Governments, 1972*, Vol. 6, No. 3, *State Payments to Local Governments* and Vol. 4, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974.

Applying this price index to the current dollar amounts of State aid yields figures that represent constant purchasing power. In these constant dollar terms, State aid has grown more than eight-fold over the past four decades—from $2.4 billion in 1932 (the first year for which the price deflator is available) to $21.4 billion in 1974. Most of this growth occurred in the post-World War II period. Totalling $4.9 billion in 1948, State aid surpassed the $10 billion mark in 1964, doubling over a 16-year period, and by 1974 virtually doubled again, reaching the $21.4 billion level.

To account for population growth, State aid per capita figures are probed. Once more the virtually uninterrupted growth pattern of State assistance is highlighted. In current dollars per capita, State aid rose from $0.66 in 1902, to $6.42 in 1932, and to $244.71 in 1975, with corresponding multiples of 371 for the entire period and 38 since 1932. In constant dollars per capita, the earliest reference year is 1932 when State aid amounted to the equivalent of $18.98 (using 1958 prices as a base). By 1974, more than a five-fold increase had occurred, reaching an equivalent of

Table 5

The Growth in State Intergovernmental Expenditures, 1902-1975
(Amounts in millions, except per capitas)

Year	Current Dollars	Constant Dollars	Current Dollars Per Capita	Constant Dollars Per Capita	As Percent of Total Local Revenue
1975	$51,978	N.A.	$244.71	N.A.	N.A.
1974	45,941	$21,378	218.07	$101.48	33.9
1973	40,822	26,924	195.22	100.06	33.8
1972	36,759	20,010	176.53	96.36	33.4*
1971	32,640	18,737	158.28	90.04	35.5
1970	28,892	17,553	141.76	85.86	35.7
1969	24,779	16,132	123.04	79.95	34.4
1968	21,950	15,159	110.08	76.02	34.7
1967	19,056	13,971	96.51	70.75	32.7
1966	16,848	13,020	86.15	66.57	31.7
1964	12,968	10,852	67.87	56.77	29.4
1962	10,906	9,634	58.71	51.86	28.4
1960	9,443	8,917	52.47	49.54	28.6
1958	8,089	8,089	46.45	46.45	29.2
1957	7,439	7,645	43.46	44.64	29.1
1956	6,538	7,053	38.90	41.96	28.3
1954	5,679	6,658	35.08	41.13	28.0
1952	5,044	6,258	32.25	40.01	29.8
1950	4,217	5,956	27.77	39.22	30.1
1948	3,283	4,944	22.37	33.69	28.9
1946	2,092	3,932	14.87	27.95	25.4
1944	1,842	3,996	13.75	29.84	25.1
1942	1,780	4,208	13.22	31.26	25.0
1940	1,654	4,434	12.49	33.48	23.8
1932	801	2,370	6.42	18.98	14.1
1927	596	N.A.	5.01	N.A.	10.1
1922	312	N.A.	2.83	N.A.	8.1
1913	91	N.A.	0.94	N.A.	5.6
1902	52	N.A.	0.66	N.A.	6.1

*Figures for 1972 and later are from *Government Finances* volumes and are somewhat lower than those for previous years taken from 1972 *State Payments to Local Governments* volume.
N.A.—Not available.

Sources: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974; *Statistical Abstract of the United States* (Washington, D.C.: Government Printing Office), 1973; and *State Government Finances* and *Governmental Finances* volumes for various years. Council of Economic Advisors, *Economic Report of the President* (Washington, D.C.: Government Printing Office), 1975.

Table 6

Composition of State Aid, 1902-1975
(In Millions of Dollars)

Year	Total		General Local Government Support		Education		Highways		Public Welfare		All Other		Health and Hospitals Only	
1975	$51,978	100.0%	$5,129	9.9%	$31,110	59.9%	$3,225	6.2%	$8,101	15.6%	$4,412	8.5%	N.A.	N.A.
1974	45,941	100.0	4,803	10.4	27,107	59.0	3,211	7.0	7,369	16.0	3,451	7.5	N.A.	N.A.
1973	40,822	100.0	4,280	10.5	23,316	57.1	2,953	7.2	7,532	18.5	2,741	6.7	N.A.	N.A.
1972	36,759	100.0	3,752	10.2	21,195	57.7	2,633	7.2	6,944	18.9	2,235	6.1	$955	2.6%
1971	32,640	100.0	3,258	10.0	19,292	59.1	2,507	7.7	5,760	17.6	1,823	5.6	751	2.3
1970	28,892	100.0	2,958	10.2	17,085	59.1	2,439	8.4	5,003	17.3	1,407	4.9	567	2.0
1969	24,779	100.0	2,135	8.6	14,858	60.0	2,109	8.5	4,402	17.8	1,275	5.1	446	1.8
1968	21,950	100.0	1,993	9.1	13,321	60.7	2,029	9.2	3,527	16.1	1,080	4.9	371	1.7
1967	19,056	100.0	1,585	8.3	11,845	62.2	1,861	9.8	2,897	15.2	868	4.5	301	1.6
1966	16,848	100.0	1,281	7.6	10,177	60.4	1,725	10.2	2,882	17.1	783	4.6	275	1.6
1964	12,968	100.0	1,053	8.1	7,664	59.1	1,524	11.8	2,108	16.3	619	4.8	235	1.8
1962	10,906	100.0	839	7.7	6,474	59.4	1,327	12.2	1,777	16.3	489	4.4	189	1.7
1960	9,443	100.0	806	8.5	5,461	57.8	1,247	13.2	1,483	15.7	446	4.7	176	1.9
1958	8,089	100.0	687	8.5	4,598	56.8	1,167	14.4	1,247	15.4	390	4.8	150	1.9
1957	7,439	100.0	668	9.0	4,212	56.6	1,083	14.6	1,136	15.3	340	4.6	142	1.9
1956	6,538	100.0	631	9.7	3,541	54.1	984	15.0	1,069	16.4	313	4.8	132	2.0
1954	5,679	100.0	600	10.6	2,930	51.6	871	15.3	1,004	17.6	274	4.8	N.A.	N.A.
1952	5,044	100.0	549	10.9	2,523	50.0	728	14.4	976	19.3	268	5.3	N.A.	N.A.
1950	4,217	100.0	482	11.4	2,054	48.7	610	14.5	792	18.8	279	6.6	N.A.	N.A.
1948	3,283	100.0	428	13.0	1,554	47.3	507	15.4	648	19.7	146	4.5	N.A.	N.A.
1946	2,092	100.0	357	17.1	953	45.6	339	16.2	376	18.0	67	3.2	N.A.	N.A.
1944	1,842	100.0	274	14.9	861	46.7	298	16.2	368	20.0	41	2.2	N.A.	N.A.
1942	1,780	100.0	224	12.6	790	44.4	344	19.3	390	21.9	32	1.8	N.A.	N.A.
1940	1,654	100.0	181	10.9	700	42.3	332	20.1	420	25.4	21	1.3	N.A.	N.A.
1932	801	100.0	140	17.5	398	49.7	229	28.6	28	3.5	6	0.7	N.A.	N.A.
1927	596	100.0	98	16.4	292	49.0	197	33.1	6	1.0	3	0.5	N.A.	N.A.
1922	312	100.0	35	11.2	202	64.7	70	22.4	4	1.3	1	0.3	N.A.	N.A.
1913	91	100.0	5	5.5	82	90.1	4	4.4	—	—	—	—	N.A.	N.A.
1902	52	100.0	5	9.6	45	86.5	2	3.8	—	—	—	—	N.A.	N.A.

N.A.—Not available.

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974; *State Government Finances in 1973-74* (Washington, D.C.: Government Printing Office), 1975.

$101.48. Since World War II, the rise in per capita State aid, measured in either current or constant dollars, has been substantial and continuously sustained.

Composition

The strongest and most sustained trend in the composition of State aid has been the relative decline in State support for public highways during the 1902-1975 period. The 6.2 percent figure registered in 1975 for this functional area was the third lowest for the period—a decline that virtually has been continuous throughout the entire century (see Table 6). This decline is not surprising in view of the emergence of other high priority programs to be aided, and again relates to reapportionment and the relatively large amounts previously expended for this area.

Aside from public highways, no particularly striking changes are disclosed in the pattern of State aid—at least for the post-World War II period. State aid is—and always has been—dominated by the education function. Since 1952, when exactly half of all State aid was channeled toward support of public schools, this functional area has accounted for more than half of the State aid aggregate. More recently (1967-1972), the relative importance of the education function has lessened somewhat, declining from a 62.2 percent 1967 peak to 59.9 percent in 1975.

The relative decline in State aid for the education function has been taken up by the increasing relative importance of the public welfare category. In 1975, this functional area accounted for 15.6 percent of State government financial assistance—somewhat lower than for the immediately preceding years but in line with the 15-16 percent figures registered in the late 1950s. It should be noted that State aid for public welfare is highly concentrated in California ($1.9 billion) and New York ($3.5 billion), which together account for two-thirds of all State aid payments for this functional area.

General local governmental support (State revenue sharing) illustrates a similar trend. Representing 9.9 percent of the total in 1975, this category of State aid has also been marked by a generally upward trend since 1966. This shift represents a turn around, because prior to 1966, the relative importance of general local government support had slipped. However, this trend is neither strong nor continuous.

Recipient Governments

The largest portion of State aid is channeled to school districts for the support of public education. Over the period 1957-1972, the share of State aid received by school districts remained virtually stable at or near the 50 percent mark. Between 1967 and 1972, however, a downward trend is evidenced—from 50.2 percent to 46.6 percent (see Table 7).

Counties and cities are the second and third largest recipient governmental units, receiving 26.3 and 23.4 percent, respectively, of State aid during the 1957-1972 period, including aid for public education. Although neither jurisdictional type recorded an uninterrupted trend in the share of State aid received, there has been a perceptible narrowing of the differential that favors municipalities. Counties, however, continuously have received the larger portion—although the margin of difference, which stood at 7.4 and 9.4 percentage points in 1957 and 1962, respectively, narrowed to 3.6 and 2.9 percentage points in 1967 and 1972, respectively.

Both cities and counties receive State support for each of the U.S. Bureau of the Census functional areas. Counties are by far the dominant recipient of State aid for highways, public welfare, and hospitals—a position they have maintained throughout the 1957-1972 period. However, during the 15-year time frame studied, the edge held by counties over municipalities narrowed from 36.7 to 22.7 percentage points for highway aid and from 40.4 to 26.8 percentage points for State welfare assistance. On the other hand, a slight increase is registered in the differential State aid received by counties and cities for public hospitals between 1962 and 1972.[4] Despite the narrowing that took place in highway and welfare aid, the differential between county and city shares remained substantial.

Cities are the dominant recipient of State revenue sharing grants and of funds for the miscellaneous-combined category. No striking trend is evident in the differential between jurisdictional shares of State general support assistance. Although the gap widened further in 1967, this trend was reversed in 1972, when the previous differential of approximately 25 percentage points was reestablished in favor of cities.

In contrast, a significant narrowing of the differential is apparent in the relative shares received by counties and cities for the miscellaneous and combined category. In part, however, this narrowing is spurious, because to maintain comparabilty over time, it is necessary to include aid received for public health in this broad-gauged classification. Despite this element of noncomparability, there is a discernible narrowing (from 23.3 to 6.4 percentage points between 1962 and 1972) that cannot be explained fully by the inclusion of the health category—a relatively

Table 7

Total State Grants for Major Functions, by Type of Receiving Government, Selected Years, 1957–1972
(Thousands of Dollars)

Receiving Government	Total	General Local Government Support	Education	Highways	Public Welfare	Hospitals	Health	Miscellaneous and Combined
1972								
Counties	$9,699,993	$1,091,514	$1,773,601	$1,538,113	$4,359,121	$109,136	–	$828,509
Municipalities	8,634,364	2,076,493	2,129,004	939,662	2,499,524	27,064	–	962,617
Townships	1,065,739	301,948	437,506	155,313	77,001	234	–	93,737
School districts	17,131,139	274,391	16,855,235	–	–	–	–	1,513
Special districts	228,010	7,981	–	329	7,988	10,804	–	200,908
TOTAL	$36,759,246	$3,752,327	$21,195,345	$2,633,417	$6,943,634	$147,239	–	$2,087,284
1967								
Counties	$4,738,728	$428,821	$952,517	$1,101,246	$1,892,220	$86,195	$105,150	$172,579
Municipalities	4,052,234	930,515	1,172,325	613,664	925,877	16,498	74,285	319,070
Townships	587,847	170,624	200,112	119,786	77,798	64	1,401	18,062
School districts	9,573,083	49,223	9,519,857	–	–	–	–	4,003
Special districts	104,488	5,664	–	26,757	1,539	13,001	4,384	53,143
TOTAL	$19,056,380	$1,584,847	$11,844,811	$1,861,453	$2,897,434	$115,758	$185,220	$566,857
1962								
Counties	$3,062,602	$252,663	$529,798	$830,266	$1,260,040	$67,559	$47,836	$74,440
Municipalities	2,038,704	446,436	509,938	401,806	450,662	15,683	41,428	172,751
Townships	361,941	94,156	101,911	93,309	66,861	56	971	4,677
School districts	5,394,534	47,107	5,332,756	–	–	–	–	14,671
Special districts	48,619	3,959	–	148	1,134	12,262	2,743	28,373
TOTAL	$10,906,400	$844,321	$6,474,403	$1,325,529	$1,778,697	$95,560	$92,987	$294,912
1957								
Counties	$2,019,676	$194,542	$227,430	$693,451	$707,545	$148,583	–	$48,125
Municipalities	1,480,071	361,855	320,584	296,378	293,973	93,865	–	113,416
Townships	270,388	77,546	62,456	92,598	23,637	8,756	–	5,395
School districts	3,520,068	31,131	3,476,583	–	–	–	–	12,354
Special districts	24,372	2,700	–	147	–	1,868	–	19,657
TOTAL	$7,314,575	$667,774	$4,087,053	$1,082,574	$1,025,155	$253,072	–	$198,947

Source: U.S. Bureau of the Census, *Census of Governments: 1957,* Vol. IV, No. 2, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1959, *Census of Governments, 1962,* Vol. VI, No. 2, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1963; *Census of Governments, 1967,* Vol. 6, No. 4, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1968; *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

Table 8

State Intergovernmental Expenditures as a Proportion of Local General Revenue, by Recipient Unit, Selected Years, 1952–1974

Year	All Local Governments	Counties	Municipalities	Townships	Special Districts	School Districts
1974	34.9	35.2	20.7	10.9	4.8	44.8
1973	34.5	36.0	22.7	12.4	3.8	43.1
1972	34.9	39.9	21.7	13.6	3.2	42.1
1967	32.6	37.9	16.8	13.5	3.2	40.5
1962	28.4	33.9	13.8	11.8	1.9	36.8
1957	28.8	34.5	13.6	13.2	2.1	38.1
1952	29.8	41.7	14.3	8.7	2.7	39.2

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974 and *State Government Finances* and *Governmental Finances* volumes for various years.

small component of the State aid system. Although cities remain the dominant recipient units, counties are increasing their share of State aid for public programs in this residual functional area.

State aid also varies as a proportion of total general revenues among recipient units. School districts not only receive the largest single slice of State financial assistance, but also are the governmental recipient that most heavily relies on this aid. In 1974, State aid comprised 44.8 percent of total general revenues for school districts (see Table 8). Counties, which are a close second to school districts in the 1952-1972 period (aside from 1952, when county reliance on State financial assistance actually exceeded that of school districts), are presently nearing the lower end of the one-third to two-fifths ratio of State aid to total general revenues that has held for this time period. By way of contrast with county governments, at least since 1972, State aid has increased as a component of municipal government revenues, with slightly more than one-fifth of city revenues coming from the State sector. Thus, although counties continue to receive a larger share of their revenues from the State than do their municipal counterparts, this differential has narrowed—from 20 plus percentage points in 1967 and earlier to less than 15 percentage points in 1973 and 1974.

This overview establishes that State aid is a story of growth during the 20th century. The increase is virtually uninterrupted in both money and real terms, even when adjusted for population growth. Although the relative importance of State aid in the local revenue system has increased during the entire period, this development reflects, in part, the growth and transfer of welfare financing to upper governmental levels during the 1930s and, in part, the striking growth in educational aid in the past two decades.

In terms of composition, State aid reveals few significant trends, aside from the declining relative importance of public highways. Other changes, of course, have transpired in the State aid pattern, but none are of the magnitude nor of the duration as that registered by highway aid.

With regard to recipient jurisdictions, school districts continue to be the most important. Counties and cities each receive about one-fourth of State aid, with the municipal share growing more rapidly, particularly since 1962.

THE FEDERAL COMPONENT OF STATE AID TO LOCAL GOVERNMENT: THE PASS-THROUGH ISSUE

The discussion of State aid has not differentiated between grants that originate at and are financed by the State and grants that originate at and are financed by the Federal sector and then channeled by the State to recipient local governments. Traditionally, both grant systems have been considered as State aid. Although the literature has repeatedly employed this distinction, there have been few, if any, empirical estimates of the pass-through element and apparently no studies that estimate this Federal component in any detail. This section fills this gap by presenting estimates of the pass-through component of State aid from two sources: (1) a Maxwell School of Citizenship and Public Affairs, Syracuse University, study, which estimated the pass-through component by function and by State for 1967 and 1972,[5] and (2) a questionnaire prepared by the Advisory Commission on Intergovernmental Relations (ACIR) and the National Association of State Budget Officers (NASBO), which quantified the pass-through issue and probed several related issues.

The implications of the pass-through issue are quite clear. Traditional discussions of State and Federal aid to local government, to the extent of pass-through funds, tend to overstate the State aid flows and to understate the Federal aid dimension. Thus, depending upon the magnitude of the pass-through element, intergovernmental aid flows may be considerably different from those of traditional analyses.

Maxwell School Study

Methodology

Calculation of the pass-through component, although necessitating no elaborate statistical procedures, does require very detailed data on the grant system. Fortunately, reasonably approximate data exist and are published by the U.S. Bureau of the Census every five years.[6] Essentially, the procedure employed for this study sorted each State payment to local governments into one of four categories that reflect the initial source of financing: State funds, Federal funds, State and Federal funds combined but not specified, and State and Federal funds combined with a specified Federal aid component.[7] Programs for which the source of funding is the combined State and Federal payments, the Federal-State financial split—derived from various sources—was used to isolate the Federal component. This portion, along with the Federal funds category and the specified Federal aid component of other jointly funded programs, comprise the pass-through estimate.

To give some initial impression of the magnitudes involved, total State aid (including the Federal component) is broken down by the initial source of financing for each expenditure function in 1972 (see Table 9). By far, the largest categories of combined (and unspecified) Federal-State aid were the major public assistance programs—aid to the blind, partially or totally disabled, families with dependent children, and old age assistance. These programs can thus illustrate the types of procedures used to break the combined Federal-State funds into components.

For fiscal 1972, calculation of the Federal share of these public assistance programs was straightforward. Using an unpublished document prepared by the U.S. Department of Health, Education, and Welfare,[8] Federal and State plus local amounts for the four programs were calculated. The ratio of these amounts was applied to the combined Federal and State funds Census category to determine the Federal share.

Estimating the 1967 Federal share, however, was more difficult. Because all but three States with public assistance funds in the combined Federal-State category had approved Medical Assistance plans in effect, it was assumed that those States exercised the option of using the Federal Medical Percentage because this would result in their receiving larger amounts of Federal aid than would the Federal percentage of the basic cost-sharing formula. For the remaining three States, the Federal percentage was used. In this manner, the Federal share of the combined Federal-State total was calculated for the four public assistance programs.

Statistical Results

The estimated pass-through of Federal aid by the States was $7.1 billion in 1972—$3.6 billion (51 percent) in welfare and $3 billion (43 percent) in education (see Table 10). This represents a virtual doubling of the 1967 pass-through component, which totalled $3.6 billion and also was highly concentrated in welfare (47 percent) and education (43 percent) (see Table 11). As might be expected, the pass-through component varies considerably from State to State; measured as a percentage of State aid to local govern-

Table 9

State Aid to Local Governments by Source of Financing and by Expenditure Function, 1972
(Thousands of Dollars)

Source of Financing	Expenditure Function: General Support	Education	Highways	Public Welfare	Health and Hospitals	Miscellaneous	Total
State	$3,773,008	$17,676,998	$2,641,162	$769,060	$272,570	$942,933	$26,075,671
Federal	2,121	2,142,217	67,389	87,168	73,706	330,552	2,703,153
Mixed	0	1,422,285	3,820	6,019,459	367,710	241,299	8,144,573
TOTAL	$3,775,129	$21,241,500	$2,712,371	$6,965,687	$713,926	$1,514,784	$36,923,397

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

Table 10

Intergovernmental Aid and the Federal Pass-Through Component, by Function, by State, 1972
(Millions of Dollars)

	Total		Education		Highways		Public Welfare		Health and Hospitals		Other	
State	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid
Alabama	$377	$90	$298	$86	$56	–	–	–	$6	–	$17	$4
Alaska	102	6	77	4	1	–	–	–	4	1	20	1
Arizona	340	34	228	30	29	–	–	–	2	1	81	3
Arkansas	196	54	148	48	31	–	–	–	2	1	15	5
California	5,256	1,351	2,097	292	357	–	$2,055	$1,029	129	–	618	30
Colorado	355	89	181	20	38	–	120	65	10	1	6	3
Connecticut	331	27	233	22	8	–	15	–	1	–	74	5
Delaware	110	13	106	13	2	–	–	–	–	–	2	–
Dist. of Columbia	–	–	–	–	–	–	–	–	–	–	–	–
Florida	996	97	914	86	23	–	–	–	5	3	54	8
Georgia	573	99	480	93	40	–	29	–	9	–	15	6
Hawaii	28	0	–	–	1	–	–	–	–	–	–	–
Idaho	90	12	61	11	18	1	–	–	1	–	10	–
Illinois	1,559	160	1,030	128	187	25	168	3	13	1	161	3
Indiana	634	116	397	49	110	–	82	59	5	5	40	3
Iowa	443	47	296	43	82	–	2	–	1	1	62	3
Kansas	287	107	144	28	34	–	83	71	2	2	24	6
Kentucky	319	82	297	76	6	–	1	–	4	1	11	5
Louisiana	552	95	455	87	30	–	–	–	3	2	64	6
Maine	81	17	66	16	2	–	1	–	–	–	13	1
Maryland	903	141	477	47	113	16	182	74	17	1	114	3
Massachusetts	488	76	303	66	11	–	15	–	8	–	151	10
Michigan	1,566	111	941	95	232	–	80	–	28	3	285	13
Minnesota	1,055	234	582	54	72	–	250	167	5	3	146	10
Mississippi	331	66	244	62	34	–	–	–	4	2	49	2

(Continued)

Table 10

Intergovernmental Aid and the Federal Pass-Through Component, by Function, by State, 1972 (continued)
(Millions of Dollars)

	Total		Education		Highways		Public Welfare		Health and Hospitals		Other	
State	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid
Missouri	459	70	399	55	25	–	2	–	9	3	24	12
Montana	70	12	59	11	1	–	2	–	–	–	8	1
Nebraska	143	24	68	22	43	–	6	–	1	–	25	2
Nevada	98	6	75	5	5	–	–	–	1	–	17	1
New Hampshire	44	12	13	8	1	–	2	–	1	1	27	3
New Jersey	1,089	299	463	93	20	–	366	205	34	–	206	1
New Mexico	215	29	165	26	8	–	–	–	2	1	40	2
New York	7,090	2,091	2,959	349	125	–	2,747	1,713	187	–	1,072	29
North Carolina	918	232	664	125	13	–	170	98	9	–	62	99
North Dakota	78	10	49	9	13	–	3	–	–	–	13	1
Ohio	1,061	123	641	108	183	–	87	4	19	3	131	8
Oklahoma	300	49	220	42	63	–	–	–	2	1	15	6
Oregon	253	34	167	29	53	–	2	–	3	–	28	5
Pennsylvania	1,622	174	1,305	144	68	2	52	–	63	4	134	24
Rhode Island	89	9	63	7	1	–	13	–	–	–	12	2
South Carolina	308	89	259	73	14	–	–	–	3	3	44	13
South Dakota	41	18	32	14	4	–	–	–	–	–	4	4
Tennessee	440	74	315	69	68	–	1	–	3	3	53	2
Texas	1,191	195	1,146	188	19	–	1	–	9	–	16	7
Utah	152	16	141	14	6	–	–	–	1	–	4	2
Vermont	45	5	38	5	1	–	–	–	–	–	6	–
Virginia	634	161	403	74	21	–	154	71	9	9	52	7
Washington	580	36	421	31	89	–	–	–	6	–	64	5
West Virginia	211	43	205	41	–	–	1	–	1	–	4	2
Wisconsin	987	132	317	46	145	–	121	78	42	–	362	8
Wyoming	55	6	38	4	5	–	2	–	2	1	8	1
TOTAL	$35,143	$7,073	$20,677	$3,048	$2,510	$45	$6,823	$3,637	$661	$56	$4,455	$287

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 11

Intergovernmental Aid and the Federal Pass-Through Component, by Function, by State, 1967
(Millions of Dollars)

State	Total: State Aid (Including Federal Aid)	Total: Federal Component of State Aid	Education: State Aid (Including Federal Aid)	Education: Federal Component of State Aid	Highways: State Aid (Including Federal Aid)	Highways: Federal Component of State Aid	Public Welfare: State Aid (Including Federal Aid)	Public Welfare: Federal Component of State Aid	Health and Hospitals: State Aid (Including Federal Aid)	Health and Hospitals: Federal Component of State Aid	Other: State Aid (Including Federal Aid)	Other: Federal Component of State Aid
Alabama	$284	$49	$228	$49	$41	–	–	–	$5	–	$10	$0
Alaska	25	–	23	–	–	–	–	–	–	–	2	–
Arizona	159	19	98	18	19	–	–	–	1	$1	41	0
Arkansas	123	32	90	30	23	–	–	–	2	1	8	1
California	2,779	696	1,288	141	256	$3	$893	$543	66	4	276	5
Colorado	199	74	94	16	24	–	72	54	2	–	7	4
Connecticut	132	5	110	4	8	–	4	–	1	–	9	1
Delaware	68	2	64	2	2	–	1	–	–	–	1	–
Florida	413	51	361	47	19	–	1	–	5	2	27	2
Georgia	374	58	315	58	39	–	8	–	8	–	4	–
Hawaii	30	–	9	–	1	–	–	–	5	–	15	–
Idaho	52	7	38	6	11	1	–	–	–	–	3	–
Illinois	635	120	400	82	120	34	63	–	7	–	45	4
Indiana	400	61	246	26	79	–	48	30	4	3	23	2
Iowa	158	32	69	31	60	–	1	–	3	1	25	–
Kansas	188	50	112	16	15	–	47	32	2	2	12	–
Kentucky	193	50	182	47	4	–	–	–	3	2	4	1
Louisiana	358	28	289	25	20	–	–	–	3	3	47	–
Maine	39	–	34	–	3	–	1	–	–	–	1	–
Maryland	404	66	188	25	48	4	77	36	10	–	81	1
Massachusetts	519	166	119	33	17	–	226	132	3	–	154	1
Michigan	968	68	620	65	162	–	66	–	20	3	100	–
Minnesota	423	109	240	27	51	–	106	74	1	–	25	8
Mississippi	190	40	141	37	33	–	–	–	4	2	12	1
Missouri	248	48	214	47	19	–	1	–	3	1	11	–

(Continued)

Table 11

Intergovernmental Aid and the Federal Pass-Through Component, by Function, by State, 1967 (continued)
(Millions of Dollars)

State	Total		Education		Highways		Public Welfare		Health and Hospitals		Other	
	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid	State Aid (Including Federal Aid)	Federal Component of State Aid
Montana	33	7	30	6	1	–	–	–	–	–	2	1
Nebraska	73	25	19	–	22	–	28	24	1	1	4	–
Nevada	45	2	34	2	5	–	–	–	–	–	6	–
New Hampshire	15	4	10	4	1	–	–	–	–	–	4	–
New Jersey	404	99	261	30	16	–	102	67	10	–	15	2
New Mexico	131	17	118	16	6	–	–	–	1	–	6	1
New York	3,289	822	1,683	207	129	–	895	556	90	48	492	11
North Carolina	505	135	386	58	10	–	82	72	6	5	21	–
North Dakota	39	5	26	5	9	–	1	–	–	–	3	–
Ohio	665	68	323	60	138	–	95	5	6	2	103	1
Oklahoma	182	27	127	24	47	–	–	–	1	1	7	2
Oregon	164	36	108	19	37	15	2	–	2	–	15	2
Pennsylvania	720	75	582	74	66	–	18	–	9	1	45	–
Rhode Island	44	–	30	–	–	–	4	–	1	–	9	–
South Carolina	188	42	155	38	10	–	–	–	4	4	20	–
South Dakota	25	9	18	8	3	–	–	–	–	–	4	1
Tennessee	308	53	219	49	58	–	1	–	3	3	27	1
Texas	687	111	642	104	17	–	–	–	4	4	27	3
Utah	95	6	88	5	4	–	–	–	–	–	3	–
Vermont	22	1	16	1	5	–	1	–	–	–	–	0
Virginia	305	73	206	44	16	1	45	27	2	1	36	–
Washington	371	14	284	13	45	–	–	–	11	–	31	1
West Virginia	116	23	112	21	–	–	2	–	1	1	1	1
Wisconsin	614	52	156	25	131	–	61	25	23	–	243	2
Wyoming	33	9	22	3	3	–	5	4	1	1	3	1
TOTAL	$18,434	$3,553	$11,227	$1,647	$1,853	$59	$2,957	$1,681	$327	$98	$2,070	$61

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 12

Intergovernmental Aid and the Federal Component of State Aid to Local Government: National Totals, 1972

(Millions of Dollars)

Intergovernmental Aid Flows	Total Expenditure	Expenditure Function: Education	Highways	Public Welfare	Health and Hospitals
Nominal Federal aid to States	$26,791	$5,984	$4,871	$12,289	$601
Nominal Federal-local aid	4,551	1,030	47	71	137
Nominal State-local aid	35,143	20,677	2,510	6,823	661
Pass-through	7,073	3,048	45	3,637	57
Net Federal aid to States	19,718	2,936	4,826	8,652	544
Net Federal-local aid	11,624	4,078	92	3,708	194
Net State-local aid	28,070	17,629	2,465	3,186	604
Percent difference in Federal-local aid due to pass-through	155.4%	295.9%	95.7%	5,122.5%	41.6%
Pass-through as a percent of total Federal aid	22.6%	43.5%	0.9%	29.4%	7.7%

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 29; *State Government Finances in 1972* (Washington, D.C.: Government Printing Office), 1973.

ment, this ratio ranged in 1972 from zero percent in Hawaii to 44 percent in South Dakota.

The $7.1 billion in Federal aid channeled by States to local governments dramatically changes the intergovernmental aid picture for 1972. Indeed, the pass-through component accounts for 22.6 percent of the traditional measure of Federal aid to States and localities; its exclusion from aggregate State aid leads to a 20.1 percent decline in this form of outside aid to localities (see Table 12). Other changes are:

- A 2.6 fold increase in total Federal-local aid (from $4.6 billion to 11.6 billion);
- A quadrupling of Federal-local education aid (from $1 billion to $4.1 billion), with a 15 percent decline in State aid for education; and
- A 52-fold increase in Federal-local welfare aid (from $71 million to $3.7 billion), more than halving the traditional measure of State aid for this function.

ACIR-NASBO Questionnaire

The second source of information relating to the pass-through issue is the questionnaire that this Commission (ACIR) developed in conjunction with the National Association of State Budget Officers (NASBO).[9] Budget officers in each State were asked several questions relating to the pass-through issue, with responses pertaining to 1974.[10]

Statistical Results

Based on responses from 22 States, $14.1 billion in Federal grants was received in 1974; $8.3 billion (59 percent) was retained by the State government and $5.8 billion (41 percent) was channeled to localities (see Table 13). As was found in the Maxwell School study, pass-through funds were heavily concentrated in public welfare ($3.8 billion or 66 percent of the total passed on to localities) and education ($1.6 billion or 27 percent). Although this survey result

Table 13

State Pass-Through of Federal Grant Funds to Local Recipients in Selected States,[1] by Function, FY 1974
(Thousands of Dollars)

Function	Number of States	Federal Grants Received	Retained by State Government		Passed Through to Local Recipients	
Education	26[2]	$2,746,177	$1,189,181	43%	$1,556,996	57%
Public welfare	27	7,266,942	3,429,903	47	3,837,039	53
Highways	25[3]	2,214,514	1,893,806	86	320,708	14
Health and hospitals	27	456,382	304,648	67	151,734	33
Criminal justice	27	367,545	125,198	34	242,347	66
Housing and community development	26[2]	20,319	10,438	51	9,881	49
Manpower	25[4]	1,475,089	1,234,300	84	240,789	16
All other	24[5]	945,445	465,025	49	480,420	51
Total for 22[6] States		$14,134,352	$8,287,582	59%	$5,846,770	41%

[1] As many as 27 States: Alaska, Arizona, California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Illinois, Iowa, Maryland, Michigan, Minnesota, Missouri, Montana, Nevada, North Carolina, North Dakota, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Vermont, Virginia, and Wisconsin.
[2] All States in footnote 1 except South Dakota.
[3] All States in footnote 1 except Georgia and South Dakota.
[4] All States in footnote 1 except North Carolina and North Dakota.
[5] All States in footnote 1 except North Carolina, South Dakota, and Rhode Island.
[6] All States in footnote 1 except Georgia, North Carolina, North Dakota, Rhode Island, and South Dakota.

Source: ACIR questionnaire survey of State budget officers, 1975.

Table 14

State Pass-Through of Federal Grant Funds to Local Recipients in Selected States,[1] by Function and by Type of Recipient, FY 1974

Function	Number of States	Pass-Through to: Muns.	Cos.	Twps.	Sch. Dists.	Spec. Dists.	Other**	Retained by State Govt.
Education	23[2]	3%	10%	0	43%	*	0	44%
Public welfare	24	2	54	1%	*	0	0	43
Highways	21[3]	5	4	1	0	0	0	90
Health and hospitals	24	10	14	*	*	6%	*	69
Criminal justice	21[4]	45	19	0	0	2	0	34
Housing and community development	16[5]	16	12	0	0	18	*	54
Manpower	19[6]	2	2	0	*	2	*	94
All other	13[7]	39	10	*	4	1	*	46

*Less than 0.5%.
**Usually private nonprofit organizations.

[1] As many as 24 States: Alaska, Arizona, California, Colorado, Connecticut, Delaware, Georgia, Hawaii, Idaho, Iowa, Maryland, Michigan, Minnesota, Montana, Nevada, North Carolina, North Dakota, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Vermont, and Virginia.
[2] All States in footnote 1 except South Dakota.
[3] All States in footnote 1 except Georgia, Oregon, and South Dakota.
[4] All States in footnote 1 except Nevada, Oregon, and South Carolina.
[5] All States in footnote 1 except Alaska, Iowa, Michigan, Nevada, North Carolina, North Dakota, Pennsylvania, and South Carolina.
[6] All States in footnote 1 except Nevada, North Carolina, North Dakota, Oregon, and South Carolina.
[7] All States in footnote 1 except California, Colorado, Georgia, Idaho, Nevada, North Carolina, North Dakota, Oregon, Rhode Island, South Carolina, and South Dakota.

Source: ACIR questionnaire survey of State budget officers, 1975.

indicates a greater relative importance for the public welfare function than emerged in the Maxwell School analysis, this finding may simply reflect a lesser scope (relating to only 22 States) and a different year (1974, rather than 1967 or 1972). In any event, both sources indicated that more than 90 percent of the total pass-through funds for 1967, 1972, and 1974 related to education and welfare. Among the States reporting, the proportions passed through to local recipients varied among the functional areas—criminal justice (66 percent), education (57 percent), public welfare (53 percent), and housing and community development (49 percent). The lowest proportions were for highway (14 percent) and manpower (16 percent) functions. Only 33 percent of Federal health and hospital funds were channeled to local recipients.

Results for the jurisdictional breakdown of pass-through funds generally confirm conventional wisdom: the bulk of education funds went to school districts, counties dominate public welfare grant recipients, and the largest share of criminal justice funds went to municipalities (see Table 14). Somewhat more surprising was that the 19 States responding to the item on jurisdictional recipients of the manpower grant indicated that only 6 percent[11] of the total grant was channeled to various localities, whereas the 25 States reporting on the functional breakdown of Federal grants indicated that 16 percent of such funds were passed through to local governments.

State Sector Policy Input

Several questions were designed to determine the policy input of State governments in the pass-through issue. Results indicated light efforts by the State to influence local policies and practices. For example:

- State budget officers estimated that about 83 percent of the funds were passed through according to Federal requirements, 8 percent according to State law, and 10 percent through State administrative discretion (mean figures for 24 responding States).
- By a two-to-one margin (15 versus 7 States), budget officers indicated that when the State added its own money to the Federal grant, no differences existed in the types of procedural or performance requirements imposed by the State.[12]
- States more frequently attach procedural requirements (such as accounting, reporting, and auditing) than performance requirements to Federal pass-through funds. Nineteen of 33 respondents indicated that there were at least some pass-through funds for which the State added no performance standards at all, although this number slipped to 14 (of 34) regarding procedural requirements. Indeed, based on 16 responses, it appears that an average (mean) of 39 percent of pass-through funds contained no additional State-imposed conditions of either type.[13]

In summary, the amount of Federal grants passed through by the State to local governments appears substantial enough to alter the traditional picture of intergovernmental aid flows. This is particularly true regarding the Federal-local division of grants-in-aid. From a public policy perspective, the results of the ACIR-NASBO questionnaire suggest that States, in general, do little with these pass-through funds to influence local policies and practices. Thus, as a consequence of the pass-through element, it appears that Federal influence on local governments is understated and State influence is overemphasized—in both quantitative and qualitative terms.

THE DISTRIBUTION OF STATE AID

State aid (including grants originating at the Federal level and passed on by the State to its localities) totalled $52 billion in 1975. This State financial assistance was provided for seven broad functional areas of local governmental services—general local government support, education, welfare, highways, public health, public hospitals, and a miscellaneous and combined purposes category.[14] Public education was by far the largest component of this 1975 State-aid package, accounting for $31.1 billion (59.9 percent) of the total. Second in magnitude was public welfare, representing $8.1 billion (15.6 percent) of 1975 State aid. Other component breakdowns include general local government at $5.1 billion (9.9 percent), public highways at $3.2 billion (6.2 percent), hospitals at $78.2 million (0.2 percent), corrections at $102.9 million (0.2 percent), and all other components at $4.2 billion (8.1 percent). Thus, State aid is provided for a number of public functions, each representing a large number of separate public programs.

To identify the distributional characteristics of State aid, it is necessary to probe the broad functional aggregations and to examine the individual public programs that are supported with State financial assistance. Clearly, the overall State aid magnitude—$52 billion—covers a myriad of distribution procedures, differing among not only functions but also the various programs within the broad functional areas. The data source for individual programs is the U.S. Bureau of the Census volume, *State Payments to Local Governments,* published every five years. For the analysis of individual programs, the data relate to 1972, the latest volume presently available.

To sort the variety of distribution procedures for allocating State aid to localities, distribution mechanisms were classified according to five major types:

1) Equalizing formulas, wherein the following factors were utilized: population, tax capacity, tax effort or fiscal needs, and property tax rates;
2) Non-equalizing formulas;
3) A not specified category, which includes those public programs receiving State aid but for which the distribution formula is not spelled out;
4) A not allocable component, which consists mainly of those public programs in which a multi factor formula is utilized (particularly in public highways), two or more public programs with differing distribution formula are combined and presented as a single dollar amount, or one public program is supported by different procedures for State aid and Federal aid but is presented as one financial sum; and
5) A miscellaneous or "other" category, designed to serve as a residual or catch-all classification.

The usefulness of any classification scheme, such as that outlined, must be judged in accordance with the particular questions it is designed to answer. The key question of concern is: What are the various distribution bases that States employ in their grants to localities? More particularly: Does State aid equalize fiscal resources and capacities of local governments by providing relatively greater amounts of financial assistance to relatively poorer local jurisdictions? A second item of interest relates to the form of grant —project or formula—used to allocate State aid.

With regard to the equalization question, it is also useful to investigate the distribution formulas used to accomplish this objective and to determine which of the seven broad categories of local governmental services are marked by this State aid objective. To answer these questions, State aid distributed on the basis of population, tax capacity, effort or needs, property tax rates, and other factors (in which State aid resulted in less affluent localities receiving larger amounts) were considered to be of an equalizing nature. Although these various factors have different effects on recipient jurisdictions, they all can be considered as measures to approximate fiscal needs.

Population has been considered as both an equalizing measure and a program needs proxy, the former in connection with a number of Federal grant programs that includes revenue sharing. Because of the progressive nature of the Federal income tax, more affluent areas raise more revenues than they receive under a strict per capita distribution scheme; the reverse is true for less affluent jurisdictions.

The argument for considering population as an equalization factor in State aid systems is diluted, however, by the fact that State personal income taxes are, in general, less progressive than Federal income tax; several are proportionate, either in whole or for large parts of the income spectrum. Additionally, State revenue sharing programs, in particular, and State support, in general, are rarely financed exclusively from State personal income taxes. To the extent State aid programs are financed from general revenues, other tax sources are also utilized—tax sources that generally are not considered to be progressive. With regard to State revenue sharing programs specifically, one cannot ignore the fact that portions of certain State tax sources—other than the personal income tax—are the exclusive source of finance.

Despite these considerations, all State aid based on population is placed in the equalization category; this is done on the grounds that, to the extent State personal income tax is part of the financing mechanism and is progressive (because of either graduated rates, exemptions, or deductions), such programs supported by this tax will be equalizing, although not necessarily in the sense of equalizing fiscal capacities.

The second issue of concern is distinguishing between formula and project types of State grants. For this purpose, data on dollar amounts and the number of each type of grant program are presented for each functional classification. Project grants, as defined herein, are all State aid grants for which no formula is specified. Such an assumption may represent an overestimate of these grants, because some may have a formula basis that was not reported either to or by the U.S. Bureau of the Census. For this reason, the data presented may not be precise. Nonetheless, the data can be viewed reliably as upper limit estimates of the magnitude and number of State aid programs that are project, rather than formula, oriented. A second estimate of the project-formula grant breakdown, by function, was developed by the Maxwell School.[15] The two sets of estimates are broadly consistent for the functional areas, but there are differences that are not readily reconciled.[16]

The five-fold classification scheme of State aid developed is designed to provide an exhaustive breakdown of the distribution formulas by functional classification. Like other possible classification schemes, it also has its limitations. The major stumbling blocks are the dual-purpose and the multi factor grants. For example, some grants designed to equalize also may be based on additional specific factors. Particularly in public education, for which equalization is the dominant objective, such grants were placed in the equalization category. In other public functions, for which equalization was a less important State aid goal, the grants in question were placed in the non-allocable component. Because equalization of local fiscal resources is relatively unimportant in functions other than public education and general local government support, this problem is not of major significance for present purposes.

The multi factor grant or two grants tied to a single dollar sum consistently were placed in the non-allocable sector, even though one or more of the factors were specifically itemized as a component of non-equalization assistance. Despite these difficulties, the classification used here does serve to highlight State aid distribution procedures. Although the dollar sums may not be precise estimates, the significant characteristics of the distribution of State aid are sufficiently highlighted to permit considerable confidence in the major findings and conclusions.

Total State Aid

Perhaps the safest generalization that can be made about the distribution of State aid is that this system is best considered in two parts—public education and all other functional areas. Although each public function supported by State financial assistance has unique characteristics, the distribution of State grants among the several non-education functions is more comparable than the distribution formula between any one function and State aid for public education.

This dichotomy between education and non-education distribution mechanisms is most clearly illustrated in the equalization of local fiscal capacities. This distrubutional objective is, of course, the major—although not exclusive—goal of State aid for public education, and, because public education is the dominant component of total State aid, equalization becomes a dominant basis of total State aid. Yet, aside from education and, to a lesser degree, general local government support functions, equalization as a goal of State grants is negligible. For the 1972 State aid aggregate of $36.8 billion, approximately $15.5 billion (just over 40 percent) of all State aid was allocated to localities on various bases designed to compensate for variations in local fiscal capacity and/or effort (see Table 15). Fully $13.1 billion of the $15.5 billion in equalization grants is found in the public education category. When this figure for education and the $1.7 billion of equalization assistance for general local support programs are excluded, only $600 million remains for equalization assistance in the public welfare, hospitals, highways, health, and miscellaneous and combined categories.

The dominant distribution pattern for State aid, thus, is based on one or more measures of a non-equalizing nature. Of the variety of such measures that are utilized, the most important is the cost-reimbursement method. In this method, State governments compensate, in whole or in part, expenditures made for various public programs. This cost-reimbursement method accounted for $11.9 billion (more than 70 percent) of the $16.7 billion in non-equalizing State aid for 1972.

In terms of grants, formula—not project—grants are the overwhelmingly preferred transfer mechanism. In this area, no dichotomy between education and non-education assistance programs exists. Assuming all State grants-in-aid distributed without a specifying formula are project grants,[17] the data suggest that formula grants account for $31.9 billion (approximately 97 percent) of total State aid, other than those for general local government support. In terms of grant numbers (again excluding State revenue sharing programs), 1,804 of 2,121 State grants to localities were formula based (85 percent) (see Table 16). The few project grants that exist tend to cluster in the public education (145) and miscellaneous and combined (127) categories.

Over the course of the 1957-1972 period, formula grants have grown in number (from 875 to 1,804). The growth rate for project grants is somewhat less (from 159 to 317). Although slipping as a proportion of the total number of State grants to localities (from 93.7 percent in 1957 to 85 percent in 1972), formula-based grants increased somewhat as a share of total State aid measured in dollar terms; formula-based grants accounted for $6.4 billion (96.7 percent) of total State aid in 1957 (excluding general local government support) and $31.9 billion (97.4 percent) of the 1972 State aid package.

To make the same point with the focus on project grants, these grants have:

- Grown in number, from 159 in 1957 to 317 in 1972;
- Increased in dollar magnitude, from $216 million to $854 million;
- Expanded to represent a larger share of the number of State grants, from 6.3 percent to 16.5 percent; and
- Slipped as a proportion of total State aid dollars, from 3.3 percent to 2.6 percent.

At the risk of overgeneralization, thus, the State aid system can be reasonably described as one of relative simplicity. It is based basically on non-equalizing measures—particularly the cost-reimbursement method—and is nearly exclusively formula, rather than project, based in terms of both dollar amounts and number of programs. Equalization assistance is of major importance, however, in the field of public education and, to a lesser extent, programs of general local government support.

As a corollary, and excepting the public education category, this analysis of State aid leads to the conclusion that the equalization objective is pursued to a greater extent in State programs of general local government support than in the categorical aids provided for specific functional areas. However, because equalization is pursued only in about one-half (in terms of dollar amounts) of State revenue sharing programs and because it is present in some categorical

Table 15

Distribution of State Aid, by Function, by Distribution Method, 1972
(Billions of Dollars)

	Total State Aid	General Local Government Support	Public Education	Public Welfare	Public Highways	Public Hospitals	Public Health	Miscellaneous and Other
Amount	$36,803,325	$3,774,537	$21,234,923	$6,945,064	$2,636,408	$146,989	$545,705	$1,519,699
As percent of total State aid	100.0	10.2	57.7	18.9	7.2	0.4	1.5	4.1
Bases of Distribution								
Equalizing—Total	15,516,600	1,747,567	13,148,178	21,277	568,067		7,492	24,019
Population	1,806,815	1,219,864		1,776	558,504		7,492	19,179
Tax capacity, effort, needs	228,178	228,178						
Property tax rates	58,527	58,527						
Other	13,423,080	240,998	13,148,178	19,501	9,563			4,840
Non-equalizing—Total	16,663,395	1,754,606	5,580,158	6,732,446	964,502	139,363	447,558	1,044,762
Origin	1,320,824	955,630	126,542		178,358			60,294
Flat	129,851	35,209	1,381		71,427	353	210	21,271
In-lieu payments	834,212	763,767	22,001					48,444
Cost reimbursement	11,932,838		3,578,989	6,732,446	134,498	126,808	445,344	914,753
In relation to local expenses	10,262,149		2,996,513	6,728,542	39,475	50,550	148,806	298,263
In relation to local expenses for approved projects	1,576,209		582,476	3,904	3,804	72,997	296,538	616,490
Contractual arrangements	94,480				91,219	3,261		
Rate per unit of program needs	1,196,281		1,182,075			12,202	2,004	
Per student	1,182,075		1,182,075					
Per bed or per patient	14,206					12,202	2,004	
Program measures	1,249,389		669,170		580,219			
School age population	474,592		474,592					
Enrollments	93,702		93,702					
Average daily attendance	100,876		100,876					
Area	47,383				47,383			
Mileage	352,629				352,629			
Motor veh. regist.-license fees	138,685				138,685			
Motor fuel sales	41,522				41,522			
Not specified	908,546	10,706	410,970	109,719	71,822		74,471	230,858
Not allocable	2,667,825	195,366	1,496,870	804	819,563	4,662	11,759	138,801
Other	1,046,959	66,292	598,747	80,818	212,454	2,964	4,425	81,259

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

aids (aside from public education), this conclusion —although true in general—need not remain valid for particular program comparisons in particular States. Moreover, the general absence of an equalization basis in the distribution of State aid—whether by categorical or general purpose grants—is also the conclusion of other analyses:

> . . . that state aid per capita is not directed toward either poor governments or poor people. Although the analysis is limited in scope, the States are representative of all sections of the country and have many areas of large population. Yet within them, those factors that measure relative degrees of social welfare need among local governments did little to explain the existing distribution patterns of state aid per capita. Among urban areas particularly, relatively little of the variance was accounted for by differences in urban concentration and degrees of poverty among the respective governments and people.
>
> Although perhaps only a first approximation, our findings consistently point out that state governments do not allocate to local governments on the basis of equity concepts. It is suggested that the impact of such allocations, which occurs through any number of formula grants, project grants and program funding, is by legislative intent. However, state funds under existing allocation methods are not being directed toward these areas of greatest human resources and urban program needs.[18]

General Local Government Support

Although State aid remains highly concentrated in the four largest functional areas—education, highways, welfare, and health-hospitals—45 States (excluding Colorado, Delaware, Montana, Vermont, and West Virginia) have adopted programs of general assistance to local governments, in contrast to 43 States with such programs in 1957. Indeed, the number of State revenue sharing programs is, in itself, rather surprising. As of 1972, there were 209 such programs compared with 141 in 1957. These numerous revenue sharing programs represent, in part, the large number of individual taxes that are shared between States and their localities. Although many of these programs involve only minor amounts of aid, in the aggregate, State programs of general support accounted for $5.1 billion of 1975 State aid (more than a seven-fold increase since 1957) and currently comprise 9.9 percent of total State aid.

The distinctions between programs of general support and State categorical aids are well known and have been articulated by this Commission and others. In brief, the major characteristics of general support programs are the flexibility permitted local officials in setting local priorities and the absence of State programmatic and administrative controls.

The differences between the two forms of State grants—general support and categorical aid—are significant. Yet, in practice, there may be more overlap—at least in terms of fiscal effects—than is generally acknowledged. Two such examples were highlighted in testimony of Janet L. Hoffman to the Intergovernmental Relations and Human Resources Subcommittee of the U.S. House of Representatives' Committee on Government Operations. In one case, the State of Maryland increased financial assistance for public libraries from $1.80 to $3.00 per capita. Because no maintenance-of-effort clause was incorporated in the program, subdivisions already spending at the higher per capita level were able to devote all or part of added State assistance to general budget purposes. Similar fiscal effects were apparent in State aid for the police protection program. Mrs. Hoffman stated:

> A recent Maryland example of categorical aid used for fiscal, not program purposes, involved the 1975 amendments to the program of State aid for local police protection. Significant additional State reimbursement was provided to the subdivisions based on their past police expenditure levels. Although strictly speaking this is categorical relief, it was perfectly clear during the formulation and consideration of the program that its entire purpose was to provide fiscal relief. It was recognized that some of the relief so granted would be manifested in the local police budgets. Baltimore City received about $15,000,000 of additional police aid; this more than covered the $8,000,000 "built-in" cost of negotiated wage increases and general price increases. The balance was available to help meet similar increases in costs of other local functions. It is an open question as to whether cut-backs in police

Table 16

State Aid, by Functions, by Formula and Project Grant, 1972

State	Total State Aid			General Local Government Support			Public Education			Public Welfare			Public Highways			Public Hospitals			Public Health			Misc. and Combined		
	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect
Alabama	39	29	10	6	6[1]		17	11	6	0			5	5	0	3	3	0	2	0	2	6	4	2
Alaska	31	28	3	6	6		11	9	2	0			0	0	0	1	1	0	3	3	0	10	9	1
Arizona	42	34	8*	3	3		22	19	3	0			1	1	0	1	1	0	2	1	1	13	9	4*
Arkansas	38	32	6	2	2		20	18	2	1	0	1	4	4	0	1	1	0	1	0	1	9	7	2
California	84	69	15*	8	8[1]		29	25	4	12	12	0	6	5	1	2	2	0	4	3	1	23	14	9*
Colorado	46	42	4	0	0		16	15	1	12	11	1	4	4	0	1	1	0	1	1	0	12	10	2
Connecticut	47	41	6	4	4		18	15	3	2	2	0	2	2	0	1	1	0	4	4	0	16	13	3
Delaware	22	21	1	0	0		8	8	0	0			2	2	0	0	0	0	0	0	0	12	11	1
Florida	42	36	6	6	6		17	14	3	0			5	5	0	2	2	0	1	1	0	11	8	3
Georgia	40	31	9*	1	1		20	16	4	3	3	0	5	5	0	1	1	0	1	0	1*	9	5	4*
Hawaii	2	2	0	1	1		0	0	0	0			0	0	0	0	0	0	0	0	0	1	1	0
Idaho	21	20	1	2	2		15	14	1	0			2	2	0	1	1	0	0	0	0	1	1	0
Illinois	47	37	10*	1	1		22	19	3	5	5		2	2	0	1	1	0	2	1	1	14	8	6*
Indiana	39	36	3	4	4		17	14	3	6	6		2	2	0	2	2	0	2	2	0	6	6	0
Iowa	44	39	5	8	8		23	21	2	2	2		1	0	1*	1	1	0	2	2	0	7	5	2
Kansas	49	42	7*	4	4		21	16	5	10	10		4	4	0	1	1	0	2	1	1*	7	6	1
Kentucky	40	32	8	2	2		18	14	4	0			2	2	0	2	2	0	1	1	0	15	11	4
Louisiana	49	38	11	8	8		21	16	5	0			5	2	3	1	1	0	1	1	0	13	10	3
Maine	37	28	9	2	2		20	15	5	2	2		3	3	0	0	0	0	1	0	1	9	6	3
Maryland	67	52	15*	9	9		22	17	5	12	12		3	2	1	1	1	0	5	1	4	15	10	5*
Massachusetts	48	42	6	4	4		21	19	2	1	1		3	1	2	1	1	0	0	0	0	18	16	2
Michigan	59	54	5*	11	11		23	20	3	5	5		3	3	0	3	3	0	2	1	1	12	11	1
Minnesota	63	56	7	11	11		17	15	2	12	12		1	1	0	1	1	0	4	3	1	17	13	4
Mississippi	47	38	9	8	8		20	16	4	0			6	6	0	2	2	0	0	0	0	11	6	5
Missouri	40	38	2	2	2		19	17	2	3	3		1	1	0	2	2	0	1	1	0	12	12	0
Montana	31	30	1	0	0		14	13	1	1	1		0	0	0	1	1	0	1	1	0	14	14	0

(Continued)

Table 16

State Aid, by Functions, by Formula and Project Grant, 1972 (continued)

State	Total State Aid			General Local Government Support			Public Education			Public Welfare			Public Highways			Public Hospitals			Public Health			Misc. and Combined		
	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect	Total	For-mula	Proj-ect
Nebraska	29	26	3	3	3		12	12	0	3	2	1	1	1	0	1	1	0	1	1	0	8	6	2
Nevada	33	27	6	3	3		14	10	4	1	1		1	1	0	1	1	0	3	2	1	10	9	1
New Hampshire	39	32	7	8	8		17	12	5	1	1		3	3	0	0	0	0	1	1	0	9	7	2
New Jersey	64	55	9	6	6		23	21	2	8	8		5	5	0	3	3	0	5	2	3	14	10	4
New Mexico	34	27	7	8	8		12	8	4	0			3	3	0	1	1	0	0	0	0	10	7	3
New York	81	73	8	3	3		26	23	3	11	10	1	7	7	0	1	1	0	3	3	0	30	26	4
North Carolina	45	36	9*	4	4		16	13	3	8	8	0	1	1	0	2	2	0	4	1	3	10	7	3*
North Dakota	26	23	3	4	4		8	8	0	1	0	1	2	2	0	1	1	0	1	0	1	9	8	1
Ohio	42	33	9	2	2		18	12	6	5	4	1	2	2	0	2	2	0	1	1	0	12	10	2
Oklahoma	53	41	12	2	2		25	22	3	1	1	0	6	6	0	2	2	0	1	1	0	16	7	9
Oregon	38	36	2	9	9		12	12	0	3	3	0	3	3	0	1	1	0	1	1	0	9	7	2
Pennsylvania	69	57	12	3	3		26	19	7	3	3	0	4	4	0	1	1	0	4	4	0	28	23	5
Rhode Island	17	16	1	5	5		4	4	0	1	1	0	1	1	0	1	1	0	0	0	0	5	4	1
South Carolina	45	39	6	6	6		21	17	4	0	0	0	2	2	0	2	2	0	2	1	1	12	11	1
South Dakota	32	28	4*	4	4		14	11	3	1	1	0	2	2	0	1	1	0	0	0	0	10	9	1*
Tennessee	39	35	4	6	6		15	13	2	1	1	0	2	2	0	3	3	0	0	0	0	12	10	2
Texas	26	17	9	1	1		14	9	5	0	0	0	1	1	0	1	1	0	1	0	1	8	5	3
Utah	41	35	6	1	1		22	19	3	0	0	0	2	2	0	1	1	0	1	0	1	14	12	2
Vermont	21	18	3	0	0		12	10	2	1	1	0	2	2	0	0	0	0	0	0	0	6	5	1
Virginia	56	52	4	5	5		23	22	1	9	9	0	3	2	1	1	1	0	2	2	0	13	11	2
Washington	43	33	10	2	2		18	15	3	1	0	1	2	2	0	2	2	0	1	0	1	17	12	5
West Virginia	31	23	8	0	0		18	11	7	1	1	0	0	0	0	1	1	0	1	0	1	10	10	0
Wisconsin	73	68	5	8	8[1]		25	23	2	6	5	1	6	6	0	3	3	0	3	3	0	22	20	2
Wyoming	30	27	3	3	3		16	15	1	1	1	0	2	2	0	1	1	0	0	0	0	7	5	2
All States	2,121	1,804	317*	209	209		882	737	145	156	148	8	135	126	9*	66	66	0	79	51	28*	594	467	127

*Includes grants that are partly project grants.

[1] Includes one grant for which no formula is specified.

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

> expenditure would have occurred in the absence of the increased State program. My judgment is that local concern over crime control would have mitigated against significant cut-backs in the Police Department. Other functions (education, fire, housing, etc.) would have borne the brunt of an effort to avoid a tax-rate increase.[19]

State funds, as these examples indicate, are interchangeable, and this, to some extent, blurs distinctions in the fiscal effects of categorical and general support aids. Nonetheless, these types of State assistance are fundamentally different in concept, administrative costs, and reliability or certainty of receipts.

State programs of general local government support, as of 1972, were split nearly 50-50 between those incorporating equalization features and those that did not.[20] Of the $1.7 billion classified as being provided on an equalizing basis, only $228 million is related directly to overcoming differences in local capacities, efforts, and needs. Fully $1.2 billion is, at best, of a mildly equalizing nature, because these funds were allocated to localities on the basis of population. An additional $200 million of State revenue sharing was based on a variety of measures, such as assessed or equalized valuations that may or may not accomplish the equalization objective, and $58 million was channeled to localities on the basis of differences in property tax rates. On the basis of these four distribution formulae (population; tax capacity, effort, or needs; property tax rates; and other such measures), 46.3 percent of 1972 State revenue sharing dollars achieved the equalization objective—a slight increase from the 1957 mark of 43.7 percent.

Whatever the definitional problem in determining equalization, fully half of the dollars provided by State revenue sharing are allocated on an origin basis. Just under $1 billion of this type of State assistance is returned to localities specifically on an origin basis. An additional $764 million is returned in the form of in-lieu payments, which compensate local governments for the dimunution of local tax bases by State actions that place various types of resources and properties in the tax-exempt classification.

Public Education

As previously mentioned, public education is the dominant function in the State aid system, and this assistance is channeled by distribution formulas designed to supplement local tax effort and capacity. Indeed, 85 percent of all State aid provided on an equalizing basis is found in the public school support area. This figure may be somewhat high, because some grants placed in the equalization category are not exclusively used for this purpose. However, the greater part of State aid that is equalizing is for public education, and this remains the predominant pattern for the education function.

This is not to state that existing State aid education formulas have achieved substantial equalization. As one study notes:

> The idea of state aid for education is simple: It is intended to provide equality of education for all children in all parts of the State. In recognition of disparate local resources to finance this statewide objective, the State provides funds. A uniform standard is to be achieved with uniform taxing burdens. That is the concept. But statewide objectives require a specific level of service which is often defined as a foundation level, or a "minimum," that is frequently adjusted to the lowest level prevailing. (These minimum standards also tend to be encrusted with time.)[21]

Today, equalization of educational opportunity has come to mean equal resources (State plus local) behind each child. Yet, despite a long State involvement in educational finance, this equalization objective remains in many States a current and prospective goal of State support for public education. Commenting on 1974 legislation enacted in ten States (Colorado, Florida, Illinois, Kansas, Maine, Michigan, Montana, North Dakota, Utah, and Wisconsin), the Education Commission of the States observed:

> In general, it would appear that variations in tax rates have been reduced slightly more than have disparities in per pupil expenditures, but there are exceptions to this generality. Officials from only four of the nine reporting states advise that they expect some slight reduction in expenditure variation, although absolute dollar amounts are not yet available. . . In contrast, reports from eight of the nine states showed that tax variations have been reduced. More investigation is necessary before this phenomenon can be explained. However, it can be posited that

> one explanation lies in the fact that while extremely high tax rates in poor districts have been reduced, this has not resulted in significantly higher per pupil expenditures. This is because state funds have been inadequate to make an appreciable upward trend in this area.[22]

The non-equalizing component of State aid for public schools—$5.6 billion in 1972—consists mainly of grants based on cost reimbursement or one of its variants and a cluster of program factors—school age population, student enrollment, average daily attendance, or membership, etc. Such non-equalizing features accounted for 26.2 percent of the total 1972 State aid for public schools.[23]

Approximately $411 million of this aid was distributed in accordance with programs for which the basis of distribution was not specified.[24] As an upper-limit estimate of project grants for public education, about 1.9 percent of State dollars channeled for support of schools is project oriented. Measured by number of programs, 16 percent (145) of 882 State aid programs for public education are project oriented.

Public Highways

Of the major functions analyzed, the available data on State aid for public highways are probably the least revealing. In 1972, over 30 percent of the $2.6 billion in State aid for this purpose is not allocable —generally because of the use of multi-factor formulas in which the measures are usually designed to stand as proxies for program needs. Moreover, virtually all equalization assistance was based on population—a measure that perhaps best is considered to represent program need in the highway function and that, in any case, is only mildly equalizing.

Non-equalizing State financial assistance dominates the public highways field, and the majority of this assistance ($580 million) was based on measures of program need, such as area, mileage, motor vehicle registration fees, license fees, etc. Lesser amounts—$178 million and $134 million—were returned to localities on the basis of origin and cost reimbursement, respectively.

Project grants are of relatively minor significance in State aid for public highways. As measured herein, they accounted for $72 million[25] (less than 3 percent) of the $2.6 billion in State highway aid and nine of the total 135 individual programs in this category.

Public Welfare, Public Hospitals, and Public Health

These three functional areas—together accounting for approximately $7.5 billion (roughly 20 percent) of State aid in 1972—are supported by fairly simple distribution formulas. Because welfare is influenced by the Federal component, all but $200 million of the $6.9 billion in State aid for this function is distributed on a cost-reimbursement basis, chiefly by a fixed ratio to local expenditures. Equalization assistance is virtually absent, accounting for $21 million of the total.

Public welfare, in common with functions previously discussed, is largely oriented toward formula-based, rather than project, grants. $6.8 billion of the $6.9 billion in State financial assistance is distributed in accordance with a formula,[26] and 148 of the 156 individual State programs are of this nature.

Virtually the same situation applies to public health and hospitals functions, although the amounts are much smaller. All but $74 million of the $545 million in State aid for public health was provided by distribution formulas designed to reimburse local governments for expenditures incurred. Although the dollar magnitude of project-oriented State aid is small (less than $75 million), this component is relatively large within the public health function, constituting 13 percent of the 1972 total State aid for this functional area.[27] More than one-third (28) of the 79 individual programs of State support for public health are of a project nature—the highest proportion for any of the aided functions.

State aid for public hospitals amounted to $147 million in 1972; of this total, $127 million was provided as partial payment for local expenditures. No State aid was provided without a specified formula—the only functional area in which this is the case.

Miscellaneous and Other

Like the preceding three functions, State financial assistance for the varied programs in the miscellaneous and other category was dominated in 1972 by distribution formulas designed to reimburse localities for expenditures incurred. Nine hundred fifteen million dollars (60 percent) of the $1.5 billion total for this residual category of State aid was based on cost-reimbursement measures.

The project grant portion of State aid for these numerous public programs, although relatively small in magnitude ($230 million), nonetheless constituted 15.1 percent of the total State financial assistance for this functional classification in 1972. More than one-fifth of the individual State programs were project, rather than formula, based.

STATE MATCHING REQUIREMENTS

Less than a handful—indeed, only five—State aid programs are contingent on local governments matching the State grant. Obviously, these programs account for a microscopic portion in both number and dollar magnitudes of State aid, involving only $4.3 million in 1972. Four of the five programs fall in the miscellaneous and other category—two involving State aid for airports (California—$860,000 and Connecticut—$391,000) and two for the support of libraries (Conneticut—$1.1 million and Rhode Island—$291,000). The only State grant-in-aid currently in existence in the major functional area of State support that requires local matching is a Virginia aid for educational television, involving $992,000 of the 1972 State aid total.[28]

Clearly, the traditional type of matching provision is absent from the State aid system. However, a large share of State assistance to local governments ($11.9 billion or just under one-third of total State aid) is provided on the cost-reimbursement basis, with the State assuming either all or part of local expenditures for certain public programs. This type of State assistance, of course, might be considered a reverse matching requirement. Because the State share is a fixed percentage of local expenditures and does not vary according to local capacity, the purpose of such grants is to stimulate local activities rather than to equalize local resources. This grant mechanism is not, however, the typical matching provision found in the Federal grant system, but it is a distinctive feature of State-local fiscal and functional relationships in this country. Moreover, this technique is used abroad. As Kjeld Philip states:

> The simple percentage method is presumably the one most frequently encountered. It consists of a certain percentage paid by the state of a more or less limited group of expenses, the percentage being the same for all local governments. Another reason for the frequent use of this method is that it is so obviously suited on technical-negotiation grounds. When two parties negotiate, and the one urges the expenditure while the other is dubious, it is natural to agree in carrying out the matter with each party paying half. That this is what happens appears from the fact that in a surprising number of cases recourse is had to the 50-50 rule. The percentage method is in practice only used, I think, in the case of special grants. There is nothing actually to prevent its use for general grants also, but as far as I know there are no practical examples of this.[29]

THE MUNICIPAL-URBAN DIMENSION OF STATE AID

Although the vast majority of State aid continues to be channeled to local governments for the support of traditional State aid functions, another, more innovative aspect of State government support exists—the provision of financial assistance for programs and functions previously considered to be municipal or urban. As noted in the 1969 ACIR report, *State Aid to Local Government,* "There are indications that a considerable number of the industrial States are beginning to recognize their functional obligations for helping meet the growing physical and social problems of the large cities."[30] That report, however, reached a rather mixed conclusion:

> By 1967, State financial participation in these (urban) functional areas was still minimal. The Bureau of the Census reported less than $150 million of State aid for urban programs, with only a handful of States participating in each. However, these figures do not reflect a score or more of urban assistance programs enacted by the 1967 and 1968 State legislative sessions. As these new programs become fully operative and more States act, it can be anticipated that the annual State financial stake in this field will grow apace.[31]

By 1972, sufficient evidence had accumulated that this forecast of increased State assistance for municipal-urban functions was indeed warranted. Adopting an expanded definition of municipal and urban programs than was used in the 1969 report, it is clear that more than a handful of States have instituted financial assistance for these program areas. Indeed, as defined herein (see Table 17 for programs included), there were 154 programs in 1972 providing approximately $750 million (2.2 percent) of total State aid for a myriad of municipal-type functions. Of these 154 individual programs, the vast majority (109) receive outside finance exclusively from the State sector; 13, exclusively from the Federal Government (12 of these 13 support libraries); and 32 are aided by both the State and Federal sectors.

Of the 24 individual program areas used in Table 17 to define municipal functions, only one—public libraries—is supported by State and/or Federal aid in four-fifths of the States. State support for police and/or firemen pensions occurs in 16 States. But aside from these two areas, the conclusion reached in the 1969 ACIR report remains valid—only a few States provide assistance for any of the remaining 22

Table 17

State Aid for Municipal-Urban Programs, 1972

Program	Number of States	Number of Programs	Source of Funds: State	Source of Funds: Federal	Source of Funds: State and Federal	Amount (000 Omitted)
Fire protection	8	9	9			$16,367
Police protection	7	7	7			49,493
Police and/or firemen pensions	16	20	20			41,469
Sewer construction	6	6	5		1	90,742
Sewage treatment	9	9	9			96,868
Water and sewer facilities	8	9	9			25,000
Water pollution control	7	7	4		3	113,456
Water supply	3	3	2		1	55,226
Animal control	2	2	2			104
Parks and recreation	9	10	9		2	10,881
Zoning						
Code enforcement	3	4	4			15,628
Subdivision control						
Refuse collection						
Public housing	8	13	12		1	93,427
Urban renewal	4	5	3		2	7,497
Libraries	40	43	9	12	22	90,190
Municipal civic centers	1	1	1			31
Community development						
Special urban aid	1	1	1			7,150
Day care facilities	1	1	1			808
Municipal aid	1	1	1			24,466
Model cities	2	2	1	1		2,618
Relocation assistance	1	1	1			426
TOTAL, MUNICIPAL		154	109	13	32	$741,877
Mass transit	7	8	6	1	1	116,363
Airports	32	34	15	7	12	33,212
Planning	17	17	6	2	9	12,453
Older Americans	10	10		10		1,900
TOTAL, URBAN		69	27	20	22	$163,928
TOTAL, MUNICIPAL AND URBAN		223	136	33	54	$905,805

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

functions defined as municipal. Yet, this conclusion must be tempered by the fact that although State aid for these individual programs remains sporadic rather than widespread, there is growth in both number of programs and amount of State support. For example, 12 States had a total of 18 programs in the fields of public housing and urban renewal in 1972, with State aid totalling $100.9 million; in contrast, only seven States provided a total of only $67 million in 1967. State support for water and sewer programs rose even more dramatically—from ten programs and $26.3 million in 1967 to 33 programs and $374 million five years later.

By 1972, all but two States—Idaho and Wyoming—were providing assistance for municipal programs (see Table 18). As might be expected, however, this assistance was highly concentrated in a relatively small number of States. Indeed, ten States—California, Connecticut, Illinois, Maryland, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Wisconsin—accounted for over three-fourths of the State aid provided; New York alone accounted for 20 percent.

Clearly, State support for municipal functions, although remaining a small part of the total State aid system and focused in a limited number of States, has shown a substantial advance during the 1967-1972 period, as measured by the number of States providing assistance, the number of individual State programs, and the amount of financial participation.

The same conclusion basically is warranted for the degree of State aid for urban programs. Urban, as defined herein, includes all of the 24 individual programs considered as municipal and State assistance for mass transit, airports, planning, and the older Americans program. In total, there were 69 State programs in these four functional areas in 1972—eight in mass transit, 34 in airports, 17 in planning, and ten in the older Americans programs—with State aid totalling $164 million. The largest single program area was mass transit at $116 million. The sole source of outside aid for 27 of these 69 programs was the State; for 20, the source was the Federal Government; and for 22, both the State and Federal sectors contributed.

Compared to 1967, growth is again evident in this sector of the State aid system. Mass transit, for example, was supported by only three States in 1967 and commanded a mere $48 million. By 1972, seven States were supporting eight individual programs of financial assistance (only two had any Federal funds involved, either wholly or partly) and State assistance had increased to $116 million.

Combined with municipal functions, some 223 programs of State financial assistance existed in 1972 that were targeted at typically municipal-urban functions. A full 60 percent of these programs (136) were externally financed solely by the State sector; an additional 25 percent were supported by both the State and Federal sectors; the remaining 15 percent were supported solely by Federal funds. Totalling $164 million in 1972, these programs mark a continuing and expanding State involvement in what generally are considered as municipal-urban functions.

VIEWS OF STATE AND LOCAL OFFICIALS ON STATE GRANTS-IN-AID

Reference has been made to the views of State budget officers on the issue of pass-through of Federal funds to local government. Those views were obtained in a questionnaire survey conducted by ACIR with the endorsement of the National Association of State Budget Officers (NASBO). The survey, conducted in 1975, covered aspects of Federal and State grants that affect local government.

In addition to the ACIR-NASBO survey, ACIR also undertook a questionnaire survey in conjunction with the International City Managment Association (ICMA) on the attitudes of the chief executives of cities with over 10,000 population and counties with over 50,000 population toward Federal and State grants issues. This section summarizes the relevant results of those surveys as they affect the issue of State aid. Full details on the results of both surveys may be found in Chapters I and II of Volume III of this series on the intergovernmental grant system.

ACIR-NASBO Survey

Budget officers were asked to estimate the percentage of the dollar amount of State aid formula grants devoted to activities that the State mandated localities to perform (that is, those over which localities had no discretion). Among the 20 States that responded, the median State figure indicated that 75 percent of the dollar amount of formula grants was for State-mandated purposes.[32] The dispersion among States was broad, with the range between the first and third quartile States being 10 to 90 percent, indicating a highly diverse pattern of fiscal practice among the limited number of States represented.

At the conclusion of the questionnaire on State aids, State budget officers were asked to give their opinions about their greatest difficulties with the State aid system. The most frequently cited problem was development of equitable allocation formulas. Other problems mentioned were inadequacy of State control and evaluation of grants to localities, insufficiency of grant funds, proliferation of categorical grants, and use of open-ended grants.

Three items in the questionnaire focused on matters affecting the State's overall responsibility for the State aid system. The first item concerned the State executive branch, and asked: "Is there any agency of your state administration that reviews and evaluates periodically the state aid program on an overall systematic basis, rather than on a program-by-program basis?" Twelve budget officers answered "yes" and 23 "no." Budget and fiscal agencies were dominant among such review and evaluation agencies, with intergovernmental relations and planning agencies involved in a few States. Eight of the States that do not have a review and evaluation agency reported that a move was under way to establish one.

A similar sequence of questions was asked about the State legislature. Twenty of 36 responding States reported that their legislatures have a unit responsible for reviewing State aid. Thus, in both the executive and legislative branches, there is a lack of overall evaluation of the grant system—an absence that is particularly apparent in State agencies and of sufficient moment to warrant corrective action in eight States.

A final question asked whether or not the legislature requires each new State legislative proposal to be accompanied by a statement of the estimated impact of proposed legislation on the eligibility and need of State and local governments for Federal grants. Budget officers from seven States answered yes.

ACIR-ICMA Survey of Local Officials

This survey defined State aid as including only those grants from State governments that are funded entirely from State revenue sources; Federal pass-through funds were excluded. Federal grants were, therefore, defined as moneys going directly to localities from the Federal Government, as well as those passed on by the States. All State aid questions, therefore, deal with State aid in a more narrowly defined manner than is traditionally used.

Respondents were asked to identify the five most serious difficulties and were requested to state whether those problems pertained more to grants that come directly from the Federal Government, rather than through the State, or equally to those that come through either route. With one exception, a clear majority of both city and county officials believed that the problems pertained equally, whether the grants come directly or through the State. The exception occurred in the case of the clarity and promptness of policy interpretations, for which the number of city officials who believed that this was a predicament related to direct Federal programs exceeded the number who thought it applied equally to direct Federal and channeled grants. Overall, among the officials who did not believe that the trouble applied equally to both kinds of grants, those who thought that it related more to direct Federal grants far outnumbered those who thought that it occurred more with channeled grants. In contradiction with the commonly expressed views of local officials, these returns suggest that States play a facilitating, rather than an obstructive or complicating, role between Federal agencies and local recipients.

In the State aid section of the survey, the questionnaire listed what are sometimes defined as problem areas in the design and administration of State grants. Nine such areas were listed, with respondents given the option to specify others. Respondents were asked to identify separately the three problem areas that were most serious for their locality and were asked to indicate the seriousness on a scale of 1 to 5 (5 being most serious). They were requested to note whether or not the problem had improved in the five years.

In the view of both city and county officials, the most frequently cited problem was the uncertainty of flow of State grant funds as it affects localities' estimates of the coming year's revenues and expenditures. The next two most frequently mentioned problems—but considerably less than the certainty issue—were complexity of reporting, accounting, and auditing requirements and inequity of distribution formulas. Consistently low on the problems list of both city and county officials were severity of performance standards attached to grants and strictness of monitoring by State officials.

Except for the fairly high problem rating given to complexity of reporting, accounting, and auditing requirements, and time required for issuance of regulations and guidelines, localities gave high seriousness ratings to State aid problems that are not issues of day-to-day operating procedures, such as uncertainty of flow of State funds and fairness of fund distribution formulas. This suggests that local officials need to look to State legislatures as well as the State administrators for relief from their grant administration problems in this sector.

City officials believed that the problems identified under general support grants were the most serious. Yet, in terms of broad trends, they thought that the

Table 18

State Aid for Municipal-Urban Programs, by State, 1972

State	Number of Municipal Programs	Municipal State Aid (000 Omitted)	Number of Urban Programs	Urban State Aid (000 Omitted)	Number of Municipal-Urban Programs	Municipal-Urban State Aid (000 Omitted)
U.S. Total	154	$741,877	69	$163,927	223	$905,805
Alabama	1	111	–	–	1	111
Alaska	2	2,120	–	–	2	2,120
Arizona	2	189	2	724	4	1,013
Arkansas	2	1,413	2	234	4	1,647
California	4	35,802	2	1,090	6	36,892
Colorado	3	3,071	–	–	3	3,071
Connecticut	10	69,365	1	391	11	69,756
Delaware	7	9,843	1	69	8	9,912
Florida	1	1,671	1	141	2	1,812
Georgia	1	3,529	4	2,707	5	6,236
Hawaii	1	181	–	–	1	181
Idaho	–	–	–	–	–	–
Illinois	3	27,957	3	3,467	6	51,424
Indiana	3	8,155	1	718	4	8,873
Iowa	1	4,229	1	84	2	4,313
Kansas	2	1,324	–	–	2	1,324
Kentucky	4	739	2	1,205	6	1,944
Louisiana	4	12,387	–	–	4	12,387
Maine	3	7,314	1	554	4	7,868
Maryland	4	43,796	1	434	5	44,230
Massachusetts	8	35,164	2	62,619	10	97,783
Michigan	2	52,307	1	978	3	53,285
Minnesota	4	4,708	1	4,308	5	9,016
Mississippi	4	8,945	2	153	6	9,098
Missouri	3	3,985	1	186	4	4,181

(Continued)

Table 18

State Aid for Municipal-Urban Programs, by State, 1972 (continued)

State	Number of Municipal Programs	Municipal State Aid (000 Omitted)	Number of Urban Programs	Urban State Aid (000 Omitted)	Number of Municipal-Urban Programs	Municipal-Urban State Aid (000 Omitted)
Montana	3	$1,226	2	$518	5	$1,744
Nebraska	1	255	2	2,924	3	3,179
Nevada	1	136	–	–	1	136
New Hampshire	2	2,216	2	741	4	2,957
New Jersey	7	44,301	2	1,550	9	45,851
New Mexico	1	1,345	3	296	4	1,641
New York	11	147,718	3	6,086	14	153,804
North Carolina	2	3,429	1	108	3	3,537
North Dakota	3	1,230	1	336	4	1,566
Ohio	3	48,881	1	1,412	4	50,302
Oklahoma	3	7,453	3	954	6	8,407
Oregon	2	20,735	1	132	3	20,867
Pennsylvania	7	67,358	3	40,079	10	107,437
Rhode Island	4	3,201	–	–	4	3,201
South Carolina	2	1,579	–	–	2	1,579
South Dakota	1	177	1	2,097	2	2,274
Tennessee	2	4,794	2	1,634	4	6,428
Texas	3	7,355	1	272	4	7,627
Utah	1	148	3	1,821	4	1,969
Vermont	3	2,247	–	–	3	2,247
Virginia	3	3,354	1	492	–	3,846
Washington	4	11,225	2	824	6	12,049
West Virginia	1	338	2	547	3	885
Wisconsin	4	22,761	2	542	6	23,303
Wyoming	–	–	2	492	2	492

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

problems with the formula grants had deteriorated the most over the past five years. County officials thought that project grant problems were the most serious, and they, too, believed that formula grant problems had become more muddled.

In an effort to probe the impact of State aids on local management, the survey inquired how State government requirements for administration of grant funds and monitoring of those requirements affected (a) overall administration capability (e.g., personnel standards, organization), and (b) service levels of programs receiving State funds. City officials thought that State grants had a moderate positive effect on local administrative capability and a more substantial positive effect on improvement of service levels. County officials' ratings overall were fairly comparable to city officials' on both counts, but slightly lower.

A final question—probing the impact of State aids on local administration—dealt with the local chief executive's exercise of supervision. The survey asked local officials to indicate whether their chief administrative officer gave more, less, or about the same amount of personal supervision to State aided activities as he gave to activities financed solely by the municipality/county. The results indicated that the average city chief executive gave the same amount of supervision to State aided activities as he gave to other activities. There was a general tendency, however, for chief administrative officials of smaller cities to give more attention to State aided activities. Among counties, the supervision required for State aided programs by the average chief administrator generally was less than that required for other programs; a tendency for more supervision over State aided activities was reported in smaller counties.

Local officials were also invited to comment on the questions or the general functioning of the State aid system. About one-fourth who answered the questionnaire submitted comments. Although these comments cannot be interpreted as representing a consensus, they add a useful subjective supplement to conclusions drawn from other questions. They fall under the following general headings, in order of frequency:

1. Familiar, but by no means unanimous, expressions of dissatisfaction with the administration of State aids.
2. Project grants are particularly bothersome; conversely, general support grants are welcomed.
3. Perhaps as great as is the concern over administration is the frustration over the level of State funding and the uncertainty of flow.
4. Inevitably, State and Federal grant systems are compared, sometimes favoring the State system, sometimes not.
5. Local officials object to States mandating local expenditures without providing revenue sources; they view such mandating as directly related to the State grant system.
6. Considerable dissatisfaction exists among both small and large jurisdictions over the equity of State aid distributions.

FOOTNOTES

[1]State intergovernmental expenditures include those amounts received by States from the Federal Government and passed through to local governments. Although this Federal component has not been isolated in the State aid magnitude discussed here, 1967 data suggest that approximately 20 to 25 percent of State aid originates at the Federal level, although it is, of course, possible that this proportion has changed over time. Estimates by the Syracuse University Metropolitan Research Center suggest this percentage is 20.1 percent for 1972.

[2]State aid, as used in this section, is defined as grants-in-aid, State-collected and locally shared taxes, and reimbursements paid to local governments by States for services rendered by them for State governments.

[3]The 1974 figure was estimated from the U.S. Bureau of the Census' *Governmental Finances in 1973* volume and is not completely comparable with the 1952 data of the *1972 State Payments to Local Governments* report. Generally, the figures derived from the *Governmental Finances* source are one or two percentage points lower than reported by the 1972 Census volume.

[4]To maintain comparability over time, the 1957 data, which combine health and hospitals, were not included; in 1972, the health function is included in the miscellaneous and combined category.

[5]This research was undertaken by the Maxwell School of Syracuse University under contract with this Commission.

[6]The data sources are U.S. Bureau of the Census, *1967 Census of Governments*, Vol. 7, *State Reports* and the *1972 Census of Governments*, Vol. 6, *State Payments to Local Governments*.

[7]Technically, it is the Federally financed component of State aid that is estimated here. Some of this flow of Federal money from State to local governments is mandated—that is, the State government must pass the funds through to the local level. This legally required pass-through amount is not estimated separately but is part of the entire amount of identifiable Federal money in State aid.

[8]State Expenditures for Public Assistance Programs Approved Under Titles I, IVA, X, XIV, XVI, and XIX of the Social Security Act for Fiscal Year 1972. The sources used for education pass-through were primarily the *Digest of Educational Statistics* and *ESEA I Entitlements*. For most other large amounts (in health, hospitals, and highways), unpublished U.S. Bureau of the Census data were used.

[9]The entire survey is found in the companion volume to this study entitled, *The Intergovernmental Grant System as Seen by Local, State and Federal Officials.*

[10]Not all responses were complete; hence, the data referred to here represents a differing number of States included. The number of States responding is indicated either in the text or in the tabulated data.

[11]Many States utilize the contract, rather than the grant, device to suballocate funds in manpower program areas.

[12]Many States rely on legislative mandates to achieve procedural and performance standards. This procedure, in turn, circumvents the need to rely on administrative regulations to achieve these purposes.

[13]See footnote 12.

[14]The miscellaneous and combined purposes category is a catchall classification covering various public programs of a specific nature that do not fall in other main functional areas. A large share of the total miscellaneous and combined category is discussed in a section on State aid for municipal-urban programs.

[15]Prepared in connection with this study.

[16]Because these differences involve relatively minor amounts of money, no attempt was made to harmonize the divergences. Both sets of estimates are presented; the Maxwell School calculations are in footnote references.

[17]Using a four-fold classification scheme, the Maxwell School of Syracuse University estimated that the State aid total of $36.9 billion was broken down as: formula grants—$27.1 billion (73 percent); project grants—$1.9 billion (5 percent); shared revenues—$5.8 billion (16 percent); miscellaneous aid—$2.1 billion (6 percent).

[18]Selma J. Mushkin and Kenneth R. Biederman, "Defining Tax and Revenue Relations," in a paper presented to the National Governors' Conference, 67th Annual Meeting, New Orleans, La., June 8-11, 1975, p. 145.

[19]U.S. Congress, Subcommittee on Intergovernmental Relations and Human Resources of the House Committee on Government Operations, *Hearings on Federal-State-Local Fiscal Relations,* 94th Congress, 1st Session, Testimony of Janet L. Hoffman, (July 22, 1975), pp. 2-3.

[20]The Maxwell School study estimates $2.1 billion (56 percent) of State general support programs are shared revenues; $847 million (22 percent) represent formula grants, and $803 million (21 percent) are miscellaneous aid.

[21]Selma J. Mushkin and Kenneth R. Bierderman, *op. cit.*, p. 132.

[22]Education Commission of the States, Research Brief, Vol. 2, No. 2 Supplement, *Major Changes in School Finance: Track Record,* February 1975, p. 2.

[23]To the extent that these factors are proxies for total population, consistency would require such measures to be considered equalizing. Because equalization is accomplished via the foundation program in school financing, however, these measures are classified as non-equalizing.

[24]The Maxwell School estimate is $938 million (4 percent). Their figures indicate $18.0 billion of State education aid is accounted for by formula grants (85 percent); shared revenues—$1.0 billion (5 percent), and miscellaneous aid 6 percent.

[25]The Maxwell School estimates State highway project grants at 25 million (1 percent) of State highway aid; formula grants—$429 million (16 percent); shared revenues—$2.3 billion (83 percent).

[26]The Maxwell School estimates are $6.9 out of $7.0 billion. They estimate $13 million in shared revenues (0.3 percent) and $66 million in project grants (0.9 percent).

[27]The Maxwell School estimates are much higher for health and hospitals combined. They calculate $417 million (59 percent) of such aid as project grants, $261 million (36 percent) as formula grants, $21 million (3 percent) as shared revenues, and $15 million (2 percent) as miscellaneous aid.

[28]The State of Washington repealed a matching provision (as of Jan. 1, 1972) requiring local governments to match one-fourth of the motor fuels sales tax distributed for support of public highways.

[29]Kjeld, Philip, *Intergovernmental Fiscal Relations*, Institute of Economics and History, Ejnar Munksgaard, Copenhagen, 1954, pp. 105-106.

[30]ACIR, *State Aid to Local Government* (Washington, D.C.: Government Printing Office), 1969, p. 97.

[31]*Ibid.*, p. 98.

[32]The 75 percent figure does not measure the portion of program costs that are mandated or the portion of the State grant used for the mandated component of the aided functions. Rather, it is an estimate of total grant flows that go to functional areas in which there is at least some State-mandated provisions.

Chapter II

The Expenditure Impact of State Aid Systems

INTRODUCTION

To assess the impact of State aid on local governments,[1] analysis of individual State-local systems is necessary. Indeed, the diversity of fiscal arrangements at the subnational level makes the investigation of individual State approaches imperative. Although an analysis of each of the 50 State-local systems is beyond the scope of this study, six States—New York, Illinois, Kentucky, Oregon, Vermont, and Virginia—were selected to apply the individual State impact analysis. These case studies should help to determine the effects of State and Federal grants on local government expenditures, wage rates, and employment levels, as well as to reflect the effects of grant flows in States of differing fiscal structures.

An examination of the fiscal, intergovernmental, and socioeconomic characteristics of these six States establishes their varied nature (see Table 19). In terms of intergovernmental arrangement, New York is relatively local government dominated, Kentucky and Vermont are State government dominated, Oregon and Virginia have a more shared division of responsibility, and Illinois' arrangement is shared-responsibility if welfare is included but locally dominated if welfare is excluded.

In terms of population, income, and urbanization, variation among these six States is wide; all, however, are relatively slow growing States. More critical to a study of grant impact is the extent to which a major city or standard metropolitan statistical area (SMSA) dominates local finances. The diversity in this factor is well reflected in the six selected States: major metropolitan areas in 1970 accounted for over half the population in Illinois and New York (63 percent and 54 percent, respectively) and 48 percent in Oregon, but accounted for a relatively small share in Virginia, Vermont, and Kentucky (16 percent, zero, and 27 percent, respectively).[2]

Regarding more purely fiscal characteristics, a similar wide range occurs among the six States. Per capita expenditures in 1972 vary from $1,423 in New York to $714 in Virginia; the relative importance of State aid ranges from 36 percent of local expenditures in New York to 21 percent in Oregon and Vermont; Federal aid, at 21 percent of State-local spending in five of the six States, falls to 13 percent in New York.

The functional distribution of State aid also varies markedly among the six States—a factor that may help to explain any differential impact. The State aid systems of Kentucky and Vermont are concentrated almost exclusively in education; in New York, however, education represents only 42 percent of the total (see Table 20). On the other hand, New York's welfare aid is nearly twice that of the other five States and the U.S. average. Highway aid also varies substantially—from 1.2 percent in Kentucky to 18.4 percent in Oregon. Thus, the six States reflect the variety of intergovernmental arrangement and socioeconomic and fiscal factors that mark the 50 State-local systems.

Table 19

Characteristics of Case Study States

	Illinois	Kentucky	New York	Oregon	Vermont	Virginia
Intergovernmental Arrangement, 1972						
State financing share of State and local government expenditures	38.1%	53.1%	40.4%	40.0%	52.0%	45.1%
State expenditure share of State and local government expenditures	38.9%	59.5%	23.1%	44.9%	65.7%	40.8%
Social and Economic Characteristics, 1970						
Population (in thousands)	11,128	3,231	18,384	2,101	446	4,659
Population of largest city (in thousands)	3,369	362	7,896	381	39	249
Population of largest metropolitan area (in thousands)	6,978	867	9,974	1,007	–	733
Percent of State population urbanized	83.0%	52.3%	85.6%	67.1%	32.2%	63.1%
Per capita personal income	$4,504	$3,118	$4,712	$3,717	$3,328	$3,720
Average annual change in population, 1960–1970	1.0%	.6%	.8%	1.8%	1.9%	1.6%
Fiscal Characteristics, 1972						
Federal aid as a percent of total State-local government expenditures	18.87%	21.68%	12.85%	19.76%	20.84%	17.18%
State grants as a percent of total State government expenditures	28.36%	19.19%	52.15%	20.31%	12.30%	30.04%
Per capita expenditures of State-local governments	$872	$687	$1,423	$970	$1,061	$714
Federal pass-through (millions of dollars)	$160	$82	$2,091	$34	$5	$161
State grants as a percent of local expenditures	25.94%	33.02%	35.76%	21.35%	21.77%	31.47%

Sources: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University, calculations. U.S. Bureau of the Census, *Census of Population, 1970* (Washington, D.C.: Government Printing Office), 1973; *Census of Governments, 1972,* Vol. 4, No. 5, *Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974; and *Government Finances in 1970-71* (Washington, D.C.: Government Printing Office), 1972.

Table 20

Characteristics of State Payments to Local Governments, Six Sample States and the United States

	Percent Distribution of State Payments						
Type of Assistance	Illinois	Kentucky	New York	Oregon	Vermont	Virginia	U.S. Average
General purpose	5.2	0.6	10.6	12.7	–	2.6	10.2
Education	65.6	92.2	41.7	58.6	84.5	65.5	57.6
Highways	12.2	1.2	1.8	18.4	10.4	3.0	7.2
Welfare	12.9	–	39.5	0.7	0.1	21.4	18.9
Hospitals	–	0.4	0.1	–	–	1.4	0.4
Other	4.1	5.5	6.4	9.5	5.1	6.1	5.7

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

Study Plan

The aid system for each of the six States is briefly described. The major emphasis of these case studies, however, is on the impact analysis. Specifically, each State aid system is examined in terms of impact on expenditure level, and public wage rates and employment levels; and in terms of whether there are grant system biases that differentially affect metropolitan versus nonmetropolitan local governments, and central cities versus other local governments.

Two types of local governments are examined in this analysis: (a) municipalities (including townships), and (b) all local governments within county areas. Samples of local governments in each State were selected to insure adequate representation of (a) metropolitan and nonmetropolitan municipalities and county areas, and (b) central city and noncentral city municipalities. Within these constraints, samples were chosen at random and include at least 50 observations, if possible[3] (see Table 21).

Grant impact is estimated by both the traditional approach (i.e., expressing per capita expenditures as a function of a set of explanatory variables, including per capita grants) and the public employment model (to determine the effects of grants on public sector wage rates and employment levels). For county areas, a welfare transfer expenditure equation[4] is estimated and additively joined with the public employment model to determine a comprehensive expenditure impact effect.[5] For the two impact analyses, a fully developed estimating model is used to achieve a clear estimate of the influence of the State aid factor. Although the results for each explanatory factor are presented in the tabular data, discussion of the statistical results is centered on the State aid variable—the focal point of attention for the present analysis.

Summary of Findings

Based on the individual State analyses, the following conclusions can be drawn:

- State aid tends to exert a stimulative effect on per capita expenditures, raising such spending more than proportionately per dollar of added assistance. This was the case among county-area local governments in Kentucky, Oregon, and Illinois and among municipal governments of New York, Virginia, and Illinois. The sole finding of substitution—less than a dollar increase in spending per dollar of State aid—was among New York county-area local governments.
- In virtually all cases, the stimulative effect was mainly a result of additional public sector employees added to the payroll. The effect of State aid on wages tends to be a relatively small part of the overall expenditure stimulus.

Table 21

Sample of Municipalities (Including Townships) and County Areas

States	County Areas: Number of Observations	County Areas: Sample as Percent of Total Number of County Type Areas	Municipalities: Number of Observations	Municipalities: Sample as Percent of Total Number of Municipalities
Illinois	50	49	48	17
Kentucky	50	42	24	92
New York	57	98	85	41
Oregon	36	100	18	82
Vermont	14	100	6	75
Virginia	—Data Not Comparable—		27	90
TOTAL	207		208	

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

- There was no clear picture that the degree of stimulation was related to State-local intergovernmental fiscal relationships. Among county-area governments, the pattern was \$0.32 to \$0.52 in New York (locally dominated), \$1.28 in Oregon (shared), \$1.93 in Illinois (shared including welfare, locally dominated excluding welfare), but only \$1.06 in Kentucky (State dominated). Among municipalities, the degree of stimulus was \$1.19 in New York (locally dominated), \$1.63 in Virginia (shared), and \$1.71 in Illinois.
- Central cities—at least in certain States —tend to have more employees than their local government counterparts (in New York and Illinois), but the public sector wage rate tends to be lower (in Illinois and Virginia). For the other States studied, central cities were not significantly different from other local governments, either in terms of wage rates or employment levels.
- Metropolitan areas, in general, do not systematically differ from the rest of the State in terms of public sector employment levels or wage rates. Exceptions to this were found in Illinois and Kentucky, where the wage rate was higher in metropolitan areas.
- Direct Federal-to-local grants were not found to be a significant influence on public sector wage rates, except among county areas in New York. Such grants were associated with lower wages.
- In only three instances—New York municipalities and county-area local governments in Illinois and Kentucky —were Federal grants systematically linked to employment levels. In Illinois, results showed that increased Federal grants were associated with lower employment levels, while the other two relationships indicated a positive linkage. A more general finding, however, was that the level of direct Federal grants to local governments was not an influence in determining local employment levels—possibly reflecting the diversity of programs in the direct Federal grant variable.

INDIVIDUAL STATE ANALYSES

New York

The State Aid System

New York State finances, particularly direct expenditures, tend to be local government dominated. The local government expenditure share for all functions is 76.9 percent; it rises to 98.8 percent for welfare and 81.3 percent for education (see Table 22).

State aid in New York is dominated by three categories—general purpose local assistance, education assistance, and public welfare—that together account for 65 percent of all State aids (see Table 23). Municipalities receive more than half (53 percent) of this total. General purpose aid is distributed primarily on a per capita basis (cities receiving a relatively larger per capita share than towns or counties), although a factor representing deviations of average full value of property from a predetermined norm ($8,000 in 1972) is also incorporated. Education assistance is distributed by an equalization formula; welfare aid is provided in relation to local expenditures.

Overall, the New York State aid system is found to be generally equalizing—as indicated by a significant and negative relationship between per capita State aid and per capita income (excluding the New York City area). This relationship does not hold, however, when New York is included.

Grant Impact Results

Wage Rate Effects. Municipal and township employee wages in 1972 were found to be positively and significantly related to the level of per capita State grants (although no systematic association was found with Federal aid) after several other relevant factors (such as the manufacturing wage, education level, population size, etc.) were accounted for (see Table 33). More specifically, an extra dollar of per capita State grants tended to be associated with an $8.70 increase in the average annual wage, which suggests a stimulative State aid effect.

Contrary to what might have been expected, both State and Federal aids in 1972 were negatively (rather than positively) and significantly related to county-area government wage rates (see Table 34). The negative State aid relationship with county-area wage

Table 22

The Structure of General Expenditures in New York State, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	32.9	81.3	School Districts
Welfare	14.5	98.8	Municipalities
Highways	6.4	46.2	Municipalities
Health-Hospital	11.1	60.1[1]	Municipalities
Total of above and all other	100.0	76.9	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

Table 23

State Payments Under Selected Aid Programs, New York State, 1972
(Millions of Dollars)

Type of Aid	Cities	Counties	School Districts
General purpose	$380	$21	–
Equalization aid	658	–	$1,568
Aid to Dependent Children	655	249	–
Medical assistance	735	317	–
TOTAL	$2,428	$587	$1,568

Total of above	=	**$4,583**
Total aid payments	=	**$7,097**
Percent	=	**65**

Source: U.S. Bureau of the Census, *Census of Governments, 1972,* Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

rates may stem from the fact that a large slice (42 percent) of State assistance to county-area local governments represents welfare transfers and that another large segment is equalizing school aid—both are directed to less affluent governmental units in which public sector wage rates can be expected to be lower. This explanation, although plausible, cannot be pushed too far, however. State aid in other States studied is also found to be equalizing, while the grant impact associated with this outside financing is stimulative. It is possible, of course, that New York State aid to county-area local governments is more heavily dominated by equalization than are State aid systems elsewhere; this possibility has not been tested.

For the Federal aid factor (direct Federal-local grants), the negative association with county-area wage rates may result from the composition of such aid, consisting basically of aid to impacted areas (generally directed toward school districts), highway and water-sewer funds, emergency needs, etc.—programs not necessarily designed to stimulate current expenditures on personal services.

Municipal and county-area public sector wage rates were found to respond less than proportionately to changes in intergovernmental aid flows. In terms of the sensitiveness of public sector wages to changes in outside sources of finance (measured by an elasticity ratio), a 1 percent change in State aid is associated with a 0.08 percent change in municipal wage rates (see Table 36); a negative figure emerges for county areas—perhaps attributable to the distorting influence of the welfare function. Comparable figures for the Federal aid factor showed an even smaller response at both county and municipal levels.

Employment Effects. At the municipal governmental level, both State and Federal grants were found to be significantly and directly related to employment levels in 1972. Further, when other factors are held constant, local government employment levels tend to be higher inside rather than outside central cities. Among county-area local governments, public sector employment also is found to be systematically associated with State grants, although there is no significant relationship with Federal aid.

The employment response to State grants indicates that about seven municipal employees and approximately three county-area local government employees per 100,000 population (see Table 37) would be added to the public sector for each one dollar increase in

State aid. The comparable effect for Federal aid would be five additional municipal employees.

Expenditure Impact. The expenditure impact of State grants can be derived by summing the wage, employment, and welfare transfer effects. At the county-area level, State and Federal aid are found to be highly substitutive for local government expenditures. A one dollar increase in per capita State aid is associated with only 32 cents of additional per capita expenditures (New York City included) or 52 cents (New York City excluded). This substitution finding differs from the results of the traditional impact model, which suggests a stimulative effect for State aid (see Table 41). Both estimating models, however, show a stimulative effect for State aid and a substitutive result for Federal grants at the municipal governmental level, although the traditional impact model yields a much higher stimulative State aid estimate—\$2.47 versus \$1.19.

When State and Federal aid impacts are disaggregated into their components, it is evident that the direct employment response dominates the overall result for both aid flows at the municipal level (see Table 42). Including New York City in county-area results, the 32 cents per capita additional spending (per dollar of State aid) breaks down into 41 cents for additional employees, 10 cents for welfare, a decrease of 29 cents in wage rates, and a 10 cent increase in employment (due to the lower wage rate). At the municipal level, the added per capita spending again is concentrated highly in the direct employment effect, which accounts for more than a dollar of the total increase of \$1.19 in spending. The direct employment response also is the dominant component of State aid impact at the county level, although the welfare transfer component tends to be slightly more important for the Federal grant impact.

Illinois

The State Aid System

Illinois exhibits an intergovernmental arrangement that reflects a shared division of responsibility between State and local governments when total expenditures are considered. Excluding welfare expenditures, however, shifts Illinois to a more locally dominated intergovernmental structure. The local government expenditure share for all general expenditures is 61.1 percent, 75.4 percent for education, and only 15.4 percent in public welfare (see Table 24).

Intergovernmental aid plays a moderate role in Illinois local governmental units' expenditures compared with the other five study States and the U.S. average. Federal aid constitutes 19 percent of the total State-local government expenditures, while State grants account for 26 percent of local expenditures. State grants represent 28 percent of State government expenditures, with the largest share for education. The Federal pass-through component is 10 percent of total State aid—less than the U.S. average.

Four primary State-to-local aid categories exist in Illinois: general local government support, education aid, highway aid, and public welfare assistance. General local government support funds are allocated to cities and counties on the basis of population. The formula for distribution of education aid to school districts includes average daily attendance and an equalization factor. The basis for distribution of the highway assistance allotment is population for municipalities and Cook County; consideration is given to license tax collections in other counties and to road mileage in townships. Public welfare money is distributed in relation to local expenditure in excess of the required property tax levy—a formula that may introduce some equalization.

No significant relationship is found, however, between aggregate per capita State aid to local governments by county area and per capita income. Thus, at the county-area governmental level, State aid does not serve to equalize fiscal capacity. Among municipalities,. State aid does exhibit a significant inverse correlation with income, suggesting that State aid is equalizing at this level.

Grant Impact Results

Wage Rate Effects. Public sector wage rates among Illinois municipalities and townships were not systematically related to either State or Federal grants-in-aid in 1972. Among county-area local governments, the State aid factor is found to be statistically significant and positive, indicating that one dollar of additional State grants tends to increase such wages, on average, by \$4.55. No systematic relationship emerges regarding county-area wage rates and Federal aid, however.

Both municipal and county-area wages are associated with several additional factors in the wage rate estimating equation. The results show that, other factors held constant, public sector wages tend to be higher in metropolitan areas but lower in the central city. Public sector wages among county-area local

Table 24

The Structure of General Expenditures in Illinois, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	39.1	75.4	School Districts
Welfare	13.9	15.4	Counties
Highways	12.2	34.1	Counties and Municipalities
Health-Hospital	6.4	40.9[1]	Municipalities and Special Districts
Total of above and all other	100.0	61.1	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

governments are found to respond less to a one percent increase in State aid than to a comparable change in either the manufacturing wage rate or population size factors (see Tables 35 and 36).

Employment Effects. Public service employment levels for both municipal and county-area local governments are found to be systematically related to the State aid factor. In each case, the relationship with State grants is positive. The estimates indicate than an additional dollar of State aid is associated with an additional 23 municipal employees and an additional 15 county-area local government employees per 100,000 population. Federal grants are significantly—and inversely—related to the number of employees at the county, but not municipal, level—a dollar increase in such aid being associated with a decline of 14 county-area employees per 100,000 population. Employment is found to be somewhat more sensitive to a 1 percent change in State aid at the county-area level (0.67 percent) than among municipalities (0.48 percent) and much more sensitive to State, rather than Federal, grants.

Expenditure Impact. In Illinois, State aid is highly stimulative in both municipalities and county areas —as estimated by both the public employment method and the traditional impact analysis. A dollar increase per capita in State aid to Illinois county areas is associated with an additional $1.93 in spending per capita; among municipalities, the comparable increase is $2.59. Federal aid, however, is found to be highly substitutive at both the county and municipal levels by both estimating approaches.

The direct employment response is, by far, the dominant component of increased spending attributable to State and Federal aid. In the county-area analysis, it accounts for no less than $1.90 of the additional $1.93 in per capita spending due to State grants; among municipalities, it represents $2.57 of the $2.59 expenditure response.

Kentucky

The State Aid System

Kentucky tends to be highly State government dominated in its division of financial aid expenditure responsibilities. It is further characterized by low expenditures per capita. Exclusion of the welfare function does not change this division of expenditure and financing responsibility. In 1972, 76.1 percent of public welfare was financed by the Federal Government, 21.9 percent by the State, and 2 percent by local governments; 97.5 percent of welfare expenditures is made directly by the State (see Table 25). The pass-through component of State aid is 26 percent—one of the largest in the Nation—and consists almost exclusively of direct aid to school districts.

The structure of general expenditures in Kentucky, except for the above mentioned education dollars to school districts, is provided to county governments, which assume the responsibility for most major local expenditures. Kentucky State payments to local governments differ considerably from the U.S. pattern. Education aid is far above the average; most all other functions are far below. School districts received 87 percent of all State aid to local governments in 1972 (see Table 26). The minimum foundation program for education is appropriated and distributed to supplement required local support for teachers' salaries, current and capital expenses, and transportation. School food service programs consist of Federal funds, distributed as reimbursement of, or in direct ratio to, local food program expenditures. Aid to low-income areas are Federal funds distributed on a per pupil basis.

State grants are strongly equalizing in Kentucky, as indicated by a negative and highly significant relationship between State aid and per capita income.

Grant Impact Results

State grants were not closely associated with either public sector wage rates or employment levels among the county-area local governments in 1972 in Kentucky.[6] Federal grants are found to be systematically linked to county employment levels, but no close association is found with county wage rates.

Despite this general lack of systematic relationships, the grant impact results show a mildly stimulative effect of State aid—an increase of $1.06 in per capita expenditures resulting from an additional dollar of State aid. This finding closely parallels the results of the traditional model, in which a very slight substitutive effect—98 cents additional spending per added dollar of State aid—is found. In contrast to other States studied, the major component of increased State aid in Kentucky is the public sector wage response. Because this result is based on a nonsystematic relationship, however, it may simply reflect chance, rather than clear statistical relation-

Table 25

The Structure of General Expenditures in Kentucky, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	38.2	62.8	School Districts
Welfare	11.1	2.5	Counties
Highways	20.7	6.1	Counties
Health-Hospital	5.9	39.9[1]	Counties
Total of above and any other	100.0	40.5	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

Table 26

State Payments Under Selected Aid Programs, Kentucky, 1972
(Millions of Dollars)

Type of Aid	Cities	Counties	School Districts
Education: minimum foundation program	–	–	$243
Aid for low-income area	–	–	38
School food services program	–	–	24
TOTAL	–	–	$305

Total of above	=	$305
Total aid payments	=	$349
Percent	=	87

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

Table 27

The Structure of General Expenditures in Virginia, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	43.5	70.3	Counties
Welfare	8.8	64.8	Municipalities
Highways	14.1	15.1	Municipalities
Health-Hospital	6.0	19.0[1]	Municipalities
TOTAL	100.0	59.2	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

ships. The stimulative effect of Federal aid stems basically from the direct employment response—the more frequently found result.

Virginia

The State Aid System

Virginia, like Illinois, exhibits a shared division of financial and expenditure responsibility between State and local governmental levels. The local expenditure share for all functions is 59.2 percent for 1972—reflecting particularly heavy local spending responsibility for education (70.3 percent) and welfare (64.8 percent) (see Table 27).

The distribution of State payments to local governments in Virginia is characterized mainly by the relative importance of education and welfare functions, together comprising 87 percent of total State aid (see Table 28). This State aid structure is accompanied by high Federal pass-through dollars as a percent of State payments to localities—25.4 percent.

There are four major aid programs in Virginia that account for 60 percent of State-to-local payments. Education grants dominate, with responsibility for disbursement lodged with county-type governments. In Virginia, these counties include independent cities which are not equivalent structurally to county areas in the other States studied. Basic school fund assistance is appropriated and distributed according to average daily attendance; sales tax proceeds are distributed in proportion to school age population. Aid to Dependent Children consists of State and Federal funds distributed in a fixed ratio to local public welfare expenditures. Local health services aid is appropriated and distributed as partial reimbursement of approved local expenditure.

The simple correlation between per capita State aid and per capita income is not statistically significant in Virginia municipal areas, indicating that State aid does not tend to equalize fiscal capacity.

Grant Impact Results

Wage Rate Response. Because Virginia county-area governments are not comparable with those of other States, the grant impact analysis is restricted to municipal governments. Public sector wage rates

Table 28

State Payments Under Selected Aid Programs, Virginia, 1972
(Millions of Dollars)

Type of Aid	Cities	Counties	School Districts
Aid to dependent children	$56	$22	–
Local health services	11	6	–
Basic school fund	85	144	–
Sales tax for education	33	55	–
TOTAL	$185	$227	–

Total of above	=	$412
Total aid payments	=	$682
Percent	=	60

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

among Virginia municipal and township employees show a positive and statistically significant relationship with per capita State, but not Federal, grants. Yet, the wage rate response to a 1 percent change in State aid is only slight—rising by 0.2 percent. Public sector wage rates also are found to be systematically higher in suburban areas than in central cities, after other factors are accounted for.

Employment Level Response. Municipal and township public sector employment levels also tend to be systematically associated with the State aid variable. An additional dollar of State aid is associated with an increase of 17 new municipal and township employees per 100,000 population and the public sector employment level responds by 0.8 percent to a 1 percent increase in State aid. No strong association between employment levels and Federal grants, however, is found to exist.

Expenditure Impact. State aid in Virginia tends to be stimulative regarding per capita expenditures, whether this impact is gauged by the public employment method or traditional impact analysis. According to the public employment model, an increase of one dollar in State aid leads to a \$1.63 increase in per capita expenditures, while the traditional impact suggests a \$1.78 increase. As is true in most other States studied, the expenditure impact is dominated by the direct employment response, with very little additional spending going to higher wage rates.

Federal aid, in contrast, tends to be highly substitutive, whether estimated by the public employment or traditional impact approaches. However, the employment response is the major component of the overall result for this State.

Vermont

The State Aid System

Vermont tends to be highly State government dominated for both financing and expenditure responsibility. The local expenditure share for all functions is only 34.3 percent for 1972 (see Table 29). The State payments to local governments for education, highways, and miscellaneous programs are approximately on a par with the U.S. average. Vermont State aid to local governments for welfare and hospitals, however, is negligible. With a low per capita

Table 29

The Structure of General Expenditures in Vermont, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	40.6	53.6	School Districts
Welfare	12.3	1.3	Townships
Highways	18.4	26.7	Townships
Health-Hospital	4.3	1.6[1]	Townships
TOTAL	100.0	34.3	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

Table 30

State Payments Under Selected Aid Programs, Vermont, 1972
(Millions of Dollars)

Type of Aid	School District	Towns
Equalization aid	$28	–
School construction	7	–
Town highway	–	3
TOTAL	$35	$3

Total of above = $38
Total aid payments = $54
Percent = 70

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

personal income, Vermont has an extremely high per capita expenditure on welfare ($117.20), financed 66 percent by the Federal Government and 33 percent by the State. The State has almost complete expenditure responsibility for this and health and hospital functions. Pass-through funds as a percent of State-to-local aid are very low (11.1 percent).

Education and highway aids dominate the State payments to local governmental units (see Table 30). Equalization aid is appropriated and distributed to school districts on a formula basis. School construction is funded from borrowed dollars and is distributed in fixed ratio to local expenditure for approved projects. Townships have responsibility for all other local expenditure functions. Town highway aid is appropriated and distributed subject to a specific minimum local expenditure per mile for highway maintenance and construction.

Due to an insufficient number of observations, no grant impact analysis was attempted, either for county-area local governments or municipalities.

Oregon

The State Aid System

Oregon has a shared structure of financing and expenditure responsibility and exhibits a high level of per capita expenditures. Local governments have a 55 percent share of expenditures for all functions; 72.3 percent in education (see Table 31).

Oregon State payments to local governments are reasonably comparable to the U.S. average, aside from highway and welfare functions. The percentage of State assistance to local governments devoted to highways is over twice the national average, but the percentage of aid directed toward welfare is negligible—about 18 times (96 percent) less than the national average. Oregon expenditures per capita on welfare ($67.00) are considerably less than the 50-State average ($82.33), with the State assuming 96.6 percent of the expenditure responsibility. With the exception of the education function, for which aid is

Table 31

The Structure of General Expenditures in Oregon, 1972

Function	Percent Distribution	Local Expenditure Share	Local Governmental Unit with Primary Responsibility
Education	42.7	72.3	School Districts
Welfare	8.0	3.4	Counties
Highways	14.3	30.0	Counties
Health-Hospital	4.7	40.1[1]	Counties
TOTAL	100.0	55.1	

[1] Includes only health expenditures.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 4, *Government Finances No. 5: Compendium of Government Finances* (Washington, D.C.: Government Printing Office), 1974, Table 35 "Percent Distribution of General Expenditure of State and Local Governments, by Function, by States: 1971-1972," Table 46 "Finances of State and Local Governments, by Level of Government for States: 1971-72," Table 48 "Local Government Finances by Type of Government, for States: 1971-72."

Table 32

State Payments Under Selected Aid Programs, Oregon, 1972
(Thousands of Dollars)

Type of Aid	Cities	Counties	School Districts	Various Units
Basic school support	–	–	99,787	–
Community college operation	–	–	–	27,749
Highway-user taxes	13,777	23,849	–	–
Federal aid	–	–	27,234	–
Sewerage facilities	–	–	–	20,516

Total of above	=	$212,912
Total aid payment	=	$289,086
Percent	=	73.65

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 6, *Topical Studies No. 3: State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974, Table 7 "Individual State Description: State Payments to Local Governments in 1972."

distributed to school districts, counties have primary responsibility for all other local government expenditures. Federal pass-through funds account for 13.4 percent of State aid to local governments.

Five major aid programs in Oregon cover 73 percent of all State payments to local governmental units (see Table 32). Sixty percent of these five programs goes to school districts for education. Basic school support has four components: (a) a membership portion distributed at a specific rate per pupil, (b) equalization aid, an amount required and distributed to supplement local support on the basis of daily pupil attendance, (c) a transportation component distributed to cover a specific percentage of costs, and (d) a growth apportionment distributed in proportion to weighted resident students. Federal aid to school districts is composed of the following programs: vocational education, manpower training and development, improvement of critical subjects, aid to low-income areas, school library resources, supplementary education projects, and special aids for the handicapped. Most Federal aid is distributed in fixed ratio to local expenditures for approved projects or on a specific rate per pupil expenditure basis. Community college operation funds are distributed at a flat rate per student or a percent of student operating costs.

Twenty percent of all other aid programs are proceeds of highway-user taxes and are distributed primarily to counties in proportion to motor vehicle registrations. The remaining program is for sewerage facilities financed by State bond issues and distributed in fixed ratio to approved local expenditure.

The simple correlation between per capita State aid and income is negative and statistically significant for Oregon county areas, indicating State aid to be equalizing at this level.

Grant Impact Results

The grant impact analysis in Oregon is restricted to the county-area local governments. Public sector wages are not found to be closely associated with State aid, although a systematic relationship does exist between State grants and public service employment levels. Federal grants show no statistically significant association with either wage rates or employment levels.

In terms of expenditure impact, the results indicate a stimulative response—$1.28 per capita in additional spending per dollar increase in State aid. The direct employee response is again the major component of this stimulative result, with little additional effect exerted by higher wage rates. The traditional impact approach, however, suggests a substitutive effect for State aid.

The Federal aid effect is shown to be substitutive in the public employment model but stimulative by the traditional impact analysis. No systematic relationships are found between Federal aid and either public sector wage rates or employment levels. Failure of the direct Federal aid variable in Oregon and certain other case studies may result for a variety of reasons—its small scale and multiplicity of purposes, which are difficult to sort out in individual States.

FOOTNOTES

[1]Research for this chapter was undertaken at the Maxwell School of Syracuse University under contract to this Commission.

[2]These proportions include only State residents of the major metropolitan areas.

[3]At least 50 local governments of each type are necessary to have sufficient observations to apply the regression impact analysis. Because there were less than 50 observations among Vermont county areas and the municipalities of Kentucky, Oregon, and Vermont, these governmental units were excluded from the analysis. In addition, Virginia county areas were not studied because these counties are not comparable to those of other States.

[4]Welfare wages and salaries and employment are included in the public employment model; only welfare transfer payments are estimated by this separate approach.

[5]No such procedure is necessary for estimating the grant impact at the municipal level, because welfare is generally a function performed by counties. For both the municipal and county-area analysis, a weighted regression procedure is used to avoid the probable bias of small jurisdictions receiving inordinately large grant amounts. Metropolitan and central city areas were distinguished by means of a dummy variable.

[6]Municipal governments were not analyzed due to lack of sufficient observations.

Table 33

Determinants of State and Local Government Wage Rates in 1972, Weighted Regression Results for Municipalities and Townships

(F-Values in Parentheses)

State	Independent Variables							Adjusted R^2
	Federal Grants	State Grants	Population	Manufacturing Wage	Skill	Metropolitan Dummy	Central City Dummy	
Illinois	13.7 (1.2)	–35.7 (1.9)	0.07* (52.9)	0.37* (3.2)	0.34* (4.7)	1.69* (12.2)	–0.89* (5.7)	.75
Kentucky	—Insufficient Observations—							
New York	0.06 (0.0)	8.7* (5.8)	0.43* (7.9)	0.80* (9.2)	0.52* (6.1)	–0.26 (0.4)	0.09 (0.0)	.54
Oregon	—Insufficient Observations—							
Vermont	—Insufficient Observations—							
Virginia	–0.61 (0.0)	9.4* (8.2)	–0.20 (0.7)	–0.06 (0.1)	0.68* (9.2)	0.48 (1.5)	–1.07* (7.7)	.31
Six States aggregated	0.17 (0.0)	6.12* (2.22)	0.09* (169.2)	0.76 (63.8)	0.34 (15.7)	0.35 (1.9)	–0.07 (0.1)	.69

*Significant at the 5 percent level.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 34

Determinants of State and Local Government Wage Rates in 1972, Weighted Regression Results for County Areas

(F-Values in Parentheses)

State	Independent Variables						Adjusted R^2
	Federal Grants	State Grants	Population	Skill	Manufacturing Wage	Metropolitan Dummy	
Illinois	–0.47 (0.0)	4.6* (2.8)	0.03* (125.0)	0.25* (5.9)	0.22* (4.4)	0.86* (12.7)	.91
Kentucky	1.74 (0.0)	5.65 (1.8)	0.22* (29.0)	0.36* (15.5)	–0.22* (2.8)	0.46* (4.0)	.82
New York	–16.2* (8.4)	–7.0* (5.2)	0.05* (31.7)	1.4* (18.4)	0.56* (20.7)	–0.03 (0.0)	.81
New York without New York City	–10.8* (4.2)	–2.7 (0.8)	0.14* (28.2)	1.12* (13.0)	0.28* (4.1)	–0.16 (0.3)	.77
Oregon	2.78 (1.6)	(2.44) (0.9)	(0.48)* (167.6)	0.58* (16.2)	(0.2) (0.04)	–0.09 (0.4)	.94
Vermont	—Insufficient Observations—						
Virginia	—Data Not Comparable—						
Five States aggregated	–3.24 (1.0)	2.8* (29.4)	0.03* (223.0)	0.73* (60.2)	0.66* (85.9)	–0.01 (1.9)	.80
Five States aggregated without NYC	–3.6 (1.3)	4.5* (53.1)	0.04* (210.9)	0.75* (70.3)	0.49* (39.9)	–0.01 (1.7)	.76

*Significant at the 5 percent level.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 35

Elasticities of Public Wages with Respect to the Manufacturing Wage and Population

State	County Areas		Municipalities	
	Manufacturing Wage	Population	Manufacturing Wage	Population
Illinois	.22175	.0950	.24282	.14045
Kentucky	-.1850	.0794	N/A*	N/A
New York	.3267	.1722	.6253	.0739
Oregon	.01822	.6136	N/A	N/A
Vermont	N/A	N/A	N/A	N/A
Virginia	—Data Not Comparable—		-.0448	-.0362
Multi state Total	.4277	.0924	.5397	.0967

*Not applicable due to insufficient observations.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 36

Elasticities of Public Sector Wages with Respect to Federal and State Grants, 1972

State	Average Annual Wage[1]			
	County Areas		Municipalities	
	Federal Aid	State Aid	Federal Aid	State Aid
Illinois	-.0010	.0579	.0303	-.0790
Kentucky	-.0041	.0660	N/A*	N/A
New York	-.0291	-.2402	.0003	.0789
New York without New York City	-.0119	-.0797	N/A	N/A
Oregon	.01129	.0312	N/A	N/A
Vermont	N/A	N/A	N/A	N/A
Virginia	—Data Not Comparable—		-.0025	.1652
Multi state Total	-9.3406	.0058	.0006	.037

[1] In thousands of dollars.
*Not applicable due to insufficient observations.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 37

Determinants of State and Local Government Employment Per Capita in 1972, Weighted Regression Results for Municipalities and Townships

(F-Values in Parentheses)

State	Independent Variables								Adjust R^2
	Wage	State Grants	Federal Grants	Population	Skill	Income Per Capita	Metropolitan Dummy	Central City Dummy	
Illinois	–0.001* (4.8)	0.23* (7.3)	–0.01 (0.1)	0.0002* (12.2)	–0.0003 (0.2)	0.002* (3.6)	–0.0001 (0.0)	0.002* (2.9)	.68
Kentucky	—Insufficient Observations—								
New York	0.0003 (0.6)	0.07* (21.8)	0.05* (18.0)	–0.0002 (0.1)	–0.0002 (0.0)	0.001 (1.7)	–0.002 (1.1)	0.01* (34.2)	.88
Oregon	—Insufficient Observations—								
Vermont	—Insufficient Observations—								
Virginia	–0.005* (9.7)	0.17* (58.8)	0.04 (0.5)	–0.001 (0.3)	–0.001 (0.3)	0.01* (11.7)	(0.001) (0.2)	–0.002 (0.5)	.87

*Significant at the 5 percent level.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 38

Determinants of State and Local Government Employment Per Capita in 1972, Weighted Regression Results for County Areas

(F-Values in Parentheses)

State	Wage	State Grants	Federal Grants	Population	Skill	Income Per Capita	Metropolitan Dummy	Adjusted R^2
Illinois	–0.002* (4.1)	0.15* (56.2)	–0.14* (7.8)	0.0002* (21.2)	0.003* (17.7)	0.001 (0.6)	–0.002 (0.8)	.82
Kentucky	–0.002 (2.7)	0.05 (1.1)	0.19* (5.8)	0.001 (1.5)	0.001 (0.3)	0.0004 (0.01)	0.002 (0.7)	.26
New York	–0.001* (4.3)	0.03* (4.0)	–0.03 (1.4)	0.0001* (3.6)	–0.0001 (0.0)	0.002* (3.7)	–0.001 (1.7)	.90
New York without New York City	–0.001* (6.3)	0.03* (5.1)	–0.02 (1.3)	0.0003* (3.8)	–0.0001 (0.002)	0.002* (4.1)	–0.002 (2.7)	.16
Oregon	–0.003 (2.1)	0.10* (9.1)	0.002 (0.0)	0.001 (0.6)	0.0003 (0.0)	0.003 (1.1)	–0.002 (1.9)	.37
Vermont	—Insufficient Observations—							
Virginia	—Data Not Comparable—							

*Significant at the 5 percent level.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 39

Elasticities of Public Sector Employment with Respect to Federal and State Grants Per Capita

State	County Areas Federal Grants	County Areas State Grants	Municipalities Federal Grants	Municipalities State Grants
Illinois	−.1051	.6764	−.0255	.4759
Kentucky	.1379	.1876	N/A*	N/A
New York	−.0127	.2369	.1711	.3392
New York without New York City	.0083	.2468	N/A	N/A
Oregon	.0023	.3704	N/A	N/A
Vermont	N/A	N/A	N/A	N/A
Virginia	N/A	N/A	.3933	.8137
Multi state Total	32.1353	.0226	.0503	.4798

*Not applicable due to insufficient observations.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 40

Elasticities of Public Sector Employment with Respect to Income and Public Sector Wages

State	County Areas Per Capita Income[1]	County Areas Average Annual Wage[1]	Municipalities Per Capita Income[1]	Municipalities Average Annual Wage[1]
Illinois	.0906	−.7419	.5601	−1.034
Kentucky	.0399	0.7306	N/A*	N/A
New York	.1791	.2538	.2500	.188
Oregon	.3058	−.9497	N/A	N/A
Vermont	N/A	N/A	N/A	N/A
Virginia	N/A	N/A	1.057	−1.306
Multi state Total	.0010	−.1750	.5368	−.949

[1] In thousands of dollars.
*Not applicable due to insufficient observation.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 41

Federal and State Grant Impact on Per Capita Expenditures

State	Impact of One Dollar of Grants on Total Expenditures			
	County Areas		Municipalities	
	Federal	State	Federal	State
Illinois				
Public employment model	–0.05	1.93	.20	2.59
Traditional model	–1.15	1.72	–.06	1.36
Kentucky				
Public employment model	1.50	1.06	N/A*	N/A
Traditional model	2.19	.98	N/A	N/A
New York				
Public employment model	0.19	0.32	.85	1.19
Traditional model	–0.44	1.14	–.19	2.47
New York without New York City				
Public employment model	0.65	0.52	N/A	N/A
Traditional model	0.02	1.40	N/A	N/A
Oregon				
Public employment model	0.24	1.28	N/A	N/A
Traditional model	1.48	–.07	N/A	N/A
Vermont				
Public employment model	N/A	N/A	N/A	N/A
Traditional model	N/A	N/A	N/A	N/A
Virginia				
Public employment model	N/A	N/A	.38	1.63
Traditional model	N/A	N/A	.47	1.78

*Not applicable due to insufficient observations.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Table 42

Components of Federal and State Grant Impact on Per Capita Expenditures

State	County Areas Federal	County Areas State	Municipality Federal	Municipality State
Illinois				
Expenditure reponse	–.05	1.93	.20	2.59
Wage response	–.01	.14	.16	–.42
Direct employment response	–.17	1.90	–.18	2.57
Indirect employment response	.01	–.12	.22	.44
Transfer response	.12	.01	—	—
Kentucky				
Expenditure response	1.50	1.06	N/A*	N/A
Wage response	.04	1.44	N/A	N/A
Direct employment response	1.73	.49	N/A	N/A
Indirect employment response	.04	–1.26	N/A	N/A
Transfer response	–.23	.07	N/A	N/A
New York				
Expenditure response	.19	0.32	.85	1.19
Wage response	–0.07	–.29	.00	.15
Direct employment response	–.42	.41	.85	1.00
Indirect employment response	.24	.10	.00	.04
Transfer response	.44	.10	—	—
New York without New York City				
Expenditure response	.65	0.52	N/A	N/A
Wage response	–.40	–.10	N/A	N/A
Direct employment response	.39	.47	N/A	N/A
Indirect employment response	.25	.06	N/A	N/A
Transfer response	.41	.09	N/A	N/A
Oregon				
Expenditure response	.24	1.28	N/A	N/A
Wage response	.09	.08	N/A	N/A
Direct employment response	.03	1.32	N/A	N/A
Indirect employment response	.12	–.11	N/A	N/A
Transfer response	–.00	–.01	N/A	N/A
Virginia				
Expenditure response	—Data Not Comparable—		.38	1.63
Wage response			–.02	.29
Direct employment response			.37	1.82
Indirect employment response			.03	–.48
Transfer response			—	—

*Not applicable due to insufficient observations.

Source: Metropolitan Studies Program, Maxwell School of Citizenship and Public Affairs, Syracuse University. Calculated from various data sources.

Chapter III

Summary Findings, Issues, and Recommendations

INTRODUCTION

This volume in the Commission's study of the grant system, *The States and Intergovernmental Aids,* focuses on the growth and changes that have marked the State aid system, with some attention given to the States' direct servicing role. Analyses center most heavily on 1972, the latest year for which detailed *Census of Governments* data is available, although comparisons over time—particularly the 1957-1972 period—are also undertaken.

In various respects, this volume parallels the 1969 Commission study, *State Aid to Local Government.* State aid distribution formulas in both volumes are a major focus of attention. However, this study goes beyond the 1969 Commission volume in several ways:

- The direct State servicing role is analyzed both over time (1957–1972) and as an alternative to the grant mechanism.
- The form of grant—project, formula, and general revenue sharing—is examined for both 1957 and 1972.
- Pass-through of Federal funds by States to local governments is estimated, by State and function, for 1967 and 1972.
- Views of the State aid system, as seen by State and local officials, are probed by questionnaires developed in conjunction with the National Association of State Budget Officers (NASBO) and the International City Management Association (ICMA).
- Fiscal impact of State aid on local government expenditures, wage rates, and employment levels is assessed in six selected states: New York, Illinois, Kentucky, Oregon, Virginia, and Vermont.

"More of essentially the same" is the dominant theme that emerges from this study of State aid. There is some, but relatively little, innovation in the State aid sector, particularly with regard to aided areas and to type of transfer mechanism utilized. Although change and innovation are by no means absent, they pale in comparison with the predominant characteristic of State aid—its growth.

SUMMARY OF FINDINGS

Highlights of the major findings regarding the States and the intergovernmental aid system follow. These findings provide the basis for the Commission's policy positions, which conclude this volume.

- The growth in State aid during the 20th Century is virtually uninterrupted in both money and real terms, even when adjusted for population increase. By 1975, State aid (including Federal amounts received and passed through to localities) totalled $52.0 billion.

- The direct servicing role—the State share of expenditures—also showed a general upward movement for the period 1957-1972. More than half the States increased their direct servicing role in nine functional areas—total direct general expenditures, highways, welfare, health, police, natural resources, libraries, financial administration, and general public buildings; no change was the predominant pattern found for parks and recreation, local schools, housing and urban renewal, airports, and water supply.

- Federal pass-through funds were estimated at $7.1 billion in 1972—a virtual doubling of the 1967 magnitude. In both years, welfare and education aid accounted for more than 90 percent of total pass-through funds. These pass-through estimates radically alter the traditional measures of State aid flows. Pass-through amounts represent 20 percent of State aid and approximately 26 percent of Federal aid to States. For 1972, inclusion of the pass-through component as part of Federal-local aid leads to a 2.6-fold increase over the traditionally considered Federal-local grants, as well as a quadrupling of this form of assistance for education and a 52-fold growth in welfare.

- The education function dominates State aid. Since 1952, when exactly half of all State aid was channeled for support of public schools, this functional area has accounted for more than half of the State aid aggregate. In contrast, Federal grants-in-aid are heavily concentrated in non-educational functions.

- State aid for municipal-urban services has expanded in the past five years. Growth is evident in terms of number of States participating, number of programs enacted, and dollar magnitudes. However, the total amount of municipal-urban aid remains small—$1.0 billion (less than 3 percent) of total State aid in 1972—and for many of the municipal-urban services, State response is sporadic, rather than widespread.

- State programs of general local support are approximately the same dollar amount as Federal revenue sharing to local governments. Federal revenue sharing, however, is more equalizing in nature than State programs, because many of the latter involve shared taxes. Indeed, approximately half of the State general support dollars are returned to localities on the basis of origin.

- In terms of the six States studied to assess fiscal impact, State aid was found to stimulate, rather than substitute, local expenditures; local spending rose more than proportionately per dollar of added assistance. In virtually all States studied, the stimulative effect mainly resulted from the hiring of additional employees, with little roll out in the form of increased wage rates.

- The State and local officials queried on the State aid system found that inequitable distribution formulas and uncertainty of State funding were the two most serious problem areas. Respondents also indicated that States play a very minor policymaking role regarding funds passed through to localities; a finding that may be attributable to the mandating activities of State governments—a vehicle frequently used to set program and performance standards. A surprising lack of general oversight of the State aid system by the executive and legislative branches was also notable. Only 12 of 35 budget officers responding to the questionnaire indicated that an overall systematic assessment occurred in the State executive branch, although eight of the 23 States without a review and evaluation agency reported a move was underway to establish one. Sixteen of 36 States reporting indicated a similar lack at the State legislative level.

PREVIOUS COMMISSION RECOMMENDATIONS

The Commission has adopted a series of recommendations dealing directly or indirectly with State aid in several previous reports, most notably, *State Aid to Local Government* (A-34, April 1969).

- State assumption of substantially all responsibility for financing education.
- State compensation for municipal overburden[1] in the absence of substantial State support for schools.
- National government assumption of full financial responsibility for public assistance (including general assistance and Medicaid).
- Greater State use of equalization in State aid for public health and hospital programs.
- State financial participation in urban mass transportation and non-highway transportation services such as airports, water, and rail transport.
- State highway aid allocation to secure a better balance between both urban and rural roads and transportation modes.
- Amendment of State constitutional and statutory antidiversion (of highway funds) provisions.
- Codification of State aid plans; periodic review of State aid programs; development of a fiscal information system; evaluation of Federal aid programs.
- Assessing whether or not State aid —particularly equalizing aid—props up nonviable local governments.
- State standards (fiscal and performance) for categorical grant programs.
- Authorization of local sales and income taxes as one means of achieving a more balanced use of tax instruments; such taxes to be accompanied by the use of State programs of general local government support (and certain safeguards) to offset local fiscal disparities.
- Development and implementation of an assignment of functions policy and process to achieve a more reasoned and systematic assignment of functions between and among State, local, and areawide units of government.
- Assumption by States of their proper responsibilities for assisting and facilitating urban development, with Federal grants to be channeled through those States having appropriate administrative machinery and providing significant financial and technical assistance. State financial participation in Federal programs is also recommended in the mixed regional, multimodal transportation systems and community development programs subject to, in each case, specific conditions relating to the aided program area.

ISSUES

The States play three distinct roles in the intergovernmental aid process: direct provision of services, initiation and distribution of State grants-in-aid to localities, and channeling (or passing through) Federal grants to localities. The direct servicing role is dealt with briefly in this report by tracing the changes in the State-local financial split over the 1957–1972 period. The channeling issue is examined by estimating for each State, by function, the amount of Federal grants passed through to local governments for 1967 and 1972 and by assessing budget officers' views of the State policymaking role in this channeling process. The prime focus of this volume, however, is the State role in the grant-in-aid system, including those grants initiated by the Federal Government. Particular attention is paid to distribution formulas and the impact of this aspect of the State aid system.

A cross-cutting analysis of the developments in State aid begins with an effort to answer two questions:

- **To what extent has the pattern of State aid changed?**

and

- **To what extent does State aid differ from its Federal Government counterpart?**

A clear identification of the dominant trends in five topical areas help to firm up some responses to these systemic issues: the functional pattern of State aid, the grant devices used, the nature and size of State programs of general local government support (revenue sharing), the State response to the urban-municipal program challenge, and the State executive and legislative management oversight functions.

State aid has been—and continues to be—channeled to the four traditionally aided functional areas—education, highways, public welfare, and health-hospitals. More than 85 percent of all State assistance in 1957 went to these four functional areas, and by 1972 this proportion rose further—to approximately 87 percent. The education function alone represented 56.6 percent of total 1957 State aid, rising to 57.7 percent in 1972. Among these four functional areas, a steady and persistent decline in the highway share has occurred—a decline that has been offset by a less steady but generally increasing portion for the other State aid functions. Clearly, despite some compositional shifts, State aid continues to be concentrated along traditional functional lines; this is in contrast to the significant functional shifts that have occurred within the Federal aid sector over the same period.

The predominant transfer mechanism for channeling State aid is the formula-based categorical grant. Aside from programs of general local government support, the number of State grants more than doubled between 1957 and 1972, rising from 934 to 2,121. Formula-based grants rose somewhat less rapidly in percentage terms—85 percent, or from 875 to 1,804—but somewhat more rapidly in dollar terms—from $6.4 billion (96.7 percent) of the 1957 total to $31.9 billion (97.4 percent) of the 1972 State aid package (excluding general local government support). Thus, formula-based grants have slipped as a proportion of total grants—from 93.7 to 83.5 percent—but increased in dollar magnitude.

To make the same point with the focus on project grants, such grants have:

- Grown in number (from 159 in 1957 to 317 in 1972), outpacing the numerical rate of advance in formula grants;
- Increased in dollar magnitude (from $216 million to $854 million);
- Represented a larger share of the number of State grants (6.3 percent to 16.5 percent); but
- Accounted for a smaller portion of total State aid (3.3 percent to 2.6 percent).

Despite the growth in numbers and dollar amounts, project grants remain a distinctly secondary transfer mechanism of State aid, just as in 1957.

This data suggest only modest change in the grant devices used by States and is in marked contrast to counterpart developments in Federal grants.

Counterpoised to State categorical aids for the four largest functional areas stands State assistance for general local government support. Although the State aid mix of categorical revenue sharing grants stood at approximately 90-10 in both 1957 and 1972, there has been some increase—albeit very slight—in the revenue sharing proportion, rising from 9.0 percent to 10.2 percent of total State aid.

Growth in revenue sharing by the State sector is registered in several ways:

- 45 States used such programs in 1972, compared with 43 in 1957;
- 209 programs were in effect in 1972, as against 141 in 1957; and
- State revenue sharing dollars rose to $3.8 billion in 1972, from $668 million in 1957.

State revenue sharing programs are channeled to localities by a variety of formulas. Local fiscal equalization is one objective of such programs, and slightly more State revenue sharing funds were distributed in line with this goal: 46.3 percent in 1972 compared with 43.7 percent in 1957. The major equalizing factor relied on for both years was population, which is likely to be only mildly equalizing at best. In short, slight shifts in the overall State general support area have occurred, but nothing comparable to Federal shifts.

Another trend in State aid is the increasing—but quite small—segment of assistance for urban-municipal programs. Such aid is of the categorical variety and predominantly, but not exclusively, transferred by formula, rather than project, grants.

State aid for these programs has become somewhat more important in State aid structures—rising from $60 million (0.8 percent) of all State aid in 1957, to $906 million (2.5 percent) in 1972. More States—49 as opposed to 38—have adopted more programs—223 compared with 60—over this 15-year period. This urban-municipal dimension, although growing in the recent past, nonetheless remains a small segment of State aid systems.

Executive-legislative handling of grants has not greatly improved over the past decade. Based on questionnaire information, executive-legislative authority still needs to be strengthened regarding grant management—a conclusion that parallels the findings of this Commission's 1967 report, *Fiscal Balance in the American Federal System.* The 1975 survey indicated that some—but not all—legislatures do not cover all anticipated Federal grant receipts in their budgets and that their opportunities for program inputs—particularly in the pass-through area—were missed in the receipt and disposition of Federal grants. More than half (55 percent) of the State budget officers responding indicated that their legislatures do not appropriate all Federal grants and, when State legislatures do appropriate all or some Federal grants, one-third permit spending over the appropriation without legislative approval. Not to be overlooked is the manner in which the growing number of no and soft match Federal grants afford additional ways for State executive branch officials to bypass legislatures when firm budgetary procedures are lacking. This information suggests a continuing, fairly casual legislative approach regarding the receipt and disbursement of Federal grants.

Somewhat stronger gubernatorial control over line agency Federal grant efforts has emerged, but the general situation is far from ideal. Although gubernatorial control is well established in a number of States—at least for the early stages of the application process—approval by the Governor of State agency negotiations, applications, and acceptance of Federal grants is still needed in some States. Three-fifths of the ACIR survey respondents indicated that their Governors lacked full authority over the application approval and grant receipt phases of the process. This suggests that, despite Federal efforts in some grant programs to single out the Governor as the critical point-of-contact administrator, the standing pattern of bypassing the States' chief administrator has by no means disappeared. It also suggests that many State legislatures have not come to the realization that only they can institute the budgetary and administrative reforms that will convert their chief executives into real—not mythic—managers.

Clearly, State aid has not changed greatly during the 1957–1972 period: The traditional orientation of aid for the four largest intergovernmental functions not only has not diminished but also has slightly increased; the proportion of aid provided by project grants—always small—decreased further, although the numerical proportion of such grants did increase; general local government support programs continue to represent only 10 percent of total State aid, with equalization features built into only about half the revenue sharing dollars in both 1957 and 1972; the urban-municipal dimension of State aid—although increasing—remains at less than 3 percent of aggregate State aid; and State management of its overall aid responsibilities has experienced only modest improvements over the past decade.

These, of course, are generalizations based on the 50-State record and tend to conceal developments that have taken place in individual States. Minnesota has dramatically altered its education finance provisions and other States, spurred by Serrano-type decisions, have also acted in this functional area. Further, Wisconsin has placed its revenue sharing program on a more equalizing basis than its previous origin-oriented support. However, these and other instances stand as exceptions.

State aid systems, thus, have experienced only minor modifications over the past 15 years, and this slight change underscores their differences with the Federal system. In light of the five basic topics discussed, the following contrasting generalizations of the two aid systems emerge:

- Federal aid is considerably more diversified in its functional pattern and has experienced major program shifts over the past two decades. The four largest intergovernmental areas (education, welfare, highways, and health-hospitals), which accounted for 87 percent of 1972 State aid, represent approximately 60 percent of Federal grants (as of 1975).[2] The single greatest difference between the two aid systems is attributable to the role of the education function, which alone accounts for 59 percent of State aid (1975) but only 10 percent of Federal aid. Moreover, in the Federal case, the specific program efforts subsumed under these four functional headings are far more diversified. Over time, of course, Federal aid —wholly unlike its State counterpart— has experienced major compositional shifts, with community and regional development, health, and revenue sharing programs showing the greatest proportionate increases and agriculture, transportation, and income security showing the greatest losses.
- Project grants are far more prevalent in the Federal grant system, outnumbering formula grants on the order of over three-to-one. In contrast, numerically only 16 percent of State aids are project grants. In dollar terms, project grants are small in both systems, but even in this regard, differences are ap-

parent—2.6 percent of State aid is project oriented compared with one-fourth of all Federal aid.

- Federal revenue sharing is of greater dollar magnitude—$6.7 billion in 1975 (of which $6.1 is general revenue sharing) compared with $5.1 billion for States. The $6.7 billion total represents a slightly larger share of the Federal aid system (13.5 percent versus 10 percent for the States). The greatest point of contrast, however, occurs with regard to the equalization tendency of these programs. Federal revenue sharing equalizes modestly among States and substantially within States—central cities receiving three-to-seven times as much as their most affluent suburban neighbor and one and a half-to-three times the average for outlying cities in the same county; more than half of State revenue sharing dollars is origin based and less than 1 percent is distributed on the basis of tax effort, fiscal capacity, or fiscal needs.
- Federal aid is oriented more toward urban program needs than its State counterpart. When using U.S. Department of Housing and Urban Development and Urban Mass Transportation Administration grant outlays to standard metropolitan statistical areas—an admittedly rough proxy—roughly 6 to 7 percent of all Federal aid is targeted toward urban program needs; a generous definition of State urban aid—including 24 specific program areas—yields a figure of 2.5 percent.
- The direct Federal servicing role (in civil governmental areas) is somewhat less pronounced than that of the States (58 percent of domestic expenditures in 1973–74, as opposed to 62 percent for the States in 1974); but much of the Federal direct expenditure, it should be noted, involves payments, loans, and other efforts that relate to specific components of the private sector and not to the direct performance of a servicing responsibility for the citizenry-at-large. This element, of course, highlights a major difference between the two aid systems. In the case of the Federal Government, constitutional, political, traditional, and practical factors combine to bar major expansion of its bureaucracy for providing services directly and to force reliance on the grant mechanism for achieving domestic program goals. This is far less the case with the States; witness their much faster growth in bureaucracy compared with that of the Federal Government.
- Regarding executive branch practices, greater efforts have been made over a longer period to bolster central management practices and organization at the Federal level, although State initiatives during the past ten years—especially in executive reorganization, budgeting, and planning areas—have strengthened several, although not all, individual Governors. Yet, a comparison of the two systems of executive grants management at this particular point in time would lead most observers to the conclusion that neither system generally is in better shape than the other.[3]
- Turning to legislative grant oversight and fiscal control, the differences are much more pronounced. The U.S. Congress, through its new budget procedures and the significant intergovernmental initiatives of its chief analytical support units—the General Accounting Office and the Library of Congress' Congressional Record Service—is in a much better oversight position than it was a short decade ago; only few State legislatures can match the Congress in this regard. Yet, the recent advent of annual sessions for an overwhelming majority of State legislatures, the year-round staffing of practically all funding committees, the strengthening of various legislative units that perform audit-type functions, as well as certain other recent reforms must be acknowledged when judging State potential in this area. The fact remains, nonetheless, that most State legislatures currently lack the time, the necessary professional staff, the vital analytical support units, and, seemingly, the driving motives to

sustain full-fledged oversight and meaningful fiscal control over their own aid programs, as well as those received from Federal agencies.

The State and Federal aid systems are different—indeed, distinctly different. This fundamental finding, in turn, raises another pair of probing questions—questions that cannot be ignored if the essential nature of the intergovernmental aid system is to be understood and sensibly reformed: Should the State aid system have changed more? And, changed in such a way as to more closely resemble the Federal system? The general thrust of the recommendations is: Yes, State aid should have changed more, but not so as to produce a mirror image of the Federal system.

This conditional "yes, but" answer is dictated by a basic attempt to achieve a greater approximation of the fundamental fiscal-functional assignment criteria that this Commission previously has sanctioned: fiscal equity, economic efficiency, administrative effectiveness, and political accountability. This attempt, it must be underscored, relates directly to the distinctive nature, goals, and administration of State aids—not Federal—and indirectly to the State role as prime recipient of Federal aid.

With regard to the specific issues raised, individual State precedents suggest that greater change in most State aid practices is warranted, and this change should be achieved in ways that would help realize the assignment criteria cited above—especially the equity, efficiency, and accountability factors. Thus, State aid, as called for by the recommendations, would be altered to:

- Provide a greater equalization focus to State revenue sharing programs by consolidation and, when this is achieved, a greater program-needs focus to State functional grants (other than minimum foundation education programs);
- Orient State general local support aid to urban problems by the allocation formula proposed by this Commission;
- Consolidate duplicative and overlapping programs; eliminate inefficient or out-dated aids and, as part of the periodic review process, consider as well the direct State service alternative to that of reliance on the grant device—all with a view toward achieving greater administrative effectiveness and political accountability; and
- Strengthen executive management of and legislative oversight over Federal-State grants.

To what extent would such changes make the two aid systems more comparable? The State revenue sharing recommendation and its emphasis on the equalization-urban allocation formula would be a substantial step toward greater conformity. The program-needs emphasis of State functional aids (called for only after State general local support programs of a strongly equalizing nature are adapted and restricted to programs other than minimum foundation education grants) would sort out State aid objectives better than is the case for the Federal system, in which equalization is pursued in revenue sharing as well as categorical and block grants. The periodic review process, with its thrust toward consolidation and elimination of overlapping and archaic grants, would closely parallel the purpose of past Commission recommendations directed to the Federal sector. It also would parallel the procedures set forth in the proposed "Government Economy and Spending Reform Act of 1976" (S. 2925).

In these specific ways, the State and Federal aid systems would become more comparable. But complete parallelism is not the goal here. Because of the very different nature of Federal-State and State-local intergovernmental fiscal and program relationships, the two systems can never be brought into complete alignment; nor would this be a desirable objective. The very nature of education financing prevents three-fifths of the present State aid system from having a Federal sector counterpart. If education were transferred to the State sector and welfare transferred to the Federal Government, as previously called for by this Commission, the differences between the States and the Federal Government would be narrowed regarding the direct servicing role, although their grant systems for other functional areas would not necessarily be changed.

In short, the dominant fiscal provider concept and the growing push for upward functional transfers in two basic program areas are prime reasons for differentiating between the two aid systems. Or using the familiar culinary analogies, insofar as we seek a more marbleized overall system, parallelism may be a legitimate goal, but to the degree that we seek some return to the layer cake model, differences and complementarities become the key objectives.

Clearly, State aid can change more than it has in the recent past and in ways that will better serve the goals of a rational functional assignment policy. This change could also achieve a greater degree of complementarity between State and Federal aid systems. Equally clear, such changes—as called for in the recommendations and by this Commission in the past—in conjunction with the differences in Federal-State and State-local intergovernmental relationships will preserve the distinctive nature of State aid.

STATE AID RECOMMENDATIONS

Recommendation 1

State Revenue Sharing Programs—
Consolidation, Greater Urban Focus,
and Equalization

The Commission concludes that State programs of general local government support, many of which are shared taxes returned to place of origin, commonly are excessive in number, inadequate to equalize local fiscal capacities, and neglectful of urban needs. The Commission recommends that all States establish programs of general local government support; that such programs be of sufficient magnitude to materially redress imbalances among local fiscal capacities; and that funds be distributed by an allocation formula reflecting population, tax effort, and municipal overburden. The Commission further recommends that the multiplicity of such programs be substantially reduced by consolidation to increase the amount of State general support payments to local jurisdictions that will be allocated according to this strongly equalizing formula.

In its *Local Revenue Diversification Report* (A-47, October 1974), the Commission called for the adoption of new or the use of existing State programs of general local government support to offset fiscal disparities among local taxing authorities (other than school districts and special districts) with the widest jurisdictional reach. Draft legislation to this effect has been prepared. This Commission position actually appeared as one of seven safeguard conditions (Safeguard 6) surrounding State authorization of local sales and income taxes. But because this issue is a logical part of the State grant system, the Commission wishes to reiterate and expand on this position.

State revenue sharing programs totalled \$3.8 billion in 1972, approximately 10 percent of all State payments to localities. Forty-five States had no less than 209 programs of general local government support, indicating a large number of relatively small programs. In 1972, of the \$3.8 billions in total State revenue sharing programs, less than half (\$1.7 billion) was provided on an equalizing basis, and of this \$1.7 billion equalizing aid, fully \$1.2 billion was distributed on a population basis.

The \$1.7 billion in State revenue sharing that is counted as equalizing, however, is perhaps best considered as a highly optimistic figure. The reason for this is that the use of a population factor for the distribution of such assistance will be only mildly equalizing if the revenues shared are derived from a progressive tax, such as the income tax. However, State income taxes are not necessarily progressive throughout the income spectrum, and—as the 209 programs indicate—they are not necessarily the source of State revenue sharing programs. Indeed, only \$228,000 of State revenue sharing (in a total of six States) can be considered equalizing when equalization is defined rigorously—that is including only those State revenue sharing programs that distribute aid by factors such as tax capacity, effort, or needs (other than population). The merits of using a population factor are that it is readily available and does constitute a general measure of program need. Nonetheless, it is only a crude approximation for public programs designed to achieve fiscal equalization. ACIR draft legislation recognizes this and calls for the use of population in conjunction with tax effort and a measure of municipal overburden to accomplish the equalization objective.

The use of the municipal overburden factor—measured by the excess over 1.5 times statewide average per capita taxes—is designed to target State local support dollars more directly to urban and municipal areas. Thus, by means of this strongly equalizing formula, approximately \$2.1 billion in non-equalizing revenue sharing dollars and an additional \$1.2 billion allocated on the basis of population (as of 1972) would have been more specifically directed to localities in recognition of their varying fiscal capacities and burdens. Using the municipal overburden factor in this allocation formula further serves the purpose of providing additional resources to urban areas—a presently neglected dimension of State aid policy. The analysis in Chapter I, for example, suggests that 24 specific program areas (other than the four main functional areas of State support)—with an exclusive or predominant urban dimension—received less than 3 percent of total State aid in 1972. This fact suggests that State aid is still highly functionally oriented toward traditional concerns—education, welfare, highways, etc.—and is not, as yet, well oriented toward meeting the pressing urban program needs.

Although equalization and a heavier urban focus can be built into the various functional programs, it is preferable to build these objectives into a revenue sharing program, in which a prime objective is to further equalize intra state fiscal capacities. To add these dimensions onto particular categorical functional aids is a second best solution in the sense that factors designed to account for these concerns will dilute the program needs concerns that are the principal objective of the categorical aid system.

The Commission further recommends consolidation of the existing 209 State revenue sharing programs. If all such programs were placed on the allocation basis called for by ACIR draft legislation, the existing resources available to meet the equalization and urban problem areas would be more than doubled. Many of the current revenue sharing programs are shared taxes or in-lieu payment programs that are shared with or distributed to local governments for general support. As was pointed out earlier, many States have a number of such programs, some of which involve small amounts of money. Indeed, of the 45 States with general local government support programs, no less than 32 have one or more such programs for which the per capita payments are less than $1.00; 15 have programs for which the per capita payments are less than 10 cents. Individual programs such as these would be logical candidates for consolidation. (See Table 43.)

A variety of State revenue sharing programs may be defended as accomplishing a multiplicity of purposes. This view is particularly suspect, however, when the programs in question are small and duplicative—that is, using the same or roughly similar distribution factors. Indeed, the general lack of oversight over State aid systems casts further suspicion on this premise. In the Commission's view, the goal of equalization of local fiscal capacities should be the dominant State revenue sharing objective, and consolidation of the existing programs will materially hasten progress in this direction.

Not only are individual State programs of revenue sharing small in amount, but also the total money shared in many States is clearly inadequate to redress the fiscal disparities that the Commission has cited as the basic purpose of such programs. Per capita payments of less than $5.00, which is the total general purpose money shared in 12 States (excluding the five States with no programs at all), cannot materially equalize fiscal capacities among local governments. The draft ACIR legislation addresses this issue by suggesting that 5 percent of revenues from general sales and personal income taxes plus other taxes used as part of the revenue sharing fund input be returned to general purpose local governments.

Because the State-local fiscal partnership varies substantially from State dominated and centralized Hawaii to locally dominated States (e.g., California and New York), the need for such State programs varies greatly. But because equalization is a prime objective of local government support programs, the recommendation is applied to all States on the grounds that the intra state variation in fiscal capacities is quite substantial. To the extent that local governments are providing public programs and services, equalizing revenue sharing programs will help to contain the wide differences in tax burdens that otherwise would mark the local scene—differentials that often frequently range from three-to-one and more among county governments if comparable public service packages are made available. Thus, regardless of the scope of local government activities, equalizing revenue sharing programs have a role.

On the other hand, it can be argued that State revenue sharing programs are needed only in States for which two conditions are present: a high degree of local fiscal responsibility and a fragmented local governmental structure. This has been the Commission position in the past. It is clear at this time, however, that although the need for equalizing general support programs does vary according to State intergovernmental arrangements, it is not absent or of low policy priority for the States.

Another option is to target the recommendation to a less restrictive group of States—those in which local governments have a high degree of fiscal responsibility—and to ignore the issue of fragmentation, which is admittedly subjective. This option would call for equalizing revenue sharing aid in a larger number of States, but not in all States.

The Commission believes that this recommendation should be addressed to all States. The phrase "such programs be of sufficient magnitude to materially redress imbalances among local fiscal capacities" addresses the size that such programs should be; it states the principles of equalization and leaves the varying needs question to be dealt with by State legislatures, which will determine the necessary size of the program. In short, the size of the revenue sharing "kitty" would vary to reflect both the differing needs for fiscal equalization of local governments and the

Table 43

Selected Features of General Local Government Support Programs, by State

	Number of Programs	Smallest Program (000 omitted)	Per Capita	
			Smallest Program	All Programs
Alabama	6	$142	$0.04	$3.28
Alaska	6	N.A.	–	37.92
Arizona	3	217	0.11	38.00
Arkansas	2	5,864	2.96	5.95
California	8	2,626	0.13	34.46
Colorado	0	–	–	–
Connecticut	4	199	0.06	4.68
Delaware	0	–	–	–
Florida	6	201	0.03	5.18
Georgia	1	16,117	–	3.41
Hawaii	1	19,448	–	24.04
Idaho	2	4,464	5.89	11.40
Illinois	1	84,345	–	7.50
Indiana	4	2,542	0.48	6.99
Iowa	8	1,670	0.58	29.48
Kansas	4	1,115	0.49	7.31
Kentucky	2	513	–[1]	0.68
Louisiana	8	234	0.06	28.57
Maine	2	711	0.69	3.54
Maryland	9	148	0.04	11.58
Massachusetts	4	3,558	0.61	11.37
Michigan	11	234	0.03	24.48
Minnesota	11	258	0.07	70.48
Mississippi	8	443	0.20	23.74
Missouri	2	30	0.01	1.34
Montana	0	–	–	–
Nebraska	3	1,811	1.19	13.66
Nevada	3	1,095	2.08	22.86
New Hampshire	8	25	0.03	37.45
New Jersey	6	2,903	0.39	21.41
New Mexico	8	40	0.04	31.97
New York	3	9,616	0.52	41.08
North Carolina	4	222	0.04	9.43
North Dakota	4	199	0.31	37.43
Ohio	2	10,357	0.96	10.56
Oklahoma	2	443	0.17	2.20
Oregon	9	181[2]	0.08	16.81
Pennsylvania	3	220	0.02	2.25
Rhode Island	5	273	0.28	10.86
South Carolina	6	818	0.31	12.60
South Dakota	4	335[3]	0.49	4.11
Tennessee	6	1,037	0.26	9.04
Texas	1	4,217	–	0.36
Utah	1	10,000	–	0.89
Vermont	0	–	–	–
Virginia	5	228	0.05	3.67
Washington	2	8,524	2.48	7.58
West Virginia	0	–	–	–
Wisconsin	8	368	0.08	95.75
Wyoming	3	600	1.74	22.70

[1]Smallest program is a Federal payment.
[2]Two smaller programs involve Federal funds.
[3]One smaller program involves Federal funds.

Source: U.S. Bureau of the Census, *Census of Governments, 1972*, Vol. 6, No. 3, *State Payments to Local Governments* (Washington, D.C.: Government Printing Office), 1974.

differing degrees of direct and State grant responsibilities. In adopting this position, the Commission is mindful of opposing arguments.

- Some observers contend that the Commission position of transferring the public education function to the States and the welfare function, including Medicaid and general public assistance support, to the Federal sector reduces the urgency of further State action.
- Some critics also would argue that existing State revenue sharing programs are a mixture of Federal revenue sharing programs, State payments in-lieu of taxes (property removed from local tax rolls by State actions), and shared taxes—all which have different purposes and constituencies and thereby making consolidation, on an equalizing basis, unwise or politically difficult.
- Other observers point to the present data limitations; matters such as intra state price and cost differences may dilute the ability of the State to achieve equalization, because indexes for such factors are not currently available.
- As a practical matter, some hold that equalization is sufficiently important to pursue by whatever mechanism possible—general local government support programs or narrow-based State categorical aids.
- Some "purists" stress that the block grant approach is the preferred mechanism for meeting urban needs—if not fiscal equalization—features of this recommendation.

The Commission believes that fiscal equalization should be a prime objective of any State aid system and that it is of sufficient merit and importance to override past considerations that led to origin-based distributions of shared taxes and in-lieu payments. Public sector dollars are scarce and should be allocated with a purpose—in this case, to smooth out the fiscal peaks and valleys that exist in all States.

The transfer-of-functions approach called for by this Commission in the past, under which responsibility for financing and/or administering key functions should be reassigned, is warranted to achieve educational equalization and a national public assistance program. Yet, the Commission finds that such transfers do not vitiate the need for State general support programs of an equalizing nature, because the additional local resources made available by the transfer of functions would accrue mainly to school districts and counties without any clear assurance that such added local resources would tend generally to favor either urban programs or cities.

Indeed, the Commission is convinced that it is the general nature of revenue sharing programs that makes them such an attractive vehicle for pursuing equalization. With a strongly equalizing revenue sharing program, local officials would be placed on a more equal fiscal footing, and, thus, less constrained by limited resources to meet local needs for public services. Functionally oriented State aids can then be targeted more clearly to meet program, rather than to blend program and fiscal, needs, clarifying the purpose of State functional aids. Until better data are available, the allocation formula called for previously by this Commission—population, tax effort, and municipal overburden—will help to redress the fiscal imbalances that presently exist among local governments in all States to varying extents.

Recommendation 2

State Functional Grants—The Allocation Issue

The Commission concludes that the fiscal equalization and the program-needs objectives of State aid are best met by separate grant devices. The Commission further concludes that State functional grants are used most appropriately to meet local program needs and that programs of general local government support are best geared to achieving fiscal equalization objectives. The Commission, therefore, recommends that States use general local government support programs to accomplish significant equalization of local fiscal capacities and, then, rely on specific measures of program need to allocate grants for the support of all conditionally aided public programs other than minimum foundation education programs.

The Commission previously has called for the introduction of equalization in not only State revenue sharing programs but also the broad functional areas —highways, health, and hospitals. Equalization assistance, however, is still the exception rather than the rule in State aid for these functional areas (aside from education). Because State revenue sharing programs are, at present, only mildly equalizing, the Commission believes that it is preferable to strengthen this form of equalization assistance and then free up the categorical aids in functional areas to achieve their respective program-needs objectives.

The purpose of this recommendation is to sort out the objectives best achieved by each grant instrument and not to use one mechanism—the narrow-based categorical grant—to accomplish both fiscal equalization and program support objectives. The dual objective approach generally uses allocation formulas that apportion money directly—according to a measure of public need, such as population (or some subclassification)—and indirectly—of fiscal capacity, such as per capita income. The problem is that the two factors tend to fight each other—the program support objective is diluted by the equalization tendency, and the equalization objective is weakened because it is attached to a relatively small aspect of a government's service package. Equalization for a particular program area, thus, will not greatly help to equalize overall local fiscal capacities.

Conceptually, then, it is cleaner to have one grant device for each purpose of the State aid system. In practice, this approach also makes sense, because the categorical aid device is designed to target assistance to particular, specific program areas. Depending on the program to be aided, measures of program need are the appropriate allocation factors to be used—factors such as the proportion of aged or hospital utilization rates for a health program; area, density, motor vehicle registrations for highway purposes; etc. Measures of service level or program need are most appropriate to carry out the specific program intent of the narrow-based categorical aid.

The Commission emphasizes that until a State has significant equalizing general revenue sharing programs, it should not abandon equalization in functional areas. Once this type of general support program is established, it should be the sole vehicle for pursuing the equalization of fiscal resources objective. As a practical matter, when such revenue sharing programs are operative, the need for further equalization in specific program areas falls by the wayside, whatever the merits of initially mixing grant objectives in a categorical aid. The Commission assumes, then, that this recommendation will apply only to those States that adopt revenue sharing programs of sufficient size to accomplish significant fiscal equalization. The recommendation is not intended to imply a preference for the State sector or pursue the grant rather than the direct servicing role to provide public services. Rather, it is to point out that once the grant device is chosen, and equalization is accomplished by the revenue sharing program, the functional aids should be targeted on measures of program need as related to the program objective.

Some observers argue that this distinction sorts out the purposes of State aid systems too precisely and that equalization is a sufficiently worthy objective to be accepted in whatever form it comes. To some extent, this position has merit. Political realities suggest that a State legislature can go just so far in pursuing equalizing aid schemes and that, as a practical matter, equalization through functional aids may be all that can be accomplished. This is recognized in the recommendation, because it calls for the elimination of equalization through functional aids only in those States in which revenue sharing programs accomplish the equalization goal.

It may also be argued that this recommendation is aimed at a non-problem area of State aid. It is true that few State functional aids mix the equalization and program-needs objectives, because outside the educational area, equalization of fiscal capacities is rarely pursued. Yet, the present situation is that equalization of local fiscal capacities is rarely rigorously pursued in any non-educational program. This recommendation is designed to place the equalization objective in the revenue sharing sector and only then to pursue the program support objective through the categorical aid mechanism. If the mixing of equalization and program-needs objectives is not a currently pressing problem of State aid, the sorting of State aid objectives, as called for, clearly has merit for legislatures when designing new State aid programs.

The issue raised, thus, is that if States adopt more sophisticated revenue sharing programs—more sophisticated than the use of a population distribution factor—to offset differences in fiscal capacities, would the equalization need in these functional areas still be warranted? The Commission is convinced that a general local government support grant is the more appropriate mechanism for achieving equalization and that once this equalization objective is achieved, additional aid for other than educational foundation program purposes should be of the categorical type reflecting program needs.

Recommendation 3

Review and Consolidation of State Functional Grants

The Commission concludes that the present conditional aid system in many States is largely a product of

piecemeal legislative actions and is marked by a multiplicity of narrow-based categorical aids. The Commission therefore recommends that States periodically review their categorical aids in each functional area. The Commission further recommends that State ACIRs be utilized by appropriate central management units in the executive branch and pertinent legislative committees to conduct such reviews.

These reassessments should determine the extent to which individual programs in the same functional area have met their statutory purpose(s), need redirection in light of changing conditions, duplicate or overlap with other aid programs, and/or are related to, or are a basic component of, a State-performed service—all with a view toward consolidating duplicative and closely related aid programs; eliminating ineffective or outdated grants; revising the statutory goals and possibly the formulas of those that need modernization; and determining whether the grant device is the most effective, efficient, and equitable means of achieving the program's goal in light of the State's direct servicing role in the functional area.

In order to secure a thorough and orderly review, the Commission further recommends that each State provide by law for the simultaneous termination of aid programs in each functional area upon a specified review date, and at regular intervals (four or five years) thereafter, unless such programs are reauthorized by appropriate legislative action.

The Commission believes that State aid systems, like Federal grants-in-aid, are in great need of rationalization and revitalization. Most State aid programs have been created through a series of piecemeal and largely ad hoc decisions. Most State legislatures and central executive agencies have failed to provide the continuing oversight necessary to assure the effective operation and necessary modernization of ongoing aid programs. Consequently, some grants overlap or duplicate other categorical programs and are ripe for consolidation. Some require redirection, including changes in their statutory goals or allocation formulas. Others, outdated or demonstrably ineffective in meeting their objectives, should be discontinued. Moreover, the possibility also exists that, in certain functional areas, the cause of efficiency, economy, and equity would be served better by an increase in the direct State servicing role as an alternative to the use of certain grants-in-aid.

A tangible indication of the weakness of State aid, in the Commission's view, is the programmatic fragmentation evidenced by the large number of separate State assistance programs. In 1972, there were, in fact, a total of 2,121 programs of State aid to local government in the 50 States. The majority of these were found in four functional areas that together accounted for better than 85 percent of the dollar amount of all State aid: education, highways, welfare, and health-hospitals. In these four areas, there were a total of 1,318 grant programs, including 882 in education, 156 in public welfare, 135 for highways, 66 for hospitals, and 79 for public health. In addition, there were 594 programs in various miscellaneous areas, and a total of 209 broader general support grants.

The number of programs in each State varies widely. New York and California, probably the two most fragmented States, had 81 and 84 aid programs, respectively. Of these programs, about one-third (26 and 29, respectively) were in the educational field.

These numbers suggest that the time has come to rationalize the aid systems in most States in light of their dollar volume and vital role in local governmental finances. An important component of this rationalizing effort is the need to curb the growing number of State aid programs in the same, or closely related, policy areas. For these reasons, a systematic, periodic reassessment of State aid programs by State legislative and executive branches is urged.

Consistent with past Commission action, an opportunity should be provided for participation in this review process by State ACIRs for the few States in which they now exist. The research dimensions of this review process also underscores the need to establish such units in those States lacking them.

In its 1974 report, *The Challenge of Local Governmental Reorganization,* the Commission urged State establishment of broadly representative, permanent ACIRs with adequate staff and funding, and that such units be charged—among other things—to study and report on the powers and functions of local governments as well as regional bodies, including their fiscal powers, and on "the existing, necessary, and desirable allocation of State-local fiscal resources."[4] Later, in a companion volume to its Substate Regionalism series *(Governmental Functions and Processes: Local and Areawide),* the Commission recommended that States establish an ongoing assignment of functions process and policy, aimed at producing a more reasoned and systematic assignment of functions among State, local, and areawide governmental units.[5] A State ACIR would play an integral role in this process. Clearly, a broadly based, professionally staffed unit of this type would be of major assistance to executive branch units and legislative committees charged with coordinating these periodic reviews. The basic mandate of these units, along with the natural interest of their members, would help assure a facilitative role. Moreover, ACIRs could order their research schedule in a manner so that their research efforts in a particular grant-aided field would be completed prior to the year for which that functional area is slated for formal reassessment by the political branches.

Regarding this formal review process, the Commission believes a thorough and orderly reassessment can best be guaranteed by the adoption of a sunset provision. A sunset law, of the kind in force in Colorado and Florida concerning the regulation field and those being considered in a dozen other States as well as by the Congress, provides for the termination of governmental programs and/or agencies at a specific date and at regular intervals thereafter. Continuation is permitted only upon the reenactment of authorizing legislation after a thorough program evaluation by the executive and legislative branches. Programs are grouped by policy (or functional) area so that similar and closely related programs are viewed simultaneously. This grouping maximizes the opportunity for identifying program interrelationships, duplicative programs, and programs that might readily be consolidated.

The Commission is convinced that this mandated procedure need not be viewed as a threat to valid and hard-won aid programs. Indeed, most programs would be easily reenacted and even the number of programs might not be seriously reduced, because separate enactments in the same functional area frequently reflect efforts to achieve a variety of specific program results. Yet, it is the Commission's belief that this mechanism, if properly utilized by adequately empowered and staffed legislative and executive branch units, can serve as a device for rationalizing the purposes, design, and administration of the States' growing aid programs. Above all, it perhaps would begin to focus State attention on the impacts of these programs, which, in the final analysis, is the vital missing element in the States' responsibility to maintain effective oversight in this vital area.

This recommendation, calling for such a review of State programs, parallels a long-standing ACIR recommendation to the Congress. In 1961, the Commission urged that the Congress adopt a uniform and general policy for aid procedure providing that grants-in-aid without termination provisions expire after five years unless specifically reenacted, and also recommended that programs having such provisions be reassessed from the intergovernmental viewpoint during reauthorization hearings.[6] Congress partially implemented this proposal with enactment of Title VI of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4201). The absence of a policy mechanism, however, has made this a largely voluntary and ineffective procedure—thus highlighting the merit of the sunset features of this recommendation.

Critics argue that the number of State aid programs is not excessive. The average is 42 per State, merely a fraction of the 500-600 Federal offerings primarily to State and local governments. States such as Hawaii, with just two grant programs—one for revenue sharing—approach the extreme in simplicity.

Most of the State programs, critics add, are formula based, rather than the much more troublesome project variety. Of the programs in the four most important functional areas, 1,128 (85 percent) are formula grants. Moreover, local recipients are differentiated—each type of local government is concerned with comparatively few aid programs. For example, in most States, the numerous education programs chiefly involve school districts. Similar divisions of responsibility often exist in other policy areas as well.

Others contend that State aid is too limited and that consolidation objectives and periodic reviews might produce results considered unwelcome. This criticism rests chiefly on the view that the dollar magnitude of assistance is inadequate. But this is not the only consideration, because any expansion of aid into new functional areas, including many of significance to municipalities and urban areas, would probably require the addition of new grant programs. Moreover, they contend, the elimination of apparent duplication among programs, through consolidation or termination, could result in reduced aid flows, as has been the experience with some Federal block grants. Sunset provisions seem politically risky, some observers argue, because it may not be possible to rebuild at a future date the political coalitions that secured original passage of needed assistance programs.

Critics also maintain that part of the fragmentation in State aid systems results from Federal requirements, rather than any independent State action. As previously noted, grants are most numerous in education, with many States having roughly 20 school aid programs. Iowa, with 23 programs for education, might seem typical. Of this total, ten programs are nationally aided, and it can be supposed that consolidation would be difficult without Federal action.

The Commission believes, however, that the revitalization and rationalization process is essential if State aid is, in fact, to constitute as a system. Certain of the objectives noted by critics are, of course, possible—although they need not necessarily transpire. Reforming State aid is, to some extent, risky.

Yet, the present ad hoc collection of programs—some overlapping, some conflicting, some outdated—is, in itself, convincing evidence that highlights the need for a systematic overhaul to help assure the establishment of a genuine State aid system.

Recommendation 4

The State Legislature and Federal Grants

The Commission recommends that State legislatures take much more active roles in State decisionmaking relating to the receipt and expenditure of Federal grants to the States. Specifically, the Commission recommends that legislatures take action to provide for: inclusion of anticipated Federal grants in appropriation or authorization bills; prohibition of receipt or expenditure of Federal grants above the amount appropriated without approval of the legislature or its delegates; establishment of subprogram allocations, where State discretion is afforded in formula-based categorical and block grants, in order to specify priorities; and specification of the basis of fund allocation and recipient eligibility and the conditions of performance where States have a discretionary role in passing funds to local governments.

In its 1967 report on *Fiscal Balance in the American Federal System,* the Commission recommended State constitutional and statutory action to provide that a gubernatorial budget, covering all estimated income and expenditures of the State government, be submitted to each session of the State legislature. The Commission specifically urged that all Federal funds coming to the State government be incorporated within the Governor's budget, because "only through such a process can the State's fiscal situation be correctly presented and understood."

The Commission believes that appropriate action needs be taken in the legislative branch to assure that, in allocating available resources for the coming budget year or years, the legislature also takes into account all such resources, including Federal grants. When States have adopted an executive budget in line with the Commission's earlier recommendation, the legislature will be assured of an opportunity to pass on all proposed revenues during the course of the normal budget process. When there is no comprehensive executive budget, no such assurance can be given.

The issue of legislative authority in the receipt and allocation of Federal grants has been, and is, a major concern in a number of States. In Pennsylvania, for example, the State legislature this year passed over the Governor's veto of Senate Bill 1542, which meets most of the goals of this recommendation (subprogram allocations and the delegation of authority to approve the receipt or expenditure of Federal grants above the amount appropriated were not covered). The question of the constitutionality of this act is presently being adjudicated in the courts.

Various studies, including a 1975 survey of State budget officers by ACIR, indicate that some State legislatures, because of the absence of a comprehensive executive budget or for other reasons, are not now covering all anticipated Federal grants in their appropriation measures. In addition, these surveys reveal that some legislatures are missing other opportunities to exert their authority in State decisions that affect receipt and disposition of Federal grants.

About one-fifth of the State budget officers responding to the ACIR survey stated that their legislatures do not appropriate Federal grant funds; another one-third indicated that legislatures include only some grants in appropriation bills. Among those States in which the legislature appropriates all or some Federal grants, over one-third permit Federal grants to be spent above the amount appropriated without the approval of the legislature or one of its committees or staff; this weakens the effectiveness of the appropriation as a control measure. In three-fourths of the same group of States, the legislatures do not establish subprogram allocations for formula grants to specific priority activities; only two out of 21 are involved in determining how Federal grant dollars over which the State has discretionary power will be passed through to local governments. The Commission believes that these are areas a legislature might explore when considering possible ways of strengthening their rightful role in the State's decisions on Federal grants.

Requiring legislative approval for receipt or expenditure of Federal grants above the amount appropriated is complicated by the fact that State legislatures are in session only part time. The problem can be met by the legislature delegating its authority to act in these matters during intervals to interim appropriations committees, budget committees, a joint legislative committee on financial assistance, the legislative service agency, or some similar body.

The ACIR survey probed the pass-through issue and State control in more depth. The results revealed only slight efforts by State governments—legislative or executive branch—to influence local policies and practices. For instance, by a margin of two-to-one, budget officers of 24 States indicated that even when the State added some of its own money to the Federal grant, it imposed no different types of procedural or performance requirements; based on 16 responses, an average of 39 percent of pass-through funds contained no additional State-imposed procedural or performance conditions. The Commission's analysis concluded that States, in general, do little to influence local policies and practices by means of pass-through funds.

Supporters of the local government point of view argue that this is the way it should be—the State should not interpose obstacles between the Federal Government and the ultimate providers of service at the local level. The Commission has long supported a midway position—between a complete hands-off posture and involvement in every Federal-local grant relationship. ACIR has urged that States buy-in to the Federal-local relationship—if they wish to impose additional conditions on local receipt of Federal funds, they should earn the right by adding State funds to the Federal funds. When the State does buy-in, it is essential that the legislature play an active role in determining what conditions shall be attached to the Federal funds flowing to the localities.

The Commission's survey of State budget officers made another finding that underscores the need for strengthening the State legislature's participation in the Federal grant process. The budget officers were asked whether they agreed or disagreed with the statement: "In-kind or zero matching strengthens the discretionary power of the Governor and administrators and weakens the legislature's control over the State budget and programming." The majority (57 percent) agreed with the statement, revealing substantial support for the view that in-kind or zero matching tends to weaken legislative control over State budgets and programs. It should be noted that about 13 and 15 percent of total Federal-State grant dollars in 1972 and 1967, respectively, and approximately 38 percent of the number of 1967 grant programs required no State matching. Thus, the room for exercise of legislative influence is already circumscribed. This is another reason for greater legislative participation in State decisions affecting the flow of Federal grant funds.

All this, of course, is based on the assumption that State legislatures are a critical, if not primary, partner in the decisionmaking process at this level. It also is rooted in the stark fact that Federal aid is approaching the $60 billion mark for this fiscal year. Approximately three-quarters of this amount goes directly to States and one-fourth to one-fifth of this amount, in turn, is channeled to localities. This data makes the States major middlemen in the Federal grant system and should put the State legislature, not simply the executive branch, into a pivotal position. The basic constitutional doctrines of separation of powers and checks and balances are involved, and, more specifically, the legislative powers of the purse and of oversight are brought into question.

The Commission is persuaded that to assure these powers in an age of heavy intergovernmental fiscal transfers clearly necessitates more than mere legislative procedures. It requires the motives that Madison assumed would always be present in such situations, and it presumes the strong institutional basis within which such procedures will be meaningful. Annual sessions, adequate staff, and appropriate legislative management arms are all part of this needed strong institutional base. Some would say that the real fate of State legislatures is inextricably caught up with the question of how they respond to the challenge of controlling the flow of Federal grants to the States.

Recommendation 5

The Governor's Role in the Federal Grant Process

In light of continuing recipient management problems associated with Federal grants to the States, the Commission recommends that—pursuant to statute or executive order—State agencies be required to obtained the approval of the Governor or his designee before (1) entering into grant negotiations with Federal grant agencies, (2) applying for Federal grants, or (3) accepting any Federal grants.

In its 1967 report on *Fiscal Balance in the American Federal System,* the Commission recommended a number of actions to strengthen State government so that it could better discharge its responsibilities in the Federal-State-local grant system. One such recommendation was cited earlier—a comprehensive executive budget. This recommendation, as well as others made by the Commission with respect to the impact of Federal grants on State government, is triggered, in part, by the continuing tension that exists between the Governor and his generalist aides on one hand and functional specialists in State government on the other. This tension is generally exacerbated by the Federal grant system, which has created strong professional, program, and clientele linkages between functional specialists at the Federal level and their counterparts in the States. The continued existence of this centrifugal force in State government has been reconfirmed by 1975 surveys of State and Federal officials conducted for this study and reported in detail in Volume III of this series.

Providing for all Federal grant funds to be funneled through the executive budget, as recommended in our 1967 report, is an essential step by which the Governor can exert control over the executive branch and thereby exercise requisite direction over the manifold activities of State government that are funded with the aid of Federal grant money. Yet, it is not sufficient in itself to give the Governor the kind of control over Federally aided programs that is needed. The receipt of Federal funds marks the conclusion of a decisionmaking process that begins much earlier, and reliance on the opportunity to include estimated grants in the executive budget may amount, in effect, to ratification of a *fait accompli.* To exercise effective control over those funds, the Governor and his management and budget staff need to be involved at the earliest stage of the process. This is the objective of the recommendation presented here.

In its survey of State budget officers, the Commission sought to find out the extent to which Governors extend their authority to these early stages. The survey asked what proportion of State applications for Federal grants and the Governor or other central administrative officials approves or disapproves. Thirteen of 34 responding States indicated that the Governor approved all such applications, 20 said he approved some, and one said he approved none. A second question asked what proportion of State acceptances of Federal grants the Governor or other aide approved or disapproved: All were approved in 12 States, some in 15 States, and none in four States.

Although these results, representing answers from budget officers of about two-thirds of the States, indicate a relatively high degree of gubernatorial control over at least some of the early stages of the Federal grant process as it affects State government, they also show that similar action is still needed in a sizeable number of States. This recommendation calls for those States to take such essential action.

The Commission is convinced that probably no single change is more critical to the improvement of State government than strengthening the budgetary roles of both the legislative and executive branches and providing effective links between the two. That fact underscores the importance of this and the preceding recommendation—firmer gubernatorial control over the steps in the Federal grant process leading to the commitment of State funds, and a strengthened legislative role in the commitment decision. It also points to the desirability of the State legislature's lending its full support to any movement calculated to strengthen the overall budget process and, specifically, the Governor's role in this process. In the present case, this means that the legislature should give statutory sanction to the Governor's control over State agencies' efforts to obtain Federal grants. Lacking that, the Governor should exercise authority in this field through an executive order to the agencies affected.

Recommendation 6

Coordinating State Aid Appropriations and Local Budgeting

The Commission recommends that State legislatures act to enable local governments to anticipate the amounts and timing of State aids with greater certainty by (1) providing for advance funding of such aids where appropriate; and (2) prescribing a uniform fiscal year for local governments that is geared to the legislative appropriations calendar.

In a survey of city and county chief executives conducted by ACIR and the International City Management Association (ICMA) in 1975–76, the views of local officials were sought on the administrative impact of State aids. The questionnaire listed what are sometimes defined as problem areas in the design and administration of State grants. Nine such areas were listed, with respondents given the option to specify others. They were asked to identify the three problem areas that cause the most serious difficulties for their municipality or county.

The 323 city officials and 79 county officials responding identified "the certainty of flow of State grant funds as it affects estimation of revenue and expenditures for the next fiscal year" as the most serious problem of all three types of grants—general support, categorical-formula, and categorical-project. Over one-third of the city officials and over one-half of the county respondents placed this problem at the top of their list in each case. On further probing, these officials indicated that the problem had worsened in the past five years.

A further question in the same survey approached the problem of certainty of State aid flow from another direction. Its focus was the issue of unpredictability surrounding local officials' estimation of Federal grant revenues. To gain some perspective on the seriousness of this fiscal planning problem, the survey sought to compare Federal grants with other major sources of local revenue. Twelve sources were listed, including Federal categorical and block grants and State grants. Among 524 city and 106 county officials responding, State grants were rated third "most difficult to estimate for budget planning purposes, considering the dollar amount involved as well as the degree of certainty." Only Federal categorical and block grants were rated more difficult.

As a second part of this question, local officials were asked to indicate the single most important cause of the uncertainty in the revenue sources they identified. For State grants, the most frequent reason cited was the uncertainty of legislative action concerning amounts to be made available, the timing of release of funds, and the distribution formulas used. Some local officials indicated that States sometimes direct localities to provide local matching funds at a level that presumes a certain State match and the State then fails to come forth with its anticipated share. Others acknowledged that the uncertainty of State policies sometimes stems from economic conditions and the State's own fiscal difficulties.

These survey results clearly point to the need for State legislatures to give more attention to the problem of the predictability of State aid flows.

The Commission in 1970 addressed the problem of Federal aid certainty and recommended that Congress take two actions: establish and follow a specific timetable for processing annual authorizations and for acting on authorization bills, and provide for multiyear advance budgeting for State and local programs involving long-term capital financing (e.g., highways, mass transportation, airport development, air and water pollution abatement facilities, and higher education facilities). The timing of appropriations at the State level was not identified as a problem by participants in the ACIR-ICMA survey. However, with a growing tendency for State legislatures to abandon the 90-day or other time-limited legislative session in response to the escalating press of public business, appropriations delays may tend to complicate legislative decisionmaking at the State level as it has in the U.S. Congress. Legislatures, therefore, need to guard against such a trend, lest it add further uncertainty to the State aid process. Establishment of a specific timetable for appropriations, as recommended for Congress, would be appropriate.

Meanwhile, the Commission believes that State legislatures should act to introduce greater predictability in the making of grants by providing for multiyear advance budgeting for, at least, the big money problems. Such budgeting, beyond the one or two-year State budget, would give local officials considerably greater assurance that the promised State dollars would be forthcoming at the scheduled time by requiring the legislature's appropriations committee to adopt a specific advance spending plan for two to five years for the major State aid programs. The selection of the aids to be budgeted in advance should be determined in consultation with local officials. For his part, the Governor should be required to include in his annual or biennial budget request a specific multi-year plan for each such program, to be reviewed periodically by the Governor and the legislative appropriations committee.

Advance funding alone cannot bring certainty to the State aid flow picture. Another important factor is the relationship between the legislature's appropriations cycle and the fiscal years of the local government recipients. If these vary widely, no matter when the legislature acts it may be the wrong time in the budget cycle of one or more localities. To remove this cause of localities' difficulties in anticipating the timing and magnitude of the flow of State grants, the legislature, in consultation with local officials, should establish a uniform fiscal year for local jurisdictions; that period should be scheduled so localities can reflect the legislature's actions in their budgets in a timely fashion.

According to the U.S. Bureau of the Census, a great deal of uniformity already exists among the fiscal years of local governments. It reported that, in 1972, all local governments in eight States (other than special districts) had the same fiscal year—July 1 to June 30. In 37 States, all counties were on a uniform basis, and in 12, municipalities had a common fiscal period. For the latter, the fiscal year was the same as that for counties. With so much precedent for standardizing the fiscal years of political jurisdictions, States should have little hesitancy to move, in cooperation with local officials, to complete the standardization in such a way as to achieve a synchronization with the legislature's appropriation cycle, and thereby help reduce the uncertainty in local budgeting attributable to State aid flows.

FOOTNOTES

[1] Municipal overburden represents the non-educational expenditures of police, fire, sanitation, poverty-related services, etc. These overburden-type claims tend to be far heavier in central cities than in suburban areas.

[2]The Federal figure is based on the broad program classification approach used in *Special Analysis O, Federal Aid to State and Local Governments of the Budget of the U.S. Government,* 1977.

[3]See ACIR, *The Intergovernmental Grant System: An Assessment and Proposed Policies,* Vol. II, Improving Federal Grants Management, Chapters 3, 4, and 5.

[4]ACIR, *The Challenge of Local Governmental Reorganization* (Washington, D.C.: Government Printing Office) February 1974, p. 15.

[5]ACIR, *Governmental Functions and Processes: Local and Areawide* (Washington, D.C.: Government Printing Office) February 1974, p. 19.

[6]ACIR, *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments* (Washington, D.C.: ACIR) June 1961, pp. 26–28.

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what is ACIR?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, state, and local government and the public.

The Commission is composed of 26 members—nine representing the Federal government, 14 representing state and local government, and three representing the public. The President appoints 20—three private citizens and three Federal executive officials directly and four governors, three state legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Conference, the Council of State Governments, the National League of Cities/U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, state, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as state taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policies.