

A COMMISSION REPORT

The Federal Influence on State and Local Roles in the Federal System

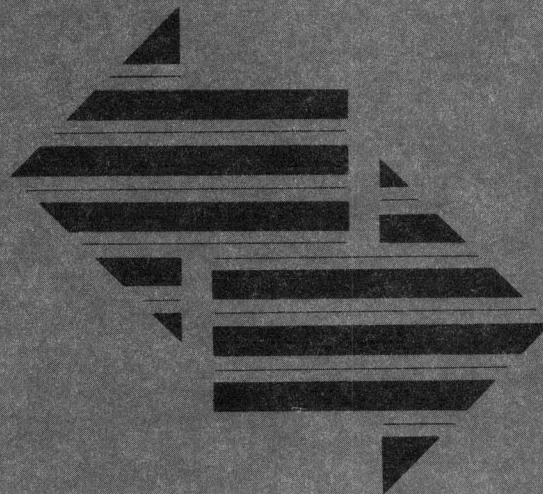


Advisory Commission on Intergovernmental Relations
Washington, D.C. 20575 • November 1981

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Preface

In the 1974 legislation renewing the General Revenue Sharing program (P.L. 94-488), Congress directed the Advisory Commission on Intergovernmental Relations to undertake a number of studies of the federal system. These included an evaluation of "state and local governmental organization from both legal and operational viewpoints to determine how general local governments do and ought to relate to each other, to special districts, and to state governments in terms of service and financing responsibilities, as well as annexation and incorporation responsibilities." The Commission has responded to this directive with two reports on the general subject of the functional responsibilities of state and local governments. The first is *State and Local Roles in the Federal System* (Report A-88) which deals with the nature and development of the functional roles of states and their political subdivisions. The second is this volume, which focuses on the federal government's influence on state and local functional responsibilities.

The report has two parts: a general review of the intended and unintended influences of the federal government's policies and programs on state-local functional assignment (*Chapters 1-5*); and a technical appendix, consisting of an empirical study (employing quantitative analysis) of the impact of federal grants on the assumption and transfer of functions by municipalities of 25,000 and over population in the period 1967-77.

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Chairman

Acknowledgments

This volume was prepared by the governmental structure and function section of the Advisory Commission on Intergovernmental Relations (ACIR) staff under David B. Walker, assistant director. Initial research and writing responsibility was borne by Patrick Chase, ACIR Fellow 1979-80, and assistant professor of political science, Shepherd College. Robert M. Stein, ACIR Fellow 1978-79, and assistant professor of political science, Rice University, developed and wrote the technical appendix. He received helpful counsel from David R. Beam and Mavis Mann Reeves of the ACIR staff. Preparation of the volume was supervised by Albert J. Richter, senior analyst and project director for the study of state and local roles in the federal system. Evelyn M. Hahn and Marvis Dancy provided secretarial assistance.

The Commission and its staff had the benefit of comment from participants in a "critics session" held to review *Chapters 1-5* and those in the companion volume on state and local governmental functional roles. The critics included John Bosley, Henry Coleman, John Coleman, William G. Colman, David Gallagher, Delphis C. Goldberg, Rozann Rothman, Bart Russell, and William Thurman. Comments also were received from Paul Posner and Marian Lief Palley.

The technical appendix was reviewed by Richard Bingham, Michael A. Colella, Keith E. Hamm, Roland J. Liebert, Susan A. MacManus, Seymour Sacks, and Jeff Stonecash.

This report was materially strengthened through the assistance of these individuals. Full responsibility for the content and accuracy rests, of course, with the Commission and its staff.

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Introduction

At various points in the Commission's report on *State and Local Roles in the Federal System*¹ reference was made to the large and expanding federal influence on the financing and operations of state and local government. One overall set of figures suggests the magnitude of this influence in a general way: in FY 1960, federal grants constituted 14.7% of all state and local expenditures; in FY 1979, they had risen to 25.6%.² Individual cases at the local level illustrate the point more dramatically.

Jacksonville, FL, for example, was described in 1977 as a city "quietly going on U.S. welfare." Federal funds had risen from \$1.2 million to \$76 million in just eight years. The city had come to rely on federal money for most of its capital outlay. In 1976, it received \$10 million in community development funds, \$11 million in Economic Development Administration funds for public works construction, and millions more from the Environmental Protection Agency for sewage treatment projects.³

A reporter for the *Florida Times-Union* thought the key to the increase lay in "the oil crisis and the subsequent economic recession that cut heavily into city revenues and brought the federal government to the aid of the unemployed"⁴ (see *Chart 1*).

Until then (1974), Jacksonville had taken its \$10 million or so in federal revenue sharing money and put it into nonrecurring capital outlay expenditures so it would not become dependent on it. Now the money is routinely pumped into the operating budget just to keep things going. The proposed

1977-78 budget puts all \$9.4 million federal revenue sharing into University Hospital.

The federal government put in the public service employment program to cut unemployment by putting the jobless on city payrolls at federal expense. Originally seen as a program to expand city services, 400 public service employees are now being used just to keep service at the present level.⁵

Not only had Jacksonville experienced a growing dependency on federal funds to support its most basic operations, but there seemed to be no end in sight for the trend. A city councilman said, "there's no question that we have become a branch of the federal government."⁶ The mayor stated, "I don't see how it can stop."⁷

Tulsa, OK, is another example. Its conservative "image of independence" was threatened by its growing dependence on federal aid. In 1978, two University of Tulsa economists found that the total amount of federal aid was \$48 million and not the \$21 million that was the generally accepted figure. They also found that federal aid accounted for 27% of the city's funding for traditional services. The

reason most Tulsans were stunned by the revelation was that a lot of federal funding was channeled into separate trusts and authorities that were not included in the city budget. It was estimated that if all the federal money to both groups and individuals were added up, the total would come to \$450 million a year.⁸

What was surprising about Tulsa's growing dependence on federal aid was that it did not conform to the usual stereotype of a city on the verge of imminent financial collapse. Tulsa had a "growing tax base, low taxes, an expanding economy, a minority population of only 12%, and a housing stock of which only 2% is substandard."⁹ Yet, over the last decade, the city became increasingly dependent on federal money, simply because it was "available."¹⁰

One more example illustrates the impact of federal funding on localities—Muncie, IN, the real-life model of "Middletown" made famous by the Lynds in the 1930s. According to Theodore Caplow and Penelope Austin, "two-thirds of the households of Muncie depend on federal funds to some extent."¹¹ Furthermore, "in the decade between 1968 and 1977, Muncie received a total of \$679,357,000 in aid (much of which of course went to individuals rather than local government) through 29 agencies and 976 federal programs."¹² This was a figure four times what civic and business leaders thought it was.¹³ Caplow and Austin gave the following breakdown on the sources of some of the money:

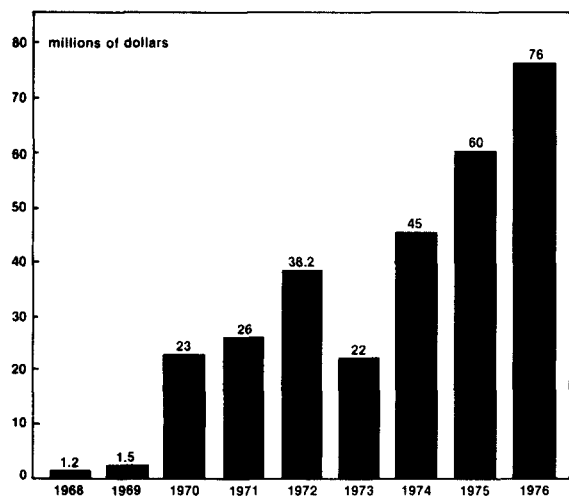
About \$30 million a year comes in Social Security benefits; veterans' pensions add \$8.9 million; welfare, \$10 million. The city's biggest employer, Ball State University, received \$11 million in scholarship aid last year, \$3 million more for research. Thirty-eight percent of Ball Memorial Hospital's patients paid with Medicare or Medicaid funds last year.

Federal aid totaling \$10 million helped build the new sanitary system. The public schools received \$1 million last year in direct federal aid. The bus system was subsidized with \$500,000 of federal help. Interest on the city's debts—\$5.5 million a year—was picked up by Washington.

With the local property tax frozen by the Indiana legislature since 1974, \$1.3 million in federal revenue sharing helped keep the city afloat in 1978.

Federally paid CETA workers filled nu-

Chart 1
JACKSONVILLE'S ALLOTMENT OF
FEDERAL FUNDS
1968-76



SOURCE: Randolph Pendleton, "City Quietly Going on Welfare," *The Florida Times-Union*, Jacksonville, FL, August 7, 1977, p. B1.

merous municipal gaps, hauling trash, cleaning highways and drainage ditches, dispatching fire and police assistance, running the animal shelter and the ambulance service, staffing the children's home and the health department, and filing much of the city's paperwork.¹⁴

Jacksonville, Tulsa, and Muncie thus illustrate vividly the extent of the federal presence in the financing and conduct of certain local governments. State governments generally have not fallen into such a condition of dependency as these cities, but increasingly they too have felt the effects of federal policies and programs. One clear indication came in a 1978 survey in which state administrators were asked whether their agencies received federal aid. Seventy-four percent of those responding replied in the affirmative, compared to 64% in 1974 and 34% in 1964. A majority of the administrators whose agencies received federal aid reported increases in such aid over the past five years.¹⁵

Given the potent influence of the federal government, then, what does it mean in terms of functional assignment at the state-local levels? The purpose of this report is to explore that question. Specifically, in what ways and to what extent does the federal influence affect the assignment of functions among

states and their political subdivisions.

The report is in part a "recapitulation" because it draws on earlier ACIR studies which have touched on federal impact issues, such as the 14-volume study of the intergovernmental grant system of 1976-78¹⁶ and, most recently, the federal role study.¹⁷ The 1974 ACIR series on functional assignment also dealt with the federal influence,¹⁸ most pointedly in regard to regional councils, but did not consider it in any comprehensive manner. Since that time, of course, the federal influence has become more pervasive and more apparent.

This treatment only highlights the full scope of the federal impact on state-local functional assignment. It is hoped that even such a summary can also be helpful in suggesting an analytical approach to further exploration of the influence issue.

The analysis distinguishes between two kinds of federal policies and actions: (1) those which by their nature are intended to move state-local governments in a certain functional direction; and (2) those which are not so designed and yet may well have an effect on the service demands placed upon those governments and their capacity to meet them and thus, in the final analysis, on functional assignment. Separate treatment is not to deny, of course, that many federal policies and actions have both intentional and unintentional impacts on functional assignment.

FOOTNOTES

¹ Advisory Commission on Intergovernmental Relations (ACIR), *State and Local Roles in the Federal System* (A-88), Washington, DC, U.S. Government Printing Office, 1981.

² U.S. Office of Management and Budget, *Special Analyses, Budget of the United States Government, FY 1981*, Washington, DC, U.S. Government Printing Office, 1980, p. 254.

³ Randolph Pendleton, "City Quietly Going on Welfare," *The Florida Times-Union*, Jacksonville, FL, August 7, 1977, p. B1.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *Ibid.*

⁷ *Ibid.*

⁸ John Herbers, "U.S. Aid Contradicts Tulsa's Image of Independence," *The New York Times*, February 2, 1979, p. A1.

⁹ *Ibid.*

¹⁰ *Ibid.*

¹¹ Saul Friedman and Frank Greve, "Taking the Pulse of 'Middle-town,'" *The Boston Globe*, March 18, 1979, p. A1.

¹² *Ibid.*

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ ACIR, *State Administrators' Opinions on Administrative Change, Federal Aid, Federal Relationships* (M-120), Washington, DC, U.S. Government Printing Office, 1980, pp. 21-22.

¹⁶ ACIR, *Block Grants: A Roundtable Discussion* (A-51), Wash-

ington, DC, U.S. Government Printing Office, October 1976; *Categorical Grants: Their Role and Design* (A-52), May 1978; *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975* (A-52a), October 1977; *Improving Federal Grants Management* (A-53), February 1977; *The Intergovernmental Grant System as Seen by Local, State, and Federal Officials* (A-54), March 1977; *Safe Streets Reconsidered: The Block Grant Experience, 1968-1975* (A-55), January 1977; *Safe Streets Reconsidered: The Block Grant Experience, 1968-1975, Case Studies* (A-55a), January 1977; *The Partnership for Health Act: Lessons from a Pioneering Block Grant* (A-56), January 1977; *Community Development: The Workings of a Federal-Local Block Grant* (A-57), March 1977; *The Comprehensive Employment and Training Act: Early Readings from a Hybrid Block Grant* (A-58), June 1977; *States and Intergovernmental Aids* (A-59), February 1977; *Block Grants: A Comparative Analysis* (A-60), November 1977; *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates* (A-61), February 1977; and *Summary and Concluding Observations* (A-62), June 1978.

¹⁷ ACIR, *A Crisis of Confidence and Competence* (A-77), Vol. 1, "The Federal Role in the Federal System: The Dynamics of Growth," Washington, DC, U.S. Government Printing Office, July 1980.

¹⁸ ACIR, *Regional Decision Making: New Strategies for Substate Districts* (A-43), Vol. I of *Substate Regionalism and the Federal System*, Washington, DC, U.S. Government Printing Office, October 1973.

Federal Action Designed To Influence “Who Does What”

The federal government uses both indirect and direct means when it intends to influence state and local action. Through conditional grants-in-aid (categorical and block), it seeks to induce recipients to spend funds on specified functions. Under various Constitutional provisions, such as the commerce power and the 14th Amendment, it directs state and local governments to do certain things, such as control air and water pollution or maintain fair employment practices.

In practice, the difference between inducement via financial assistance and direction via laws and regulations—under the interstate commerce, general welfare, and other clauses in the Constitution—may not be as clearcut as the ordinary meanings of the terms suggest. Thus, there is a real question as to how much choice a state/local jurisdiction has in accepting or rejecting financial aid, particularly after an aided program has become well established and the recipient government had developed a substantial degree of dependency on the federal money to keep the program going. In addition, initiation and conduct of both kinds of federal action are carried on in a political environment involving active give and take among elected and appointed officials of all three levels of government, far removed from a command-obey atmosphere.¹

Yet, there remains an essential difference between the amount of compulsion in an order and in a grant-in-aid, a difference which the courts still recognize. Entirely apart from the legal interpretation, there is the matter of the ability of the recipient of the federal

action (the state or local government in this case) to avoid doing what is asked by the federal government. Monitoring compliance with federal grant conditions being what it is, grant recipients have much more latitude in evading the intent of a grant than that of a regulatory order contained in or pursuant to a federal statute.

The following analysis first explores the effect of federal grants-in-aid, since historically they have been the more significant of the two federal approaches to influencing state/local functional decisions. They represent a much larger fiscal investment on the part of the federal government.²

CONDITIONAL GRANTS-IN-AID

Federal conditional grants-in-aid affect functions or activities of state and local governments because of two characteristics of such grants: their specification of the types of functions or activities for which the grant monies must be spent, and their specification of the types of entities that are eligible to receive the grant. The relationship of eligibility specification to the issue of functional responsibility is obvious on its face—if a jurisdiction is not eligible, it cannot receive the federal grant; and, if it does not receive the grant, it cannot attribute its performance of that function to the grant.

The relationship between the functional limitations of a grant and the recipient's decision to take on or drop a function is not so clear. It depends on how the recipient uses the grant. Does he actually use the money for the prescribed function? If so, does he offset the grant's effect by reducing proportionately the amount of his own money he uses for that purpose? These questions must be answered to arrive at a conclusion on whether and to what extent conditional grants do in fact induce changes in functional responsibility among state and local governments.

Influence on Functions Performed

Answering these questions is a two-stage process. First, a conclusion must be reached as to whether the federal grant causes the recipient to change its expenditures for the function. Second, if a change does occur, it must be determined whether that change has led to assumption of an additional function or abandonment of an existing one. The first stage involves determination of the impact of federal grants on the recipient's expenditures. The second involves determining the extent of that impact, if it is found to ex-

ist, and whether it affects specific functions of specific governmental recipients.

THE EFFECT ON RECIPIENT EXPENDITURES

States and localities can use federal grants to: (1) add to already available funds and thereby (a) increase expenditures for an existing function, or (b) initiate spending for a new function; or (2) substitute the grant money for already available funds and thereby reduce part or all of their own funds for a particular function.

In case (1), the transaction is said to have a stimulative effect. The grant stimulates state and/or local expenditures over and above what would have been raised and spent by them to finance a particular function or activity. In other words, for every federal dollar in aid, more than a dollar of state-local spending results.

In the second case, the grant has a substitution effect. A grant recipient, because of the increased federal money, is able to (1) increase total spending for other nonaided functions or reduce overall spending and cut taxes; (2) increase total spending for the aided function; and (3) reduce its own spending on the aided function. This transaction is referred to as fungibility, or the reallocation of funds among different budget categories.

Apart from increased emphasis on recipient reporting and auditing, certain conditions have been attached to grants to try to restrain fungibility. The most common are matching and maintenance of effort provisions.

Under the former, the federal government requires the recipient to match a certain proportion of the federal grant. Most grants during the period 1930-47 had dollar-for-dollar matching provisions. The interstate highway system, begun in 1956, had 90-10 matching provisions. The Great Society programs of the 1960s usually set up 80-20 requirements. In the past two decades, there has been a definite trend toward low matching provisions.³

Trying to maintain financial commitment once a program is in place is generally taken care of by maintenance of effort or nonsupplant requirements. The former stipulates that the recipient government must match the federal grant with a sum at least equal to its previous expenditure for the aided program or function. The latter requires the recipient to spend from nonfederal sources what it would have spent in the absence of the federal aid. Both types of requirement reduce the recipient government's ability

to reallocate funds to other functions or activities by substituting federal funds for its own in the aided activity.

The Actual Impact

How have federal grants really worked? Have they stimulated expenditures or been used to substitute for state-local funds? One observer stated as late as 1975 that “no comprehensive evaluations of the impact of grants-in-aid have been made, but many studies have examined selected aspects of their influence.”⁴

In a 1977 report for ACIR, a consultant group from the Maxwell School of Citizenship and Public Affairs of Syracuse University reviewed the findings of previous empirical studies of federal aid impacts, particularly with regard to the stimulative and substitutive effects. The objective was to establish the consensus among 19 studies that had been made during the period 1951 through 1976. The review found two areas of consensus:

- that a close and systematic relationship exists between federal grants and state-local expenditures, and
- that federal grants generally, but not always, appear to stimulate additional state-local spending rather than substitute for it.

The review also found that lesser agreement prevailed on the issue of the amount of additional state-local spending that is stimulated.⁵

The research survey was background for the Syracuse group’s central focus in the ACIR report—assessment of the impact of the federal grant system as a whole on state and local government finances. A major emphasis was on the differing impacts of different types of federal grants—formula, project, high matching, low matching, and no matching. The study found that in 1972:

- Federal grants in the aggregate stimulate state-local expenditures in the aggregate—expenditures increase more than proportionately per dollar of federal aid.
- But this does not prove that the system is stimulative, rather than substitutive, for any particular program or period of time. It may be stimulative at a given point in time and either stimulative or substitutive over a span of time.
- The various grant types—project, formula, high matching, low matching, and no match-

ing—all led to a stimulative response by the state-local sector, but the response differed among the types.

The Syracuse study also noted that the findings of theoretical studies suggest that, regardless of the form of grant, the impact is greater if the aid is provided for goods or services not previously supported by states and localities.⁶

Other studies have provided insights on other aspects of the state-local impact of federal grants with implications for functional assignment. One such insight concerns “the distortion of local budget priorities due to local fiscal participation in a wide range of federal grant programs.”⁷ Elsewhere the implications of this development are described as follows:

At the core of the issue are displacement effects which occur when local priorities are skewed and distorted by the need to generate and commit local funds to match federal categorical grants in program areas such as criminal justice and law enforcement, housing and community development, transportation, health, and education instead of being used for some other purposes which may have greater local priority.⁸

The effect of these budget distorting effects is to make local budgets “resemble the federal government’s domestic program structure.”⁹ As a consequence, local governments devote fewer resources to traditional services like police, fire, sanitation, and education and more to welfare, hospitals, and higher education. One bit of evidence of this distortion can be seen in *Table 1*.

This table and the report from which it is taken show that, during growth periods, New York City invested new revenues in functions that had federal dollar support—welfare, hospitals, and higher education. Budget cuts during 1975 and 1976 caused major cutbacks in locally funded services not eligible for federal funds—police, fire, sanitation, and primary and secondary education. In other words, there was a disproportionate reduction in basic services and a shift toward federally funded services. This shift was counterproductive to New York’s long-term fiscal, administrative, and social well being because it attracted dependent groups and curtailed basic “housekeeping” services that benefited the entire city.¹⁰

A Rand Corporation researcher, in summarizing his organization’s review of the urban impact of federal policies, agreed with much of the Levine and

Table 1
THE BUDGET DISTORTING EFFECTS OF FEDERAL AID IN NEW YORK CITY

Function	Percent of Budget		Percent Increase or Decrease
	FY 1961	FY 1976	
Welfare (including social services)	12.3%	22.6%	+ 10.3%
Hospitals	8.2	9.7	+ 1.5
Higher Education	1.9	4.5	+ 2.6
SUBTOTALS	22.4%	36.8%	+ 14.4%
Police	9.5%	6.4%	- 3.1%
Fire	4.9	2.8	- 2.1
Sanitation	5.4	2.7	- 2.7
Education	25.6	18.4	- 7.2
SUBTOTALS	45.5%	30.3%	- 15.1%

SOURCE: *An Historical and Comparative Analysis of Expenditures in the City of New York*, New York, NY, Temporary Commission on City Finances, 1976, p. 15.

Posner analysis. He warned, however, that a distinction must be made between short-run and long-run effects because it is possible for grant programs to work in opposite directions and create long-run "perverse consequences." For example, "increased support for income maintenance and social services may relieve the local fiscal situation in the short run, but may attract so many new applicants that greater burdens are created in the future."¹¹

Finally, there are the perceptions of state and local officials on the question of how conditional federal grants affect their jurisdictions' spending decisions. In 1975, 66% of city officials and 81% of county officials responding to a survey by ACIR and the International City Management Association (ICMA) said that they would allocate federal categorical grant funds differently if they had their choice. Furthermore, 70% of the city officials and 77% of the county officials said they would shift local matching funds to other programs if the federal government suddenly cut off categorical grants for which their governments provided matching funds. A slightly smaller majority of both groups gave a positive response to the question of shifting local matching funds if the Safe Streets block grant were suddenly terminated.¹²

Similar results are reported in the perceptions of state administrators. A 1978 survey found that 70%

of the responding administrators would reallocate federal aid if it came without "strings," compared to 52% in a 1964 survey.¹³ On the question of whether federal aid skewed state programs, well over half the agency heads believe it did.¹⁴

THE EFFECT ON THE ASSUMPTION AND TRANSFER OF FUNCTIONS BY MUNICIPALITIES: EMPIRICAL ANALYSIS

It seems clear then that federal conditional grants do stimulate expenditures by recipient governments. They influence changes in state and local fiscal decisionmaking—the extent to which those governments support various functions and presumably their decisions to take on or give up a function or activity. To explore the impact on functional assignment in greater depth, several questions remain to be addressed:

- How significant is federal aid in affecting state-local functional change? Studies cited by the Syracuse group noted that federal aid programs interact with other factors at the state and local levels in influencing recipient expenditure levels. Are such variables more or less influential than federal conditional aid?

- Does federal aid have more of an impact on the assumption or transfer of a function?
- Does it affect some functions more than others?

ACIR undertook to answer these questions in a special study employing quantitative analysis. The objective was to test the impact of federal grant programs on the assumption and transfer of local government functions during the period 1967 to 1977, viewing such activity as the best measurable indicator of changes in functional responsibility. Data limitations restricted the study to the 845 municipalities with populations of 25,000 or more. Municipalities spending \$10,000 or more on a function were presumed to be performing the function.

Recognizing the influence of other factors in determining the functional scope of municipalities, a model using a number of independent variables was determined to be the most realistic view of the assignment process—one in which federal assistance combines with state and local level factors in altering municipal functions. The functions performed, those not performed, and the dynamics of the functional assignment process (i.e., the assumption and transfer of functional responsibility) were examined.

The data base for the study consisted of the Bureau of the Census' expenditure figures for 1967, 1972, and 1977 in its *Government Finances* series, which distributes municipal expenditure among 26 functional classes. Data on state and local level determinants of functional activity were drawn from various sources identified in a review of the literature. Regression analysis was performed on these two sets of data.

The scope, method, findings, and conclusions of the study are presented in full in the *Technical Appendix* of this report. The pertinent findings and conclusions may be summarized as follows:

- Federal assistance was found to have a limited but growing influence on the scope of municipal functional responsibility in the period 1967 to 1977. Perhaps reflecting the strained fiscal condition of many municipal governments, federal aid influence was mainly limited to maintaining existing municipal functions that otherwise would be reduced or eliminated and was only minimally supportive of functional growth and expansion.
- Although direct state expenditure (one of the

other independent variables used in the regression analysis) continued to be a significant determinant of the number of functions municipalities provide, its influence, along with such other factors as state mandates, had declined since 1967. This evidence suggests that the flow of federal dollars is beginning to rival state and local influences in supporting the scope of municipal functional responsibility.

- Federal aid was not a significant determinant with regard to municipal assumption of functions. This finding undercuts the belief that federal assistance stimulates new functional initiatives by municipal government, but it should not be taken to mean that federal aid had absolutely no stimulative effect on functional assumptions. Federal aid tended to promote the assumption of controversial diseconomies of scale functions, such as corrections, public housing, and urban renewal. State and local-level factors, on the other hand, influenced municipal assumption of a broader range of functions.
- In contrast to its effect on functional assumptions, federal aid was the strongest influence on municipalities' giving up (transferring) functions. The effect was negative: a decline in the level of federal aid received by a municipality generated the transfer of at least one function. Again, the effect was significantly greater for functions associated with controversial diseconomies of scale.
- In general, the study results point to a waning of municipal control over the scope of its functional responsibility, and a growing, but narrow, influence of federal assistance.

THE EFFECT OF FEDERAL CONDITIONS OF AID: THE LOVELL STUDY

Research by Catherine Lovell and her associates under a National Science Foundation grant has produced further evidence about the effect of federal grant conditions on the scope of local functions.¹⁵ The study focused on federal and state mandating on local governments, and defined mandates broadly as any responsibility, action, procedure or anything else imposed by Constitutional, legislative, administrative, executive, or judicial action as a direct order or required as a condition of aid.¹⁶ It examined the im-

pact of 1,259 federal mandates (223 direct orders and 1,036 conditions of aid) and 3,415 state mandates (3,268 direct orders and 147 conditions of aid) in 10 jurisdictions—one county and one city each in California, North Carolina, New Jersey, Washington, and Wisconsin. Information was gathered by field associates, who prepared field research reports on the basis of investigations that combined interviews, analysis of department, program and jurisdiction documents, and a judgment about the validity and importance of each in reaching a conclusion.

One question addressed was: Was an activity similar to the one mandated carried out before the mandate? In 51% of conditions-of-federal-aid mandates on which the investigators reported, the activity was not carried out before the mandate was imposed and in an additional 11% the activity was carried out only partially.¹⁷

The mandates were further analyzed as to whether they were programmatic or procedural requirements. The former specify the *output* required of a jurisdiction—an endproduct or objective in delivery of some service or performance of some function. Procedural mandates regulate and direct behavior of a jurisdiction, requiring the provision of some activity, good, or service as *inputs* into the production of public services outputs.¹⁸ The programmatic mandates of the Lovell study are more directly relevant in terms of functions performed as services delivered to the public, which is the focus of this study of functional assignment.

The Lovell study found that in 33% of the programmatic conditions-of-federal-aid mandates, the activity was not carried out before the mandate was imposed.¹⁹ That, combined with the previously cited finding, indicates that federal conditions-of-aid mandates imposed on activities not previously performed by the cities and counties were mostly procedural mandates.

A final analysis from the Lovell study relevant here is the functional breakdown of the federal conditions-of-aid mandates. Transportation, community development, environment, general government (organization of the government as a whole), and general regulations (activities not specific to a single functional department) were most influenced by the federal conditions-of-aid mandates, as far as mandating an action for an activity not previously performed. Health was least influenced.²⁰

In interpreting these Lovell study results, as well as the study results cited later in this chapter, one must be sensitive to the report's clearly stated caveat:

In examining and analyzing the findings, it is important to remember that the number of jurisdictions studied is small and although jurisdictions in five regions of the country were selected and attempts were made to include jurisdictions of different sizes and types, the findings in no way represent a random sample of states or jurisdictions. *The research was exploratory and tentative and designed only to begin to understand mandate issues and to develop research strategies rather than to present definitive fiscal findings* (emphasis in original).²¹

Nevertheless, Lovell states these findings, based on the careful judgments of trained investigators, strongly indicate that federal conditions-of-aid do stimulate city and county performance of activities not previously performed. However, the stimulation is felt more on procedural than programmatic activities.

CITY OFFICIALS' VIEWS ON FUNCTIONAL TRANSFERS

A final bit of evidence on one aspect of the influence of federal aid requirements on state/local functional assignment comes from the perceptions of recipient governmental officials. A joint survey by ACIR and ICMA in 1975 asked city officials to "check the three most important reasons that best explain your municipality's decision" to shift responsibility for a function(s) or component(s) to another governmental unit. Federal aid requirements/incentives was the reason least frequently checked out of a total of eight. It registered 20%, whereas achievement of economies of scale—most frequently checked—scored 58%. Yet, 63% of the officials of cities over 500,000 population gave federal aid requirements/incentives as one of their three reasons.²²

Influence on Designation of Recipients

Having explored how federal conditional grants influence functional assignment by stimulating state/local expenditures for specific functional purposes, attention turns now to the second way in which such grants exert that influence: by designating which types of government at the state and local levels shall be eligible. Categorical and block grants are treated separately.

CATEGORICAL GRANTS

An ACIR tabulation found that of the 492 categorical grants funded on January 1, 1978, 186 went exclusively to state governments, 27 went exclusively to local governments, 70 went to both state and local governments, and 209 went to a combination of state or local governments or nonprofit organizations (see *Table 2*). States were eligible, exclusively or in combination, for all but one of the 31 subfunctions listed in the table. The subfunction "other general government" was the exception. There were only four subfunctions for which some type of local government was not eligible—hospital and medical care for veterans, other labor services, other transportation, and water transportation.

In general, the distribution reflects a shared grant eligibility for the great majority of functions. The states are particularly strong in energy and resource conservation, ground transportation (highways), social services, health, and public assistance and other income supplements. The only subfunctional group in which local units stand out as the exclusive recipient is elementary, secondary, and vocational education; and the local unit here is of course the school district. These generalizations conform with the functional analysis of expenditures by type of government in ACIR's companion report, *State and Local Roles in the Federal System*.²³

In designating eligible local government recipients, the statutes on categorical programs generally do not distinguish among types of local unit, except for educational programs, which single out local educational agencies (school districts). Thus, as seen in *Table 3*, in 152 programs, eligible local governments are identified by such general terms as "local public agencies," "public nonprofit bodies," or "local public institutions or organizations"; in 53 they are simply "local governments"; and in 29, "political subdivisions." Only 15 specify city or municipality, and five name county, although in many of the laws designating "local governments" or "political subdivisions," cities and counties may be included in the general term. In 14 cases special functional agencies are specified, such as housing agencies or pollution control agencies. By and large, it seems fair to conclude that, except for the education function, the federal government does not exercise nearly as much influence on functional assignment among local governments as it might in distributing its categorical grant monies—in the sense of favoring one or more of the local types over the others.²⁴

BLOCK GRANTS

Block grants are also conditional aid programs but their functional restrictions are stated in broader terms than those of categorical grants. Thus, the comprehensive public health services grant is "to assist state health authorities in meeting the cost of providing comprehensive public health services."²⁵ The social services grant (Title XX of the Social Security Act) is "to enable states to provide social services to public assistance recipients and other low income persons directed toward one of the five goals specified in the law."²⁶ The law enforcement assistance grant is "to provide financial assistance to states and units of local government in carrying out criminal justice programs."²⁷ The Community Development Block Grant (CDBG) is "to develop viable urban communities, including decent housing and a suitable living environment, and expand economic opportunities, principally for persons of low and moderate income."²⁸ The Comprehensive Employment and Training grant (CETA) is "to provide job training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons and to assure that training and other services lead to increased earnings and enhanced self-sufficiency by establishing a flexible centralized system of federal, state, and local programs."²⁹

State agencies alone are eligible for the health, social services, and law enforcement block grants. The remaining two block grants—CDBG and CETA—are available to both state and local governments and are examples of federal influence encouraging certain local units, particularly counties, to move into new functional areas.

CDBG

Under the CDBG law, the program is open to states and units of general local government (or their designees) of all sizes regardless of their legal designation as cities, counties, towns, townships, parishes, or villages. In actuality, the program has established categories of eligibles and treats them differently depending on their size, location, and type of government. These differences affect the amount and continuity of funding and the degree of local decisionmaking power over the types of programs which qualify for funding.

Three percent of the total CDBG appropriation is set aside for the Secretary of HUD's special discre-

Table 2
**FEDERAL CATEGORICAL GRANTS, BY TYPE OF
 ELIGIBLE GOVERNMENTAL RECIPIENTS AND BUDGET SUBFUNCTION**
 January 1, 1978

Budget Subfunction	States Only	States and Local Units	Local Units Only	States, Locals, and Nonprofit Organizations	Total
Department of Defense—Military	2	3	—	—	5
General Science and Basic Research	—	—	—	1	1
Energy	5	—	—	1	6
Water Resources	3	3	—	1	7
Conservation and Land Management	11	—	—	2	13
Recreational Resources	8	2	—	—	10
Pollution Control and Abatement	9	7	1	18	35
Other Natural Resources	—	2	—	2	4
Agricultural Research and Services	7	—	—	2	9
Mortgage Credit and Thrift Insurance	—	—	—	2	2
Other Advancement and Regulation of Commerce	—	1	—	1	2
Ground Transportation	31	3	—	2	36
Water Transportation	2	—	—	—	2
Mass Transportation	1	6	1	—	8
Air Transportation	—	3	—	—	3
Other Transportation	1	—	—	—	1
Community Development	2	1	1	1	5
Area and Regional Development	8	8	1	19	36
Disaster Relief and Insurance	4	4	—	1	9
Elementary, Secondary, and Vocational Education	17	4	17	32	70
Higher Education	6	—	—	4	10
Research and General Education Aids	6	3	1	11	21
Training and Employment	8	5	3	7	23
Other Labor Services	1	—	—	—	1
Social Services	14	2	1	30	47
Health	17	5	1	55	78
Public Assistance and Other Income Supplements	15	4	—	8	27
Hospital and Medical Care for Veterans	5	—	—	—	5
Criminal Justice Assistance	3	2	—	8	13
General Property and Records Management	—	—	—	1	1
Other General Government	—	2	—	—	2
Total	186	70	27	209	492
Percent	38%	14%	6%	42%	100%

SOURCE: ACIR, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1978 (A-72)*, Washington, DC, U.S. Government Printing Office, 1979.

Table 3
**FEDERAL CATEGORICAL GRANTS, BY TYPE OF ELIGIBLE
 LOCAL GOVERNMENTAL RECIPIENTS AND
 BUDGET SUBFUNCTION,
 January 1, 1978**

Budget Subfunction	Local Governments	Political Subdivisions	Local Public Agency, Body, Institution, Organization	City or Municipality	County	Special Local Agency	School District	Areawide Agency	Inter-Municipal Agency	Special District	Total*
Department of Defense—Military	3	—	—	—	—	—	—	—	—	—	3
General Science and Basic Research	1	—	—	—	—	—	—	—	—	1	2
Energy	—	—	—	1	1	—	—	—	—	—	2
Water Resources	—	2	2	—	—	—	—	—	—	—	4
Conservation and Land Management	3	—	1	—	—	—	—	2	—	—	6
Recreational Resources	—	1	3	—	—	—	—	—	—	—	4
Pollution Control and Abatement	—	1	17	8	1	5	—	6	1	—	39
Other Natural Resources	—	—	1	—	—	—	—	—	—	—	1
Mortgage Credit and Thrift Insurance	—	1	1	—	—	—	—	—	—	—	2
Other Advancement and Regulation of Commerce	—	1	1	—	—	—	—	—	—	—	2
Ground Transportation	1	3	2	—	—	—	—	—	—	—	6
Mass Transportation	1	—	5	—	—	1	—	—	—	—	7
Air Transportation	—	2	2	2	—	1	—	—	—	—	7
Community Development	—	—	1	2	2	—	—	1	—	—	6
Area and Regional Development	7	6	16	2	1	—	—	—	—	3	35
Disaster Relief and Insurance	4	—	1	—	—	—	—	—	—	—	5
Elementary, Secondary, and Vocational Education	—	1	14	—	—	—	38	—	—	—	53
Higher Education	—	—	—	—	—	—	5	—	—	—	5
Research and General Education Aids	1	—	7	—	—	—	7	1	—	—	16
Training and Employment	11	1	5	—	—	—	—	7	—	—	24
Social Services	4	2	25	—	—	—	2	—	—	—	33
Health Care Service	8	7	28	—	—	—	—	4	—	—	47
Health Research	1	—	7	—	—	2	—	1	—	—	11
Education and Training of Health Workers	—	—	1	—	—	—	—	—	—	—	1
Consumer and Occupational Health and Safety	—	1	2	—	—	—	—	—	—	—	3
Public Assistance and Other Income Supplements	1	—	6	—	—	3	—	—	—	—	10
Criminal Justice Assistance	5	—	3	—	—	2	—	3	—	—	13
General Property and Records Management	—	—	1	—	—	—	—	—	—	—	1
Other General Government	2	—	—	—	—	—	—	—	—	—	2
Total	53	29	152	15	5	14	52	25	1	4	350

*Totals do not agree with local totals in *Table 2* because in this table some programs show more than one category of local government as eligible.

SOURCE: ACIR, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1978 (A-72)*, Washington, DC, U.S. Government Printing Office, 1979, and supporting work papers.

tionary fund, to be used for disaster needs, areawide projects, innovations, and new communities, and to correct certain inequities. Eighty percent of the remainder is allocated to standard metropolitan statistical areas (SMSAs) and 20% to nonmetropolitan (non-SMSA) or rural areas.

The first distribution of the metropolitan portion is by formula on an entitlement basis to metropolitan cities (central cities and all other cities over 50,000 population in SMSAs) and urban counties. The latter are SMSA counties over 200,000 population authorized under state law to undertake essential community development and housing assistance activities in their unincorporated areas. The remaining "discretionary balance" in the SMSA allocation is available for distribution by the Secretary of HUD to states for use within metropolitan areas and to all local governments within SMSAs that do not qualify for automatic entitlement. These local governments in SMSAs include cities under 50,000 population and counties other than urban counties. The amount for each state is determined by a formula similar to that used to distribute funds to the metropolitan cities and urban counties. Local governments compete with each other for funds within each state.

The 20% non-SMSA portion is used for grants to units of general local government under 50,000 population that are not located in SMSAs. As is the case with metropolitan small governments, nonmetropolitan small governments compete with each other in the same state.

Cities are defined in the law as any unit of general local government classified as a municipality by the

Census Bureau, or any town or township which (a) the Secretary of HUD determines has powers and performs functions comparable to those associated with municipalities, (b) is closely settled, and (c) contains no incorporated places.

The CDBG program initiated changes of considerable fiscal and institutional importance by distributing funds mainly according to formula-based entitlements rather than project applications and by concentrating those entitlements on metropolitan areas, urban counties, towns, townships, and in some cases special purpose districts³⁰ while for the most part excluding states. One immediate change was the extension of funds for urban-type programs to a number of cities that had not previously participated in the seven HUD programs folded into CDBG.

According to Thomas J. Anton a "spreading effect" occurred. *Table 4* shows this effect. In 1970, only 321 cities participated in the seven HUD programs. By 1977, the total number of participating cities had risen to 620. Moreover, most of this increase is accounted for by cities in the smaller size categories. Participation by cities of 100,000 or less more than doubled between 1970 and 1975.³¹

In addition to increasing the number of cities, the program had the effect of including new units that had previously not participated in community development programs. This was particularly true of counties, towns, townships, and special districts. Initially, it was thought that these units lacked the capacity and/or legal authority to deal effectively with community development programs. Urban counties, in particular, were regarded as deficient in this re-

Table 4
**CITY PARTICIPATION IN COMMUNITY DEVELOPMENT PROGRAMS,
BEFORE AND AFTER ENACTMENT OF BLOCK GRANT IN 1974**

City Population	Number of Cities Participating			
	1970	1972	1975	1977
25,000- 49,999	103	176	222	262
50,000- 99,999	88	131	214	212
100,000-299,999	83	89	106	100
300,000-999,999	41	42	41	41
1,000,000 and over	6	6	6	5
Totals	321	444	589	620

SOURCE: Thomas J. Anton, "Outlays Data and the Analysis of Federal Policy Impact," unpublished paper given at The Urban Impacts Conference, Washington, DC, February 8-9, 1979, p. 31.

Table 5
**COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM:
 NUMBER OF UNITS TO WHICH
 ALLOCATION WAS MADE**

	FY 1975	FY 1976	FY 1977	FY 1978	FY 1979	FY 1980
Metropolitan Areas (SMSAs)¹	312	313	319	325	325	328
Metro Cities	521	522	537	559	562	573
Urban Counties	73	75	78	81	84	85
Small Hold Harmless Units of Government	299	301	305	268 ²	257 ²	
Discretionary Balance Funds (SMSAs) or (States and Puerto Rico) (Small Cities Funds)⁴	302	303	306	51	51	51
Nonmetropolitan Areas	51	53	53			
Small Hold Harmless Units of Government	449	450	443	436	435	
Discretionary Balance Funds (States and Puerto Rico) (Small Cities Funds)	51	51		51	51	51
Total Units of Government	1,342	1,348	1,363	1,344	1,338	658 ³

¹ Count includes state portion of split SMSAs. (Actual number of SMSAs in FY 1980 is 284.)

² Excludes communities waiving hold harmless (32 communities in FY 1978, 44 communities in FY 1979).

³ There are no hold harmless units receiving direct entitlements in FY 1980.

⁴ Discretionary balance funds were allocated by SMSA during FY 1975-FY 1977, and by state for included Metro Areas from FY 1978 on.

SOURCE: U.S. Department of Housing and Urban Development, *Directory of Allocations for FYs 1975-80, 1980.*

gard. Yet, by 1980, 85 urban counties were participating in the program (see *Table 5*).

Finally, the role of the state is minimal in the CDBG program. In limited situations, a state may be the recipient of funds, but its role is definitely subordinate to units of general local government. Although states are eligible to compete for the discretionary funds which remain after entitlement, these funds are generally designated for use by local units in metropolitan or nonmetropolitan areas unless granted pursuant to one of the special discretionary funds. In other words, the state is merely a conduit of funds and can retain for itself only an allowance for the cost of general administration.

CETA

The effects of federal eligibility requirements on the allocation of functions also are seen in the CETA block grant. The *Comprehensive Employment and Training Act of 1973* that enacted this first direct

federal/local block grant represented the culmination of efforts that began in 1967 to coordinate and consolidate manpower planning and service delivery.³²

Title I of the act merged 17 pre-existing categorical manpower programs into a block grant which goes to prime sponsors for comprehensive manpower services such as training, employment, counseling, testing, placement, and supportive services. Prime sponsors are mainly states, units of general local government of 100,000 or more population, or combinations of such units (consortia) in which one member meets this population floor. The consortia provision makes it possible to obtain the programmatic advantage of a broader area coverage of the local labor market.

"Units of general local government" means any city, municipality, county, town, township, parish, village, or other general purpose political subdivision which has the power to levy taxes and spend funds, as well as general corporate and police powers. In areas not covered by a nonstate prime sponsor (balance of

state), states may assume this role.

Prior to CETA, the federal government had dealt with manpower development and training through a system of categorical programs administered from Washington or by regional offices. The Department of Labor (DOL) had approximately 10,000 contracts with local service providers, mainly national community-based organizations (CBOs), such as the Opportunities Industrialization Centers (OIC), Service, Employment, and Redevelopment (SER), and the Urban League. Cities and counties were minimally involved.

The requirement in CETA that local prime sponsors be general purpose governments constituted a major departure, moving from a categorical to a block grant approach and from a centralized to a decentralized system of administration. Significant for the functional assignment issue is the fact that most of the prime sponsors had not received federal support for manpower purposes prior to FY 1975.

CBOs continued to be used, indeed at an expanded rate in the early years,³³ but as subcontractors to the city and county prime sponsors rather than direct contractors with DOL. Cities and counties, as local program coordinators and integrators (singly or through consortia), thus took the critical role in administering the decentralized system. Of the two types of units, counties were more affected because they had been even less involved in manpower programs pre-CETA than the cities. Counties clearly were the most prominent prime sponsors, as shown by *Table 6*.

The state role in manpower development and training also changed significantly. In some ways this role was enhanced because of the balance-of-state provision. In others, it was diminished. Prior to CETA, for instance, grantees were expected to use state employment services (SES) to provide appropriate manpower services. After CETA, the importance of the SES was reduced and these state agencies had to compete with private organizations as principal providers. CETA also created an ambiguous situation for the states in some respects. The program called on them to be reviewers, coordinators, and evaluators of programs but the absence of any pass-through provisions denied them a substantive role and ensured that ultimate program authority would rest with the local units.

THE LOVELL STUDY ON MANDATES

The Lovell study of the effects of federal and state mandates in five cities and five counties found that

Table 6
**CETA PRIME SPONSORS,
FY 1975 and FY 1980**

Type	FY 1975	FY 1980
Counties	156	196
Cities	58	78
Consortia	134	138
Balance of State	47	57
Concentrated Employment Program (CEP)	4	4
Total	399	473

SOURCE: U.S. Department of Labor.

federal condition-of-aid mandates caused cities to begin new activities more often than counties. Activities were added particularly in the community development, environment, and general government functional areas.³⁴ On the other hand, federal mandates more frequently induced counties to expand activities previously carried on than cities, especially in the areas of community development and public protection.³⁵

FEDERALLY ENCOURAGED SPECIAL AGENCIES OR DISTRICTS

In a 1964 report about the impact of federal urban development programs on local government organization and planning, ACIR noted that a relatively new type of federal aid recipient had arisen—the special purpose unit of government with independent or semi-independent status. These new units, actually induced and sometimes even required by about a quarter of all federal programs at that time, included public housing and urban renewal authorities, state and local planning agencies, and local area redevelopment organizations.³⁶

The current incidence of these types of special unit is not discernible from *Table 3* because in many cases they are authorized in legislation as one of the types of unit included in such general designations as “local governments” or “political subdivisions.” It is generally accepted, however, that the federal government’s role in fostering such special units has declined. One major reason was the vociferous criticism by the national associations of local officials of general purpose governments.

This contributed to enactment by Congress of Section 402 of the *Intergovernmental Cooperation Act of 1968*. This act provides that in cases where federal law makes both special purpose and general purpose units of local government eligible to receive loans or grants, in the absence of substantial reasons to the contrary, federal aid administrators shall make the grants or loans to the general purpose units.³⁷

Subsequent federal legislation seems to reflect greater Congressional awareness of the special purpose government problem. Specifically, the General Revenue Sharing (GRS) legislation (discussed later in this chapter) limits the distribution of GRS funds to general purpose units and excludes special purpose units. Title I of the CETA legislation limits local prime sponsors to elected officials of general purpose units, and these units (plus Indian tribes) were the designated recipients under the countercyclical programs of Titles II and III of that act. The CDBG also is limited to general purpose units (except for certain "new communities") in contrast to the autonomous or semi-autonomous agencies—such as redevelopment agencies, housing authorities and Model Cities community development agencies—that were spawned by the predecessor categorical grant programs.³⁸

At the same time that the federal government has moved to emphasize general purpose units on the local scene, it has tended to encourage formation of a variety of separate bodies on the substate regional level. This level, of course, has not been occupied to any appreciable extent by state-authorized general purpose units.

As of 1976, there were 32 federal programs that held substantial significance for substate regions, compared with 24 such programs in 1972. They encompassed two general purpose programs—the federal aid review and comment process (Office of Management and Budget Circular A-95) and intergovernmental personnel grants—plus 30 others serving a range of specific functional purposes including community and economic development, environmental protection, transportation, social services, and protection services. The agencies supported included areawide planning organizations, economic development districts, local development districts, metropolitan planning organizations, health systems agencies, areawide agencies for the aging, and community action agencies.³⁹ These substate regional bodies and their relationship to functional assignment at the state and local levels are described in detail in Chap-

ter 5 of the ACIR report, *State and Local Roles in the Federal System*.⁴⁰

PRIVATE FEDERALISM

A final aspect of the federal government's posture on the designation of eligible recipients of conditional grants is highlighted in *Table 2*: the designation of private organizations alongside state and local governments. On January 1, 1978, there were 209 categorical grant programs for which nongovernmental nonprofit organizations were eligible along with state and local units, or 42% of the 492 total. These were in addition to those for which nonprofit groups were eligible and governmental units were not.

No statistics are available on the overall magnitude of this aspect of "private federalism"—the share of all grant dollars that go to these organizations—according to top federal management officials consulted by ACIR staff, but it is generally assumed to be extensive.⁴¹ A source in the Health and Human Services Department, which makes the great bulk of federal payments to nongovernmental recipients, estimated that 70% of all participants in that department's programs were private organizations. In the Community Services Administration, the successor to the Office of Economic Opportunity, an official estimated that approximately 90% of all its program participants are private groups. And more and more housing programs are being operated through nonprofit agencies under CDBG.⁴²

Data gathered by ACIR in a 1967 report and in 1978 provide a clue as to the trend in the use of nonprofit organizations as grant recipients. The 1967 report found that 70 Health, Education, and Welfare Department (HEW) grant programs were limited to state and local governments, whereas 60 went to a combination of state and/or local and private nonprofit groups.⁴³ By 1978, 97 HEW programs were limited to state and local governments, an increase of 39% over 1967, but 131 were available to state/local governments and nonprofit organizations, a rise of 118%.⁴⁴

Nonprofit organizations, then, have become increasingly strong competitors with state and local governments for federal conditional grant monies. This development suggests that, while the federal government may steadily increase its influence on state/local governments and their functional responsibilities by its constant expansion of conditional grant monies, that increase has been lessened by the continuing increase in federal reliance on nongovernmental nonprofit organizations as grant recipients.

DIRECT FEDERAL ACTION DESIGNED TO AFFECT STATE/LOCAL FUNCTIONAL ASSIGNMENT

Federal conditional grants-in-aid are designed to induce state and local governments to move in certain functional directions by virtue of the functional and eligibility conditions that they carry with them. The federal government's use of direct orders or mandates and its assumption or takeover of state/local functions are direct actions that are designed to affect state/local functional assignment. Attention now shifts to these forms of federal action.

Mandates (Direct Orders)

As used in this section, the term "mandates" refers only to what are called direct orders by the previously cited Lovell study. Use of the more limited sense of the term follows the practice of the Congressional Budget Office report, *Federal Constraints on State and Local Government Actions*,⁴⁵ which is relied upon heavily in the following discussion. The Lovell report included both direct orders and conditions of aid under the term "mandates."

Direct orders or mandates can originate from any of the three branches of the federal government and may have as their basis either federal statutes or Constitutional provisions. Most mandates apply only to the private sector, and are excluded from this study. Others are directed exclusively toward state and local governments, and still others apply to both public and private sectors.⁴⁶

Judicial interpretation of the Constitution, especially the Bill of Rights and the 14th Amendment, accounts for most of the federal mandates that apply to state and local governments. Court decisions have affected a wide range of state and local activities, including school desegregation, free counsel for the indigent, and upgrading of prisons and mental institutions. Although these decisions usually pertain only to specific cases, they often have far reaching effects because the principles articulated have general applicability and failure to comply may invite a legal challenge of existing policies and procedures. The impact of the *Brown vs. Board of Education* decision on school systems across the country is a good example of the broad ramifications of court decisions.⁴⁷

Mandates also can be promulgated by federal statute. In its attempts to achieve social and

economic objectives, Congress often uses its regulatory powers to mandate certain policies and programs, based on the authority of the Commerce Clause, the necessary and proper clause, the supremacy clause, and the 14th Amendment of the Constitution. These mandates, for the most part, have been directed at the private sector but the focus of some social and economic regulatory policy has involved state and local governments. Most have been concerned with either the environment or civil rights.⁴⁸ Among some of the most important have been:

- The *Clean Air Amendments of 1970* (Public Law 91-604) require states to develop plans acceptable to the Environmental Protection Agency (EPA) to attain federal air-quality standards. The EPA can require states to plan changes in state transportation policies (for example, by giving additional support to mass transit) as well as to regulate the pollution-creating activities of private persons (by establishing, for example, emission-control requirements and inspection programs for private cars).
- The *Federal Water Pollution Control Act of 1972* (Public Law 92-500) requires state and local governments to adopt better methods of treating sewage in order to curb the discharge of pollutants.
- The *Safe Drinking Water Act of 1974* (Public Law 93-523) requires all suppliers of drinking water (including, but not limited to, publicly owned systems) to test their water regularly for impurities. If "maximum contaminant levels" are exceeded, acceptable treatment processes must be introduced or another source of potable water used.
- The *Equal Employment Opportunity Act of 1972* (Public Law 92-261) prohibits state and local governments from discriminating in their employment practices on the basis of race, color, religion, sex, or national origin.
- The *Age Discrimination in Employment Act of 1967* (Public Law 90-202) prohibits discrimination in employment practices on the basis of age.⁴⁹

The power of Congress to regulate the private sector has been consistently upheld by the Court since the 1930s. Until recently, Congress was assumed to have similar powers to mandate state and local activities, although it refrained from using them for political reasons. This assumption was challenged in the 1976 case of *National League of Cities vs. Usery*. The challenge rested on the 10th Amendment guarantee of state sovereignty, which implies certain restrictions on the commerce clause when applied to state and local governments.

The Court's decision invalidated the 1974 Amendments to the *Fair Labor Standards Act* (P.L. 93-259) extending minimum wage and overtime pay to non-supervisory state and local government employees. These rights have been granted to employees in the private sector but in the Court's opinion an effort to extend them to public employees "impermissibly interfered with the integral functions of state and local governments and threatened their separate and independent existence."⁵⁰

Just how extensively this ruling will be applied is yet to be determined and major issues still require clarification. Furthermore, while the ruling suggests limits on the issuance of direct orders to state and local governments, it does not preclude, of course, the use of less coercive ways of achieving similar ends, such as conditional grants in aid.

LOVELL STUDY

The Lovell study of mandates provides some measure of the effect of federal direct orders on city/county assumption of functions, similar to what it provided on the effect of federal conditions of aid. In 57% of federal direct orders on which the field investigators reported, the activity was not carried on before the order was imposed. In an additional 8% the activity was carried on only in part.⁵¹ Further analysis shows, however, that most of the orders affecting new activities involved procedural rather than program matters, indicating that these orders had less effect on functional expansion than at first appeared.⁵²

Considering only functions with an adequate sample, the areas of community development, general regulations (activities not specific to a single functional department), and environment were most influenced by the federal direct orders, as far as requiring an action or an activity not previously performed. Transportation was least influenced.⁵³

Finally, the Lovell study found that like federal

conditions of aid, federal direct orders caused cities—more often than counties—to begin new activities.⁵⁴

FEDERAL SUPERSESSION (PREEMPTION)

Federal laws on clean air, water pollution control, and safe drinking water—previously cited—are examples of supersession or preemption, a type of mandate that has become increasingly common in areas of concurrent federal and state responsibility under the Constitution. Supersession has been defined by one observer as:

. . . the process by which a state is deprived of jurisdiction over matters embraced by congressional acts, which acts require the states to pass laws of equal stringency or else the federal law will control; it is forced compliance with federal legislation by the states and it is the entering into a contract by the individual states and the federal government for the provision of services (through laws) regardless of state laws.⁵⁵

Joseph Zimmerman distinguishes between federal laws that provide for total and partial federal preemption.⁵⁶ Among the former are:

- The *Flammable Fabrics Act*, which stipulates "this act is intended to supersede any law of any state or political subdivision thereof inconsistent with its provisions."⁵⁷
- The *Radiation Control for Health and Safety Act of 1968*, which forbids state and local governments "to establish . . . any standard which is applicable to the same aspect of the performance of such product and which is not identical to the federal standard."⁵⁸
- The *Federal Railroad Safety Act of 1970*, which specifically authorizes states to adopt laws, rules, regulations, orders, and standards relating to railroad safety that are more stringent than the counterpart federal ones "when necessary to eliminate or reduce an essentially local safety hazard, and when not incompatible with any federal law, rule, regulation, order, or standard, and when not creating an undue burden on interstate commerce."⁵⁹

Partial federal preemption statutes set minimum national standards and authorize states to continue their regulatory activity provided their standards are at least as high as the national standards. Examples cited by Zimmerman include:

- The *Safe Drinking Water Act*. It states that “a state has primary enforcement responsibility for public water systems” provided the Administrator of the Environmental Protection Agency determines that the state “has adopted drinking water regulations which . . . are no less stringent than” national standards. Where a state fails to adopt or enforce such standards, the Agency applies national standards within that state.⁶⁰
- The *Wholesome Meat Act*, which grants the Secretary of Agriculture the authority to inspect meat and transfer responsibility for meat inspection to a state that has enacted a law requiring meat inspection and reinspection consistent with federal standards.⁶¹

Federal supersessive laws have the effect of keeping states entirely out of a function or activity, or keeping them out unless they perform in accordance with federal standards. These laws have a clear impact on the responsibilities of state and local governments. The functional dimensions of the impact can be seen more clearly in *Exhibit 1*, which inventories the 48 supersessive acts enacted in the ten-year period—1964-73.

Health and public safety functions were affected the most during the period studied. Environmental protection and conservation were also significantly influenced. Consumer protection, although third, ranks fairly close behind environmental protection and conservation.

The courts have held many acts of Congress to be preemptive even though they contain no explicit partial or total preemption section. In 1947, the U.S. Supreme Court explicated two tests of federal preemption: (1) “the question in each case is what the purpose of Congress was,” and (2) does the act of Congress involve “a field in which the federal interest is so dominant that the federal system will be assumed to preclude enforcement of state laws on the same subject.”⁶²

The Supreme Court has also placed some limits on federal preemptory powers. Cited earlier was the 1976 *National League of Cities* cases in which the at-

tempt to apply the minimum wage and overtime pay provisions of the 1974 *Fair Labor Standards Act* amendments to nonsupervisory employees of state and local governments was held to be unconstitutional—that it was a threat to the separate and independent existence of these governmental units. Preemption has also been invalidated in cases, involving federal statutes lowering the voting age for state and local elections, forbidding the use of written examinations for applications for a police department,⁶³ and other laws.

Zimmerman attributes the sharp increase in federal preemptory action since 1965 to:

. . . the growing recognition of the interstate nature of many public problems, the general failure of states to launch effective corrective programs to solve the problems, the establishment of environmental and public interest groups which have lobbied effectively in Washington, DC, and concomitant public support for governmental action to solve environmental problems in particular.⁶⁴

Zimmerman also notes a growing concern starting in 1971 that supersession is creating the potential for the evolution of a monocentric system of government. Straws in the wind are a 1971 dissent by Justice Hugo L. Black in a voting rights case, an article by representatives of the Council of State Governments criticizing expanding reliance on federal supersession and urging greater dependence on interstate cooperative devices, and the filing in Congress of numerous bills aimed at the Supreme Court’s role in supersession by limiting its jurisdiction as authorized by the Constitution. On the other hand, Zimmerman observes a counterforce in the support for federal preemption sometimes provided by state and local officials:

Experience with federal partial preemption reveals that states have initiated socially desirable programs privately favored by some state legislators and administrators that probably would not have been implemented in the absence of federal preemption because the programs are too explosive politically on the state level.⁶⁵

Federal Assumption of State/Local Functions

Next to ordering state/local governments to under-

Exhibit 1
**BREAKDOWN, BY CATEGORIES, OF SUPERSESSIVE FEDERAL
 LEGISLATION ENACTED FROM 1964 to 1973***

Health and Safety (18—37.5%)

Drug Abuse Control Amendments of 1965
 Federal Cigarette Labeling and Advertising Act
 Federal Coal Mine Safety Act Amendments of 1965
 National Traffic and Motor Vehicle Safety Act of 1966
 Highway Safety Act of 1966
 Federal Metal and Nonmetallic Mine Safety Act
 Child Protection Act of 1966
 Omnibus Crime Control and Safe Streets Act of 1968
 Natural Gas Pipeline Safety Act of 1968
 Radiation Control for Health and Safety Act of 1968
 Gun Control Act of 1968
 Federal Coal Mine Health and Safety Act of 1969
 Public Health Cigarette Smoking Act of 1969
 Federal Railroad Safety Act of 1970
 Occupational Safety and Health Act of 1970
 Federal Boat Safety Act of 1971
 Lead Based Paint Poisoning Prevention Amendments
 Health Maintenance Organization Act of 1973

Agricultural Standards (3 — 6.2%)

Food and Agriculture Act of 1965
 United States Grain Standards Act
 Egg Products Inspection Act

Civil Rights (3 — 6.2%)

Civil Rights Act of 1964
 Voting Rights Act of 1965
 Voting Rights Act Amendments of 1970

Environmental Protection and Conservation (9 — 18.7%)

Water Quality Act of 1965
 Highway Beautification Act of 1965
 Clean Air Act
 Clean Air Act Amendments of 1970
 Federal Environmental Pesticide Control Act of 1972
 Noise Control Act of 1972
 Federal Water Pollution Control Act Amendments of 1972
 Marine Mammal Protection Act of 1972
 Marine Protection Research and Sanctuaries Act of 1972

Consumer Protection (7 — 14.6%)

Fair Packaging and Labeling Act
 Flammable Fabrics Act, Amendment
 Wholesome Meat Act
 Consumer Credit Protection Act
 Poison Prevention Packaging Act of 1970
 Motor Vehicle Information and Cost Savings Act
 Consumer Product Safety Act

Miscellaneous (8 — 16.6%)

Atomic Energy Act of 1954, Amendment
 Uniform Time Act of 1966
 Employment Security Amendments of 1970
 Federal Deposit Insurance Act, Amendment
 Horse Protection Act of 1970
 Federal Election Campaign Act of 1971
 Emergency Petroleum Allocation Act of 1973
 Emergency Highway Energy Conservation Act

*Some acts can fall into more than one category but are listed in the primary category.

SOURCE: James B. Croy, "Federal Supersession: The Road to Domination," *State Government*, Winter 1975, p. 35.

take a new activity, the clearest and most direct way in which the federal government can affect the scope of their functional responsibilities is to assume or take over one or more of their functions. Only in the income security (welfare) area has there been any appreciable movement in this direction.

Under the *Food Stamp Act of 1964*⁶⁶ and subsequent amendments, low-income families receive food stamps that vary in amount according to the household size and adjusted income of the recipient.⁶⁷ Eligibility and benefit standards are national and most of the purchasers are public assistance recipients. State and/or local governments (the latter are usually counties) are responsible totally for recipients under the Aid to Families with Dependent Children (AFDC) program and to varying degrees (see below) for those under the Supplementary Security Income (SSI) program. The cost of the food stamps (\$6.8 billion in 1979) is borne fully by the federal government but the program is administered by the states, which also pay at least 50% of the administrative costs.

The major federal effort to relieve states and localities of the welfare responsibility was through the SSI program, enacted in 1972 and effective in 1974.⁶⁸ Under SSI (Title XVI, Parts A and B of the Social Security Act), the federal government nationalized the so-called adult categories of public assistance. Under a federally administered program the aged, blind, and disabled whose adjusted income and resources fall below specified national standards are provided with direct monthly payments to help bring them up to those standards.

Even after initiation of SSI, the states retain substantial responsibility for aid to the aged, blind, and disabled. They are required to supplement federal SSI payments in cases where this aid does not maintain the December 1973 income level for recipients under the former state public assistance programs.

States also may provide supplementary payments to help recipients meet needs not covered by the federal SSI payment. The state determines whether it will make such payments, to whom they will go, and the amounts to be paid. It may elect to administer the payments under its own rules and regulations, or enter into an agreement with the Secretary of Health and Human Services to have the federal government administer them along with the federal SSI payment. In the latter case, the federal government absorbs total administrative costs. As of October 1979, there were 40 states with optional needs programs, of which 17 elected federal administration.⁶⁹

Both the food stamp and SSI programs represent only a partial assumption of the welfare function by the federal government. They are a continuation of a movement in this functional area that began in earnest in the 1930s with the federal government's provision of direct relief funds and the enactment of the Social Security Act. That movement continues today with perennial proposals for a more comprehensive federal takeover of the income maintenance function.⁷⁰

A question may be raised as to the reason for considering these two welfare actions under the heading of federal assumption as different from other functional areas where the infusion of federal grant monies has made the federal government as involved as it is in these cases. The difference relates to what was noted at the outset of this chapter, namely, the difference between influence exerted through inducement (grants-in-aid) and through direct order. There is also a difference in intent. Grants are intended to move state/local recipients in certain functional directions, with the recipients retaining basic responsibility. The intent of a federal takeover is to relieve state and local governments of their responsibility for the function or activity.

FOOTNOTES

¹ For further discussion of the difficulties of distinguishing the compulsion effects of conditional aids and direct orders, see Catherine H. Lovell, et al, *Federal and State Mandating on Local Governments: An Exploration of Issues and Impacts*, Riverside, CA, University of California-Riverside, June 1979, pp. 10-11.

² The Lovell study of the impact of federal direct orders and conditions of aid in five cities and five counties found that the latter were more than four and a half times as numerous as the former. *Ibid.*, p. 68. The Lovell study uses the term "mandates" to include both direct orders and conditions of aid. "Mandates" in this chapter refers only to what are called "direct orders" in the Lovell study.

³ ACIR (A-52), *op. cit.*, pp. 160-61.

⁴ Richard Lehne, "Employment Effects of Grant-in-Aid Effects," *Publius*, Summer 1975, p. 101.

⁵ ACIR (A-61), *op. cit.*, pp. 47-51, and especially *Table 23*.

⁶ *Ibid.*, pp. 2-5.

⁷ Paul L. Posner and Stephen M. Sorett, "A Crisis in the Fiscal Commons: The Impact of Federal Expenditures on State and Local Budgets," *Public Contract Law Journal*, December 1978, p. 354.

⁸ Charles H. Levine and Paul L. Posner, "The Centralizing Effects of Austerity in the Intergovernmental System," unpublished paper delivered at the 1979 Annual Meeting of the American Political Science Association, Washington, DC, August 31-September 3, 1979, pp. 1-2.

⁹ *Ibid.*, p. 2.

¹⁰ *Ibid.*, p. 20.

- ¹¹ Stephen M. Barro, "The Urban Impact of Federal Policies: Their Direct and Indirect Effects on the Local Public Sector," unpublished paper summarizing a study of urban impacts of federal policies made at the Washington Office of the Rand Corporation, January 1977, pp. 23-24.
- ¹² ACIR (A-54), *op. cit.*, pp. 14-22.
- ¹³ ACIR (M-120), *op. cit.*, p. 49.
- ¹⁴ *Ibid.*, p. 48.
- ¹⁵ Lovell, et al, *op. cit.*
- ¹⁶ *Ibid.*, p. 32. This is a more inclusive definition of mandates than that used in this report. See section below on "mandates."
- ¹⁷ *Ibid.*, p. 172, Table 6-8.
- ¹⁸ *Ibid.*, pp. 35-39.
- ¹⁹ *Ibid.*, p. 175, Table 6-10.
- ²⁰ *Ibid.*, p. 173, Table 6-9.
- ²¹ *Ibid.*, p. 150.
- ²² ACIR, *Pragmatic Federalism: The Reassignment of Functional Responsibility* (M-105), Washington, DC, U.S. Government Printing Office, July 1976, pp. 38-39.
- ²³ ACIR, *State and Local Roles in the Federal System* (A-88), *op. cit.*, Chapter 2.
- ²⁴ For the impact of federal general revenue sharing on the relative status of different types of local unit, see discussion later in this chapter.
- ²⁵ U.S. Office of Management and Budget, *1980 Catalog of Federal Domestic Assistance*, Washington, DC, U.S. Government Printing Office, 1979, p. 155.
- ²⁶ *Ibid.*, p. 352.
- ²⁷ *Ibid.*, p. 600.
- ²⁸ *Ibid.*, p. 521.
- ²⁹ *Ibid.*, p. 639.
- ³⁰ The CDBG law included in the term "unit of general local government" "a state or a local public body or agency (as defined in section 711 of the *Housing and Urban Development Act of 1970*), community association, or other entity which is approved by the Secretary for the purpose of providing public facilities or services to a new community as part of a program meeting the eligibility standards of section 712 of the *Housing and Urban Development Act of 1970* or title IV of the *Housing and Urban Development Act of 1968*." P.L. 93-383, Sec. 102(a)(1).
- ³¹ Thomas J. Anton, "Outlays Data and the Analysis of Federal Policy Impact," unpublished paper given at The Urban Impacts of Federal Policies Conference, Washington, DC, February 8-9, 1979, p. 30.
- ³² P.L. 93-203. See ACIR (A-58), *op. cit.*
- ³³ In more recent years prime sponsors increasingly are operating programs directly. William Mirengoff and Lester Rindler, *The Comprehensive Employment and Training Act: Impact on People, Places, Programs: An Interim Report*, staff paper prepared for the Committee on Employment and Training Programs, Assembly of Behavioral and Social Sciences, National Research Council, Washington, DC, National Academy of Sciences, 1976, p. 117.
- ³⁴ Lovell, et al, *op. cit.*, Table 6-8.
- ³⁵ *Ibid.*, Table 6-12.
- ³⁶ ACIR, *Impact of Federal Urban Development Programs on Local Government Organization and Planning* (A-20), Washington, DC, U.S. Government Printing Office, 1964, p. 15. For a vivid case study of the impact on local political authority of federally spawned special purpose bodies in the cities of Oakland, CA, and Muncie, IN, see, respectively, Jeffrey Pressman, *Federal Programs and City Politics*, Berkeley, CA, University of California Press, 1975, and Penelope Austin, "The Federal Presence in Middletown, 1937-77," unpublished paper presented at the Annual Meeting of the American Sociological Association, San Francisco, CA, September 5, 1978, pp. 12-13.
- ³⁷ P.L. 90-577.
- ³⁸ Despite the Community Development legislation, however, the number of housing/urban renewal special districts increased from 2,271 in 1972 to 2,415 in 1977. One possible explanation for no drop in number is that general purpose governments continue to use the special housing/urban renewal agency through a formal or informal agreement because of its long involvement in the aided activity.
- ³⁹ ACIR, *Regionalism Revisited: Recent Areawide and Local Responses* (A-66), Washington, DC, U.S. Government Printing Office, 1977, pp. 11-17.
- ⁴⁰ ACIR (A-88), *op. cit.*
- ⁴¹ "Private federalism" is commonly defined as including not only grants to nongovernmental nonprofit organizations but also contracts with such organizations for the acquisition of goods and services. For a description of this broader system, see James W. Fesler, *Public Administration—Theory and Practice*, Englewood Cliffs, NJ, Prentice-Hall, Inc., 1980, pp. 292-302. Also see *Nonprofit Organizations*, Harold Orlans, ed., New York, NY, Praeger Publishers, 1980.
- ⁴² "The Non-Profit Motive Helps Build Communities," *Nation's Cities Weekly*, May 26, 1980, p. 5.
- ⁴³ ACIR, *Fiscal Balance in the American Federal System*, Vol. 1 (A-31), Washington, DC, U.S. Government Printing Office, 1967, p. 170.
- ⁴⁴ ACIR, *Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1978* (A-72), Washington, DC, U.S. Government Printing Office, 1979.
- ⁴⁵ Congressional Budget Office, *Federal Constraints on State and Local Government Actions*, Washington, DC, U.S. Government Printing Office, 1979.
- ⁴⁶ *Ibid.*, p. 6. For a brief discussion of the growth of federal regulation generally, and a table listing the major federal regulatory agencies, see ACIR (A-77), *op. cit.*, Chapter 2.
- ⁴⁷ Congressional Budget Office, *op. cit.*, p. 6.
- ⁴⁸ *Ibid.*, pp. 6-7.
- ⁴⁹ *Ibid.*, p. 7.
- ⁵⁰ *National League of Cities vs. Usery*, 426 U.S. 833 (1976).
- ⁵¹ Lovell, et al, *op. cit.*, p. 172, Table 6-8.
- ⁵² *Ibid.*, p. 175, Table 6-10.
- ⁵³ *Ibid.*, p. 173, Table 6-9.
- ⁵⁴ *Ibid.*, p. 172, Table 6-8.
- ⁵⁵ James B. Croy, "Federal Supersession: The Road to Domination," *State Government*, Winter 1975, p. 32.
- ⁵⁶ Joseph F. Zimmerman, "Partial Federal Preemption and Changing Intergovernmental Relations," paper delivered at 1979 Annual Meeting of the American Political Science Association, Washington, DC, pp. 17-19.
- ⁵⁷ 15 United States Code (U.S.C.) 1191 (1967 supplement).
- ⁵⁸ 42 U.S.C. 262 (1968).
- ⁵⁹ 45 U.S.C. 151 (1970 supplement).
- ⁶⁰ 42 U.S.C. 200g-2 (1974 supplement).
- ⁶¹ 21 U.S.C. 71 (1967 supplement).
- ⁶² *Rice vs. Santa Fe Elevator Corporation*, 331 U.S. 218 (1947), cited in Zimmerman, *op. cit.*, p. 20.
- ⁶³ Zimmerman, *op. cit.*, pp. 20-21.
- ⁶⁴ *Ibid.*, p. 22.
- ⁶⁵ *Ibid.*, p. 24.
- ⁶⁶ P.L. 88-525.
- ⁶⁷ Until it was repealed by the *Food Stamp Act of 1977* (P.L. 95-113), recipients had to pay a "purchase requirement" for an allotment of food stamps.
- ⁶⁸ P.L. 92-603, Title III.
- ⁶⁹ Donald E. Rigby and Elsa Orley Ponce, "Supplemental Security Income: Optional State Supplementation, October 1977," *Social Security Bulletin*, October 1979, pp. 11 and 13.
- ⁷⁰ The ACIR in 1969 recommended that the federal government assume full financing for public assistance, including medical assistance. ACIR, *State Aid to Local Government* (A-34), Washington, DC, U.S. Government Printing Office, 1969, p.

14. In 1980, it proposed that, in addition, the federal government assume full financial responsibility for employment security, housing assistance, medical benefits, and basic nutrition programs, and as a tradeoff terminate or phase out the approx-

imately 420 small categorical grant programs, devolving responsibility for them to the state and local governments or the private sector. ACIR (A-77), *op. cit.*

Unintended Federal Influences on “Who Does What” at State/Local Levels

Beyond federal policies and programs that are intended to affect the activities of state and local governments, there are federal actions that affect those governments unintentionally. They do so by influencing the service demands placed on those jurisdictions and the resources available to meet the demands. Describing the unintentional federal influence in these terms suggests the difficulty of identifying all the federal impacts, to say nothing of attempting to evaluate their significance. That task essentially involves tracing how the federal government interacts with the total political, social, and economic forces of the nation.

Obviously, this is not an assignment that can be undertaken within the limitations of this study, if indeed any single study. The limited objective here is to outline the general dimensions of the picture by identifying some of the principal unintentional influences and assessing their effect on state/local functional assignment, relying mainly on published reports and other secondary sources.

Attention is first directed to leading examples of federal actions that create service needs at the state and local levels, and federal counteractions that have been taken to ease those service demands. Then the focus shifts to actions that influence general state/local capacity to perform and consequently their ability to attract functional responsibilities. Also an attempt is made to describe federal counteractions where the initial federal influence has tended to diminish rather than foster state/local capability. The ultimate impact of the federal influence on state/local functional responsibility is described whenever possible.

FEDERAL ACTIONS CREATING STATE/LOCAL SERVICE NEEDS

The unintended effects of the federal government's service, regulatory, assistance, and revenue-raising activities on the states and their localities are not spread evenly or equitably across the nation. Clearly, the letting of a large defense contract may affect only a relatively few communities, but in those communities it may have a profound influence on the demand for schools, roads, public safety services, and water supply and sewage disposal. Similarly, the issuance of thousands of social security checks has more impact in areas where the aged tend to settle—the sun-belt communities—with consequent increase in demand for the types of services that they need.

Only in a relatively few cases, however, have federal policies had such a severe effect on local economies as to set in motion a political reaction that led to special federal policies and programs to help ease the local impacts. The federal action takes the form either of measures to soften or reverse the effect on service demands or to increase local communities' resources for dealing with those demands. Because the federal government has acted (or seriously contemplates action) to provide relief in these cases, they represent only the most dramatic illustrations of the unintended impacts of federal actions on state/local service requirements.

Three Examples of Special Impact

The three areas examined are military installations, energy development, and refugee assistance.

MILITARY BASES

In periods of successive expansion and reduction of military installations, such as World War II and the Korean and Vietnam Wars, local governments experience severe disruptions of local operations. In times of expansion, the influx of new people seriously strains local services. The school age population increases significantly, placing an added burden on the school system. Transportation and recreational facilities become strained, fire protection and law enforcement forces are stretched thin, and sanitation services and public utilities are overloaded.

When military bases are closed, communities can suffer economic depression from the outmigration of people and trade. The loss of revenue can force se-

vere cutbacks in public services and employment. The school age population drops significantly and leaves the school system with the financial burden of maintaining unneeded facilities and paying underutilized teachers. Police and fire departments may similarly find themselves overstaffed. At the same time increased unemployment places a strain on the state's unemployment compensation fund as well as public assistance and social service resources.

These effects of military base expansion and reduction have long been dealt with through federal impact aid. Starting with the *Lanham Act of 1940*, the federal government has given aid to communities whose populations have increased because of an influx of defense workers and military personnel. Federal education impact aid is probably the best known of these programs.

Under Public Laws 81-874 and 81-875, the federal government pays the full costs of educating the children of parents who both work and live on military bases and half the cost of children whose parents either work or live on military bases. In addition, a school district is eligible for federal funds if the federal government acquires real property in the area which substantially reduces the tax base.¹

What began as a modest proposal to cope with a major problem has grown tremendously. The original program covered only 512,000 children, but now covers about 2.4 million. Of the nation's 435 Congressional districts, 432 received about \$770 million in aid in 1978. Many school districts get the money whether or not the federal presence constitutes a strain. Montgomery County, MD, for example, has a per capita income about 50% higher than the national average and its government workers pay local sales, income, and property taxes, but the county still received about \$6 million for the year 1978. Likewise, neighboring Fairfax County, VA, received \$13 million.²

Federal impact aid is also given to communities that have been affected by base closures enabling them to make successful economic recoveries. The recovery histories of 21 Air Force installation closings in communities and installations of all types and sizes that took place between 1969 and 1975 indicated that all 21 communities were recovering from the effects of the closings, although at different rates and to different degrees. Much of the recovery success can be attributed to the fact that all the communities requested assistance from the Department of Defense's Office of Economic Adjustment (OEA), which is the executive coordinating agency of the

President's Interagency Economic Adjustment Committee (EAC).³

OEA's primary strategy is to provide guidance to community leaders in their efforts to make maximum use of federal money available through EAC's 20 federal agency members. The Economic Development Administration, for example, has funds available to help impacted communities obtain professional community planning services and attract new industries to the area. Special defense injury loans are also available through the Small Business Administration. In addition, the *Federal Surplus Property Act of 1947* contains provisions for public benefit discounts in acquiring military properties for civilian reuse. Moreover, the Air Force gives 100% discounts to impacted communities that want to reuse surplus defense property for aviation, education, health, or recreation.⁴

ENERGY DEVELOPMENT

Another highly visible example of federal influence in creating state/local service needs is found in the energy field. The national goal of securing more domestic energy resources has the potential to create a number of "boomtowns" during the next decade which will develop shortages in housing, recreation, and other public facilities and services. Craig, CO, for instance, a city of about 4,000 population in 1970, experienced three years of energy-related growth from 1976-79. Some of the results were increases in crimes against people (900%), alcoholism (623%), child abuse (130%), and child behavior problems (1,000%).⁵

Rock Springs, WY, had a similar experience. The city received only one month's prior notice when construction of a very large coal-fired power plant began in 1972. Subsequently, the doctor-patient ratio went from 1/1100 to 1/3700 within two years. The construction of a new supermarket took two years instead of the anticipated six months because of difficulties in keeping a construction workforce going in a boom situation. Rock Springs and neighboring Green River were also faced with inadequate law enforcement services and overcrowded schools.⁶

Other communities have experienced similar problems. In Wise County, VA, local mortgage credit virtually vanished. In Gillette, WY, land acquisition, construction and mortgage capital were in short supply. Housing problems were critical at energy sites in Massachusetts, Colorado, and Central Appalachia.⁷

A 1978 Department of Energy study identified 41 counties across the country with the potential of sup-

porting a synthetic fuels industry.⁸ These counties could very easily face the same problems encountered by Craig and the other areas that have already suffered "boomtown" symptoms.

In an effort to anticipate future energy-related problems, Senators Ford (KY), Glenn (OH), Huddleston (KY), and Hart (CO) introduced in the 96th Congress a proposed "Energy Impact Assistance Act" (S. 1699), which would provide energy impact funds for affected areas. As written, the proposed legislation would work in the following manner:

- The Farmers Home Administration's (FmHA) present energy impact assistance program, which is now limited to areas affected by coal and uranium production only, would be expanded to include communities adversely affected by all types of new energy development. FmHA would provide local planning assistance and coordinate a number of other impact programs administered by a variety of federal agencies. A community would be eligible for assistance under the program if there were no other aid available from existing sources.
- Assistance to local governments would be available through states via a revolving fund mechanism. If a community were unable to borrow or prevented legally from incurring further debt, grants would be available.
- The program would be essentially a loan program. Repayment to the state revolving fund would be required if a community recovered its "upfront" costs from revenue produced from the energy development. Similarly, if a state had taken care of all its impact needs, then any funds paid back to the revolving fund would be shared with the federal government in accordance with the original federal contribution to the fund. As a consequence, it is expected that a considerable amount of the federal funding (\$750 million for fiscal years 1981 through 1985) would be recovered.

The bill was reported out by the Senate Energy and Natural Resources Committee but was not acted on by the Senate in the 96th Congress.⁹

THE INFLUX OF REFUGEES

A third federally related problem that has strained state and local services and resources is the influx of refugees. As of May 31, 1980, 360,811 Indochinese refugees, mostly Vietnamese, had entered the United States and were arriving at a rate of 14,000 per month. As of June 12, 1980, over 800,000 Cubans had also sought political asylum in this country since the 1959 Cuban revolution. This figure included 112,950 so called "boat people" who arrived in early 1980. Finally, although there was no accurate count, some 8,000 Haitians had also entered, bringing their total to an estimated 17,000.¹⁰

The federal government initially tried to follow a policy of dispersing the Indochinese, particularly the Vietnamese, evenly around the country. Many of them eventually moved to join relatives or other Vietnamese so that there were exceptionally heavy concentrations in the metropolitan areas of Los Angeles, CA, and Houston, TX. The Cubans and Haitians were located primarily in Miami, FL (the refugee capital of the U.S.), although a sizable colony of Cubans resided in New Jersey. By mid-1979, ten states—California, Texas, Pennsylvania, Louisiana, Washington, Virginia, Illinois, Florida, New York and Minnesota—had absorbed over half the refugee population.¹¹

The state and local services most affected by this influx of people are public housing, law enforcement (refugees are most often the victims of crime and need police protection), health, education, and other social welfare services. In the area of public housing, for example, it is not uncommon to find instances where as many as 25 refugees have crowded into one or two-bedroom apartments.¹²

The Dade County School District (Florida) is an illustration of the problem's impact in the education field. Between April 28, 1980 and June 16, 1980, some 6,045 children of Cuban, Haitian, and other refugee groups were enrolled in school. It was estimated that by the time classes began in September, 10,000 to 11,000 would have registered. The excess costs to provide special services, i.e., bilingual instruction and health services, beyond the basic educational costs were calculated at \$1,000 per student per year. The total added financial burden to the school district was estimated at \$10 to \$11 million.¹³

The federal government has assisted state and local governments in coping with the most recent wave of refugees through the *Refugee Act of 1980*.¹⁴ Under this act, all political refugees are eligible for assistance under the AFDC, Medicaid, and SSI pro-

grams for a period of 36 months from the date of arrival, and the normal head of household requirement is waived for AFDC cases. In addition, the federal government will fully fund anything a state can or wants to offer in the way of social services, either through its own agencies or by contract with private nonprofit organizations. Refugees also are eligible for the CETA and food stamp programs, as well as federally financed public housing. In June 1980, it was estimated that the federal government would spend \$1.7 billion to care for refugees in FY 1980 and the projected figure for FY 1981 was \$2.1 billion.¹⁵

Despite these federal aid programs, state and local governments have been or can be adversely affected by the flow of refugees in two ways. First, 36 months of federal assistance is frequently not enough to integrate fully many refugees into the system, especially those with language problems and/or few or no marketable job skills. After federal assistance expires, state and local governments are called on to assume responsibility for an essentially federal problem.

Second, some state and local governments have been affected by the failure of the federal government to grant refugee status to recent Haitian and Cuban "boat people" and thus make them eligible for benefits under the *Refugee Act of 1980*. So far, these people have been treated as illegal aliens (those released to friends and relatives are "parolees for deferred inspection") rather than political refugees seeking asylum because their reason for coming is viewed as an attempt to avoid economic hardship rather than an effort to escape political persecution. Their status, however, has not prevented them from using many state and local services.

In July 1980, an amendment to the foreign aid authorization bill provided an additional \$100 million in federal funds in each of fiscal 1980 and 1981 for reimbursement to state and local governments for costs connected with the refugee influx. Without resolving the legal status of Cubans and Haitians, the law partially reimbursed state and local governments.

Then in October 1980, Congress enacted legislation to help alleviate funding problems for communities with a sudden influx of refugees.¹⁶ Among other things, it authorized three federal grant programs to assist state educational agencies in providing education to Cuban, Haitian, and Indochinese refugees; provided \$450 per refugee child in fiscal 1981-83 to help cover the basic cost of educating Cuban and Haitian children who entered the United

States after November 1, 1979; provided an additional \$350 to \$750 per refugee child in fiscal 1981-83 in special impact assistance for school districts educating large numbers of Cuban, Haitian, or Indochinese children; provided \$300 for each Cuban or Haitian refugee aged 16 or older enrolled in an adult education program in fiscal 1982 and 1983; and authorized the President to reimburse state and local governments for social services—such as Medicaid and Aid to Families with Dependent Children—furnished to the refugees.¹⁷

The Effects of Federal Property Ownership

In addition to the geographically selective impacts of such specific federal policies and programs as the three just cited is the diffused effect of the federal government's presence as a property owner nationwide. It is the single largest owner of real property in the United States, currently possessing 775.3 million acres of land—more than one-third of the country's entire area—23,988 installations, 2,598 million square feet of floor area, and various other buildings and structures and facilities. In 1978, U.S. real property was valued at approximately \$279 billion: 23% in land, 53% in buildings, and 24% in structures and facilities. These holdings included forest reserves, office buildings, harbors, housing projects, grazing lands, waterways, airports, cemeteries, hospitals, defense bases, parks, power lines, utility systems, museums, industrial facilities, communications systems, railroads, navigation and traffic aids, monuments and memorials, and islands used for military target practice.¹⁸

In a 1978 study, ACIR examined the effects of federal land ownership on local government. The study covered the nearly 90% of federal public lands administered by the Bureau of Land Management, the U.S. Forest Service, the Army Corps of Engineers, the Bureau of Reclamation, and the National Park Service. The principal conclusion was that federal ownership of these lands did not significantly add to the tax burden of the counties affected, nor did it increase the counties' level of expenditures. The report concluded further that federal compensatory aid to public land counties sufficiently offset either alleged denied tax base or imposed expenditure effects, or both, in such counties. ACIR recommended that Congress maintain its existing compensation programs, but also provide for addi-

tional compensation to counties which meet certain "hardship" criteria.¹⁹

The 1978 study did not deal with the question of "nonopen space" federal properties, such as office buildings and lands administered by agencies other than those cited above. A later ACIR study focused on this question.²⁰ Among its more important findings is the eroding effect that federal tax exemptions have on state and local tax bases. Excluding "open space" lands, the total erosion in 1978 amounted to \$210 billion of the \$279 billion of U.S. property. To put this in perspective, if this \$210 billion were fully taxable, and no other adjustments were made in current property tax rates or federal payment programs, \$3.7 billion would have been added to state and, primarily, local treasuries. This is equivalent to an increase in total local property tax collections of almost 6%.

The effects of federal immunity from state and local taxes, the report contends, cannot be justified on the grounds that increased benefits accrue to an area because of the federal presence. Private business enterprises create a similar benefit stream but also provide taxes to pay for the increased demand for services that they create. A comparison of the benefits created by the aircraft industry in Seattle, the tourist industry in Miami, and the financial center in New York with those created by the National Capital area from federal office buildings or the many "military towns" throughout the country illustrates the point vividly.

ACIR recommended that Congress authorize a program of payments in lieu of real property taxes to state and local governments in an amount equal to that which would be paid if the federal government were actually subject to the real property tax.

The Metropolitan Area Impact

While the federal government's responsibility for creating problems for local communities was fairly clear in the location and closing of military installations, energy resource development, and refugee assistance, it was not so apparent in another field where the unintended effects of federal policies on local service needs and resources have been severe. This is the field of metropolitan areas and specifically the problems of central cities and some of their older, near-in suburbs. The story of the federal contribution to the problem is a familiar one and is well summarized in a quotation from a Rand Corporation study:

The overriding conclusion of this report is that federal policies have contributed and continue to contribute to the urban crisis. They have reinforced regional and urban population deconcentration and the growing concentration of the economically and socially disadvantaged in central cities. These are not the desired outcomes of social policies but have arisen inadvertently because federal programs tend to encourage new development at the expense of maintenance or redevelopment and to aid the disadvantaged where they live. Many of the factors that have contributed to the central city problems are out of the hands of local governments and are embedded in the structure of federal programs and policies. A federal strategy to assist cities in becoming healthier business and residential centers must embrace not only explicitly urban programs but the complex web of social and economic policies that have affected location decisions.²¹

What are the major federal policies that unwittingly “contributed to the central city problems”? Federal taxation and credit management policies, to begin, encouraged suburban development. Since 1913, the federal government has allowed the deduction of interest charges and property taxes on private homes from federal income taxes. Furthermore, Section 1034 of the Internal Revenue Code allows the deferment of payment of capital gains taxes if reinvestment in a second, more expensive, home follows the sale of the first home. The net effect of these policies has been to foster home ownership. Unfortunately for the cities, most new housing construction (80% since 1949) has occurred in the suburbs.²²

The federal government also has spurred suburban development through the regulation of private credit flows, mortgage insurance, and guarantees. Programs of the Federal Housing Administration (FHA) and residential mortgage guarantees through the Veterans Administration enabled many families in the post-World War II period to buy homes sooner and pay more for them than they would have otherwise been able to do.²³

Federal policies in this area may not have been the major force in the process, but did reinforce underlying market forces. Money flowed from private lending institutions, with federal encouragement, to places that the lending institutions felt offered the

safest and highest yield. This resulted in a great amount of available credit for suburban areas, but left little for central city housing.²⁴

Furthermore, FHA, until 1967, made a practice of “redlining” major sections of central cities and targeting their programs on the suburbs. Mortgages in slum districts or even in “gray areas” were seldom, if ever, insured. These areas continued to deteriorate.²⁵

Federal highway construction policies have also inadvertently contributed to the out-migration of more affluent households from the inner city to the suburbs, principally through high federal matching grants for expressways leading out of and around central cities. The contribution urban mass transit policies have made in stemming this flow is uncertain. The Rand Corporation study sums up federal transportation policies in this way:

federal commitment to highway construction has extended suburban rings. The rise of automobile commuting and the demise of mass transit has made automobile ownership a requisite for suburban living, confining the poor to central areas served by public transportation. The extent to which Urban Mass Transit Administration operating grants will lead to broadly improved public transport and therefore extend the metropolitan radius of accessibility for the poor is, as yet, uncertain. The formula for distributing these grants favors small metropolitan areas.²⁶

Federal taxation, credit management and highway policies represent three key areas in which policies have had unintended and indirect effects contributing to social and economic disparities between central cities and their suburbs. The Rand Corporation study summarized such policies and their influences as in *Figure 1*.

Suburbanization was marked by an out-migration of younger middle income taxpayers, industry, and retail trade; and a consequent concentration in the core cities of the aged, poor, and disadvantaged and a deteriorating tax base. The functional implications for central cities were an increased need for public assistance, social services, and other services associated with its population, including changes in the criminal justice system. For suburban jurisdictions, it meant expanded demand for physical facilities and schools.²⁷

Figure 1
**SUMMARY OF THE INFLUENCE OF MAJOR FEDERAL POLICIES ON
 INTRAMETROPOLITAN AREA POPULATION AND RESIDENTIAL LOCATION**

Policy	Suburbanization	Segregation
Highway Construction	Encouraged reduced residential density and nonmetropolitan growth	Suburbs open only to those with automobiles
Mass Transit	Small encouragement to decentralization	Too small to allow low income suburbanization
Federal Recreation Facilities	Negligible acreage in inner city	
Housing Policies Tax Structure	Encouraged suburbanization and favored new construction	Led to suburbanization of high and middle income households
Mortgage Guarantees	Encouraged suburbanization and favored new construction	Led to suburbanization of high and middle income households
Public Housing		Concentrated in inner city
Building Codes		Prevented construction of low cost new housing in suburbs
Homeownership Programs for Poor		Concentrated in inner city
Infrastructure Grants	Reduced cost of suburban development	

SOURCE: Adapted from Roger J. Vaughan and Mary E. Vogel, *The Urban Impacts of Federal Policies: Vol. 4, Population and Residential Location*, Santa Monica, CA, Rand Corporation, May 1979, p. xii.

FEDERAL REMEDIAL EFFORTS

Congress has responded to the central cities' problems with a variety of programs over the years, including urban renewal, Model Cities, and Community Action. With respect to the specific policies that had negative effects, it partially rectified past FHA policies with passage of the *Housing and Urban Development Act*²⁸ in 1968. Section 223(e) of the act permitted mortgage insurance for the "repair, rehabilitation, construction, or purchase of property in an older, declining neighborhood."

Congress further strengthened this initiative in 1977 with the *Community Reinvestment Act (CRA)*,²⁹ which mandated that "federally regulated lenders have an affirmative obligation to serve the convenience and credit needs of their entire communities, including low and moderate income areas within them."³⁰ Passed as Title VIII of the *Housing and Community Development Act of 1977*,³¹ the CRA requires federally chartered or insured banks and savings and loan associations to publish a statement which includes "a map of the financial institution's local community, a description of the types and

amounts of credit it makes available, a notice that its plans to branch, merge, or move are public information, and an invitation to the public to comment on its community lending performance."³²

Cities and local governments can review the statement and work with the institutions in an effort to improve their performance in community reinvestment, if that performance falls short of desired goals. If a mutually satisfactory agreement cannot be worked out between the institutions and the local authorities, and the institutions are still thought to be deficient in their performance, then the matter can be referred to the appropriate regulatory agency. A hearing can be scheduled and possible sanctions can include a denial of permission to branch, merge, or move.³³

Highway construction policies are not so easily reversed. Once highways are constructed, modifications are difficult and expensive. The federal government has reacted to this problem by attempting to anticipate the effects in future construction. In a memorandum from the President to the Secretary of Transportation, for example, it was urged that "careful review [be] given to any transportation proposal which would encourage urban sprawl—one of the major causes of our energy consumption—which would tend to attract jobs out of our urban centers."³⁴

In a related area—the construction of regional shopping malls—similar action is also being undertaken. A recent policy proposed by an assistant secretary of HUD would "flatly commit the federal government to discourage proposed regional malls when it's clearly shown they would undermine city business districts and seriously increase gasoline demand."³⁵ Furthermore, before granting funds for beltway and highway interchange construction, the Department of Transportation must determine that "they are not detrimental to the economy of the city around which they will be built."³⁶

Nonmetropolitan Areas

Federal policies have affected nonmetropolitan as well as metropolitan areas (nonmetropolitan includes small towns and small cities as well as rural areas). Unfortunately, the literature on the impacts on nonmetropolitan areas by federal policies and activities "ranges from guarded observation to speculation."³⁷ This is unfortunate because nonmetropolitan areas are beginning to experience growth and the

problems associated with growth at an exponential rate. According to a White House study, the annual average growth rate of rural areas has been 1.3% since 1970, a rate that exceeds the urban growth rate by 40%.³⁸

Robert M. Press identifies a number of reasons for this growth:

- Retirees, with better pensions than ever before, can more easily afford to move to areas of their choice. They leave old friends, but make new ones.
- An increasing number of workers disenchanted with urban life are taking jobs, often at less pay, in rural areas.
- Growth feeds on growth. More jobs have been opening in rural areas because of an increase in retirees and tourists there and the movement of industries into less urban areas. The jobs draw newcomers and keep some from leaving who might otherwise have gone to the cities.³⁹

The current problems of rural America are traceable in large part to the newness of the rural growth phenomenon. In the past, there have been federal programs targeted at rural areas but they aimed at treating the problems of rural decline. *The Rural Development Act of 1972* (P.L. 92-419), for example, attempted to upgrade the living conditions and employment opportunities in rural America with programs designed to encourage the development of business, industry, community centers and services, and pollution control and abatement. Indeed, the historic commitment of the federal government to rural America and its problems has often sparked the feeling at least that urban interests have been slighted in favor of rural ones. Current rural problems, however, involve growth rather than decline and the new and unique nature of this development is only beginning to be appreciated. Press quotes one Congressional staffer working on legislation to expand aid to energy boom towns as saying, "this is the first time I've heard of retirement boom towns."⁴⁰ This unfamiliarity with the problem extends to other federal rural experts as well as private groups interested in rural problems.⁴¹

Signs appear, however, that federal interest in rural development problems is on the rise. In September 1980, a new *Rural Development Policy Act* was signed into law by President Carter.⁴² It calls

for the establishment of an Under Secretary for Small Community and Rural Development in the Department of Agriculture, authorizes a circuit rider program in the Farmers Home Administration to provide technical assistance, financial management, and development expertise to rural community officials who otherwise would not have access to such assistance, and expands rural planning grants from \$10 million to \$15 million.⁴³

FEDERAL ACTIONS AFFECTING STATE/LOCAL CAPACITY TO PERFORM

The federal government exerts influence on state and local capacity to perform, and therefore indirectly on their functional responsibilities, through three principal channels: fiscal resources, organization and procedures, and political processes.

Fiscal Resources

Under the heading of fiscal resources, to begin with, are the various federal aid measures cited in the previous section that help to offset the unintended negative impacts of particular federal policies and programs on certain limited geographic areas. The average state and locality, however, have to look to the total range of conditional and unconditional grants for help in shoring up their resources.

GRS, ARFA, CONDITIONAL GRANTS

The major federal support for state/local resources is the General Revenue Sharing programs (GRS). From 1972 through FY 1980, it provided states and general purpose local governments with an assured flow of more than \$6 billion per year with practically no federal restrictions on their use. The legislation was renewed for three years in December 1980 with no increase in funding.⁴⁴ While the program remains essentially unchanged for localities, the act authorizes state participation only for the last two years and then only if states relinquish categorical grant funds to the amount of the shared revenue.

The 1976-78 Antirecession Fiscal Assistance program (ARFA) combined elements of GRS and impacted aids. Established by Title II of the 1976 *Public Works Employment Act* and extended as part of the Administration's economic stimulus program by the *Intergovernmental Antirecession Act of 1977*, the program selectively distributed emergency assistance

in the form of unrestricted grants to state and local general purpose governments which had been adversely affected by sustained periods of high unemployment.

The amount allocated each quarter depended on national unemployment for the quarter ending three months earlier. The national fund was divided into two parts like GRS: one-third of the total for payments to state governments and two-thirds to local governments. Among the governments, however, no payment was made unless the unemployment rate was higher than 4.5%.⁴⁵ Total distribution was \$1.7 billion in 1977 and \$1.3 billion in 1978. The legislation expired in September 1978.

GRS and ARFA are the only two unrestricted grant programs in recent history and therefore were the only sources of federal money for use by state and local governments for strengthening their general capacity. Other grants have been conditional, the block grants of course less so than the categorical.⁴⁶ As noted earlier, however, even conditional grants might make funds available for other than the purposes designated in the authorizing statute, to the extent that they are fungible, e.g., general capacity building. A review of grant impact studies cited earlier indicates that at any particular time a conditional grant might well be fungible, that is, substitutable for the recipient's own money.⁴⁷ In particular, there are strong indications that a substantial part of the CETA block grant money is fungible.

The job displacement potential of the program is the major focus of most research done on CETA. According to Whitman and Cline of The Urban Institute, a study by the National Planning Association of the Public Service Employment Program (PSE)—the forerunner of CETA—found that, after one year, 54 new positions had been produced for every 100 PSE-funded positions. Another study by Johnson and Tomola showed job creation equal to 42% of CETA jobs after four quarters and only 3% after six quarters. Research by Borus and Hammermesh indicated a 50% job creation effect after four quarters and 24% after six. Finally, a Brookings analysis established that 82% of CETA positions were new ones and only 18% constituted displacement. The remarkable difference between the Brookings results and those of the other studies is due to Brookings' including nonprofit organizations and data from governments not used in the other studies. Whitman and Cline thought that substitutions may be higher than Brookings estimates.⁴⁸

The number of new jobs created was less than ex-

pected and Whitman and Cline judged that the program was having an overall impact similar to GRS and ARFA. They summed up their conclusions in the following way:

Considering that the expenditure impact of CETA is greater than the job creation impact, job creation coefficients ranging between 25% and 47% are roughly in line with GRS and ARFA impacts. Wages and salaries are about half of total expense for current operation and capital outlay. If recipients were to spend a portion of funds displaced by CETA equal to the amount used for job creation, expenditure impact coefficients would be double job creation coefficients. Thus, there is no reason to think that the expenditure impact of CETA is substantially different from that of GRS or ARFA. Indeed, Gramlich's study showed essentially the same long-run impact for both types of grants.⁴⁹

The same authors examined the impact of the Community Development Block Grant (CDBG), relying mainly on a Brookings Institution study, and found a different situation from that of the CETA program. A major finding is that about 85% of CDBG funds were clearly allocated by all jurisdictions to new spending and program maintenance in both the first and second years of the program.

Substitution accounted for only 7.2% in 1975 and 4.8% in 1976. Unlike the impact of GRS and the ARFA and CETA block grants, there was very little substitution.⁵⁰ An interesting aspect of this finding is that regardless of whether a jurisdiction is experiencing extreme, moderate, little, or no fiscal pressure, the degree of substitution is very low and virtually the same.⁵¹ This is a puzzling phenomenon because one would expect jurisdictions experiencing extreme fiscal distress to engage in more substitution.

Whitman and Cline give three possible explanations for this small substitution effect. First, the application and administration processes may be coercive enough to intimidate recipients into using CDBG funds for projects that they otherwise would not have supported. Second, because CDBG was a consolidation of previous categorical programs designed to be stimulative, recipients tended to use the block grant funds for projects they would not have otherwise undertaken in order to satisfy the old federal requirement. Finally, the Brookings field associates may have encountered problems in

estimating the expenditure effects of CDBG because pre-existing programs made it difficult to determine what expenditures would have been made in the absence of CDBG funds. This problem perhaps led to an inflation of the expenditure figures.⁵²

CDBG thus seems to have an entirely different impact than that of GRS, ARFA, and CETA. A narrow set of program requirements and careful administration have evidently led to clear expenditure stimulation. Still, Whitman and Cline suggest that these expenditure impact figures may be somewhat inflated and the recipients may have been able to manipulate CDBG funds to serve their own needs to a greater extent than the Brookings study reflects.⁵³

DIFFERENCES IN IMPACT BY TYPE OF UNIT, FISCAL USE, AND FUNCTION

The impact of GRS receipts varies according to size and type of governmental unit and region. Counties, for example, devoted the highest proportion of funds to maintain or increase operating expenditures. Cities were the next highest and towns and states followed in that order. Generally, the amount of GRS funds assigned to operating expenses increased with size of governmental jurisdiction and decreased for the two smallest classes of cities.⁵⁴

Pronounced regional differences in fiscal impact also exist. Large shares of GRS were devoted to operating expenditures in big northeastern cities (93.4%) and north central cities (79.6%). With regard to capital outlays, the northeastern cities consigned nothing and the north central cities allocated only 8.7% to this fiscal category. The high levels of fiscal stress in these cities is reflected in the fact that very little GRS was used for tax abatement. These allocation patterns are reversed in the moderate to small northeastern cities. Counties also exhibit a reverse pattern.

Southern and western cities present different allocation patterns. Smaller shares in both groups went to operating expenditures (approximately 32%) and larger shares to capital outlays (32.5%).⁵⁵ A much more complete breakdown of GRS' fiscal impacts on state and local governments can be seen in *Table 7*.

Evidence on GRS' impact on functions shows the four leading uses were for public safety, transportation, environmental protection and recreation, and libraries. There is some disagreement between the Nathan and Adams and the Juster studies concerning the extent of the usage. These differences are contrasted in *Table 8*.⁵⁶

Table 7
**ESTIMATED FISCAL IMPACT OF GRS UPON STATE AND LOCAL
 GOVERNMENTS BY REGION, FY 1974**
 (percentages)

Region	Number	Fiscal Impact Category					
		Operating Expenditures	Capital Expenditures	Local Transfers	Total Expenditures	Local Taxes	Other
Municipalities: 300,000 and Over Population							
Northeast	5	93.4%	0.0%		93.4%	4.8%	1.7%
North Central	7	79.6	8.7		88.3	14.4	- 2.6
South	8	32.3	27.5		59.8	22.8	17.4
West	7	31.5	37.5		69.0	9.6	21.3
Municipalities: 100,000 to 299,999 Population							
Northeast	11	12.7	2.1		14.8	71.8	13.4
North Central	10	41.2	35.5		76.7	33.9	- 10.6
South	8	32.1	37.5		69.6	27.5	0.9
West	11	41.7	46.8		88.5	12.8	- 1.3
Municipalities: 100 to 99,999 Population							
Northeast	178	7.4	38.7		46.1	38.0	15.8
North Central	167	13.4	57.5		70.9	11.3	17.8
South	85	12.6	67.9		80.5	9.5	15.8
West	82	19.1	66.2		85.3	6.5	8.5
Counties							
Northeast	28	25.4	35.3		60.7	24.2	15.1
North Central	44	32.9	46.4		79.3	10.5	10.6
South	49	22.8	47.6		70.4	10.4	19.3
West	22	9.8	60.0		69.8	12.4	13.1
States							
Northeast	9	24.6	2.2	39.8	66.6	34.2	- 0.8
North Central	12	20.6	20.2	28.6	69.4	15.4	15.2
South	16	13.3	21.8	10.7	45.8	8.8	45.4
West	13	18.3	9.4	32.8	60.5	40.2	- 0.7

SOURCE: Ray D. Whitman and Robert J. Cline, *Fiscal Impact of Revenue Sharing in Comparison With Other Federal Aid: An Evaluation of Recent Empirical Findings*, Washington, DC, The Urban Institute, 1978, p. 128, based on findings on Survey Research Center, Institute for Social Research, University of Michigan, *The Economic and Political Impact of General Revenue Sharing*, F. Thomas Juster, ed., Washington, DC, U.S. Government Printing Office, 1976, Tables 2-9 and 6-7. The ISR nonresponse category was omitted in calculating the percentages.

Table 8
**COMPARISON OF BROOKINGS INSTITUTION AND
 INSTITUTE FOR SOCIAL RESEARCH (ISR)
 ESTIMATES OF FUNCTIONAL IMPACT OF REVENUE SHARING, 1974**

	Municipalities		Counties		Townships		States
	Brookings	ISR	Brookings	ISR	Brookings	ISR	Brookings
Public Safety	27.8	20.5	13.9	23.6	3.2	13.3	5.0
Environmental Protection	13.2	17.2	5.9	1.8	33.3	9.4	17.0
Transportation	19.6	16.1	23.8	15.0	36.5	36.2	29.7
Health	2.0	5.8	5.6	8.7	0	3.2	11.8
Recreation and Libraries	12.4	17.1	10.1	9.9	7.2	10.8	4.8
Social Service	5.5	0.8	5.4	5.3	0	4.0	4.6
Education	0	3.3	7.8	4.6	0	0.9	13.7
Other	9.7	10.3	18.0	14.6	19.8	15.4	7.0
Not Allocated	9.5	8.8	9.6	16.3	0	6.8	6.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: Ray D. Whitman and Robert J. Cline, *Fiscal Impact of Revenue Sharing in Comparison With Other Federal Aid: An Evaluation of Recent Empirical Findings*, Washington, DC, The Urban Institute, 1978, p. 119, based on findings by Nathan and Adams, *Revenue Sharing: The Second Round*, p. 68; and based on findings in Survey Research Center, Institute for Social Research, University of Michigan, *The Economic and Political Impact of General Revenue Sharing*, F. Thomas Juster, ed., Washington, DC, U.S. Government Printing Office, 1976, Table 3-3, a weighted average of functional allocations by size groups using total revenue sharing allocations as weights. Whitman and Cline table shows no ISR figures for states.

Usage varied to some extent according to type of jurisdiction. Using only the data from the Brookings study, the four leading uses of GRS by states were transportation, environmental protection, education, and health services, in that order. For municipalities, the functions were public safety, transportation, environmental protection, and recreation and libraries. For counties, the leading uses by function were transportation, public safety, recreation and libraries, and health services. Finally, townships used GRS for transportation, environmental protection, recreation and libraries, and public safety in that order, with roughly two-thirds of the funds devoted to the first two. Recreation and libraries and public safety received only a little more than 10% combined.

The implication of the data is that state and local jurisdictions were using GRS to support the traditional functions they have performed. Counties are an exception to this generalization. The major functional uses of GRS by counties reflects the growth of urban-type functions performed by these jurisdictions.

Whitman and Cline used studies by the Peat, Marwick, and Mitchell and Co., in assessing the ARFA program, although they questioned the functional impact data since it was based on interviews.⁵⁷ The data show that the states spent most of the funds to support two functions—education (29%) and health and welfare (32%). Other functions received very

small percentages of ARFA receipts compared to these two functions.

Counties allocated most of their funds to four functions—public works (26%), health and welfare (26%), general government (21%), and public safety (17%). There were some significant differences, however, in the amounts spent for these functions between large and small counties. Large counties allocated much more to public safety (23%) than small counties (8%). Small counties, on the other hand, devoted much more to public works (68%) than large counties (5%). A large variance can also be detected in the health and welfare function with 41% allocated to this function by large counties and 2% by small counties. The general function category shows that large counties spent 16% on the health and welfare function and small counties, 29%. Overall the data tend to confirm the trend toward the assumption of urban functions by counties.

The data on townships show an even split in the use of ARFA funds. The public safety function received 50% and the general government function, 50%.

The three leading functions that cities allocated ARFA funds to were public safety (29%), public works (30%), and general government (12%). With regard to the public safety function, however, there was a significant difference in the amount spent by large nonstressed cities (37%) and stressed and small

cities (both 26%). A variance can also be detected in the public works function, with small cities allocating 38% to this function and large stressed cities 26% and large nonstressed cities, 22%. Small cities and large nonstressed cities both devoted 9% to the general government function and large stressed cities, 17%.

The data's primary implication is that ARFA funds were used to support the functional responsibilities most relevant to each jurisdiction. States, for example, devoted large shares to health and welfare and education. Cities, however, allocated much of their funds to public safety and public works.

THE COST SIDE OF CONDITIONAL GRANTS

Offsetting the resource aspect of federal conditional grants, of course, are the costs to the recipient of the programmatic or procedural conditions they impose. Again, the Lovell report provides some pertinent data.

Forty-seven percent of the cost of federal conditions-of-aid mandates was paid for from sources other than federal or state aid, mainly the local general fund (45%), according to Lovell's investigators.⁵⁸ Counties did better than cities, having to rely on their general funds for only 32% of the conditions-of-aid cost as against 56% in the cities.⁵⁹

On a functional basis—and lumping cities and counties together—the local drawdown on the general fund for the mandates varied from as much as 100% for environmental activities, to 75% for transportation, 56% for public protection, 30% for health, and 11% for general government.⁶⁰ “General government” mandates affect primarily the basic structural organization of the jurisdictions. Lovell comments, apropos the low local funding required for federal mandates of this category: “It comes as no surprise that when the federal government wishes to influence local structures, a province that has usually been left to the states, it does so by providing most of the resources as well as the mandates.”⁶¹

Finally, the local share also varied according to the type of mandate. Thus, horizontal mandates (federal conditions-of-aid cutting across various departments, programs or functions) required 100% local general fund support; vertical mandates (applicable to only one function, agency, or program) required only 50%. Viewed another way, 91% of conditions-of-aid of a programmatic nature had to be funded out of the local general fund, whereas only 52% of procedural conditions were so supported.⁶²

GRS AND GENERAL PURPOSE LOCAL GOVERNMENTS

One point merits further comment in regard to GRS as a general funding source for local governments. While GRS is virtually unrestricted as to what functions it may be used for, it is limited as to who may use it at the local level, specifically, general purpose governments. As noted earlier, this reflects conscious Congressional policy to cease encouraging the creation of special purpose units and thereby eroding the authority of general purpose units.⁶³

In following this policy in the GRS program, however, Congress has not entirely satisfied the proponents of general purpose local governments, or at least the majority of them. The reason is that general purpose localities are defined in the legislation to include towns and townships. In at least nine of the 20 states that have that type of local unit—the so-called rural township states—townships often perform few services with few if any full-time employees.⁶⁴ Their critics charge, therefore, that, instead of improving the overall efficiency and responsiveness of local government, the GRS law has served to sustain or even revive local units that should have been left to expire. Their supporters, on the other hand, defend townships as the most local and therefore the most democratic unit, deserving of support as much as any other general purpose unit.

Thus, while not directing what services shall be performed but influencing the viability of units available to perform them, GRS has a critical impact on a key functional assignment issue at the local level. (For a fuller discussion of the GRS-township issue and its implications, see “Which Way Rural Townships?” in Chapter 4 of ACIR report A-88, *State and Local Roles in the Federal System*.)

Administrative Impacts

Besides affecting their resources, the federal government influences state and local governments' capacity to perform by affecting their procedures and organization. The main vehicle, again, is the conditional grant-in-aid.

PROCEDURAL CONDITIONS OF AID

The Lovell study throws light on the extent to which federal grant-in-aid programs impose procedural requirements. Over 82% of the 1,260 federal mandates reported in the five cities and five counties

included in the 1979 survey were conditions-of-aid rather than direct orders. Likewise, 82.1% were classified as procedural rather than programmatic or constraint mandates.⁶⁵ The pace of mandating, moreover, has been increasing in recent years. Through 1960 only four conditions-of-aid mandates were issued. The number rose to 24 in 1961-65, 92 in 1966-70, 559 in 1971-75, and 354 in the three-year period 1976-78.⁶⁶

Procedural mandates, to reiterate, are defined as those that regulate and direct behavior as a jurisdiction or one of its agencies or departments produces goods and services. They require the provision of some activity, good, or service as *inputs* into the production of public service outputs, whether these outputs are mandates or whether they are otherwise routine local activities. The report distinguishes among the following types of procedural mandates: reporting, performance (nonfiscal mandates that are antecedent to a program quality or quantity goal), fiscal, personnel, planning/evaluation, record keeping, and residual mandates.⁶⁷

The impact of procedural conditions-of-aid mandates is revealed by two questions posed in the Lovell survey. When asked whether a procedure similar to the one mandated was used before imposition of the mandate, 63% of the responses indicated that it had not been carried out at all, and an additional 14% said that it had been carried on only partially.⁶⁸ Furthermore, 63% claimed complete compliance and 31% substantial compliance with procedural mandates.⁶⁹

Variations by Type of Grant

The Lovell data do not distinguish among the types of federal grants to which the conditions of aid are attached. Virtually by definition, the three major types—General Revenue Sharing, block grants, and categorical grants—differ in the degree to which conditions are attached to the grant, with GRS having the fewest and the categoricals the most numerous and detailed conditions.⁷⁰

ACIR's 1978 report on the intergovernmental grant system summarized the procedural requirements of GRS, in the original 1972 legislation and the 1976 amendments, as follows:

These conditions (in the 1972 legislation) covered (in addition to certain fiscal and accounting requirements) . . . filing of reports on the planned and actual use of GRS funds, compliance with recipients' own laws and procedures in spending of revenue shar-

ing money, nondiscrimination in employment, compliance with Davis-Bacon minimum wage requirements, by contractors and subcontractors, payments of not less than prevailing wages to the jurisdiction's own employees, and use of GRS funds within a reasonable period of time. . . .

The 1976 legislation extending the GRS statute eased up on some of the conditions and stiffened others . . . Requirements for reporting the use of funds was made more specific regarding the amounts appropriated, spent, and obligated but required publication of only a planned-use report and dispensed with the actual-use report. More detailed publication requirements were specified to accommodate public convenience. Separate public hearings were mandated on the use of the revenue sharing funds and on a recipient jurisdiction's entire budget. The nondiscrimination provisions were broadened, including adding prohibitions against discrimination for age, handicapped status, and religion. In addition the legislation provided for an "independent" financial and compliance audit at least every three years for all governments receiving \$25,000 or more a year. . . .⁷¹

In another report of its grant series, ACIR identified five basic design characteristics that differentiate the five block grants from other forms of federal assistance. One of the five is:

Administrative, fiscal reporting, planning, and other federally imposed requirements are kept to the minimum amount necessary to ensure that national goals are being accomplished.⁷²

Based on its study of four of the five block grants (health, safe streets, community development, and CETA), ACIR concluded that this feature was being observed by the four, albeit with varying degrees of completeness, depending upon the differing laws, administrative arrangements, and origins of the programs.

Of the three basic types of grant, categorical grants, of course, are the most laden with conditions, procedural and otherwise. This characteristic appeared most vividly when city and county officials were asked in a 1975-76 survey to identify their choices of the most serious problem areas in design and administration of federal categorical grants.

Three out of the four most frequently noted problems were:

- The complexity and volume of paperwork involved in the application, review, and approval process for project grants;
- the time involved in the application, review, and approval process for project grants; and
- the complexity of reporting, accounting, and auditing requirements.

Among other sore spots identified were “variations in reporting, accounting, and auditing requirements” and “strictness of performance standards.”⁷³

Horizontal (Generally Applicable) Requirements

As of the end of 1979, there were 59 horizontal or generally applicable regulations in the federal grant system. The requirements involve a wide range of areas such as environmental protection, citizen participation, equal opportunity, and labor wage standards.⁷⁴

The Lovell study found about two and one-half times as many vertical as horizontal procedural mandates in the five cities and counties surveyed but a substantially larger proportion of the horizontal mandated activities were not carried on by the cities or counties prior to imposition of the mandate. There was little difference, however, in the relative degree of compliance with the two kinds of procedural mandates.⁷⁵

In its examination of horizontal mandates in 1978, ACIR found interrelated problems of major significance to state and local grantees:

- 1) the lack of federal awareness of the costs that national policy conditions impose on grantees; . . .
- 3) the insensitivity of national policy conditions to the diverse needs, resources, and capacities of the state and local government grantees; and
- 4) the ineffective interagency coordination of national policy conditions and the consequent inconsistencies among agency regulations issued pursuant to each condition.⁷⁶

Federal Adjustments

The problems of procedural conditions, such as those criticized by local officials, along with other

difficulties with grant administration, have stimulated various kinds of corrective responses at the federal level. At one level came the adoption of General Revenue Sharing and the movement for block grants in the early 1970s, directed at diminishing the volume and narrowness of conditions attached to federal funding. On another level, the federal government has striven, with various degrees of success, to make grant conditions less onerous on aid recipients. It took steps to rationalize, standardize, and simplify grant administration procedures.

The impetus for reform came in Congress with the *Intergovernmental Cooperation Act of 1968*⁷⁷ and in the executive branch from a series of interagency actions spearheaded and overseen by the then Bureau of the Budget (now Office of Management and Budget) with the objective of streamlining the grants administration process. The latter included the Federal Assistance Review (FAR) program, the Planning Assistance and Requirements Coordinating Committee (PARC), the Joint Financial Management Improvement Program (JFMIP), and the Interagency Audit Standards Work Group. The principal end products of these administrative circulars issued by Office of Management and Budget (OMB) were: OMB Circular A-102, “Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments,” Federal Management Circular (FMC) 74-4, “Cost principles applicable to grants and contracts with state and local governments,” and FMC 73-2, “Audit of federal operations and programs by executive branch agencies.”

ACIR reviewed the operation of these circulars and other federal efforts to improve grants management in its 1977 report, *Improving Federal Grants Management*.⁷⁸ Among its recommendations it urged OMB to conduct an interagency review of the key circular, A-102, in the interest of expanding its coverage and possibly modifying existing requirements. Since that time, efforts have continued to improve grants management, including a report by OMB on the management of federal assistance which was mandated by Congress in P.L. 95-224, the *Federal Grant and Cooperative Agreement Act of 1977*,⁷⁹ and a 1980 study by ACIR under contract with the Department of Housing and Urban Development of the effectiveness of OMB Circular A-102.⁸⁰

In ACIR’s examination of generally applicable grant requirements, cited earlier, it proposed steps to standardize, simplify, and otherwise minimize the problems associated with these requirements.⁸¹ OMB’s study pursuant to the *Federal Grant and Co-*

operative Agreement Act also addressed the issue of these requirements and proposed measures for improving their application.⁸²

The consequence of all these and other activities at the federal level is some reduction of the negative impact of many procedural grant-in-aid conditions and, from the elevation of the problem on the agenda of federal administrators, a potential for further improvement.

A Positive Effect, Too

In assessing the effect of procedural conditions on state/local performance capacity, it would be a mistake to conclude that the impact has been entirely negative, as may be implied by the foregoing. The federal government, after all, has a selfish interest in seeing that state/local recipients perform well with the dollars it sends them. A long list of federally stimulated procedural improvements could be recited, from a measure as technical as a technique for road construction to one as controversial as citizen participation. As W. Brooke Graves noted in 1964:

In many a piece of grant-in-aid legislation . . . the Congress gently nudges the states, sometimes in influencing policy, sometimes in the way in which they spend their money, or in the procedures they employ in administering federally aided programs. These pressures have become so common that they are now generally accepted, and relatively little adverse comment or criticism is heard regarding them. . . .⁸³

Michael Reagan traces the salutary influence of federal grants on recipient administration as far back as 1939:

At least since the adoption of the public assistance grant program in the mid-thirties and the 1939 amendment to the *Social Security Act* that established a merit system requirement for participating state agencies, the general administrative requirements attached to a great number of federal grants in a variety of substantive areas have been extremely important in inducing grant-receiving governments to professionalize their organizational structures and their personnel and financial practices. Merit system and auditing requirements have had double effects. Directly, they have established new standards of competence and accountability

in the agencies handling federal funds. Indirectly, these standards have constituted, if only by contrast, bench marks against which to measure the quality of operations of state agencies not subject to federal supervision.⁸⁴

ACIR, in a study of the intergovernmental grant system, probed the perceptions of local officials on the question: "How have the federal government's requirements for administration of grant funds, and its monitoring of those requirements, affected (a) overall administrative capability (e.g., personnel standards, organization), and (b) service levels of the programs receiving federal aids?"

City officials expressed the view that federal grant requirements had a moderate improvement effect on local administrative capacity and a distinctly more positive effect on the levels of program service. County officials rated higher the effect of grant requirements on capacity building and gave a slightly less favorable rating to the impact on service levels. ACIR concluded that:

These findings indicate these responding officials generally feel that federal grant requirements and the monitoring thereof on a nationwide basis do help improve the overall administrative capability of their local governments, and the levels of service they provide, despite the many difficulties that these same officials continue to attribute to these requirements.⁸⁵

Many state administrators acknowledge the constructive influence of the federal government in their agencies' operations. The 1978 survey of state administrators reported:

State administrators had mixed perceptions of the degree to which federal supervision and oversight of grant programs had contributed standards of administration and service in the states. About 40% of both 1974 and 1978, found some improvement due to the federal presence, almost as many saw no discernible effects, while nearly 20% reported a negative effect⁸⁶

An ACIR comment on block grants in its 1978 grant-in-aid series is apt:

The general absence of federal performance requirements presents a climate favorable to recipient jurisdictions improving their governing capacities. Yet, that ab-

sence also means that recipients lose the advantage of federal prescription of good management improvements.⁸⁷

ORGANIZATIONAL INFLUENCES

The federal grant system also has influenced state/local recipient's capacity to perform through its effect on the distribution of authority within recipient organizations. A significant impact has been the effect on the critical tension between generalist officials and specialist administrators. Other major points of federal influence are the legislative-executive relationship in state governments and the designation of single state agencies as administrators of federal programs.

Generalists and Specialists

With categorical grants still the dominant aid instrument, the federal grant system has a strong tendency to deliver programs along functional lines. Ultimately, this serves to weaken the authority of state and local political officials—the generalists. In the early 1970s, Daniel Elazar commented that when governors lacked time or staff assistance to supervise the operation of grant programs, many state agencies were allowed “to gain a substantial measure of autonomy from their own central governments, often playing the federal government against the political generalists who were formally their supervisors for their own advantage.”⁸⁸

That this situation still exists to a marked degree is evident from the 1978 survey of state administrators. Administrators of federally aided programs were asked whether their agency operations were less subject to supervision by the Governor and legislature in their federally financed activities than in activities financed solely by the state. Forty-eight percent said “yes,” approximately the same results as were reported in a similar survey in 1964, and somewhat higher than in 1968 and 1974 surveys.⁸⁹

The influence of functional specialists is similar at the local level, as this example from California illustrates:

Even where a federal agency deals directly with state government, it deals with a counterpart special-purpose agency, which in turn deals with a similar local agency. Thus our federal highway men speak to state highway men who speak to city and county highway men, and highways which needlessly defile the landscape get built.⁹⁰

The thrust of the newer forms of federal aid is toward more support for generalist officials. Richard Nathan observed regarding CDBG:

As enacted in 1974, the CDBG program reflects the Nixon Administration's aim to expand the role of officials (mostly elected officials) of general-purpose local governments; at the same time, it seeks to limit the powers of the federal bureaucracy and of specialized local authorities and agencies. The principal means toward these ends is the latitude the CDBG program gives to local governments to establish their own priorities and programs (albeit within the broad framework of the “national objectives” and “permissible uses”). The House Banking and Currency Committee was explicit on this point, stating in its report that “local elected officials should clearly be in charge of managing block grant funds flowing to their communities.”⁹¹

In commenting on the impact of the federal grant system on recipient capacity building in its comprehensive 1978 grant study, ACIR made the following observations on the generalist-specialist issue in GRS and the block grants:

The (GRS) distribution of funds to general purpose units essentially free of functional restrictions gives decisionmaking responsibility to generalist officials—legislative and executive. It enhances their opportunities for setting expenditure priorities and effecting interprogram coordination What emerges from the Brookings and National Science Foundation studies is that the program, as anticipated, clearly bolsters the role of generalists at both the local and state levels. . . .

Eligibility provisions in the block grant statutes favor elected officials and administrative generalists, but the programs vary in the degree to which generalists have taken advantage of their opportunities. Under LEAA, Governors have not often exploited their possibilities and legislatures generally have been little involved in criminal justice planning and oversight. Local chief executives have received a boost from the CD block grant, while the role of the specialists in the program depends to a

large extent on how the predecessor special housing or renewal authorities have been absorbed into the CD program and whether the elected officials for whom the specialists are part time or not. Local legislatures appear to be taking advantage of their enlarged opportunities to shape community development plans, though again the tenure issue conditions the nature of their response. . . .⁹²

The movement of the federal grant system as a whole for building general management capability at the state and local levels is less direct but certainly in the same general direction of strengthening the role of top executives. Among the various measures that may be cited in this movement are the *Comprehensive Planning Assistance* and *Intergovernmental Personnel Acts*, the many research and demonstration projects on capacity building underwritten by HUD, and the OMB Circular A-95 process of review and comment on applications for federal grants. Preceding and often laying the groundwork for some of these later measures were several activities, including Chief Executives Comment and Review (CERC), Annual Arrangements, and Integrated Grants Administration and its successor the *Joint Funding Simplification Act*.⁹³

State Legislative Control over Federal Grants

State legislatures share in the generalist-specialist problem but also have a problem of their own arising from federal grants. Many of them have no, or only partial, control over federal funds coming into their state government. They thereby have a serious weakness in an essential element of legislative authority—the power to control revenues and expenditures.

A 1975 survey of state budget officers by ACIR found that some state legislatures, because of the absence of a comprehensive executive budget or for other reasons, were not covering all anticipated federal grants in their appropriation measures. In addition, some legislatures were missing other opportunities to exert their authority in state decisions that affected receipt and disposition of federal grants.⁹⁴ ACIR recommended that legislatures include all federal aid in appropriations bills; prohibit spending of federal funds over the amount appropriated by the legislature; and set specific spending priorities by establishing subprogram allocations.⁹⁵

In May 1980, the National Conference of State Legislatures (NCSL) reported the following status of state legislative control over federal funds:⁹⁶

“High” or “Active” degree of control: (11 states)—Alaska, Delaware, Louisiana, Massachusetts, Michigan, Nevada, New Hampshire, Oregon, Pennsylvania, South Carolina, and Vermont.

“Moderate” to “Active” degree of control: (14 states)—California, Florida, Illinois, Kansas, Maine, Montana, New Jersey, North Carolina, North Dakota, Ohio, South Dakota, Tennessee, Virginia, and Washington.

“Moderate” control: (5 states)—Arkansas, Georgia, Maryland, Minnesota, and Utah.

“Moderate” to “Limited” control (5 states)—Idaho, Indiana, Missouri, Nebraska, and Wyoming.

“Limited” control: (4 states)—Alabama, Iowa, Kentucky, and Wisconsin.

No formal control: (7 states)—Arizona, Connecticut, New Mexico, New York, Oklahoma, Rhode Island, and West Virginia.

Unclassified: Colorado and Texas (although NCSL informally ranks Colorado “moderate” and Texas “Moderate” to “Limited”).

No information on Hawaii and Mississippi.

The NCSL gradation is based upon the following assumptions: (1) To exert a high degree of control over federal funds, legislatures must use mechanisms that operate on a year-round basis; (2) states can maintain a high degree of control through year-round use of one means of control (e.g., appropriations) or through a combination of control mechanisms (interim application review and session appropriation control, etc.); and (3) state legislatures that are instituting comprehensive federal funds information systems are in a position to develop a high degree of control; therefore, more weight is assigned to control efforts in such states.

In the 16 states with less than a “moderate” rating, the flow of federal aid funds is still tending to weaken effective legislative control over state appropriations. Yet, the tendency nationwide is definitely toward strengthened control. In 1978, the NCSL ranked 22 state legislatures’ control as “moderate” and 16 as “limited;” in 1980, 26 were “moderate” and four “limited.” Moreover, consciousness of the problem has been heightened among state legislators throughout the country.

The remedy for this particular impact problem does not lie, as it might seem, entirely with the states. A 1980 General Accounting Office study found that

the federal government shares responsibility, pointing out that federal grant provisions have been interpreted to discourage involvement of state legislatures in federal-state grant relationships. It recommended amending the *Intergovernmental Cooperation Act* to provide that

... on a crosscutting basis applicable to all federal grant programs, grant provisions assigning responsibilities to state executive officials not be construed as limiting or negating the powers of state legislatures under state law to appropriate federal funds, to designate state agencies, and to review state plans and grant applications.⁹⁷

Single State Agency Requirement⁹⁸

The federal grant system has tended to influence state administrative organization through the single state agency requirement. This requirement stipulates that a state must establish or designate a single agency to administer or supervise the administration of a grant program. It was first attached to the *Federal Aid Road Act* in 1916, which called for creation of a department of highways in each state to administer the program. Later it became most prominent in the public assistance titles of the *Social Security Act*.

From the federal perspective, the single state agency requirement insures that national objectives are achieved by fixing responsibility, maintaining professional standards, and avoiding duplication of effort. From the state perspective, however, the requirement tends to undermine generalist authority by reinforcing the delivery of programs along functional lines,⁹⁹ and also frustrates state control over its own administrative organization.¹⁰⁰ Examples of the latter have occurred most prominently in Oregon, Hawaii, Wisconsin, and, most recently, Florida.

The Florida case is of special interest because it arose after Congress had moved to give the states relief from the single agency mandate. Section 204 of the *Intergovernmental Cooperation Act of 1968*¹⁰¹ allows a federal grant administrator to waive the requirement if he finds that it prevents establishment of the most effective state administration and that the waiver will not endanger achievement of federal program objectives.

The state of Florida applied for a waiver of the mandate in the *1973 Rehabilitation Services Act*, since it wanted to integrate administration of rehabilitation services along with other human services in its newly formed Department of Health and

Rehabilitative Services. The Secretary of HEW denied the waiver because the 1973 act went beyond the usual requirement of a "sole state agency" to specify that the designated agency "shall be subject only to the supervision and direction of such agency and its executive officer."

The state took the case to court and lost at the federal district and appellate levels. The U.S. Supreme Court refused to hear further appeal. As a consequence, Florida's Governor Graham acted to have rehabilitation services administered by private nonprofit organizations under contract, instead of reorganizing state government.¹⁰² Also in response to the Florida decision, ACIR recommended that Congress modify the waiver provision of the *Intergovernmental Cooperation Act of 1968* to overcome the problem raised by the *1973 Rehabilitative Services Act*.¹⁰³

State and Local Administrators' Perceptions

A final bit of evidence to weigh in assessing federal actions affecting state/local capacity to perform is the perceptions of state and local officials. Pertinent response in the 1978 survey of state administrators are highlighted as follows:

- Administrators believed that federal involvement was higher than it should be in program policies, administrative operations, evaluation of results, personnel policies, and organization structure. They believed that actual involvement extended well beyond that desired in program policies, administrative operations, and personnel matters. Evaluation of program results, they felt, had the highest degree of federal involvement, but they did not feel this was improper.¹⁰⁴
- A growing proportion of administrators—from 1964 through 1978—said that without federal "strings" attached, they would allocate aid monies differently. This shift possibly was a byproduct of their heightened sensitivity to the shortcomings of categorical grants. But the underlying problem of strings had not been alleviated by the increased importance of block grants and General Revenue Sharing.¹⁰⁵

In midsummer 1979, the National League of Cities (NLC) surveyed mayors and city council members on problems, programs, and needs. They asked which of a list of nine specified items was a particularly frequent source of problems with federal programs most in need of change. The most frequently checked (65% of the 1,011 respondents) was "application, administrative and financial reporting requirements."¹⁰⁶

FEDERAL ACTIONS AFFECTING STATE/LOCAL POLITICAL PROCESS

To a varying extent, what state/local governments do depends on the political process by which citizens communicate what they want those governments to do and what resources they are willing to provide. The federal government affects this process—and thereby exerts another unintended, indirect influence on functional assignment—through its effect on citizen participation in federally aided programs and on the activities and power of interest groups.

Citizen Participation

In 1976 legislation extending the GRS program, Congress requested ACIR to undertake a study of citizen participation in federal, state, and local fiscal decisions. In its report, completed in March 1979, ACIR included a section describing citizen participation requirements imposed on state/local federal aid recipients and appraising their impact.¹⁰⁷

These citizen participation requirements, ACIR concluded, have the dual function of assisting the people in the exercise of their Constitutional rights of access to government and helping state and local governments identify the needs of the diverse groups which are to be assisted fairly and equitably under various federal aid programs.

ACIR surveyed federal, state, and local officials, examined how citizen participation works in five selected programs, and made an extensive literature review. It found that, as of December 1978, citizen participation requirements were contained in 155 separate federal grant programs—almost one-third of the total—accounting for over 80% of grant funds. Most (81%) had been adopted since 1970. Over half were in HEW programs and about three-fifths of these were in the Office of Education. Further:

- The establishment of boards or committees and prescription of their membership was

the most usual type of mandate—found in 89 programs. These bodies were confined to an advisory function, except for 24 programs involving 16 separate committees.

- Public hearings were the next most commonly mandated participation mode.
- Other types included giving notice of the preparation of a grant application or a plan, conducting workshops, and offering opportunities for giving testimony or review and comment. They varied in regard to the interests involved and the stage of decisionmaking affected.

The most far-reaching federal aid legislation with a citizen participation component—in the sense of numbers of governmental units affected—was the 1976 extension of GRS. The original 1972 law required only that state and local government recipients annually publish copies of their reports on actual and planned use of revenue sharing funds. The 1976 renewal legislation tightened up the process for publishing information and required public hearings on the proposed use of revenue sharing funds and their relationship to the recipient jurisdiction's adopted budget. These provisions were continued by the 1980 extension legislation.

ACIR found substantial variations in form and application of citizen participation governmentwide. Similar programs within the same department or agency, or programs in the same functional area, or programs dealing with similar phases of the decision-making process differed in respect to whether they did or did not require citizen participation, and how that participation should be encouraged.

The impact of different kinds of federal citizen participation requirements varied, but overall it was modest. Major participants in the process were the middle class. Even special efforts targeted to certain low income groups often did not produce significant participation by them.

ACIR also found:

- Citizen participation requirements tended to have a stimulative effect on localities' expenditures.
- The amount of influence exercised by the citizen in decisionmaking apparently varied. In some programs, such as GRS and coastal zone management, citizens and policy-makers felt that the citizens did affect the setting of priorities. In the CDBG program,

citizen participation affected the selection of activities and the level of social service expenditures. In other programs, particularly those requiring only public hearings, decisions often were made prior to the citizen participation process and, thus, it was merely a rubber stamp effort.

- Citizen participation processes tended to help citizens feel closer to individual programs, but did not necessarily reduce their overall feeling of alienation toward government generally.

ACIR concluded that:

the federal government has a responsibility to ensure that requirements accompanying financial aid to state and local governments . . . will be applied in a way that will strengthen and support public decisionmaking process by providing consistent opportunities for citizens to be heard prior to policy and/or administrative decisions directly affecting them. At the same time, the Commission observes that the more than seven score requirements for citizen participation now appended to a like number of federal assistance programs, taken as a whole, are diverse, complex, confusing, sometimes arbitrary, less effective than they might be, and difficult for some federal aid recipients to comply with. The Commission also observes that the majority of federal grant programs available to state and local recipients do not presently incorporate citizen participation requirements.¹⁰⁸

The Commission recommended federal legislation to establish general citizen participation policies for advisory processes to be applied consistently in federal aid programs, and to require the President to designate a single agency responsible for consistent application and evaluation of the policies government-wide.

Interest Group Activity

Citizen participation, of course, does not exclusively or even principally involve individual citizens acting just for themselves. More likely a "citizen participant" represents an interest group. Thus, members of advisory boards or committees (the most common federally mandated citizen participation mode) are chosen for their identification with some

social, economic, or political interests.

In ACIR's tabulation of the principal interests required by law to be represented on nonfederal boards/committees involved in federal grant programs, only a few categories could be taken to represent the public at large or the general public. Even these might well be representatives of a particular community interest group, albeit one that regarded itself as having no interest other than the general welfare. The other categories tabulated clearly fell under the heading of what are usually considered "interest groups," including: consumers, clientele, program beneficiaries, functional community organizations (such as health bodies), ethnic minorities, institutions of higher education, economic interests (such as farmers, businesses, industries, labor, and banking), parents, and provider professionals.

Federal citizen participation requirements recognize, of course, the reality of interest groups since the mandates often are imposed specifically to assure that certain "interests" are represented in the decisionmaking process, usually groups that would otherwise go unrepresented, such as minorities or the disadvantaged. But interest groups influence state and local governments in other ways than through their participation in federally aided programs, and the federal government affects their role in these activities. One way it does this is by stimulating creation and growth of program clientele groups:

Federal funds encourage or stimulate the development of strong political constituents which often use the federal fiscal presence as a way to leverage increased and long-term involvement of the state or local governments in the aided service. Federal grants that start new services create a clientele that continues to be dependent on the service regardless of the continued availability of federal funds. When federal funds do expire, local officials are faced with the dilemma of increasing the budget to accommodate the new service or alienating a public that has grown accustomed to the service.¹⁰⁹

Federally fostered clientele groups make it difficult for state and local governments to change their funding priorities if federal funds cease.

State agency heads recognize the value of interest groups as allies in support of their agencies' programs. From their survey of state administrators, Hale and Palley found that "many agency heads find interest groups helpful in efforts to persuade legis-

lators to enact programs or increase funding levels."¹¹⁰ Further, agency administrators are more likely to enlist interest groups' support for agency funds when federal funding sources are available than when they are dependent on state funds and gubernatorial support. The availability of federal funds encourages administrators to make budgetary end runs by using third parties as lobbyists for budgetary increases. As the complexity and diversity of federal aid increases, so does this type of activity.

Hale and Palley's survey revealed that only 40% of the respondents said that they encouraged interest groups to lobby for funds when no intergovernmental relationships existed. On the other hand, 66% said they did promote interest group support when federal aid came from two or more federal agencies.¹¹¹

To the extent that clientele and other interest groups depend on federal funding and other federal influences, that influence also affects functional innovation at the state level, according to Deil Wright's 1978 survey of state administrators. Twenty-eight percent of the administrators who designated the source from which initiatives came for program changes said that they came from clientele groups. When asked to rank various sources of new ideas for program improvement, the administrators gave rankings of 5.8 to clientele groups, 5.3 to professional associations, and 2.6 to university personnel out of a possible maximum of 12.0. Only three sources within the state government or from another government had rankings above 5.0. Among six functional categories, clientele groups provided most of the new ideas for human resource agencies, professional associations for criminal justice agencies, and university personnel for human resources units.¹¹²

The federal influence on interest groups has an additional, more subtle and general effect on state and local functional responsibility. By its effect on certain interest groups, it tends to move power from the state and local levels to Washington. The process was alluded to by Jeffrey Pressman in his comment on the decentralization effect of President Nixon's "New Federalism":

the consequences of transferring authority from the national to the state level is of more than academic interest to groups whose strength differs from one level to the other. Labor unions, along with groups representing large cities, poor people, and minorities, have long been more effective in Washington than they have been in state capitals; these

groups have been particularly concerned about the political implications of the New Federalism. It is all very well to talk about recreating Washington-centered interest group alliances at 50 state capitals, but the problems of developing new routes of access in previously unfriendly terrain are enormous.¹¹³

Parris Glendening and Mavis Mann Reeves make somewhat the same point in noting that:

Urban organizations . . . function more adequately at the national level, while certain business groups as the National Association of Manufacturers or the United States Chamber of Commerce may be able to achieve better results with the states.¹¹⁴

Thus, to the extent that interest groups have power to dictate which governmental level will deal with an issue, and to the extent that they prefer the federal level, the attractiveness of the federal government tends to diminish the likelihood that the issue will be left to the other two levels.

One final point can be made about the federal impact on interest groups and their influence in turn on state and local functional responsibility. A feature of interest group development in the past 15 to 20 years is the growth in strength of the so-called public interest groups (PIGs), consisting mainly of the national associations of state and local elected officials, such as the National League of Cities (NLC), the U.S. Conference of Mayors (USCM), the National Association of Counties (NACo), the National Governors' Association (NGA), the Council of State Governments (CSG), and the National Conference of State Legislatures (NCSL).

A principal focus of their activity is the relationship of their constituent groups with the federal government, and this is manifested by the location of all but two of their main (or sole) offices (CSG and NCSL) in Washington. These associations maintain a close watch on federal legislative and administrative developments, particularly the amounts and manner in which federal funds are distributed, and have scored successes in the adoption of such programs as GRS, the Community Development Block Grant and Action Grant, CETA program, and various counter-cyclical measures. In a nonfiscal area, they were instrumental in the insertion in the *Intergovernmental Cooperation Act of 1968* of the provision requiring preference for general purpose units of government

in federal grant programs and subsequent legislation carrying out the provision, such as the General Revenue Sharing and CETA statutes.

Glendening and Reeves, quoting Suzanne Farkas, note that, in one respect, the actions of the public interest groups sometimes might be contrary to the interest of their constituents in a way that involves state/local functional assignment:

Suzanne Farkas points up the possible divergence between the interest of the government and the interest of constituents in regard to representation of metropolitan areas. The urban lobbies which represent the elected officials, such as the mayors, work to gain legislative representation and access for municipalities as presently constituted. The question arises as to whether this fragmented individual city approach is consistent with the interest of the citizens of the metropolitan area. Farkas asks, "Is government acting on government limited in its capacity to consider the metropolitan area as an urban interest by virtue of the vested concerns of the intergovernmental lobby?"¹¹⁵

A NATIONAL GROWTH POLICY

The inadvertent nature of many federal influences on state/local functioning, and the magnitude of those influences, is one of the reasons for the interest shown in recent years in the development of a national growth policy.¹¹⁶ ACIR was among those calling for such a policy in 1968 when it examined the intergovernmental issues arising from urbanization and economic growth. It concluded, among other things, that "Lacking a policy framework, specific program decisions concentrating on particular objectives have sometimes produced inadvertent results in terms of urbanization trends, altering or partially cancelling out basic program goals."¹¹⁷ It warned that a continuation of this mode of operation would lead to costlier public and private consumption, increased social and psychological strain among inhabitants of urban areas, continued urban sprawl, economic decline in smaller urban places outside of metropolitan areas, and a persistent inability of central cities to attract industry and provide jobs. ACIR recommended that the federal government adopt a national urban growth policy.

National Growth Reports

President Nixon in his 1970 State of the Union Message called for a "national growth policy," and subsequently Congress passed Title VII of the *Housing and Urban Development Act of 1970*. This title mandated a comprehensive executive branch process of study to develop a national urban growth and stabilization policy "giving coherence and rationalization to what heretofore have been isolated and uncoordinated federal policies and programs."¹¹⁸ It required the President to submit a report with recommendations to Congress every two years.

The first biennial report in 1972 stated the Administration's view that "national urban growth policy" was too narrow, and substituted the term "national growth policy." It declared that "no single policy, nor even a single coordinated set of policies, can remedy or even significantly ameliorate all of our ills."¹¹⁹ The report cautioned against proceeding too quickly and stressed the importance of building a careful process for evolving a general strategy for national development.

The 1974 and 1976 reports were similarly strong on identifying issues and summarizing population, social, and economic trends affecting overall growth and development. The 1976 report included process recommendations, such as simplifying public participation requirements in federal programs and rationalization of federal planning assistance requirements, but for substantive recommendations it referred the reader to the Budget Message, the State of the Union Message, and legislative proposals.¹²⁰

In 1977 Congress amended the 1970 act, narrowing the policy focus in contrast to the Administration's broadening action in 1972. It deemphasized "growth" and renamed the policy "National Urban Policy."¹²¹ The House Conference Report stated that "the conferees intend that the National Urban Policy Report include an analysis of the urban fiscal crisis,"¹²² which perhaps was a clue to the rationale for the change.

Curiously, in October 1976 Congress had taken an action emphasizing the national character of growth policy rather than an urban or rural emphasis. It asked the President to convene a White House Conference on Balanced National Growth and Economic Development. The conference was held in January 1978. A Senate report which accompanied the authorizing legislation based the need for such a conference on the nation's inability to achieve

satisfactory employment levels; an uneven distribution of economic growth and population; excessive environmental pollution; the adverse consequences of public decisions and policies; and a general lack of ability to anticipate environmental, social, and economic problems precipitated by chaotic growth and increased consumption levels and public demand.

The 1978 National Urban Policy Report reflected the intent of Congress in restricting its emphasis to trends affecting urban areas rather than a broad discussion of the growth of the nation as a whole. It also reflected

the conviction of this (Carter) Administration that a sharper focus on urban development issues is more useful to Congress than the general surveys submitted by previous Administrations.¹²³

The report described the national urban policy process, sketched much of the data and analysis used in that process, and summarized the ideas contributed by various sources.

Prominent among the latter was the report of the 1978 White House Conference. The Conference concluded, among other things, that existing national policy processes have to be improved so as to involve all levels of government and include citizen input, clarify national goals, and provide “more sensitivity and rational trade-offs among multiple objectives and programs.”¹²⁴

Most importantly, the 1978 report included the President’s Urban Policy, entitled “A New Partnership to Conserve American Communities,” described as a “comprehensive set of policies to guide federal actions and programs for urban America.”¹²⁵ The policy consisted of nine objectives, covering a range of subjects: local management and planning capacity and effectiveness of federal programs, state assistance to urban areas, neighborhood organizations, fiscal relief to distressed communities, incentives for attracting private investment, the employment problem, elimination of discrimination, health and social services, and the physical environment and nonphysical aspects of urban life. Each contained a policy statement and strategies for implementation of various degrees of specificity and concreteness.¹²⁶

“National urban policy must reflect a comprehensive set of federal commitments” was the fourth principle guiding the policy. “By providing a clear statement of objectives,” the report explained, “a

national urban policy makes it less likely that these actions will work at cross-purposes with one another.”¹²⁷

Improving the effectiveness of federal programs requires better coordination at both the administrative and legislative levels, according to one of the leading objectives:

It is essential that we manage existing federal programs more effectively than in the past. Further, we must make sure that federal actions affecting cities are aimed at consistent objectives. The federal government must develop the capacity to evaluate the impact on cities of all key federal actions (including those not directly related to cities). The federal government must be willing to amend change, or abolish government actions not consistent with national urban policy.

In addition, future actions must be measured carefully in terms of their impacts on urban areas and urban problems. All government actions should be evaluated ahead of time with respect to possible urban impacts and, to the extent possible, be shaped and carried out in a manner consistent with an overall urban policy.¹²⁸

The “strategy for implementation,” however, is limited to the White House role.

The 1980 report built on and refined the 1978 report. It reviewed the development of the 1978 policy and described how legislative initiatives, executive orders, and administrative actions moved the federal government toward implementing the nine elements of that policy. A detailed analysis of national trends was presented, divided between the central city and suburban and nonmetropolitan communities. Finally, the report presented a detailed program for federal action for the 1980s, reaffirming the basic policy directions established in 1978. Its five elements called for strengthening urban economies, expanding job opportunities and job mobility, promoting fiscal stability, expanding opportunity for those disadvantaged by discrimination and low income, and encouraging energy-efficient and environmentally sound urban development patterns.¹²⁹

Impact Analysis

Following up on the Administration’s determination—in the words of the 1978 urban policy state-

ment—to “develop the capacity to evaluate the impact on cities of all key federal actions,” a new urban and community impact analysis (UCIA) system was established in mid-1978 under the auspices of OMB. It required impact analyses of all major budgetary, legislative, and regulatory initiatives proposed by federal agencies. Instructions for preparation and submission of the analyses by executive branch agencies were provided in OMB Circular No. A-116, issued in August 1978.

The first trial run of the process—for the FY 1980 budget round—was appraised in an article by an official and a consultant to OMB who were involved in the design and early operation of the system.¹³⁰ They found that despite the various constraints of the initial effort, the process worked surprisingly well.

Most major agencies have taken the requirement seriously and are doing competent work. An informal network of specialists has taken shape through the government to carry out the UCIA mandate, creating an institutional capacity and sensitivity for analysis of the geographic implications of policies.¹³¹

Altogether, 12 agencies prepared 24 UCIA's for the fall review of the FY 1980 budget; 13 indicated no major initiatives and therefore submitted no UCIA's; and 19 others were granted exemptions under the terms of the circular. The heaviest burden fell on the Departments of Housing and Urban Development, Interior, Transportation, HEW, and Labor, but even here the burden was not excessive.

The ultimate question about the UCIA process, the authors believe, is what effect the analyses have on actual decisions.

UCIA's can hardly be expected to replace all the other pressures that come to bear in the formation of policy. What is more, the real impact of the process may be as a deterrent inducing agencies to build a greater urban and community sensitivity into their proposals from the outset, so that the changes will be incorporated into the proposals prior to preparation of the UCIA's. Finally, since the ultimate consumers of the UCIA's are the President and his top advisors, the success of the process depends critically on the priority these officials attach to it.¹³²

The authors conclude that the UCIA process is no

substitute for the regular political processes through which governmental policies are set, and at best, the UCIA's can provide a tool of policy analysis that raises issues for policy determination. Whether the process survives and prospers, therefore, will depend as much on the nature of the political support for raising these issues as on the technical merits of the analyses.¹³³

ACIR's Study of the Federal Role

In its 1980 examination of the national government's role in the federal system, ACIR identified a number of unintended impacts of federal policies and programs on state and local governments that developed because of the breakdown of constraints which once limited and disciplined the national role. It found that federally mandated legislation often imposes unanticipated burdens and costs upon state and local governments and therefore recommended that Congress require the Congressional Budget Office, for every bill or resolution reported in the House or Senate, to prepare and submit an estimate of the cost which would be incurred by state and local governments in carrying out or complying with the bill or resolution. The Commission also found that federal administrators similarly often do not take adequate account of the potential cost impact on states and localities when issuing regulations. Consequently, it proposed legislation requiring each federal department and agency to prepare and publish detailed analyses of projected economic and noneconomic effects likely to result from any major new rule it might propose.¹³⁴

Rural Growth Policy

When Congress narrowed the focus of the biennial growth report to the urban sphere it left an obvious gap. In December 1979, the Administration moved to fill the gap when it unveiled its Small Community and Rural Development Policy.¹³⁵ It was the first time that a President had developed a policy to address the problems of rural areas, even though the *Rural Development Act of 1972* had called for such a plan. Among the reasons given for the policy was that:

Confused and often contradictory policy goals and implementation responsibilities have frustrated past efforts to address rural needs both within the federal government and between the federal government and

state and local governments and community-based organizations. We need clear policy direction and a framework for integrating current federal efforts and reviewing future policy initiatives in order to evaluate the impact of actions we take and resources we commit.¹³⁶

Generally paralleling the urban policy, the rural development policy spelled out an action agenda and institutional changes to establish the organizational and procedural capacity to carry out the agenda. A vital part of the action program was the establishment of state rural development councils. At the end of 1980, councils had been set up in most states but assessments of their impacts on the real needs of local communities were mixed.¹³⁷

A tangible result of the Carter Administration initiatives on rural growth policy was White House support for the *Rural Development Policy Act*, enacted in September 1980.¹³⁸ The new law called for the establishment of an Under Secretary for Small Community and Rural Development at the U.S. Department of Agriculture, authorized a circuit rider program to be administered by the Farmers Home Administration (FmHA), and expanded the authorized funding for the rural planning grant program and broadened its scope to include technical assistance and rural community planning. Chances for the circuit rider program to become an effective capacity building effort in the near future, however, were set back when FmHA late in 1980 elected not to pursue regulations to implement the program, largely because of the small appropriation for FY 1982.¹³⁹

FOOTNOTES

- ¹ *Congressional Quarterly*, November 3, 1973, p. 2915. Financial aid was also provided to school districts which suffered natural disasters.
- ² "Enlarging a Budget Rip-Off," *Time*, August 7, 1978, p. 64.
- ³ "Don't Mourn Lost Military Bases," *The American City and County*, September 1977, p. 26.
- ⁴ *Ibid.* The U.S. Conference of Mayors has called for an urban impact analysis of the proposed MX missile system to determine if federal impact assistance is warranted. *The Mayor*, Washington, DC, U.S. Conference of Mayors, June 15, 1980, p. 3.
- ⁵ "Energy Impact Model," *County News*, Washington, DC, National Association of Counties, September 3, 1979, p. 6.
- ⁶ U.S. Department of Energy for the Energy Impact Assistance Steering Group, *Energy Impact Assistance, Report to the President*, Washington, DC, March 1978, Appendix A, pp. 1-5.
- ⁷ *County News*, *op. cit.*
- ⁸ U.S. Department of Energy, *op. cit.*
- ⁹ Commerce Clearing House, *Congressional Index, 96th Congress*, Vol. 1, pp. 20 and 511.
- ¹⁰ Figures obtained from the Public Affairs Office, Office of Refugee Resettlement, U.S. Department of Health and Human Services, June 1980.
- ¹¹ "Congress Will Decide IRAP Fate After Recess," *County News*, August 13, 1979, pp. 1 and 9.
- ¹² Neal R. Peirce and Jerry Hagstrom, "Refugees Mean Problems for Cities—And for the Carter Administration," *National Journal*, February 16, 1980, p. 273.
- ¹³ Figures and estimates received from an ACIR staff telephone interview with Mr. Paul Bell of the Dade County Schools and Ms. Sandy Gammie of the State of Florida's Washington Office, June 1980.
- ¹⁴ P.L. 96-212.
- ¹⁵ Figures obtained from the Public Affairs Office, Office of Refugee Resettlement, *op. cit.*
- ¹⁶ P.L. 96-422.
- ¹⁷ *Congressional Quarterly*, October 4, 1980, pp. 2946-47.
- ¹⁸ ACIR, *An Examination of Payments in Lieu of Taxes for Federal Real Property (A-90)*, Washington, DC, U.S. Government Printing Office, September 1981.
- ¹⁹ ACIR, *The Adequacy of Federal Compensation to Local Governments for Tax Exempt Federal Lands (A-68)*, Washington, DC, U.S. Government Printing Office, July 1978, Chapter 1.
- ²⁰ ACIR, *An Examination of Payments in Lieu of Taxes for Federal Real Property*, *op. cit.*
- ²¹ Roger J. Vaughan and Mary E. Vogel, *The Urban Impacts of Federal Policies: Vol. 4, Population and Residential Location*, Santa Monica, CA, Rand Corporation, May 1979, p. xi.
- ²² Prepared for the Department of Housing and Urban Development, *Impacts of Federal Activities on Growth and Development: A Review of the Literature*, Booz, Allen & Hamilton, Inc., Washington, DC, January 1976, pp. 28-29.
- ²³ *Ibid.*, p. 29.
- ²⁴ *Ibid.*, p. 30.
- ²⁵ *Ibid.*, p. 33.
- ²⁶ Vaughan and Vogel, *op. cit.*, p. x.
- ²⁷ See ACIR, *Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs (A-25)*, Washington, DC, U.S. Government Printing Office, 1965; ACIR, *City Financial Emergencies: The Intergovernmental Dimension (A-42)*, Washington, DC, U.S. Government Printing Office, 1973, Appendix B; and ACIR, *Central City-Suburban Fiscal Disparity and City Distress, 1977 (M-119)*, Washington, DC, U.S. Government Printing Office, December 1980.
- ²⁸ P.L. 90-448.
- ²⁹ P.L. 95-128.
- ³⁰ Miriam Kohler and Holly Wallace, "Cities Leverage Banks With Community Reinvestment Act," *Nation's Cities Weekly*, Vol. 2, No. 37, September 10, 1979, p. 8.
- ³¹ P.L. 95-128.
- ³² *Ibid.*
- ³³ *Ibid.*
- ³⁴ *Weekly Compilation of Presidential Documents*, Vol. 15, No. 31, Monday, August 6, 1979, p. 1384.
- ³⁵ Neal R. Peirce, "U.S. Planning Shopping Center Policy," *Washington Post*, Washington, DC, September 1, 1979, p. F1.
- ³⁶ Effie M. Cottman, "Regional Shopping Centers May Lose Federal Funding," *Public Administration Times*, September 1979, p. 1.
- ³⁷ Department of Housing and Urban Development, *Impacts of Federal Activities on Growth and Development: A Review of the Literature*, *op. cit.*, 58.
- ³⁸ The White House, *Small Community and Rural Development Policy*, Washington, DC, U.S. Government Printing Office, 1979, p. 2.

- ³⁹Robert M. Press, "Will Success Spoil Rural America?" *The Christian Science Monitor*, June 11, 1979, p. A9.
- ⁴⁰*Ibid.*
- ⁴¹*Ibid.*
- ⁴²P.L. 96-355.
- ⁴³National Association of Towns and Townships, *National Community Report*, November-December 1980, p. 8.
- ⁴⁴P.L. 96-604.
- ⁴⁵ACIR, *Countercyclical Aid and Economic Stabilization (A-69)*, Washington, DC, U.S. Government Printing Office, 1978, pp. 16-17.
- ⁴⁶At least two categorical grants may be viewed as helping to build general capacity: the comprehensive planning assistance (701) program and the intergovernmental personnel grant program. Their legislated objectives are, of course, narrower than overall governing capacity and their funding relatively small.
- ⁴⁷For analysis of the fungibility of welfare and education grants, see Ray D. Whitman and Robert J. Cline, *Fiscal Impact of Revenue Sharing in Comparison With Other Federal Aid: An Evaluation of Recent Empirical Findings*, Washington, DC, The Urban Institute, 1978, pp. 172-75, 178-79.
- ⁴⁸*Ibid.*, pp. 204-6.
- ⁴⁹*Ibid.*, p. 206.
- ⁵⁰Richard Nathan, Paul R. Dommel, Sarah F. Liebschutz, Milton D. Morris and Associates, *Block Grants for Community Development*, Washington, DC, The Brookings Institution, 1977, p. 167.
- ⁵¹Paul R. Dommel, Richard P. Nathan, Sarah F. Liebschutz, Margaret T. Wrightson and Associates, *Decentralizing Community Development*, Washington, DC, The Brookings Institution, 1978, pp. 208-209.
- ⁵²*Ibid.*, pp. 169-70.
- ⁵³*Ibid.*, pp. 170-71.
- ⁵⁴*Ibid.*, p. 133.
- ⁵⁵*Ibid.*, p. 133.
- ⁵⁶*Ibid.*, pp. 132-33.
- ⁵⁷*Ibid.*, p. 142.
- ⁵⁸Lovell, et al, *op. cit.*, Table 6-3, p. 162.
- ⁵⁹*Ibid.*, Table 6-4, p. 163.
- ⁶⁰*Ibid.*, Table 6-5, p. 165.
- ⁶¹*Ibid.*, p. 166.
- ⁶²*Ibid.*, Table 6-6, p. 167.
- ⁶³See "Federally-Encouraged Special Agencies or Districts" above.
- ⁶⁴In its markup of GRS renewal legislation in late June 1980, the House Subcommittee on Intergovernmental Relations tightened the definition of a general purpose local unit by requiring that at least four functions, or two functions including more than 10% each of the budget, be performed. 1976 survey data indicated that many townships would have been disqualified, but functions assumed since then would lessen the impact today. The proposed change was dropped in the renewal legislation finally enacted.
- ⁶⁵Lovell, et al, *op. cit.*, p. 67.
- ⁶⁶*Ibid.*, p. 71.
- ⁶⁷*Ibid.*, p. 39.
- ⁶⁸*Ibid.*, p. 175.
- ⁶⁹*Ibid.*, p. 192.
- ⁷⁰ACIR (A-52), *op. cit.*, pp. 6-9.
- ⁷¹ACIR (A-62), *op. cit.*, pp. 34-35.
- ⁷²ACIR (A-60), *op. cit.*, p. 6.
- ⁷³ACIR (A-54), *op. cit.*, pp. 34-35. For accounts of the difficulties caused by procedural grant-in-aid conditions in an earlier period (1960-1975), see ACIR (A-31), *op. cit.*, pp. 171-77, and ACIR (A-53), *op. cit.*, pp. 94-97.
- ⁷⁴For an inventory of these requirements, see U.S. Office of Management and Budget, "Description of Existing Guidance: Inventory of National Requirements (Working Paper A8)," *Managing Federal Assistance in the 1980s*, Washington, DC, U.S. Office of Management and Budget, 1979.
- ⁷⁵Lovell, et al, *op. cit.*, pp. 175 and 192.
- ⁷⁶ACIR (A-52), *op. cit.*, p. 237.
- ⁷⁷P.L. 90-577.
- ⁷⁸ACIR (A-53), *op. cit.*, Chapters III and VI.
- ⁷⁹U.S. Office of Management and Budget, *Managing Federal Assistance in the 1980s*, Washington, DC, March 1980.
- ⁸⁰ACIR, *Fiscal Management of Federal Pass-Through Grants: The Need for More Uniform Requirements and Procedures (Report A-102)*, Washington, DC, U.S. Government Printing Office, September 1981.
- ⁸¹ACIR (A-52), *op. cit.*, pp. 316-19.
- ⁸²U.S. Office of Management and Budget, *Managing Federal Assistance in the 1980s*, *op. cit.*, pp. 55 and 57.
- ⁸³W. Brooke Graves, *American Intergovernmental Relations*, New York, NY, Charles Scribner's Sons, 1964, pp. 137-38.
- ⁸⁴Michael D. Reagan, *The New Federalism*, New York, NY, Oxford University Press, 1972, pp. 70-71. For a description of the federal government's influence on personnel administration of the Massachusetts public assistance program, see Martha Derthick, *The Influence of Federal Grants: Public Assistance in Massachusetts*, Cambridge, MA, Harvard University Press, 1970, Chapter 5.
- ⁸⁵ACIR (A54), *op. cit.*, p. 41.
- ⁸⁶ACIR (M-120), *op. cit.*, p. 8.
- ⁸⁷ACIR (A-62), *op. cit.*, p. 48.
- ⁸⁸Daniel Elazar, *American Federalism*, New York, NY, Thomas Y. Crowell, Inc., 1972, p. 167.
- ⁸⁹ACIR (M-120), *op. cit.*, p. 103.
- ⁹⁰"The Federal Threats to the California Landscape," *California Tomorrow*, Sacramento, CA, 1967, p. 64.
- ⁹¹Richard Nathan, et al, *Block Grants for Community Development*, HUD report, Washington, DC, U.S. Government Printing Office, 1977, p. 363.
- ⁹²ACIR (A-62), *op. cit.*, pp. 47-48.
- ⁹³For a description of these programs, all of which are now defunct, see ACIR (A-53), *op. cit.*, Chapter V.
- ⁹⁴ACIR (A-59), *op. cit.*, p. 79.
- ⁹⁵*Ibid.*
- ⁹⁶Letter, Winnifred M. Austermann, National Conference of State Legislatures, to Michael Curro, U.S. General Accounting Office, May 14, 1980.
- ⁹⁷U.S. General Accounting Office, *Federal Assistance Systems Should Be Changed to Permit Greater Involvement by State Legislatures*, Washington, DC, U.S. Government Printing Office, 1980, p. 53.
- ⁹⁸The single state agency requirement is an instance of the federal government's *intending* to affect state administration. The subject is included here, however, rather than in the beginning section because it concerns the state's capacity to perform rather than the issue of which jurisdiction (state or a type of local unit) will perform.
- ⁹⁹Derthick, *op. cit.*, p. 203.
- ¹⁰⁰ACIR (A-53), *op. cit.*, p. 97.
- ¹⁰¹P.L. 90-577.
- ¹⁰²ACIR, *Intergovernmental Perspective*, Washington, DC, Spring 1979, Vol. 5, No. 2, p. 5.
- ¹⁰³ACIR, *State and Local Roles in the Federal System (A-88)*, *op. cit.*
- ¹⁰⁴ACIR (M-120), *op. cit.*, pp. 51-52.
- ¹⁰⁵*Ibid.*, p. 49.
- ¹⁰⁶National League of Cities, *Problems, Programs, and Needs*, Washington, DC, 1980, p. 33.
- ¹⁰⁷ACIR, *Citizen Participation in the American Federal System (A-73)*, Washington, DC, U.S. Government Printing Office, 1980, pp. 109-75.
- ¹⁰⁸*Ibid.*, p. 14.
- ¹⁰⁹Paul L. Posner and Stephen M. Sorett, "A Crisis in the Fiscal Commons: The Impact of Federal Expenditures on State and

- Local Budgets," *Public Contract Law Journal*, December 1978, p. 360.
- ¹¹⁰ George E. Hale and Marian Lief Palley, "Federal Grants to the States: Who Governs?" *Administration and Society*, Vol. 11, No. 1, May 1979, p. 7.
- ¹¹¹ *Ibid.*, p. 8.
- ¹¹² ACIR (M-120), *op. cit.*, Tables 3, 4, and 10.
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The Net Federal Impact: Regional Variations

In the earlier description of three cases of special federal impacts, the geographic unevenness of those impacts was noted. That unevenness is not confined to such special cases; indeed, the geographic variation in the overall effect of federal policies on a regional basis has been spotlighted in recent years in the widely publicized “Sunbelt-Frostbelt” controversy. In concluding the general analysis of federal influence on state/local functional responsibilities, a brief examination of regional variations is in order.

The issue concerns the net effect of federal revenues and expenditures in particular states. A state is said to be in a “deficit” position vis-a-vis the federal fiscal impact when the net revenues its residents pay to the federal government exceed the expenditures made by the federal government in that state. The expenditures include transfer payments to residents and purchases of goods and services produced in the state.

Figures for the mid-1970s indicate that many northeastern and midwestern states suffer from the “deficit” phenomenon. A cluster of midwestern states—including Minnesota, Iowa, Wisconsin, Illinois, Indiana, Michigan, and Ohio—received back only a little more than 77% of the money their residents paid to the federal government, according to ACIR estimates for FY 1974-76. With a few exceptions, northeastern states, as a group, just about broke even and received one dollar back for every tax dollar their residents paid to the federal government. Notable exceptions, however, were Delaware and New Jersey which received only 70 and 90 cents, respectively. On the other hand, some states, most of

them in the south, southwest, or far west, received more federal funds than their residents paid in federal taxes. Mississippi, for example, received \$1.62 for every federal tax dollar paid.¹ These disparities occur, it is alleged, because certain types of federal expenditures, mainly defense expenditures, are biased against the midwestern states.

Disparities continue to occur, according to representatives of the deficit states, because the present intergovernmental expenditure and aid system fails to take into consideration changed economic conditions. For many years, they contend, the south was economically depressed and military expenditures of various kinds were considered a necessary means of upgrading the region. In recent years this has changed. The south, in general, is no longer economically depressed and some midwestern states may be in more need of military expenditures and other forms of federal aid.

A recent ACIR study assessed the change in regional economic conditions and the imbalances in the intergovernmental expenditure and aid system.² Among its more important findings are:

- **Convergence.** Over the last 50 years (perhaps over the last century), economic activity and population movements have resulted in growing equalization of well-being among the eight regions of the country as measured by per capita incomes. In 1930, per capita incomes in the midwest states were more than twice those in the southeast. By 1977, they were less than 25% greater.
- **Decentralization.** The growing equalization of well-being has been accompanied by a very substantial dispersion of population and economic activity away from the regions of earliest industrialization. In 1900, for example, the midwest states had 31% of the nation's total personal income and the southwest only 12%. By 1977, these figures were 21% and 20%, respectively.
- **Divergence in the 1970s.** During the early 1970s, the variations in the rates of regional economic growth appear to have widened. Although convergence and dispersion of the magnitudes observed have required generally lower rates of growth in the older industrial

regions, they seem to have fallen even further behind national growth rates in the 1970s. Between 1950 and 1970, for example, the average annual rate of growth of personal income in the midwest states was only 8% or 9% below the national average. Between 1970 and 1975, it fell to 25% below the national average growth rate.

- **Dislocation.** These enormous regional shifts in economic activity have, by and large, been accomplished without concomitant disparities in regional unemployment rates. As recently as 1970, the states of the midwest region all had below average unemployment rates.
- **Industrial maturity.** National changes in demand patterns for different products cannot account for differential regional growth rates. Despite their slower growth, the sectoral mix of industries in the northeast and midwest is still favorable, although these advantages are disappearing. On the basis of its 1968 sectoral composition of employment, New York State would have been expected to show employment increases of about 13% between 1968 and 1973 (about the same as the national average). In fact, employment declined by about 1% in New York State.
- **Competitive factors.** Since the turn of the century, regional manufacturing wage rates have generally been converging, largely as a result of a slow but steady relative increase in wages in the southeast. The more rapidly growing regions are generally those with relatively low wages, although the far west, with high wages and high growth, is an important exception, as is New England with relatively low wages and low growth. Despite the overall convergence in regional wages, the differences may still be large enough to be consistent with further competitive shifts in industry.
- **National stabilization.** For the last 25 years, at least, the economies of the northeast and midwest have been robust only when national growth rates have

been high. Other regions, however, continue to grow, sometimes quite rapidly, even during recessions.

- Federal flows-of-funds. Over the last 25 years, the rapidly growing states have received substantially more in federal government expenditures than their residents have paid to the federal government in taxes and other revenues. The northeast and midwest states generally receive far less than they provide in revenues to the federal government. In 1952, the ratio of expenditures to revenues was 1.51 in the southeast and only .75 in the midwest. Over time, these differences have narrowed very substantially. By 1974-76, the ratios were 1.11 and 1.02 in the southeast and midwest, respectively. The Great Lakes states, however, have consistently low ratios of expenditures received from the federal government relative to revenue paid. Taxes paid by their residents to the federal government are very closely related to their per capita incomes, the higher the incomes, the higher the taxes. No such relationship holds with respect to expenditures.³

In sum, the study supports the thesis that there are regional disparities in the amounts of federal revenue paid and expenditures received. Many argue that as a matter of equity there should be a balance between federal tax payments and federal expenditures within any given state or region. Others claim, on the other hand, that the federal fiscal system is essentially a redistributive one. It should, therefore, be expected that poorer states or regions will receive more in federal expenditures than they pay in federal taxes. In

other words, poorer states and regions should expect surpluses and wealthier states and regions deficits in their balance of payments with the federal government.

Setting questions of equity aside, the imbalances created by the net flow of federal funds would seem to create winners and losers insofar as the capacity to perform functions is concerned. Those states or regions that get back more than they pay into the federal government would seem to have greater capacity to perform because of enhanced financial resources and conversely, those that receive less than they pay into the federal government would seem to have a lessened capacity to perform.

If the analysis pursued in this report is valid, however, the significance of the imbalance for state/local functional capacity is not as clearcut as that. The impact depends on how federal mandates and conditions of aid, as well as how the net flow of federal funds, affect the service needs, fiscal resources, and administrative capacity of state and local governments. It might be, for example, that high federal expenditures are mainly for energy development purposes, which might have greater negative than positive impact in terms of the service needs/resource equation of the affected state/local governments. Measurement of regional variations in the impact of the federal government on state/local functional assignment, therefore, requires more than an analysis of the federal balance of payments in the various regions, however difficult even that analysis is.

FOOTNOTES

¹ I.M. Labovitz, "Federal Expenditures and Revenues in Regions and States," in ACIR, *Intergovernmental Perspective*, Fall 1978, p. 19.

² ACIR, *Regional Growth: Historic Perspective (A-74)*, Washington, DC, U.S. Government Printing Office, 1980, pp. 4-5.

³ *Ibid.*, pp. 5-6.

Summary

The large and expanding role of the federal government—in direct activities and in grants-in-aid to state and local governments—suggests a powerful influence on the allocation of functional responsibilities at the state and local levels. In this report we have attempted in a broad-brush manner to identify and describe the scope and characteristics of this influence, first, by looking at federal actions which are intended to affect “who does what” at the state/local level, and second, by identifying many actions which, while not intended to have such an effect, yet may do so by affecting service demands placed on state and local governments and their capacity to meet those demands. In an oversimplified form, the types of federal action identified and whether their effects on state/local functional assignment are intended or unintended are charted in *Figure 2*.

INTENDED INFLUENCES

Federal actions intended to affect state/local functional assignment include conditional grants-in-aid, mandates or direct orders, and direct assumption of functions or activities previously performed by state or local governments. Constituting over 25% of state and local expenditures (FY 1979), conditional grants are clearly the most potent influence. Categorical and block grants, which specifically limit the functions or purposes for which the grant money must be spent, constitute about 90% of all federal grant monies.

Studies of expenditure impacts have shown that conditional grants in the aggregate stimulate expendi-

itures by grant recipients, although particular grants might be stimulative at one point and substitutive at another. Thus, conditional grants have the potential for influencing recipients to add or drop a function.

An Advisory Commission on Intergovernmental Relations (ACIR) staff study undertook to ascertain the degree of impact of federal conditional grants through the use of quantitative statistical methods. It examined the effect of federal grants and certain state and local factors on 845 cities over 25,000 population in the ten-year period, 1967 to 1977. It found that:

- Direct federal attempts at influencing municipal functional assignment have met with some success.
- Yet their fostering of municipal assumption (addition) of functions tended to be limited to controversial diseconomies of scale functions, such as corrections, public housing, and urban renewal. State and local level factors influenced municipal assumption of a broader range of functions.

- On the other hand, federal aid was the strongest influence on cities' giving up (transferring) functions. The effect was negative: a decline in the level of federal aid received by a municipality generated the transfer of at least one function.
- On balance, federal assistance was found to have a limited but growing influence on the scope of municipal functional responsibility and was beginning to rival state and local influences.

Perceptions of local officials appear to support the conclusion that, to some degree, federal grants influence the addition of local functions. A five city-five county study by Catherine Lovell and associates at the University of California-Riverside for the National Science Foundation found, at least preliminarily, that in 51% of conditions-of-federal-aid mandates, an activity was not carried on before the mandate was imposed. One-third of these mandates were programmatic, rather than procedural man-

Figure 2
**SCHEMA OF FEDERAL INFLUENCE
ON STATE-LOCAL FUNCTIONAL ASSIGNMENT**

Type of Federal Action (selected)	Type of Effect on State-Local Functional Assignment		
	Intended	Unintended	
		Service Needs	Performance Capacity
Direct			
Order (mandate)	X		
Assumption of Function	X		
Supersession	X		
Base Openings, Closings		X	X
Energy Development		X	
Refugee Aid		X	X
FHA and VA Mortgage Insurance		X	X
Highway Construction		X	X
Indirect			
Grant Money			
GRS			X
Blocks	X		X
Categoricals	X		X
Grant Conditions	X		X

SOURCE: ACIR staff.

dates, indicating that the influence was less on public-serving activities than on internal or input activities. Transportation, community development, environment, government organization, and crosscutting regulations were the activities most influenced.

A 1975 survey of city officials by ACIR and the International City Management Association reported that "federal aid requirements/incentives" was on about a par with "inadequate services" and "jurisdictional limitations" as a reason given by city officials for shifting responsibility for a function to another governmental unit. The three were the least-mentioned of eight possible reasons; "achievement of economies of scale" was far and away the most frequently mentioned.

The federal government has an opportunity to affect the "who" in "who does what" through its designation of eligible recipients of grant programs. Eligibility for categorical grant programs is shared widely among state and local governments in the great majority of functions. States are the dominant eligibles in energy and resource conservation, highways, social services, health, and public assistance. Locals stand out only in education.

In designating eligible local government recipients, the federal government generally does not distinguish among types of local unit, except for educational programs which single out local educational agencies (school districts). Thus, the federal government does not exercise nearly as much influence on functional assignment among local governments as it might.

Three block grants go exclusively to state governments. Of the remaining two, the Community Development Block Grant (CDBG) has increased the number of cities receiving federal community development funds but most significantly has stimulated many counties to become active in this function. The Comprehensive Employment and Training Act (CETA) block grant moved general purpose local governments—chiefly cities and counties—strongly into the federally aided manpower field which had previously been occupied at the local level mainly by nonprofit organizations. Counties were more affected than cities because they had been even less involved in manpower programs prior to CETA.

While the federal government's tendency to foster special agencies or districts at the local level through grant assistance has been countered in recent years by growing pressure to preserve the authority of general purpose governments, these units continue to grow in number. At the substate regional level, where states have not authorized general purpose units other than

counties, federal programs have tended to foster special purpose bodies.

Nonprofit organizations have become increasingly strong competitors with state and local governments for federal conditional grant monies. Hence, while the federal government may steadily expand its influence on state/local governments and their functional responsibilities by its constant expansion of conditional grants, that increase has been lessened by the continuing increase in federal reliance on nonprofit organizations as grant recipients.

The federal government intentionally influences state/local functional responsibility by direct action as well as through grants-in-aid. Direct action includes legislative and administrative mandates (direct orders) and federal assumption (takeover) of state/local activities. Mandates have been directed mostly at the private sector, but some social and economic regulatory policy has involved state and local governments, mostly in environmental and civil rights matters. Until *National League of Cities vs. Usery*, Congress' power to mandate state and local activities was assumed, for political reasons, to be as broad as its power to regulate the private sector. Now that assumption is in question, and additional delimitation of federal power to order state/local actions awaits further litigation.

One type of mandate that has become increasingly common in areas of concurrent federal and state responsibility is the supersessive or preemptive law. Federal supersessive laws have the effect of keeping states entirely out of a function or activity, or keeping them out unless they perform in accordance with federal standards. Forty-eight supersessive acts enacted from 1964 to 1973 affected health, public safety, environmental protection and conservation, and consumer protection functions, in that general order of frequency.

The Lovell study found that in 57% of federal direct orders, the activity was not carried on prior to imposition of the order, and in an additional 8% the activity was carried on only in part. A conclusion on the function-expanding effect of the federal influence is tempered, however, by the fact that most of these orders involved procedural rather than program matters. Community development, general regulations (affecting more than one department), and environment were most influenced by the federal direct orders; transportation was least affected. Like federal conditions of aid, federal direct orders caused cities to begin new activities more often than counties, undoubtedly reflecting the greater functional scope of

the former.

Next to ordering state/local governments to undertake a new activity, the clearest and most direct way the federal government can affect the scope of their functional responsibilities is to assume or take over one or more of their functions. Such action has occurred in the food stamp and supplementary security income (SSI) programs, but this represents only a partial assumption of the welfare (income security) function by the federal government.

UNINTENDED FEDERAL INFLUENCES

Describing the unintentional influences on state/local functional assignment involves the highly complex process of tracing how the federal government interacts with the total political, social, and economic forces of the nation. This study could only outline the general dimensions of the phenomenon by identifying some of the principal unintentional influences. It examined the federal impact, first on the service needs of state and local governments, then on their capacity to meet those needs.

Three "special impact" cases illustrate federal programs or policies that create state/local service needs in particular geographic areas of the country—the development and closing of military installations, the development of new energy sources, and the reception and processing of political refugees. In each case the federal government has provided, or is planning to provide, special assistance to the localities and states affected. In addition to these geographically selective impacts is the diffused effect of the federal government's presence as the single largest owner of real property in the U.S. A 1978 ACIR study concluded that the federal government's vast "open space" land holdings did not significantly add to the tax burden, nor increase the level of expenditures, of the counties affected.

Federal programs and policies have dramatically, though unintentionally, contributed to the problems of metropolitan areas, and particularly the central cities and their older, near-in suburbs. Taxation, credit management (FHA and VA mortgage insurance), and highway policies encouraged suburban development and aggravated social and economic disparities between central cities and their suburbs. Suburbanization was marked by an out-migration of younger middle-income taxpayers, industry, and retail trade and a consequent concentration in the core

cities of the aged, poor, and disadvantaged and a deterioration of their tax base. The functional implications for central cities were an increased need for public assistance, social services, and changes in the criminal justice system; for the suburbs, an expanded demand for physical facilities and schools. Congress responded to the central cities' problems with a variety of programs over the years, including urban renewal, Model Cities, Community Action, and CDBG.

Nonmetropolitan areas only recently have experienced some of the growth problems long familiar in metropolitan regions; federal programs and policies in these areas have been preoccupied with the effects of economic decline. The recent concentration of growth in nonmetropolitan areas has stimulated federal interest in rural development problems, expressed most concretely in the *Rural Development Policy Act*.

The unintended federal influence is felt not only in the service needs of states and localities but also in their capacity to meet those needs, that is, their resources and administrative procedures and organization. The exemption from state/local taxation of over \$200 billion of "nonopen space" federal property is a prime instance of federal policy eroding state/local fiscal resources. Special impact aids, on the other hand, are examples of ways that the federal government has helped shore up those resources. But most states/localities have to look to the general system of federal financial assistance for such support.

Most important in this regard is the General Revenue Sharing (GRS) program. Akin to GRS but more selective in its availability was the antirecession fiscal assistance program (ARFA) of 1976-78. While conditional aids are nominally restricted in their use, when they are fungible they are available for more general use by state/local recipients. This has been shown to be the case for the public service part of the CETA program. CDBG funds, on the other hand, have been less subject to use for non-CDBG purposes.

The impact of GRS receipts on the operating and capital expenditures and taxes of localities varies according to the size and type of governmental unit and region. The functional application of the funds also varies to some extent according to type of jurisdiction. Generally, however, state and local jurisdictions are using GRS to support their traditional functions. Counties' use of GRS, on the other hand, reflects the growth in the urban-type functions of these jurisdictions. The same distributional pat-

tern held true for ARFA funds.

Sometimes offsetting the attractiveness of federal conditional grants as resources are the programmatic or procedural conditions they impose. The Lovell study reported that 45% of the cost of federal conditions-of-aid was paid out of the local general fund, with cities having to rely more on local sources than counties.

Functionally, local funding of the cost of mandates varied from as much as 100% for environmental activities, to 75% for transportation, 56% for public protection, 30% for health, and 11% for general government (basic structural organization). The high federal contribution for general government activities reflects the high financial incentive the federal government has to offer in order to be effective in an area usually left to the states. Ninety-one percent of conditions-of-aid of a programmatic nature had to be funded out of the local general fund, while only 52% of procedural conditions were so supported.

By including townships as GRS recipients, Congress, according to township critics, has sustained or even revived a unit that should have been left to expire. Township champions defend it as the most local and responsive type of local unit.

Besides affecting their resources, the federal government influences state and local governments' capacity by affecting their procedures and organization, again mainly through conditional grants-in-aid. The Lovell study showed that over 82% of the federal mandates reported were conditions-of-aid, and that 82% of these were procedural. In 63% of the procedural conditions-of-aid, the affected activities had not been carried on before the imposition of the mandate. Complete compliance with these mandates was claimed in 63% of the cases, substantial compliance in an additional 31%.

Virtually by definition, GRS, block grants, and categorical grants vary as to depth and breadth of conditions attached, with GRS having the fewest and the categoricals the most numerous and detailed.

The problems created for states and localities by procedural conditions, along with other difficulties with grant administration, have stimulated various kinds of corrective responses at the federal level. At one level came the adoption of General Revenue Sharing and the movement for block grants in the early 1970s, directed at diminishing the volume and narrowness of conditions attached to federal funding, and on another level, the federal government has striven, with various degrees of success, to make

grant conditions less onerous for aid recipients. It has taken steps to rationalize, standardize, and simplify grant administration procedures.

Procedural grant conditions have by no means had entirely negative effects. They have induced improvements in state/local administrative practices, such as the merit system in personnel actions, the *Hatch Act* limits on partisan political activities, the imposition of citizen participation requirements, and financial management procedures. A large portion of local officials and state administrators polled in recent surveys acknowledge the salutary administrative influence of conditional federal grants.

The federal grant system has influenced state/local recipients' capacity to perform through its effect on the distribution of authority within recipient organizations. With categorical grants still the dominant aid instrument, the system has a strong tendency to deliver programs along functional lines. Ultimately, this serves to weaken the authority of state and local political officials—the generalists. The thrust of the newer forms of federal aid, however—GRS and the block grants—is toward more support for generalist officials. In addition, federal efforts to assist in building general management capability at the state and local levels is less direct but certainly in the same general direction of strengthening the role of top executives.

Another problem of grant recipients' internal organization affected by federal grants is state legislative control over those grants. Many state legislatures have little or no control and thereby surrender a part of their essential authority over state revenues and expenditures. The solution lies with the state legislatures themselves, however, not the federal government, and latest information indicates that the tendency nationwide is definitely toward strengthened legislative control.

A final area of federal impact on recipient organization concerns the requirement that a state establish or designate a single state agency to administer or supervise the administration of a grant program. From the state perspective, this mandate tends to undermine generalist authority by reinforcing the delivery of programs along functional lines, and frustrates state control over its own administrative organization. A waiver was made available by the *Intergovernmental Cooperation Act of 1968*, but an important exception to the waiver authority was opened up in a recent court case in Florida.

To a great extent, what state/local governments do depends on the political process by which citizens

communicate what they want those governments to do and what resources they are willing to provide. The federal government affects this process, and thereby exerts another unintended, indirect influence on functional assignment, in various ways, including its effect on citizen participation in federally aided programs and on the activities and power of interest groups. The more than 150 requirements for citizen participation attached to federal assistance programs are diverse, complex, confusing, sometimes arbitrary, less effective than they might be, and difficult for some federal aid recipients to comply with.

Interest groups are involved in citizen participation requirements but they affect state and local governments in other ways and the federal government in turn affects them. One way it does this is by stimulating creation and growth of program client groups, which make it difficult for state and local governments to change their funding priorities if federal funds cease. State agency heads enlist interest group support for their programs and find it easier to do so when federal funds are involved. Interest groups, often fostered by federal programs, are an important source of ideas for state program innovation. Many interest groups have their greatest success in pushing their causes at the federal level, so that to the extent that they can influence the governmental level at which an issue will be dealt with, they are a force for transfer of increasing responsibility to the federal government.

The inadvertent nature of many federal influences on state/local functioning, and the magnitude of those influences, is one of the reasons for recent interest in the development of a national growth policy. The original 1970 legislation for such a policy was amended in 1977 to call for a "national urban policy." In December 1979 the Administration unveiled its Small Community and Rural Development Policy and in September 1980 Congress enacted the *Rural Development Policy Act*.

By its policies, programs, and presence the federal government creates service needs for state and local governments and affects their fiscal and administrative ability to cope with those needs. The uneven distribution of this influence nationwide, and the direction and pace of its trend, are part of the reason for the familiar sunbelt-frostbelt controversy. The controversy has subsided from its peak but still is a concern in discussions of regional economic development problems. A 1980 ACIR study assessed the changes in regional economic conditions and the imbalances in the intergovernmental expenditure and

aid system and made major findings on such issues as convergence of regional growth rates, decentralization, divergence in the 1970s, dislocation, national stabilization, and federal flows of funds. The study supports the thesis that there are regional disparities in the amounts of revenue paid and received. Assessment of the effect of these disparities on state/local functional capacity requires analysis of the way federal orders and conditions of aid, as well as the net flow of federal funds, affect the service needs, fiscal resources, and administrative capacity of state and local governments.

In conclusion, several points may be selected for highlighting, particularly in regard to intended federal influences:

- Empirical analysis clearly establishes that federal grants-in-aid influence the addition or transfer of functions by municipalities, especially the latter, and that the functions affected tend to be controversial, noneconomies of scale types of function (see *Chapter 2* and the *Technical Appendix*).
- In choosing types of government to be eligible for grants-in-aid, the federal government generally respects the traditional allocation of functions between states and local governments as a group. The vast majority of grants that go to local governments refrain from selecting among types of local unit. A significant exception, in terms of dollars and the unrestricted use of grant money by recipients, is General Revenue Sharing, which specifies general purpose local units of government and specifically includes townships among these units. Some who condemn this federal action as shoring up an uneconomic, inefficient type of local government, contend that it proves the wisdom of a federal policy of channeling federal monies through the states, which are familiar with the strengths and weaknesses of various types of local unit and sensitive to what is needed to improve their whole structure of substate government.
- To the extent that the federal government has been selective in its choice of eligibles for block grants in recent years, it has tended to boost the cause of counties, reflecting counties' expanding assumption of urban functions.
- To the extent that the federal government

has addressed the issue directly in recent years, it has tended to favor general purpose rather than special purpose local government recipients. Yet, the number of special districts continues to grow. Moreover, the number of federal programs encouraging substate regional districts keeps expanding. Another threat to the functional scope of general purpose local government appears to be the federal government's expanded reliance on nongovernmental, nonprofit organizations as grant recipients.

- The steady expansion of supersessive or preemptive orders by the federal government has acted to keep states out of certain functional (or subfunctional) fields or to upgrade their standards of performance in functional fields where they are already active.
- According to Lovell's preliminary study of mandates, federal direct orders are pushing local governments mainly into the functional areas of community development and environment, but not transportation. On procedures, they are most prevalent in imposing across-the-board requirements. Direct order mandates affect cities more than counties, undoubtedly reflecting the greater number of urban activities conducted by cities.
- While there has been a steady trend toward

federal encouragement of functional expansion at the state and local levels via grants and direct mandates, and toward federal financing of state/local functions, there has been little movement toward federal take-over of state/local functions.

- The unintended influences of federal policies and programs on state and local fiscal and functional responsibilities are complex and diverse. This chapter has identified many of them, but by no means has it described their full scope, to say nothing of assessing their significance. The federal government has sought to remedy the effects of the more obvious and severe unintended impacts by adopting ad hoc remedial programs. If it wants to exercise a comprehensive and deliberate control over these unintentional influences, it seems reasonable to develop a procedure for analyzing the effects of new policies and programs while they are in the proposal stage. This apparently is the objective of the urban and community impact analysis process set up as part of the Carter Administration's Urban Growth Policy. How successful it can be remains to be seen, and will depend on how much it influences regular political processes.

The Impact of Federal Grant Programs on Municipal Functions: Empirical Analysis

[Note: The basic findings from the following analysis were summarized and interpreted in Chapter 2. This Technical Appendix presents the analysis in full primarily for scholars and technical analysts who are interested in further development of the concepts and statistical techniques employed.]

As part of its overall examination of the assignment of governmental functions at the state and local levels, the Advisory Commission on Intergovernmental Relations (ACIR) sought to test, by quantitative analysis, the impact of federal grant programs on the assumption and transfer of local governmental functions during the period, 1967-77. A review of existing theory and research made it quickly apparent that the federal grant influence is not direct: it is conditioned by forces at the state and local levels. Moreover, the limitations on available data indicated that the study would have to be restricted to municipal governments, and within that group, only those of 25,000 population and over. As carried out and described in this appendix, therefore, the study is an effort to determine, by empirical analysis, the determinants of the number and mix of functions performed by municipal governments of 25,000 population and over, with the principal focus on the influence of federal aid programs. The functions performed, those not performed, and the dynamics of the functional assignment process (i.e., the assumption and transfer of functional responsibility) are examined.

Essentially, attention centers on the following questions:

- 1) To what extent has there been a change in the assignment of functions to municipalities?
- 2) What is the nature of this change? Specifically, have municipalities tended to assume more functions over time or have they transferred existing functions to other governments? What types of functions are more likely to be transferred as opposed to being assumed anew?
- 3) What has been the influence of federal aid programs on observed changes in functional assignment?
- 4) What other factors combine with federal aid to produce an identifiable impact on the functional responsibilities of municipalities?

The analysis first defines functional assignment and reassignment. Then it reviews research conducted on the determinants of municipal functional change—including the significant work on innovation theory—and identifies 13 specific determinants. Two analytical imperatives emerge from this review: the need for a multivariate model of determinants, reflecting the impact of state and local as well as federal influences, and the importance of variations in program content in explaining impact. To respond to the variation in function the 26 functions identified by the Census Bureau are classified according to their response to supply and demand factors that influence municipal preference for functions. Then the sample of municipalities under study is described, the issue of functional definition is addressed, and the data used to measure the determinants of functional change are identified.

The findings section explains the statistical technique used in the analysis and summarizes the results. The Appendix ends with conclusions, principally on the impact of federal assistance on the assignment of municipal functions.

MUNICIPAL FUNCTIONAL ACTIVITY: A CONCEPTUAL DEFINITION AND REVIEW OF RECENT PATTERNS

In its 1974 study of substate regionalism, ACIR reported that “functions are continually being assigned and reassigned in an urban federal system.” Two years later, ACIR noted that shifts in functional assignments took on a specific character and direction:

Table A-1
**NUMBER AND PERCENT OF
MUNICIPALITIES OVER
25,000 POPULATION WITH
RESPONSIBILITIES FOR
SELECTED FUNCTIONS, 1960**

Function	Municipalities	
	Number	Percent
Welfare, Federal	57	9%
Judicial	81	12
Hospitals	87	13
Education	146	22
Welfare, General		
Assistance	159	24
Sewers	402	60
Health	468	70
Sanitation	483	72
Park and Recreation	597	89
Total Number of Cities	668	100

SOURCE: Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, New York, NY, Academic Press, 1976, p. 22.

Table A-2
**NUMBER AND PERCENT OF
MUNICIPALITIES OVER 25,000
POPULATION RESPONSIBLE FOR
SPECIFIED NUMBERS OF
FUNCTIONS, 1960**

Number of Functions	Municipalities	
	Number	Percent
0	8	1.2%
1	63	9.4
2	91	13.6
3	158	23.7
4	174	26.0
5	71	10.6
6	38	5.7
7	41	6.1
8	21	3.1
9	3	.4
	668	99.8%

SOURCE: Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, New York, NY, Academic Press, 1976, p. 26.

Accompanying the upward shift of functional responsibility during the past decade has been another trend—assumption by many municipalities of responsibility for functions never previously performed, such as public transportation and solid waste.²

Conceptually, it is important to distinguish between functions transferred out by a municipality and functions assumed or added. The determinants of each type of change as well as the functions associated with each type may differ. In this study the processes of assuming and transferring functions are referred to as functional reassignment.

Liebert's 1960 study of municipal functions in cities (N=668) over 25,000 in population identified significant variation in the nature and scope of functional responsibility.³ Defining the scope or inclusiveness of functional activities as the number of functions performed by a local government, Liebert found that none of the functions studied were universally provided by all communities.

This is strong empirical evidence of how varied the American system is in providing public services through local governments.⁴

Liebert found that certain functions were more frequently provided by governments than others (see *Table A-1*). People-oriented functions—welfare, education, hospitals, and judicial functions—were infrequently provided (less than 25% of the communities surveyed). Environmentally oriented functions—sewers, sanitation, health, and parks—were provided by between 60% and 90% of the communities studied.

In absolute terms, Liebert found that nine was the

largest number of functions performed and these were provided by less than 1% of the 668 communities studied. Nearly a quarter of the communities provided two or less functions (see *Table A-2*).

In a more recent study of the scope of municipal functions, Dye and Garcia⁵ examined 12 functions of the central cities of the 243 standard metropolitan statistical areas (SMSAs) that existed in 1972 and a sample of 340 suburban cities in the SMSAs. Cities were recorded as performing a particular function when they were shown in the 1972 Census of Governments to have spent more than a nominal amount on the function. The authors found that the average central city provided 9.8 functions and the average suburb, 7.9. Little variation was noted in the number of jurisdictions performing the "common functions": police, fire, streets, sewage, sanitation, and parks. Among the remaining six functions, however, there were these variations in the percentages of performing jurisdictions:

	Education	Welfare
Cities	31.3%	32.9%
Suburbs	15.8	8.0
	Hospitals	Housing
Cities	32.1%	58.8%
Suburbs	4.0	13.5
	Libraries	Health
Cities	72.0%	70.4%
Suburbs	16.8	58.2

Table A-3 categorizes the municipalities sampled in the ACIR's 1976 report by the nature of functional change they experienced from 1966 to 1976.⁶ The sample is broader than either of the two previously

Table A-3
**NUMBER OF FUNCTIONS TRANSFERRED AND ASSUMED
 BY MUNICIPALITIES 2,500 AND OVER IN
 POPULATION, 1966-76**

	Number of Municipalities Transferring One or More Functions	Number of Municipalities Assuming One or More Functions
Total Number of Functions Transferred	1,708	870
Total Number of Functions Assumed	1,039	715

SOURCE: ACIR. *Pragmatic Federalism: The Reassignment of Functional Responsibility* (M-105), Washington, DC, U.S. Government Printing Office, July 1976, pp. 29 and 65.

cited studies, and direct comparisons should be approached with caution. About 43% of the municipalities surveyed experienced some form of change in functional responsibility during the ten-year period. Initial examination of the table would suggest that this change was skewed in the direction of functional transfers. This conclusion, however, would prove to be incorrect. Though 45% more municipalities transferred a function than assumed a new function, the mean number of functions assumed per municipality (1.2) was not much different than the average number of functions transferred (1.6) by municipalities over 2,500 in population. Nevertheless, this finding stands in sharp contrast to the findings of Liebert and Dye and Garcia, who found functional scope increasing during the last decade. The disparity in findings is partially a function of the larger number of municipal activities studied by ACIR.

Several *caveats* on the Dye and Garcia and Liebert studies should be noted. Both studies examined a limited number of functions of a traditional nature. These functions did not tap the innovative dimension associated with many newly acquired activities. In addition, both studies were limited to a particular time and were unable to comment on changes over time in the assignment of functional activities.

Liebert takes note of this first problem:

All of these are traditional functions, none are recent innovations. These nine functions accounted for approximately 82.5% of municipal governments general expenditures.⁷

In spite of the fact that these functions cover the overwhelming majority of municipal expenditures, they do not embrace the multiplicity of functions and subfunctions performed by municipal governments. This point is particularly important when studying the functional impact of federal assistance. Many aid programs are designed specifically to stimulate the assumption of functional activities not normally associated with municipal government. As of January 1, 1975, ACIR staff estimated that there were 132 categorical grant programs which specifically encouraged (through fiscal incentives) local government expenditures.⁸ Special housing programs, mass transportation, and special education are a few of the functions that federal aid programs are directed at stimulating. Studying functional inclusiveness only in terms of traditional and stable activities actually limits the scope of federally induced functional change that can be observed.

Related to the narrow scope of functional activities

studied is the more annoying problem of defining a functional activity. A crime laboratory is substantially different from the ambulatory services that might be provided by a city police department; yet, both activities are subsumed under the same functional heading—police services. Moreover, there is the problem of functional comparability across municipal governments. Many activities are not uniform across municipal governments, making comparisons both difficult and in need of greater specificity.

These issues are not peculiar to the work of these authors. They remain problematic even after the completion of this study. There is also a practical reason for drawing attention to these issues. In both the Dye and Garcia and Liebert studies, there is strong probability that the degree of functional change is underestimated, since the functions included were limited to the traditional ones. This is particularly significant given the dramatic increase in functional change inferred from the works of Liebert, Dye, and Garcia, as well as the earlier ACIR study. Thus, any study of functional assignment and its changing pattern is likely to underestimate the phenomenon.

THE DETERMINANTS OF FUNCTIONAL ACTIVITY AND CHANGE: A REVIEW OF CURRENT RESEARCH

Early Studies

Although they lack a clear theoretical orientation, a number of studies have provided an intriguing, though not always conclusive picture concerning the impact of federal aid on local functional activity. A secondary analysis of these studies substantiates the existence of a number of conditional relationships between federal aid and functional change among substate governments. Specifically, these studies demonstrate that federal aid programs have an indirect impact on the assignment of local functional responsibility via indigenous state and local influences.

The ACIR's 1976 study on the transfer of functions⁹ found that community size was significantly related to the frequency with which municipal governments made transfers. Using data from that study, *Table A-4* shows that 43% of cities over 25,000 population transferred at least one function between 1966 and 1976. In fact, these communities on the average transferred one-third more functions than did communities under 25,000 population. The same study noted a statistically weaker, but signifi-

Table A-4
**FREQUENCY OF FUNCTIONS
 TRANSFERRED, BY
 POPULATION SIZE, 1966-76**

Population Size	Percent Communities Transferred	Mean Number of Transfers
500,000 and over	79%	4.2
250,000-499,999	82	2.8
100,000-249,999	48	1.9
50,000-99,999	39	2.0
25,000-49,999	41	2.0
10,000-24,999	35	1.5
5,000- 9,999	29	1.5
2,500- 4,999	25	1.5

SOURCE: ACIR, *Pragmatic Federalism: The Reassignment of Functional Responsibility (M-105)*, Washington, DC, U.S. Government Printing Office, July 1976, Tables IV and VI.

cant, relationship between municipal size and the assumption of functional responsibilities. It is noteworthy that no significant variation was observed in the frequency of functional change (either the assumption or devolution of services) across region or form of government.

Certain functions are just as likely to be transferred as to be assumed. Among these are solid waste, public health, sewage collection and treatment. Conversely, certain other functions are infrequently the object of functional change. These include planning, education, social services, and housing. This service pattern is quite similar to one noted earlier in Liebert's work. Environmentally oriented activities (sewers, public health, solid waste) are readily provided or transferred out by municipal governments, while people-oriented policies do not draw support for functional change (see *Table A-5*).

Survey data collected by ACIR¹⁰ indicate that the federal grant system is considered by local officials to be an insignificant factor in explaining the transfer of

Table A-5
**NUMBER OF MUNICIPALITIES ASSUMING OR
 TRANSFERRING A FUNCTION, BY FUNCTION, 1966-76**

Function	Assuming Function			Transferring Function		
	Number	Percent	Rank	Number	Percent	Rank
Solid Waste	199	(5.9)	1	288	(8.6)	1
Transportation	136	(4.1)	2	56	(1.7)	10
Public Health	137	(4.1)	3	182	(5.4)	2
Public Works	81	(2.4)	4	43	(1.3)	15
Law Enforcement	67	(2.0)	5	182	(5.4)	3
Water Supply	58	(1.7)	6	57	(1.7)	10
Fire/Civil Defense	51	(1.5)	7	59	(1.7)	10
Sewage Treatment	47	(1.4)	8	163	(4.9)	4
Social Services	45	(1.4)	9	134	(4.0)	7
Building Inspection	35	(1.1)	10	66	(1.9)	8
Environmental Protection	29	(1.0)	11	27	(1.0)	18
Administrative and Legal	28	(1.0)	11	52	(1.5)	13
Planning	24	(1.0)	11	62	(1.8)	9
Recreation	24	(1.0)	11	44	(1.3)	15
Miscellaneous	21	(1.5)	15	9	(.0)	19
Tax and Assessment	13	(.4)	16	153	(4.6)	5
Education	13	(.4)	16	48	(1.4)	14
Housing/Community Development	8	(.3)	18	15	(0.5)	6
Elections	0		19	44	(1.3)	15

N = 3,319
 rho = .463

SOURCE: ACIR, *Pragmatic Federalism: The Reassignment of Functional Responsibility (M-105)*, Washington, DC, U.S. Government Printing Office, July 1976, Table XXVIII, p. 58, and Table IX, p. 36.

new functions. Among the eight reasons for making transfers, local officials ranked federal aid requirements and incentives last, with only 20% of the respondents citing this reason. The dominant reasons cited for changes were economies of scale and other fiscal efficiencies which would accrue to the local government as a result of functional reassignment.

Nearly all of the communities which assumed responsibility for a function (i.e., 96.6%) had been required by their respective states to perform a new function during the period, 1967-76.¹¹ Though the ACIR study did not match state mandated functions with those activities assumed by individual municipalities, it is evident from these descriptive statistics that state mandates have had a significant effect on the functional growth of municipal governments.

Federal aid was more influential in altering the assignment of environmentally oriented than other types of functions (see *Table A-6*). One may conclude, therefore, that federal influence on functional change, though generally modest, seems to vary greatly with the nature of the functional activity and of state influences (i.e., mandates).

Innovation Theory: The Indirect Effect of Federal Aid on Municipal Activities

The study of program innovation provides a theoretical framework for assessing the direct and indirect influence of federal aid on local functional re-

sponsibilities. Innovation theorists generally conceive of federal aid programs as a leveraging factor or incentive for municipal governments to engage in functional activities not currently performed by the recipient governments. This leveraging influence can also lead municipal governments to devolve/transfer certain functional responsibilities. The adoption of innovative service delivery systems (i.e., consolidations, etc.) often results in the abandonment of municipal functional responsibility to a higher level of government or to a newly formed integrated government. Adoption of new crime detection and evaluation devices, for example, had led many city police departments to drop responsibility for crime laboratories and share this function with adjacent governments.

Federal aid is specifically seen as the most exogenous variable in a multivariate model of factors influencing functional activity and change, as represented in *Figure A-1*. The empirical question is how the other variables in the model shape and structure the impact of federal assistance on the functional responsibility of municipal governments.

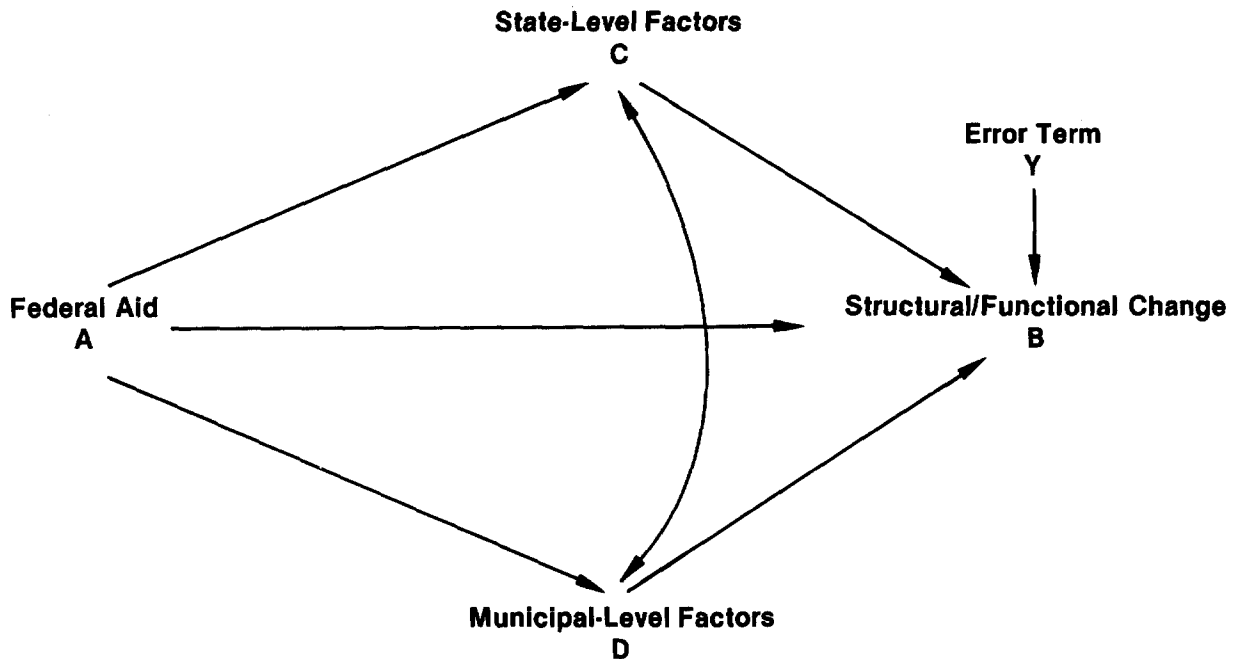
Agnew, Brown and Herr¹² address this question by separating federally initiated innovations from those that are locally initiated in their analysis of functional change. The authors find that adoption of innovations sponsored by municipal authorities (e.g., automated data processing and fluoridation) tends to conform to an S-shape curve. Initially, adoption is slow, changing to a rapid rate of adoption and finally

Table A-6
**PERCENT RESPONDENTS CITING
FEDERAL GRANT REQUIREMENTS AND INCENTIVES AS A
FACTOR INFLUENCING TRANSFERS OF MUNICIPAL FUNCTIONS**

Function	Percent Citing Federal Influence	Function	Percent Citing Federal Influence
Environment Oriented Functions		People-Oriented Functions	
Environmental Protection	30 %	Social Services	17 %
Transportation	31	Recreation	5
Public Works	8	Law Enforcement/ Fire Protection	8
Water Supply	29	Education	17
Sewage Collection	39	Public Health	6
Solid Waste Disposal	12	Housing	53
Planning (physical)	36		
Mean percent	26.4%	Mean percent	17.6%

SOURCE: ACIR, *Pragmatic Federalism: The Reassignment of Functional Responsibility* (M-105), Washington, DC, U.S. Government Printing Office, July 1976, p. 42.

Figure A-1
**HYPOTHETICAL MODEL OF FACTORS INFLUENCING
 STRUCTURAL AND FUNCTIONAL CHANGES AT THE
 SUBSTATE LEVEL OF GOVERNMENT**



SOURCE: ACIR staff.

returning to a quiescent period of moderate adoption (see *Figure A-2*). Federally sponsored innovations (e.g., public housing and urban renewal) exhibit a steady increase in the rate of adoption over the same time period. Only in the case of locally initiated innovations was an extra-local factor (i.e., state policies) related to adoption. Centrally sponsored innovations appear to be a function of community size, possibly reflecting the federal government's bias toward larger, and presumably needier cities in the allocation of federal assistance.¹³

Bingham¹⁴ and Brown, et al, have demonstrated that the content and promoter of innovations have a significant effect on municipal adoption of innovations. Innovations and changes in the processes of ongoing activities were most frequently adopted by municipal governments. These innovations often entail adopting technological changes which offered greater efficiency and economies in the operation of traditional city services (e.g., data processing).

Efforts at promoting the adoption of new services

and functions (e.g., urban renewal and public housing) have met with significant opposition from municipal officials. They represent a direct threat to the status quo and an additional demand on already scarce municipal resources.

Process-oriented innovations are frequently initiated and adopted by municipal governments. Federal grant monies, on the other hand, have been employed as an incentive for municipal governments to adopt a host of new and often controversial services, often including product innovations. Federal success at initiating adoption is largely dependent upon the content of the innovation and the size and flexibility of the fiscal incentive.

Addressing the question of incentives and the specific manner in which these factors operate to alter the functions of substate governments, Agnew, et al, found that:

. . . the absence of any early lag in the temporal adoption patterns for public housing and urban renewal reflects the role of the

central propagator in supporting the innovation, thus reducing the time for an innovation to 'catch on.'¹⁵

Here, the provision of financial assistance characterizes the role of the central/federal propagator. The authors, however, qualify the direct effect federal aid has on the adoption of functional changes:

Promotion of the innovation by a central propagator affects the locus of the threshold conditions in that promotional efforts with regard to the innovation are directed in some systematic fashion toward only certain kinds of communities, and adoption per se is affected accordingly.¹⁶

This qualification indicates that the impact of federal assistance on functional change is dependent on other intra- and intermunicipal factors (e.g., size, government structure, local attitudes, state policies, etc.).

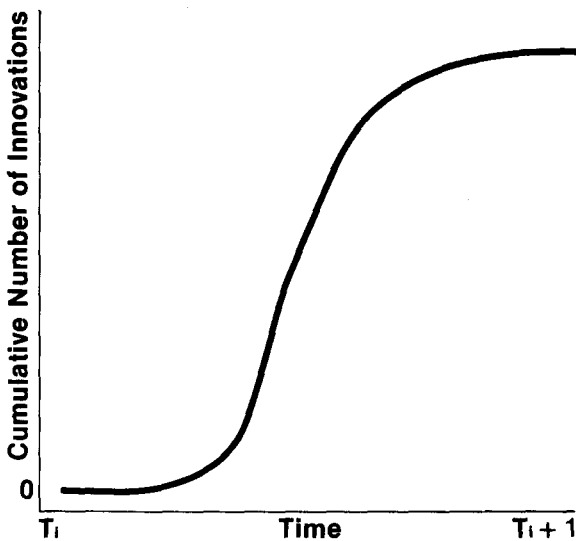
Bingham's study of innovation in U.S. cities found

that functional change is greatly influenced by the proper and timely use of federal fiscal incentives as well as the nature of the function:

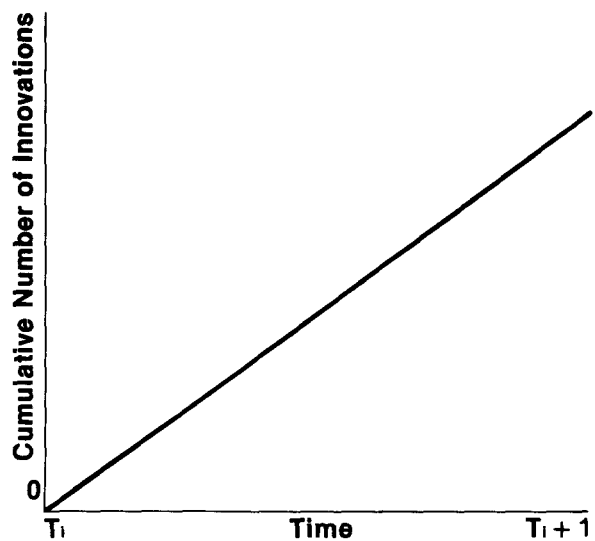
A major conclusion of this study, then, is that bureaucrats are not particularly non-innovative, nor are local governments particularly slow to adopt innovations as has sometimes been suggested. The problem appears to be one of incentive. If incentive is provided, be it need or amenity, local government will probably respond and, surprisingly, will respond within a very short time. The difficulty appears to be in providing incentives. Under our present system, process innovations are most likely to provide the incentive consistent with the provision of public services. This, of course, poses special problems for those interested in assuring that local governments adopt specific product innovations. In the case of product innovations, an incentive must be presented to stimulate adoption.¹⁷

Figure A-2
GROWTH CURVES FOR MUNICIPAL INNOVATIONS, BY TYPE OF POLICY

A. Municipally Sponsored/Innovations



B. Federally Sponsored/Innovations



SOURCE: John Agnew, Lawrence A. Brown, and J. Paul Herr, "The Community Innovation Process: A Conceptualization and Empirical Analysis," *Urban Affairs Quarterly*, Beverly Hills, CA, Sage Publications, September 1978.

Derthick notes that the study of federal aid and its impact on local functions has correctly identified the need for leveraging incentives, but has failed to identify the intervening variables that maximize the leveraging capacity of federal assistance programs:

To achieve results, federal officials must have enough knowledge of local politics to perceive what incentives are necessary; they must supply the incentives in sufficient quality; and they must direct the incentives to those holders of local power whose support is required to achieve the federal purpose. In short, they must intervene successfully in local politics.¹⁸

Derthick has identified the political environment as an important intervening variable between the federal government's aid program and its eventual impact on the functional activity of recipient governments. She maintains that federal aid mobilizes a variety of local interests and, consequently, sets the stage for potential conflict over how newly acquired resources (i.e., federal aid) are to be allocated:

The introduction of federal benefits into the local political systems has a number of effects which are difficult for either federal or local officials to anticipate accurately and which may or may not contribute to the achievement of federal purposes.¹⁹

As Agnew, et al, have found, the effectiveness of federal aid programs is partially a function of local initiatives taken as a result of federal incentives for such action. A knowledge of local initiatives and how they vary in impact (i.e., across different functional areas) is critical in the evaluation of federal aid programs.

Studies of the Economic Opportunity Act's Community Action Program (CAP) demonstrate the importance of local political factors as a mediating factor between federal initiatives and local functional activity. Vanecko, Orden, and Greenstone and Peterson²⁰ have found that the political receptivity of local elites and the presence of organized interest groups were positively associated with the success of CAP programs in influencing local governments to establish permanent antipoverty programs.

It would appear then, from these earlier studies of federal project grants, that relative to other factors (e.g., local elite attitudes, population size, and state mandates), federal aid has a minimal impact on the assignment of functional activities among municipal

governments. That conclusion, however, presumes a bivariate relationship between the determinants of functional inclusiveness and change, and that presumption is premature. Rather than hypothesizing direct bivariate relationships between federal aid and the dependent variable, a more profitable and realistic assessment of this relationship might be characterized as multivariate. Here a number of factors, including federal aid, operate to collectively determine changes in the assignment of functional activities. *Figure A-1* presents a hypothetical characterization of a multivariate model. The bivariate relationship between federal aid and the dependent variable is mediated by state and municipal-level factors. The direct relationship between federal aid and the dependent variable is hypothesized as either insignificant or weaker than the mediated or intervening relationships.

The distinction between bivariate and multivariate models is not merely a methodological exercise. It has significant theoretical and empirical consequences for understanding and evaluating public policies.

It is theoretically and politically naive to conceive of public policy in terms of simple bivariate relationships. The policymaking process is too complex and idiosyncratic to be constrained by so simple a framework. A multivariate model provides a more realistic representation of the actual behavior of municipal governments. The additional factors included here are those that involve the other two levels of government—state and municipal.

It is appropriate at this point, then, to set forth these state and municipal factors.

State-Level Determinants of Functional Activity

Situated between the donor and the local recipient of federal assistance is a significant and sometimes ignored level of government in the study of municipal functional activity—the state. Some students of federal-local relations presume that state government has a negligible direct and minimal indirect impact on the federal-local aid relationship. That presumption needs substantial qualification. A significant portion of federal aid monies to local jurisdictions is passed through the state government.²¹ In some instances, this pass-through function is merely an accounting procedure with little state involvement. In other instances, it represents a significant involvement by the

state in federal-local relations. Allocation of Law Enforcement Assistance Act (LEAA) monies, for example, requires the state to establish a state planning agency (SPA)²² which solicits, reviews, and awards grant monies to local jurisdictions. A pass through is mandated, but the question of to whom is up to the SPA. This type of pass-through role thus can lead to an emphasis on state goals and priorities.

In addition to its pass-through authority, state governments exert a great deal of pressure on the assumption and transfer of local functions, and, therefore, indirectly influence the federal-local relationship. Under Dillon's Rule, state governments can dictate what local governments may or may not do. This authority manifests itself in a variety of ways, each of which is relevant in examining federal-local aid impacts: (1) laws mandating local services/activities; (2) laws prescribing or limiting the structure of local government and its functional authority; (3) direct state expenditures; and (4) state-local financial assistance.

MANDATED SERVICES/ACTIVITIES

One of the most direct and effective means of altering local functions is a state requirement to perform a specific function not previously provided by the local jurisdiction. As defined in a recent ACIR report, state mandates include:

. . . any constitutional, statutory or administrative action that either limits or places requirements on local governments.²³

For purposes of organizing this review, revenue and expenditure side (i.e., tax limits, and authorized functions) mandates are separated from structural and institutional mandates (i.e., annexations, consolidations, etc.)

Fiscally, state-mandated activities are most controversial when the state fails fully or even partially to reimburse local governments for the cost of providing the mandated service. When this happens, state mandates limit local discretion not only through the imposition of new functions, but by placing an added drain on scarce local revenues. Excessive mandated service costs can effectively prohibit a local jurisdiction from participating in a federal aid program due to overtaxed revenues necessary for matching and other grant costs.²⁴

State mandates can and often do take the form of specific functional prohibitions. These can be effected through state assumption of exclusive func-

tional responsibility (e.g., welfare) or through positive limits on the functional authority of municipal governments. They can also take the form of failure to authorize a locality to perform a function. The Community Development Block Grant (CDBG) program made certain counties eligible if they had certain specified community development powers. In some cases, states had to act to give them such powers.

Empirically, there is substantial evidence to document the importance of state mandated activities. As noted earlier, ACIR identified state requirements as a major determinant of newly adopted functional activities.²⁵ The most commonly mandated functions included solid waste disposal, educational programs, and a variety of public and private personnel activities (i.e., workers compensation, retirement programs, etc.).

On the revenue side, state mandates take the form of restrictions on local revenue activities. These include limits on tax rates or prohibitions on imposition of certain taxes, such as local income or sales taxes. Combined with the provision of mandated activities, state limitations on local taxing authority can have a chilling effect on local functional discretion which can spill over to the federal-local domain.

STRUCTURAL DISCRETION

Mandates and state-imposed revenue limitations influence the assumption of functional activities. The other side of the state-local relationship concerns the structural limitations states impose on functional transfers. Consolidations, annexations, and the formation of special and general purpose districts each represent means by which local government might alleviate the burden or divest itself of costly and inefficient functions. State laws regulating the conditions and methods for implementing structural changes in local governments can have an unintended and severe effect on the federal aid-functional change relationship.

Consider the case of the community seeking to build a new sewage treatment plant. Aware of the enormous costs and geographically wide benefits of such a project, the community seeks to enter into a cooperative grant-seeking venture with adjacent communities. In preparing its grant application, the participants note that the proposed treatment plant will be a joint venture of the participating communities under the authority of a special sewage district. Award of this grant and its eventual implementation,

however, is dependent upon state legislative approval for the formation of a special district. Such a requirement takes time to implement, and may minimize the applicants' prospects of receiving federal monies. In other instances, state laws may prohibit any municipal involvement in a functional activity. Under these conditions, the consequences for the functional impact of federal aid is clear.²⁶

STATE FISCAL ASSISTANCE TO LOCAL GOVERNMENTS AND DIRECT STATE EXPENDITURES

The allocation of state aid monies, particularly those for federally aided functions, may have the effect of limiting local participation in federal aid programs. Localities which receive state assistance—particularly when such aid imposes no compliance burdens—will have a diminished need for federal aid. A higher level of direct state expenditures on certain functions may similarly reduce a municipality's need to provide those functions.

Empirically, there is limited evidence to support either of these conclusions. ACIR's earlier study of federal aid programs and their fiscal impact on state and local governments indicated that the correlation between state and federal aid monies to local municipalities (as a percent of local financing) was statistically insignificant.²⁷ This, at least, would suggest that as of the early 1970s the two sources of local assistance were not related. This finding is not altogether surprising. The functional scope of most state aid programs is significantly narrower than the total federal aid package. Three functions (i.e., education, highways, and welfare) accounted for 81% of all state aid to municipal governments in 1975.²⁸ The functional narrowness of state aid reduces the possibility of a significant relationship between the two aid measures.

The absence of a significant direct relationship between state and federal aid to municipal governments does not eliminate the possibility of identifying an intervening effect for state aid monies. Research by Gray and Williams found that federal assistance (law enforcement assistance funds) had a significant impact on the fiscal importance municipal and state governments assigned to federally encouraged law enforcement functions. This pattern was more pronounced for municipal governments where state dependence (measured in terms of state funding of specific functional activities) was minimal.²⁹

In the absence of specific requirements, state agen-

cies and municipal governments would be:

... expected to mobilize their strength to maximize control of newly available resources without changing their policies.³⁰

Municipal governments and state agencies with substantial state funding are thus able to thwart federal initiatives for functional change.

The Gray and Williams study is limited to the single function of law enforcement, and their findings may apply only to this particular activity. The authors partially acknowledge this problem, but offer little explanation for its potential theoretical meaning. Conceivably, law enforcement represents a policy area where federal intrusion is least desired by recipient state and local officials. In less coveted policy areas (i.e., pollution control and transportation), state dependency may not be a strong obstacle to the influence of federal aid programs.

Collectively, the four state variables identified may have an interactive or additive impact on the federal aid-functional change relationship. Conversely, it is possible that each state factor is intimately related to the others so that one or more factors may be redundant. Though such speculative thinking is best resolved by empirical analysis, Stonecash provides an exploratory examination of some of these state level factors and their interrelationships.³¹ In one class of fiscally active states (i.e., those with higher direct state expenditures), he states, these do not appear to be more restrictive in terms of local taxing authority and mandated services.³² Moreover, such states make fewer and smaller financial transfers to local jurisdictions.³³

Stonecash's findings suggest that a certain combination of state-level policies toward local governments (e.g., minimal mandates, minimal restrictions on local taxing authority, and minimal state transfers) set the stage for both active federal grant participation and its accompanying level of functional alteration. These analyses are tentative, and do not include any data on federal grant levels. They do, however, point the way for broader types of research and establish the basic relevance of state-level phenomena in assessing the functional impact of federal-local aid programs.

Municipal-Level Determinants of Functional Activity

Municipal-level determinants of functional activity consist of the political and socioeconomic traits of

municipalities. Within each category there are a number of specific concepts and theories which provide an empirical basis for assessing the linkage between federal aid programs and changes in municipal functional activities.

POLITICAL DETERMINANTS

Adopting the perspective suggested by Derthick, a number of researchers have examined the impact of competing demands for governmental services and the formal structure of municipal governments (i.e., reformed and unreformed governmental structure) on functional change.

Interest group theorists maintain that individuals who share sociodemographic traits generally share basic attitudinal orientations toward the political system (as well as other societal institutions).³⁴ Individuals who share these common belief systems will behave in a cooperative fashion in order to influence the decisions and actions of various political institutions. This theoretical approach suggests that the activities of homogeneous communities will differ from the activities of more heterogeneous communities.³⁵

Social heterogeneity refers to a condition where residents of a municipality differ on more social demographic attributes than they share. The choice of attributes on which to measure the degree of social heterogeneity is based on consideration of group affiliations which are relevant to an individual's preferences for governmental services, an issue to be discussed in the operational section of this study.

A number of researchers have found that socially heterogeneous communities place a large and diverse set of demands on the scarce resources of municipal governments.³⁶ Consequently, the functions of heterogeneous communities will be quantitatively large (in terms of dollar expenditures) and qualitatively diverse (i.e., more functions provided). Heterogeneous communities have a tendency to provide minimal levels of service (i.e., dollar expenditures) in a wide variety of functional areas. Homogeneous communities are less likely to generate a large volume of diverse demands, providing local government with the opportunity to concentrate outputs in policy areas where a consensus of preferences exists. The homogeneity of preferences provides a greater probability of savings through economies of scale and other efficiencies which result from consensual political environments.³⁷

Analysts have assumed that small communities with a homogeneous set of public policy preferences

will be resistant to federal attempts at altering local functions. If these homogeneous communities already have a limited number of functions (as a result of fewer and less variant demands), federal efforts to alter current functions are likely to fail. Federal policymakers have assumed that:

... traditional policymaking patterns of small communities are highly resistant to the kinds of externally generated change represented by shifts in federal aid programs.³⁸

More heterogeneous communities, fiscally pressed by excessive and competing demands, might look more favorably upon federal assistance as a means of supplementing overtaxed local revenue sources. Sokolow suggests that variation in municipal responses to federal aid incentives is a function of demand side differences among recipient governments. Smaller, more homogeneous communities possess two traits that enable them to resist federal incentives that seek to alter municipal functional activity:

1. The absence of interest group competition: by definition, homogeneous communities lack significant socioeconomic differentiation among their constituent population. This is not to suggest that smaller, rural communities lack organized interest groups, but rather that these groups merely represent a pronounced consensus of preferences.
2. Decision strategies emphasize consensus: as a direct response to the sharing of policy preferences, decisionmaking in smaller communities is directed at consensus or unanimity of preference. Conflict is formally minimized.

The natural conflict produced by the diversity of preferences in larger cities minimizes opportunities for consensus building, leaving political leaders to identify coalitions of interest groups which produce sufficient majorities for governmental action. When confronted with new and external resources (i.e., federal aid), large urban communities are likely to appropriate this money in a manner consistent with previous spending patterns for locally raised revenues (e.g., substitution). Rather than target aid at federally sponsored activities and risk renewed political battles, "large cities allocated the bulk of their early revenue sharing funds to operating and maintenance purposes, as a substitute for increased taxes."³⁹

Smaller, less fiscally strained cities, are likely to either resist offers of federal assistance, or accept aid when the intended purpose of the federal assistance

program is consistent with local policy preferences. Sokolow found that when smaller cities accepted federal assistance (i.e., General Revenue Sharing) they were more likely to make a larger number of expenditures on new services, capital equipment, and other activities supported by the federal aid program, than to substitute federal monies for local taxes:

In general, the smaller governments, cities, counties, and townships allocated their first revenue sharing funds for a variety of equipment purchases and construction remodeling projects. They were able to catch up on deferred maintenance and capital improvement projects. One writer characterized some of these expenditures as 'nice-to-have' but not essential.⁴⁰

Nathan, et al, note that the uncertainty associated with the continued funding of General Revenue Sharing may have led many localities to avoid long-term projects (i.e., new functional activities).⁴¹

The absence of any competing demands for use of aid monies may make it possible for certain municipalities to assume new functions. Collaborative findings on this point are provided by Kettl. Examining expenditure patterns for CDBG monies, Kettl concluded that the central cities of Bridgeport, New London, and Norwich, CT, were unable to allocate CDBG monies in a manner consistent with what some took to be the legislative intent of the program. Expenditures for community development, long-term revitalization and systematic citywide programs were largely ignored for more politically expedient "tot lots and other neighborhood projects."⁴²

The bargaining produced scattered, short-term neighborhood projects. Over the first three years of the program, funds for concentrated redevelopment projects decreased, while cities spent more for neighborhood parks and facilities and neighborhood public services.⁴³

The aforementioned studies provide only limited evidence to support the mediating effect social heterogeneity has on the federal aid-functional change relationship. General Revenue Sharing (GRS) and CDBG are not characteristic of the federal aid system, nor are California and four cities in Connecticut a sufficient sample from which to generalize. In spite of these limitations, we expect heterogeneous political environments to be obstructive of federal aid goals because of the competing and politically vol-

atile demands they generate toward government. Under these circumstances, control over federal aid programs and their impact on local functional activities is neither in the hands of federal nor local officials. Rather, the locus of control is with the numerous and fragmented interest groups operating within the boundaries of the municipality.

The hypothesized impact of social homogeneity on the federal aid-functional change relationship is two-staged. Initially, socially homogeneous communities are likely to resist federal aid incentives for functional change by nonparticipation. When participation does occur, however, it is the socially homogeneous communities that are most likely to exhibit changes in functions consistent with the intent of federal aid programs.

GOVERNMENTAL STRUCTURE

Lineberry and Fowler⁴⁴ and Karnig⁴⁵ identified a negative relationship between reformed governmental structures (i.e., manager-council, at large representation, nonpartisan elections, strong civil service) and the number of functions performed by municipal governments in the mid-1960s. The authors offer a linkage explanation for this relationship:

The translation of social conflicts into public policy and the responsiveness of political systems to class, racial, and religious cleavages differs markedly with the kind of political structure. Thus, political institutions seem to play an important role in the political process—a role substantially independent of a city's demography. It is clear that political reforms may have a significant impact in minimizing the role which social conflicts play in decisionmaking.⁴⁶

Unreformed governmental structures (partisan elections, ward representation, mayor-council and weak civil service) provide a conduit through which the demands of the socially disadvantaged can be effectively communicated to government. Unreformed governmental structures enhance the influence of the poor and other relevant interest groups by increasing personal contact between elected officials and the electorate through ward representation, and providing voters a valuable guide to candidates and issues through partisan elections. If federal aid is viewed as a conditioner of the services of municipal governments, its influence here presumably would be inversely related to the accessibility and openness of

municipal government (i.e., unreformed governmental structures).

It is important to note that Lineberry and Fowler found no evidence to support earlier contentions that communities with reformed and unreformed governmental structures are demographically dissimilar. Given the work of Sokolow, it might be expected that reformed governments would be socially homogeneous while communities with unreformed governmental structures would exhibit a substantial degree of social heterogeneity. Lineberry and Fowler found little evidence to support this conclusion:

Cities with reformed and unreformed institutions are not markedly different in terms of demographic variables. Indeed, some variables like income, ran counter to the popular hypothesis that reformed cities are havens of middle class. Our data lent some support to the notion that reformed cities are more homogeneous in their ethnic and religious populations. Still, it is apparent that reformed cities are by no means free from the impact of these cleavages.⁴⁷

SOCIO-ECONOMIC DETERMINANTS

Under the heading of socio-economic traits, a wide range of variables has been studied by Liebert and Dye and Garcia in terms of their relationship to changes in the functional inclusiveness (scope of functions) of municipal governments. Generally, each operational index has attempted to measure municipal need and/or municipal capacity to fulfill need (e.g., population size, age, suburban status, wealth, etc.). Municipalities in need of certain services, but fiscally unable to provide for these activities, are likely to be responsive to federal aid initiatives. The availability of resources (both local and extra-local) and the public support to expend these resources (i.e., tax rate) provide strong incentives for changes in municipal functional activity.

Drawing on the work of Liebert and Dye and Garcia, changes over time can be identified in the pattern of observed relationships between indicators of need and capacity and the functional scope of municipal governments. Larger communities tend to provide more functions for their constituents than small communities (*Table A-7*). The strength of this relationship, however, diminishes across time (i.e., between 1960 and 1970), possibly reflecting the introduction of a new influence on the scope of functional activities. Similarly, the relationship between inclusive-

ness and municipal age, though positive, diminishes in strength over time. The significant changes in the magnitude of these observed correlations suggest that other variables are operating over time to affect the relationships between indicators of need and functional inclusiveness. This is particularly relevant in the case of municipal age where the variance between communities is virtually constant over time, leaving only the dependent variable to vary over time as a function of some other factor(s).

Liebert found age to be the best predictor of functional inclusiveness in his four variable model. He suggests that older cities by virtue of their age are likely to have acquired more functional responsibilities. Older cities predate the "good government" movement when the growth of government was unbridled by organized concern for efficiency and economy in municipal government.

Conceptually, age is an ambiguous variable and in fact a surrogate measure of time. In this regard its explanatory power is limited to statements that direct the researcher to a specific period in the past when the dependent variable's content and character were shaped. Unfortunately, time as an explanatory variable does not tell us what phenomenon (at a particular time) is responsible for shaping the dependent variable. Time needs to be substituted for a more specific set of concepts that are associated with the period in which the character and quantity of functional responsibility was structured. Our own analysis attempts to affect this substitution by identifying municipal level factors associated with functional responsibility and functional reassignment.

Using 1960 level data, Liebert found that functional inclusiveness was significantly related to per capita municipal expenditures ($R = .320$).⁴⁸ Dye and Garcia, studying a relatively comparable sample of municipalities in 1970, found the expenditure-functional inclusiveness relationship increased significantly in magnitude ($R = .650$)⁴⁹ (see *Table A-7*). The expansion of federal grant assistance under the Johnson Administration may have stimulated a significant increase in the assumption of functional responsibilities by adding revenues to the resource base of certain municipal governments. Consequently, the increased relationship between expenditures and program activity may be a function of federal assistance rather than increased utilization of local revenues.

Dye and Garcia note that the assumption of new functional responsibilities does not necessarily mean an accompanying decline in expenditures for other basic services (i.e., services previously provided by

Table A-7
DETERMINANTS OF FUNCTIONAL INCLUSIVENESS OVER TIME¹

Variable	1960 Liebert		1970 Dye-Garcia	
	Zero Order	Beta	Zero Order	Beta
Municipal Age ^a	.580	.469	.470	.330
Suburban Status ^b	-.450	-.141	NA	NA
Population Size	.530	.052	.260	.090
Tax Revenues—1972	.740	NA	.630	.390
Total Expenditures Per Capita ^c	.320	.259	.650	.410

¹The zero-order correlation represents the relationship between each independent variable (i.e., age, status, etc.) and functional inclusiveness. The beta represents the same relationship controlling for the effect of all other independent variables listed in the table.

^aYears since municipality surpassed 50,000 in population size.

^bCities within SMSA excluding central city.

^cExcluding fire and police expenditures.

SOURCE: Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, New York, NY, Academic Press, 1976, pp. 104-151; Thomas R. Dye and John A. Garcia, "Structure, Function, and Policy in American Cities," *Urban Affairs Quarterly*, September 1978, p. 113.

the municipality). If such a condition prevailed, newly assumed functional responsibilities would be fiscally offset by the reduction in or outright elimination by one means or another of current functional responsibilities. As Dye and Garcia note:

Despite good theoretical reasons for believing that an increase in functional responsibilities might reduce the level of support given other common functions, our analysis fails to produce any evidence of such a negative spillover. . . . Increased functional responsibilities do not adversely effect spending on common municipal functions.⁵⁰

Theoretical meaning for some of these observed relationships is provided by Clayton and Stevens.⁵¹ Studying the frequency with which local governments transfer functional activities by contracting them out to another jurisdiction, the authors test a three variable model to explain this functional phenomenon:

. . . the more recent the date of incorporation, the lower the individual resident income level, the greater the relative power of a specific user group with homogeneous demands, and the greater the homogeneity of

resident demand, the more likely a city is to spend a larger proportion of its receipts on services contracted for with a county provider.⁵²

The authors' model accounts for 73% of the variation in municipal contracting activities for a sample of California communities.⁵³ Though the authors do not speculate as to the causal ordering of variables in their model, an implicit ordering can be deduced from their own analyses.

Recent incorporation provides a community with the opportunity to decide whether to raise the capital necessary to establish individual agencies and service delivery systems or to contract with a county or adjacent community. Older municipalities are committed to previous expenditures and have existing bureaucracies and physical plants which are unlikely to accept expiration passively. Newer cities generally have smaller tax bases and, consequently, have a need to avoid costly bureaucracies and capital expenditures for the construction of physical plants. Less wealthy communities stand to benefit most from the economies of scale achieved by contracting with adjacent areas. Finally, the homogeneity of preferences associated with new and less wealthy communities provides a strong political base from which to enter intergovernmental service agreements:

... homogeneity would lead recipients to desire similar service output levels and qualities and would lead them to concur in their tastes for service mixes.⁵⁴

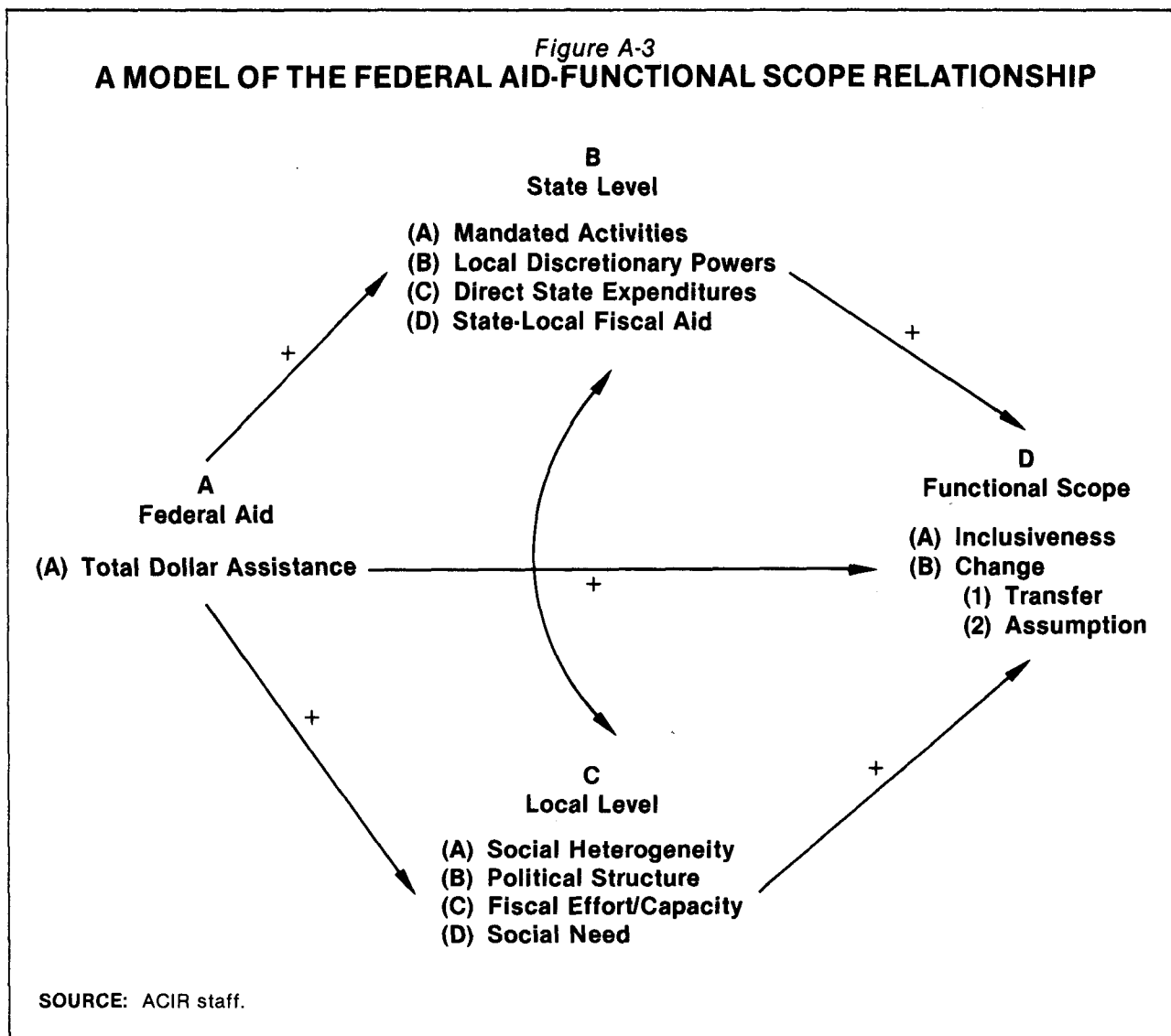
A MODEL OF MUNICIPAL FUNCTIONAL ASSIGNMENT

Two themes emerge from the literature on functional assignment that must be reflected in any study of this phenomenon: (1) the need to use multivariate models in the study of functional assignment, and (2) the importance of program content, i.e., the nature of the function, for explaining the assignment issue.

Multivariate Relationships

Figure A-3 depicts the basic model of functional change used in the previously discussed literature on functional assignment. The most exogenous variable, federal aid, interacts with state and municipal level phenomena to produce an indirect effect on the nature of functions performed. The direct relationship between federal aid and functional scope is hypothesized as statistically weak to moderate, whereas all multivariate relationships are hypothesized as being of significant magnitude.

Though the model depicted in Figure A-3 exhausts most potential determinants of the dependent variable, it does not address the manner with which



these variables collectively or individually affect functions provided by the municipalities. The hypothesized relationship for the individual variables is displayed in *Table A-8*.

Delineation of the precise operation of the multivariate model is beyond the scope of this study. The reader should not, however, dismiss the importance of discerning how federal aid operates through state and municipal environments to structure functional assignment. This study is an initial step in detecting the determinants of functional assignment and their relative influence on this phenomenon. Future research will need to build upon the findings of this study by examining the interaction among various determinants as they influence functional assignment.

The policy implications of a multivariate model are noteworthy. If federal aid affects functional activities independent of state and municipal-level factors, federal policymakers need not concern themselves with complex intergovernmental relations when devising grant strategies to alter the program outputs of municipal governments. If, however, federal aid's impact on municipal functional activity is mediated significantly by either state and/or local conditions, federal policymakers will be wise to consider these intergovernmental dimensions when devising federal grant strategies. The specific nature of state and municipal determinants of the federal aid-functional change relationship will define the parameters of viable action for federal decisionmakers.

The Importance of Functional Content

Liebert, Agnew, et al, and Bingham in works cited earlier have demonstrated that the determinants of functional change vary with the nature of the function. This finding has not been applied, however, in explaining the assignment of local functions. One reason is the ambiguous and elusive meaning of function. Another is the unmanageable number of functional categories and/or the cumbersome systems for classifying functions. The latter problem (which must be overcome if empirical analysis is to be conducted) can be minimized by conceptually linking the system of classification with the phenomena under study.

For the purposes of this study, a new, but not unique, functional classification will be employed. The central assumption of this typology is that it is politically and economically more advantageous for municipalities to provide certain functions than

others. The basic elements of the typology are the economies of scale (i.e., supply side factor) and the homogeneity of preferences (i.e., demand side factor) associated with each functional activity.

A Supply Side Explanation of Functional Assignment

A number of political economists have studied the problem of functional assignment from the perspective of the market place.⁵⁵ The basic tenet of this approach is that individuals and governments will always act to maximize their benefits and minimize their costs, while pursuing a specific goal (i.e., the rationality axiom). From this perspective, the assignment of functional responsibility is not an end itself, but rather a means of delivering goods and services to a constituent population.

The relevant question when diagnosing functional assignment according to this school, is "how efficiently government provides citizens with public goods and services that citizens prefer."⁵⁶ Employing the rationality axiom as the basis for evaluating the performance of government, political economists have defined efficiency in terms of maximum policy outputs for the smallest per unit cost. Drawing on the theory of firms,⁵⁷ size economists suggest that maximum efficiency is achieved under conditions of centralized production—economies of scale. Applying the plant analogy to the production of municipal services, many reformers maintain that ". . . increasing the size of governmental units will be associated with higher output per capita and more efficient provision of services."⁵⁸

The size hypothesis has met with conflicting empirical results. Hirsch's⁵⁹ research on this question has revealed a pattern in which economies of scale are associated with particular activities and not necessarily with the size of the governmental body or service district.

The conclusion to be drawn from Hirsch's efforts is that economies of scale vary among different services supplied in the public sector. Some services are more efficiently produced by larger jurisdictions; some are more efficiently produced by smaller units.⁶⁰

A number of researchers have confirmed Hirsch's findings concerning the nature of scale economies and diseconomies.⁶¹ *Table A-9* presents a summary of this research. Each function is characterized ac-

Table A-8
**DESCRIPTION AND INTERPRETATION OF HYPOTHESIZED RELATIONSHIPS
 BETWEEN SELECTED INDEPENDENT VARIABLES AND
 FUNCTIONAL SCOPE OF MUNICIPALITIES**

Variable	Direction of Relationship	Interpretation
Federal level		
Federal Aid	Positive	Higher level of federal assistance is related to greater functional responsibility.
State level		
Annexation	Positive	Greater municipal discretion to annex adjacent land is related to greater functional responsibility.
Functional Discretion	Positive	Greater freedom to choose areas of functional activity is related to greater functional responsibility.
Mandates	Positive	Higher level of state-mandated service activity is related to greater functional responsibility.
Consolidation	Positive	Greater municipal discretion to consolidate with other cities is related to greater functional responsibility.
Direct Expenditures	Negative	Higher level of direct state expenditures is related to fewer municipal functional responsibilities.
Local Level		
Home Value	Positive	Higher valued housing stock is related to greater functional responsibility.
Government Form	Positive	Cities with unreformed governmental structures (i.e., partisan elections, etc.) perform more functions than cities with reformed governmental structures.
Property Taxes	Positive	Higher level of property taxation is related to greater functional responsibility.
Social Need	Positive	Higher level of social need is related to greater functional responsibility.
Social Heterogeneity	Positive	Higher level of social heterogeneity is related to greater functional responsibility.

SOURCE: ACIR staff.

Table A-9
**ECONOMIES OR DISECONOMIES
 OF SCALE ASSOCIATED WITH
 FUNCTIONS PROVIDED BY
 MUNICIPAL GOVERNMENTS**

Function	Economies/ Diseconomies
Highways	Economies of Scale
Parking	"
Sewerage	"
Water Supply	"
Sanitation	"
Libraries	"
Financial	"
Administration	"
Electrical Supply	"
Gas Supply	"
Transit	"
Parks/Recreation	"
Airports	"
General Control	"
Liquor Stores	"
Natural Resources	"
Health	Diseconomies of Scale
Hospitals	"
Fire	"
Higher Education	"
Special Education	"
Local Schools	"
Corrections	"
Housing/ Urban Renewal	"
Police	"
General Assistance	"
Categorical Assistance	"

SOURCE: Werner Hirsch, "Local Versus Areawide Urban Government Services," *National Tax Journal*, December 1964, pp. 331-339; and William Fox, et al, *Economies of Scale in Local Government: An Annotated Bibliography*, U.S. Department of Agriculture, Research Report #9, 1979.

According to the economy of scale with which it is associated.⁶²

Policies for which important economies of scale can be expected are generally capital intensive rather than labor intensive. Normally, economies of scale accrue when a capital intensive enterprise can spread the high costs of capital over a large number of customers (e.g., the building of a sewer treatment plant). Labor intensive policies (e.g., police and fire services) exist when the costs of providing the service cannot be evenly and efficiently distributed over a large number of customers without: (1) increasing service coverage and thus increasing costs disproportionately to benefits, or (2) taxing individuals who are not benefited by the service.

Independent of other influences, municipalities will tend to transfer out functions for which they are unable to fully exploit the economies of scale—water services, transportation, and waste disposal. Those functions for which economies are not available if performed by a larger jurisdiction will be retained and/or assumed by municipal governments.

A Demand Side Explanation of Functional Assignment

In response to the nonpolitical nature of supply side explanations, political economists have devised a demand theory of functional assignment which is related to people's feelings about governmental services. Noting that policy outputs are essentially the result of demands transformed into governmental decisions, these demand-oriented theorists suggest that changes in the activities of municipal governments are a function of the opinion consensus that forms around demands for government action.⁶³

A supply side explanation of functional integration assumes: (1) everyone has similar tastes for municipal services, and (2) municipal size is not an important determinant of people's tastes for goods and services provided by government. Demand side theorists suggest that these assumptions are unwarranted. Individuals generally have different tastes for goods and services produced by municipal government.

Homogeneity of preferences enables municipalities to avoid duplication while maximizing the preferences of the largest number of citizens. At the same time, the larger the service area (population served), the more diverse demands for that public service will be. A number of researchers have identified this condition as the source of opposition to changes in func-

tional responsibility or in jurisdictional size.⁶⁴ Citizens perceive their preferences diluted by the inclusion of other actors in the decisionmaking process, and thus oppose functional reassignment or changes in jurisdictional boundaries:

The heterogeneity or homogeneity of populations within political units is also likely to affect the social interaction costs of political decisions. Both decisionmaking costs and potential political externalities are likely to be lower in a group of people with similar tastes.⁶⁵

Yet, the relationship between population size and heterogeneity of preferences is not the same for all functions. Certain services produce little variation in articulated preferences. Thus, citizens show little disagreement over the kinds of service they want from garbage collection and sewage disposal. Regardless of the number of citizens serviced, preferences for these services are likely to be homogeneous and free of conflict.

More fragile and controversial policies—education, police, housing—are likely to produce a greater variety of preferences and, hence, increased potential for conflict. Larger service populations for these services thus make it more difficult to achieve consensus on the nature of the policy output, producing a diverse set of activities within each of the functions. A qualitative distinction, therefore, can be identified among services along a conflictual-non-conflictual dimension. Some policies engender greater controversy and heterogeneity of preferences in a constituent population (e.g., education, police, welfare, and housing). Conversely, other policies fail to generate a variety of preferences producing a consensus of preferences by default for the delivery of these public services (e.g., waste disposal, transportation, pollution abatement).

Employing a similar dichotomy, Williams,⁶⁶ Thomas,⁶⁷ Kirkpatrick and Morgan,⁶⁸ and Mars⁶⁹ have each identified a significant relationship between functional areas (i.e., controversial and non-controversial) and elite support for functional assignment across levels of government. Williams suggests that the essential differences between the two categories of functions is the “importance of the service in maintaining preferred values.”⁷⁰ Functions for which preferences are strongly held are likely to generate greater elite interest and desire for local control. Functions where less strongly held preferences produce a policy consensus are likely candidates for

consolidation with other units. Municipal governments are likely to avoid responsibility for functions which generate excessive political controversy as a result of heterogeneous citizen preferences. Less controversial functions are more conducive to a stable political environment which enhances the provision of these functions by municipal governments.

Exceptions to this pattern of functional assignment are expected, of course. Police, fire, and some other governmental functions (i.e., courts, executive management agencies) are traditional functions of municipal government. Liebert suggests that historical inertia may block significant changes in the assignment of these functional responsibilities since they are associated with the initial incorporation of municipal governments.

A Typology

Figure A-4 brings together the demand and supply dimensions in a typology of substate functional change. It is expected that support for municipal functional assignment will be greatest for those functions characterized as noncontroversial economies of scale. Conversely, support for municipal functional assignment will be weakest for services characterized as controversial diseconomies of scale. Both noncontroversial diseconomies of scale and controversial economies of scale activities are hypothesized as generating moderate to low levels of support for municipal functional assignment. For the purposes of this study, it is assumed that municipal assignment of functional responsibilities involving controversial economies of scale are less likely to occur than municipal assignment of noncontroversial diseconomies of scale functions.

It is important to remember that the hypothesized typology of functional assignment represents the expected preferences of municipal officials for functional assignment. There is substantial empirical evidence to support the attitudinal claim made in the typology of functional assignment. Stein⁷¹ and ACIR⁷² have found that the preferences of municipal officials for functional assignment conform to the hypothesized typology.

These preferences, however, are distorted by a number of extra-municipal forces (i.e., state and federal). The central issue is not whether the typology is supported by the current assignment patterns, but whether we can account for the deviation between preferred assignment patterns and observed patterns of functional assignment. In this regard we can deter-

Figure A-4
**A TYPOLOGY OF MUNICIPAL FUNCTIONS:
 A SUPPLY AND DEMAND SYNTHESIS**

SUPPLY SIDE			
Economies of Scale	Diseconomies of Scale	Noncontroversial	DEMAND SIDE
Highways Parking Sewerage Water Supply Sanitation	Financial Administration Electrical Supply Gas Supply Libraries	Health Hospitals Higher Education Fire Special Education	
Transit Parks/Recreation Airports General Control Liquor Stores Natural Resources	Local Schools Corrections Housing/Urban Renewal Police General Assistance Categorical Assistance	Controversial	

SOURCE: ACIR staff.

mine the extent to which functional assignment is structured by conditions of supply and demand as opposed to federal, state, or municipal influences.

OPERATIONAL MEASURES

This section identifies the data base used to make the model of municipal functional assignment operational. It describes the nature of the sample of municipalities examined, and the definitions and data used to measure (1) the changes in functional assignment, and (2) the factors of influence. The statistical techniques employed to manipulate the operational measures are explained in the succeeding section.

The Sample of Municipalities

Previous studies of functional change have examined cities over 50,000 in population size (e.g., Liebert and Dye and Garcia) or those over 5,000 in population (e.g., ACIR). In many ways, the wide dif-

ference in the composition of these samples may account for the variation in research findings. Municipalities below 25,000 in population size tend to be engaged in a limited number of functions due largely to their reduced level of demand. Consequently, grouping these municipalities with those in the over 25,000 category creates problems of comparability. Further, available data for individual municipalities under 25,000 in size is limited and, in some instances (i.e., federal aid allocations), virtually nonexistent. For these reasons, only municipal governments 25,000 and over in population as of 1967 were included in this study. This procedure netted an effective sample size of 845 municipalities, which are shown by population category in *Table A-10*.

To assess changes in functional assignment over time, data has been collected for the years 1967, 1972, and 1977. Since yearly changes in functional assignment are not expected, the two five-year intervals (i.e., 1967-72 and 1972-77) provide ample opportunity to observe the nature and determinants of functional reassignment (i.e., transfers and assumptions).

Table A-10
**DISTRIBUTION OF MUNICIPALITIES
 WITH POPULATION OF 25,000 OR
 MORE IN 1967,
 BY POPULATION SIZE**

Population	Municipalities	
	Number	Percent
1,000,000 +	6	0.7%
500,000-999,999	15	1.8
250,000-499,999	31	3.7
100,000-249,999	100	11.8
50,000- 99,999	239	28.3
25,000- 49,999	454	53.7
	845	100.0%

SOURCE: U.S. Bureau of the Census, *1977 Revenue Estimates of Municipality Population Size*, Department of Treasury, Office of Revenue Sharing, U.S. Government Printing Office, August 1979.

Functions and Functional Activities

Liebert and Dye and Garcia examined common governmental activities, often excluding relatively new functions which are the object of federal aid initiatives. Both studies tended to define functions coterminous with the administrative-service delivery structure associated with the function. In so doing, the authors failed to consider that many functions are, in fact, broad policy areas encompassing a variety of specific activities. Some police departments, for example, operate mobile crime laboratories, others do not, a fact of noncomparability which will not be revealed when the laboratory activity is included under the police function. Still more troublesome are functional activities performed by different agencies within municipal governments. Ambulance services are often provided by the police, fire, or health departments in the same municipal government.

Because of the limited availability of data bases, this analysis provides only a little more functional specificity than those in the above studies. Functional definitions used are those provided in the Census of Governments' municipal government finance survey.⁷³ The finance survey provides municipal expenditure data for 26 functional activities (see *Exhibit A*). Ideally, greater functional specificity would be desired. The Census Bureau detail is suffi-

cient, however, to overcome some of the problems of functional ambiguity.

A municipality is considered to provide a function when its annual operating expenditures for the function are \$10,000 or more. Any operating expenditure below \$10,000 was deemed trivial and not characteristic of an ongoing municipal function.⁷⁴ All expenditure and aid allocations have been deflated for national rates of inflation using 1967 as the base year.

The specific dependent measure employed in this study changes with the type of analysis conducted. One dependent variable employed in both a time-series and static analysis is functional inclusiveness. Inclusiveness as defined in the Dye and Garcia and Liebert studies refers to the total number of functions performed by a municipal government.

An analysis of changes in functional inclusiveness implies either the transfer/devolution of functions or the assumption of new functions. In addition to examining the rate of change in functional inclusiveness, therefore, the nature of functional change requires that the manner by which change has occurred (i.e., transfers and assumptions) be measured.

The importance of distinguishing between transfers and assumptions is underscored by the fact that a municipality can assume and transfer an equal number of functions showing no net change in the scope of functions. Without examining the rates of both transfers and assumptions, one might fail to detect or underestimate the degree of functional change.

Operationally, therefore, four dependent measures are studied: (1) functional inclusiveness; (2) change in functional inclusiveness; (3) transfer of functions; and (4) assumption of functions.

Measuring the Influence Factors

FEDERAL LEVEL

Reliable data for federal grant allocations often is not available and frequently is limited to aggregated state level figures. Data bases which provide functional specificity for municipal grant allocations are limited to the Bureau of Census' *Government Finances* and the Community Services Administration's (CSA) *Federal Outlays*.⁷⁵ Though the CSA data now is recognized as the most accurate accounting of aid allocations for municipal government, its availability and reliability for the period, 1968-72 is severely limited.⁷⁶ *Government Finances* is available prior to 1972 with sufficient functional specificity to

fulfill the data needs of this study. The Census Bureau's measure of federal grant assistance excludes any federal aid monies passed through the state to the municipal government. It identifies as federal aid monies only those payments made directly to municipal governments. Thus, these figures overstate the actual amounts of state-local aid and understate the amounts of federal-local aid.

Though the Census Bureau's data on municipal federal aid allocations is reliable, its lack of detail limits the scope of our analysis. Census data do not distinguish between project and formula grant allocations. Researchers have found that the fiscal impact of federal aid differs between project and formula grant mechanisms.⁷⁷ Project grants tend to be more restrictive in the conditions that are placed on recipient governments. It is expected that project grants rather than less restrictive formula grants will be more effective in leveraging functional reassignment (i.e., transfers and/or assumptions). This hypothesis, however, remains a moot question until more detailed data on federal aid allocations becomes available.

STATE LEVEL⁷⁸

In examining the state's impact on municipal functional activity, state-level scores were assigned to each city within a specific state. This technique preserves the unit of analysis at the municipal level while enabling consideration of cross level relationships.

Measures of state-level mandates and discretionary authority granted to local governments are assumed to be uniform across all municipalities within a single state. No logical fallacy (i.e., generalizing from the whole to the part) is committed by assuming that the state-level operationalization is an accurate measure of the municipal value on the same variable. Mandated functions and local discretionary authority, with some exceptions, are uniformly applied to all general purpose governments of the same class. The exceptions concern smaller municipalities (i.e., municipalities below 25,000 in size), which are exempt from certain state mandates.

The ACIR's 1978 study of state mandates identified 77 potential mandates across eight functions.⁷⁹ Using that data, this analysis employs two measures of mandated activities for each state: (1) the percent of total activities mandated by each state, and (2) the percent distribution of mandated activities by function. As noted before, each municipality will be assigned a mandated activities score according to the

state in which it is located.

State statutes regulating the powers of municipal governments are used in constructing separate functional, structural and fiscal indexes of local discretion. Listed below are the classes of state statutes used as indicators of local discretion.⁸⁰

- I. Local structural discretion⁸¹
 - A. Local annexation authority/requirements
 1. Petition of property owners
 2. Public hearing
 3. City ordinance
 4. Referendum in annexing city
 5. Referendum in annexed area
 - B. Local consolidation authority/requirements
 1. Referendum in one community
 2. Referendum in both communities
 3. Consolidation allowed
 4. Referendum required in unincorporated area
 - C. Home rule authority
 1. Granted in state general law
 2. Structural home rule granted
- II. Local functional discretion⁸²
 - A. Contract power vested with locality
 - B. Interstate service agreements allowed
 - C. Intrastate service agreements allowed
 - D. Requires action of local government
 - E. Interservice agreements must be in accord with state law
 - F. Only one jurisdiction need have functional authority for interservice agreement
- III. Local fiscal discretion
 - A. Referendum for bond issues required
 - B. Maximum life of bond issues regulated by state
 - C. Interest ceiling on bond issues regulated by state
 - D. Property tax limits imposed by state
 - E. Short-term borrowing followed

Scale scores for each of the state-local relations variables (i.e., home rule, mandates, annexation, consolidation, functional and fiscal discretion) were constructed by a simple summation technique. After confirming the dimensionality of each item in the scale, values of 1 or 0 were assigned to each scale items (1 = discretion extended to locality, 0 = discretion not extended to locality). The item values were then summed to arrive at a single scale score.

State aid to local jurisdictions tends to be func-

tionally narrow and relatively stable⁸³ over time. The condition of uniform variable values across municipalities within a single state is not, however, a valid assumption for state-local aid transfers. Within each state, nonuniform allocations are made across a variety of functional activities. State-local fiscal aid is often allocated on the basis of population, need, and general fiscal conditions. In order to measure this state-level activity properly, it is necessary to identify the amount of state aid each municipality has received by function. An aggregated state level within a state receives an equal amount of state aid. Total state aid allocations to municipal governments as well as functional state aid allocations are obtained from the Census Bureau's *Government Finances*.⁸⁴

Direct state expenditures are outlays made for functions performed solely by the state government for the benefit of all jurisdictions and individuals in the state. The measure of direct state expenditures employed in this study assumes uniform variable values for all communities within a state. Each municipality within a state is assigned a score corresponding to the state's total direct expenditures in 11 functional areas. Again, *Government Finances* reports data on direct state expenditures by state, functional activity, and year.

Our measure of state aid includes both categorical grants and shared taxes.

LOCAL LEVEL

One of the most difficult variables to conceptualize (and, therefore, to make operational) is the degree of social heterogeneity present in a community. Heterogeneity is often confused with other factors; e.g., social conflict and ethnicity. These factors are often related to social heterogeneity but are not necessary nor sufficient in defining a heterogeneous or homogeneous municipal environment.

Some of the confusion over the nature of this concept also is attributable to the variables which define diversity within a community. Heterogeneity is defined in terms of the number of different categories into which individuals can be grouped. In this regard, variable groupings (e.g., levels of education, income groupings and types of occupations, etc.) is the relevant unit of analysis when defining social heterogeneity. Sullivan and Lieberson⁸⁵ similarly have defined heterogeneity in terms of the diversity of individual group associations.⁸⁶

Lieberson has devised a diversity in population measure (A_w) which is interpretable in probability

terms, since it represents the proportion of characteristics upon which a randomly selected pair of individuals from the same community will differ. The measure, constructed for each community, is based on the following computational formula:

$$A_w = 1 - \left(\frac{\sum_{k=1}^p Y_k^2}{V} \right)$$

Where:

Y_k = The proportion of the population falling in a given category within each of the variables.

V = Number of variables.

p = Total number of categories within all of the variables.

The choice of variables (i.e., traits) is critical in defining social heterogeneity. For the purposes of this study, five traits are identified as relevant to the policy process and changes in the assignment of functions. The traits and their corresponding categories are:

1. Ethnicity
 - a) Foreign stock (foreign born or of foreign parentage) (.25)
 - b) Nonforeign stock (.75)
2. Education (for individuals 25 years and older)
 - a) Less than five years (.05)
 - b) Five to eight years (.25)
 - c) Four or more years of high school (.70)
3. Occupation
 - a) Manufacturing (.31)
 - b) Retail/wholesale (.29)
 - c) Government (.15)
 - d) Other (.25)
4. Housing structure
 - a) Owner-occupied (.60)
 - b) Renter-occupied (.40)
5. Family income
 - a) Below 125% of poverty level (.05)
 - b) Greater than 125% of poverty level less than \$14,999 (.52)
 - c) \$15,000 to \$24,999 (.31)
 - d) Over \$25,000 (.12)

The figures to the right of each variable category represent the population distribution for a hypothetical community and are used to illustrate the operational measure. The social heterogeneity score for the hypothetical community is computed thus:

$$Y^2k = (.25)^2 + (.75)^2 + (.05)^2 + (.25)^2 + (.70)^2 + (.31)^2 + (.29)^2 +$$

$$(.15)^2 + (.25)^2 + (.60)^2 + (.40)^2 + (.05)^2 + (.52)^2 + (.31)^2 + (.12)^2.$$

$$v = 5$$

$$A_w = 1 - (2.35/5)$$

$$A_w = 1 - .470$$

$$A_w = .530$$

The result, .530, is interpreted as the percent of traits on which two randomly selected persons will differ. A score of .530 thus indicates a relatively moderate level of heterogeneity.

Fiscal and social need measures have been widely employed in other studies, and there appears to be a general consensus on the appropriate operational measures for these variables. Social need generally refers to the needs of a resident population and their ability to meet these needs. Certain persons are more demanding and in need of basic governmental services, independent of their personal resources. The aged, young, and unemployed make a significant demand on public services and are less likely to contribute to the fulfillment of that collective need. The following are employed as indicators of community need:

- A. Population size.
- B. Total population below 18 years of age and over 65 years of age.
- C. Total number of families with annual incomes below 125% of poverty level.
- D. Total population unemployed.
- E. F.B.I. uniform crime rate.⁸⁷

In making the concept of fiscal capacity operational, resources available to the community were separated from those resources actually committed to public services by the community. Measures of capacity are drawn largely from the public policy literature and conform to the interrelationships identified in this literature. Median home value (i.e., owner-occupied) was chosen as an index of the concept fiscal capacity. The main source of revenue for local governments is the property tax (i.e., a percent of home valuation) and this provides an adequate measure of available municipal resources.

Measures of fiscal effort are similarly operationalized in terms of the major revenue source for local government—the property tax. The rate at which a community taxes itself provides an indica-

tion of the community's willingness to commit its scarce resources toward fulfilling community needs. For the communities studied, the full value local tax rate, which is statutorily set by the local government (though often regulated by the state), is employed as a measure of fiscal effort.⁸⁸

The form of municipal government is made operational in terms of two structural arrangements for local governance: (1) mayor-council and (2) council-manager. The latter form of government is generally comprised of at-large representation and strong merit system and nonpartisan elections. Mayor-council governments are thought to be more responsive to constituent demands for services, providing a variety of mechanisms (i.e., partisan elections, single member districts, etc.) through which constituent preferences can be clearly articulated to elected officials.⁸⁹

See *Exhibit B* at the end of this Appendix for a summary description of variables used in the model of functional assignment.

FINDINGS

The findings from the analysis are considered under seven headings:

- Inclusiveness: the scope of functional responsibility.
- The extent of functional reassignment.
- Participation in federal aid programs.
- The determinants of functional scope: a multivariate analysis.
- The determinants of functional reassignments: assumptions, transfers, net change.
- The determinants of inclusiveness by functional category.
- The determinants of functional reassignment by functional category.

Inclusiveness: The Scope of Functional Responsibility

The scope of municipal functional responsibility has remained stable during the ten-year period under study (see *Table A-11*). The average number of functions provided by each municipality has changed less than one function per community during either of the two time periods. The standard deviation scores, which measure the degree to which individual municipalities deviate from the average inclusiveness score for all communities, reveals a tightly clustered

Table A-11
**FUNCTIONAL INCLUSIVENESS OF MUNICIPAL GOVERNMENTS,
 1967, 1972, AND 1977**

Number of Functions Provided	Municipalities					
	1967		1972		1977	
	No.	%	No.	%	No.	%
0	0	0	0	0	0	0
1	0	0	0	0	0	0
2	0	0	1	0.10	0	0
3	0	0	0	0	0	0
4	1	0.18	1	0.10	0	0
5	5	0.59	3	0.30	0	0
6	3	0.35	3	0.30	3	0.30
7	13	1.50	13	1.50	17	2.00
8	27	3.10	24	2.80	20	2.30
9	35	4.10	38	4.40	42	4.90
10	68	8.00	77	9.10	75	8.80
11	140	16.00	119	14.00	122	14.40
12	155	18.30	174	20.50	143	16.90
13	143	16.90	154	18.20	133	15.70
14	118	13.90	109	12.90	112	13.20
15	64	7.50	70	8.20	86	10.10
16	35	4.10	31	3.60	58	6.80
17	19	2.20	13	1.50	17	2.00
18	11	1.30	8	0.90	10	1.10
19	2	0.20	3	0.30	4	0.40
20	2	0.20	4	0.40	2	0.20
21	3	0.30	0	0	1	0.10
Mean	12.35	100.00	12.31	100.00	12.50	100.00
Standard Deviation	2.40		2.30		2.40	

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977.*

distribution of municipalities around the mean inclusiveness score for each year.

No municipality provided its constituents services in all 26 functional areas. In fact, no municipality provided more than 21 functions. The maximum of 21 was provided by less than 1% of the communities with an average of 12 functions provided over the ten-year span. Every community provided services in at least four functional areas. Fire, police, general control, highways, and financial administration make up the core of functions which are common to all but a few city governments over 25,000 in population size.

A majority of the municipal governments have ex-

perienced a net change in functional inclusiveness over the last decade (see *Table A-12*). The pattern of net functional change, however, has fluctuated between net gains and losses. Between 1967 and 1972, net functional change was evenly distributed between increases and decreases in functional scope, with a slightly negative mean change of -.04 and with 40% of the communities experiencing no net change in their functional scope.

The second half of the decade is skewed towards a net increase in functional responsibility. The number of municipalities experiencing a net decline in their functional scope decreased by 15%, while over one in three communities increased their functional respon-

sibilities by one or more services—a dramatic shift in the direction of new functional change.

For the ten-year period, then, aggregate changes in municipal functional responsibility appear modest. At the same time, there seemed a slight decline between 1967 and 1972 that was replaced by a modest increase by 1977.

COMPARISON WITH HYPOTHESIZED TYPOLOGY

As seen in *Table A-13*, the assignment of functional responsibility among the 845 municipalities conforms moderately with the hypothesized typology set forth earlier in *Figure A-4*. As expected, functions associated with noncontroversial economies of scale were most frequently provided by municipal governments, while controversial diseconomies of scale functions were unlikely to be the object of municipal service delivery. This trend is stable over time. Con-

flicting with the hypothesized pattern, controversial economies of scale functions were provided by slightly more municipalities in 1967 than functions associated with noncontroversial diseconomies of scale. This difference, moreover, widens significantly over time. Municipal responsibility for controversial economies of scale functions increased slightly while municipal responsibility for functions associated with noncontroversial diseconomies of scale dropped by 8%.

This particular finding, however, is not altogether surprising. Noncontroversial diseconomies of scale provide little incentive for continued municipal responsibility. Economically, these functions are too costly to provide at the municipal level. Politically, their transfer may not draw strong public opposition since they generate little in the way of diverse public preferences. Moreover, the services of a transferred function are not lost to the citizens of the affected municipality. In most cases, services continue to be

Table A-12
THE NET CHANGE IN THE FUNCTIONAL SCOPE OF MUNICIPAL GOVERNMENTS, 1967-72, 1972-77, AND 1967-77

Net Change in Number of Functions	Municipalities					
	1967-72		1972-77		1967-77	
	Number	Percent	Number	Percent	Number	Percent
-5	0	0	1	.1	2	.2
-4	2	.2	5	.6	6	.9
-3	9	1.0	13	1.5	25	3.0
-2	47	5.5	48	5.6	71	8.4
-1	214	25.3	163	19.3	163	19.2
0	340	40.2	293	34.6	263	31.1
+1	174	20.5	195	23.0	153	18.1
+2	46	5.4	78	9.2	110	13.0
+3	11	1.3	33	3.9	25	2.9
+4	1	.1	13	1.5	15	1.7
+5	1	.1	2	.2	8	.9
+6	0	0	0	0	3	.3
+7	0	0	0	0	0	0
+8	0	0	1	.1	0	0
+9	0	0	0	0	0	0
+10	0	0	0	0	1	.1
Mean	-.04		.23		.19	
Standard Deviation	1.09		.140		1.63	

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Table A-13

**PERCENT OF MUNICIPALITIES PROVIDING SPECIFIED FUNCTIONS, WITH
FUNCTIONS GROUPED ACCORDING TO HYPOTHESIZED TYPOLOGY
(See Figure A-4), 1967, 1972, AND 1977**

Function, by Type	1967	1972	1977
Noncontroversial/Economies of Scale			
Highways	99.6%	99.4%	99.8%
Parking	66.7	64.6	62.3
Sewerage	90.4	92.3	91.4
Water Supply	80.7	81.6	82.2
Sanitation	92.7	94.0	93.9
Libraries	72.7	71.2	68.1
Financial Administration	98.9	99.5	99.6
Electrical Supply	14.6	14.7	14.6
Gas Supply	4.5	4.3	4.7
Average	68.9	69.0	68.5
Noncontroversial/Diseconomies of Scale			
Health	71.1	68.5	65.6
Hospitals	10.7	9.2	7.9
Fire	97.1	97.0	96.3
Higher Education	1.4	0.6	1.0
Special Education	2.1	0.1	0.1
Average	36.4	29.2	28.4
Controversial/Economies of Scale			
Transit	6.9	10.1	18.8
Parks/Recreation	95.6	96.8	97.0
Airports	34.3	34.7	31.9
General Control	99.4	99.7	99.8
Liquor Stores	1.4	0	1.4
Natural Resources	0	0	0.4
Average	39.6	40.0	41.4
Controversial/Diseconomies of Scale			
Local Schools	17.8	19.1	16.8
Corrections	3.0	4.1	16.0
Housing/Renewal	35.9	37.8	48.9
Police	99.5	99.6	99.6
Public Welfare	32.1	29.5	33.7
Categorical Assistance	5.5	2.2	1.6
Average	32.2	32.0	36.0

SOURCE: ACIR staff calculation based on U.S. Department of Commerce Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

delivered to the same population but by a higher (and, therefore, larger) governmental jurisdiction, better capable of achieving economies in the delivery of the transferred service.

Close inspection of *Table A-13* reveals a significant amount of variation in the municipal assignment of services within each hypothesized functional category. In each instance, the deviation of individual functions from the category mean is statistically significant. As was noted earlier, the dimensions of the functional reassignment typology provide only a loose framework within which to evaluate municipal incentives for functional assignment. The typology identified conditions under which preference of local governments (i.e., locally elected officials) might structure the mix of municipal services. As *Table A-13* indicates, there is a significant difference between the hypothesized preferences of local officials for municipal functional assignment and the actual allocation of service responsibility. Assignment patterns which did not conform to the hypothesized typology involved functions strongly associated with either the private or public sector. As Liebert has noted, fire, police, and general control services are performed by any newly formed general purpose government, and thus may be too well entrenched to be abandoned by municipal governments. Gas, electric power and parking, on the other hand, are func-

tions long associated with the private sector. Local governmental involvement in these activities has been chiefly limited to regulation in order to provide municipalities the benefits of service and policy control without the capital risks associated with responsibility for direct service delivery.

Other variables intervene to influence the actual functional assignment away from the assignment typology. Chief among them are the federal (including aid), state and municipal level factors identified earlier.

Functional Reassignment: Magnitude and Changes

It would be risky to conclude from the findings in *Tables A-4* and *A-12* that functional reassignment has been nonexistent or limited during the past ten years. Functional reassignment may have been substantial during this period, yet appear to be insignificant in the aggregate because of off-setting transfers and functional assumptions. This point is partially confirmed by the distribution of municipalities along the measure of net functional change and the variation in the mean functional change score for the two periods. *Table A-12* reveals that nearly an equal number of communities experienced an in-

Table A-14
ASSUMPTION OF FUNCTIONAL RESPONSIBILITY BY MUNICIPAL GOVERNMENTS, 1967-72 AND 1972-77

Number of Functions Assumed by a Municipality	1967-72			1972-77		
	Municipalities Assuming Function(s)		Total Functions Assumed	Municipalities Assuming Function(s)		Total Functions Assumed
	Number	Percent		Number	Percent	
0	499	59.1	0	350	41.4	0
1	252	29.8	252	300	35.5	300
2	77	9.1	154	127	15.0	254
3	14	1.6	42	40	4.7	120
4	2	0.2	8	19	2.2	76
5	1	0.1	5	7	0.8	35
6	0	0.0	0	2	0.2	12
	845	99.9	461	845	99.8	797
Mean						
Standard Deviation	.54			.94		
	.39			.88		

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Table A-15
TRANSFER OF FUNCTIONAL RESPONSIBILITY BY MUNICIPAL GOVERNMENTS, 1967-72 AND 1972-77

Number of Functions Transferred by a Municipality	1967-1972			1972-1977		
	Municipalities Transferring Function(s) Number	Percent	Total Functions Transferred	Municipalities Transferring Function(s) Number	Percent	Total Functions Transferred
0	452	53.5	0	409	48.4	0
1	302	35.7	302	311	36.8	311
2	81	9.6	162	96	11.4	192
3	8	0.9	24	21	2.5	63
4	2	0.2	8	6	0.7	24
5	0	0.0	0	2	0.2	10
Mean	845	99.9	496	845	100.0	600
Standard Deviation	.58			.75		
	.75			.63		

SOURCE: ACIR staff calculation based on U.S. Department of Commerce Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

crease or a decrease in their functional scope during each of the five-year periods studied. Shifting the perspective now from the number and scope of functions performed at particular times to the number and type of functional changes (assumptions and transfers) provides a clearer picture of the nature and dynamics of functional reassignment among municipal governments (*Tables A-14 and A-15*).

In the aggregate, 461 functions were assumed by the 845 municipalities in the period between 1967 and 1972, with 496 functions transferred. From 1972-77 functional assumptions increased by 72.9% to 797 with functional transfers experiencing a modest increase of 21.0% up 600. *Table A-16* indicates that 62.4% of the municipalities assumed at least one function during the last decade, while a larger percentage—73.0%—transferred at least one function. When assumptions and transfers are examined together as a measure of functional reassignment we find that 92.7% of the municipalities experienced reassignment of at least one functional activity.

The important question, for this analysis, however, is not how many functions a municipality has assumed and/or transferred but whether it has either transferred and/or assumed any new functional activities. From that perspective, municipal activity has been modest, although the evidence in *Tables A-14 to A-16* clearly reveals that a steady increase in functional responsibility has occurred.

Over time, there is a skewed pattern to the functions experiencing reassignment (see *Table A-17*). In 1967-72 and 1972-77, the same four functions—health, general assistance, parking and housing/urban renewal—were most frequently reassigned. The rank order correlation between the percent of municipalities experiencing functional change on each of the 26 activities for both periods is significant ($\rho = .904$), revealing a consistent pattern to the functions reassigned over time.

Table A-16
MUNICIPALITIES ASSUMING, TRANSFERRING, AND REASSIGNING ONE OR MORE FUNCTIONS, 1967-77

	Number	Percent
Assumed one or more functions	527	62.4
Transferred one or more functions	625	73.0
Reassigned one or more functions	783	92.7

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Table A-17
**NUMBER AND PERCENT OF MUNICIPAL GOVERNMENTS EXPERIENCING
 REASSIGNMENT OF FUNCTIONAL RESPONSIBILITIES FOR THE
 PERIODS 1967-72 AND 1972-77**

Function, by Type	1967-72		1972-77	
	Number	Percent*	Number	Percent*
Noncontroversial Economies of Scale				
Highways	4	(0.5)	6	(0.6)
Parking	119	(14.1)	162	(19.1)
Sewerage	56	(6.6)	47	(5.5)
Water Supply	8	(0.9)	15	(1.7)
Sanitation	61	(7.2)	55	(6.5)
Libraries	65	(7.6)	92	(10.8)
Financial Administration	12	(1.0)	5	(0.6)
Electrical Supply	1	(0.1)	3	(0.3)
Gas Supply	1	(0.1)	3	(0.3)
Average Percent		(4.2)		(5.0)
Noncontroversial/Diseconomies of Scale				
Health	154	(18.2)	168	(19.8)
Hospitals	19	(2.2)	25	(2.9)
Fire	5	(0.6)	10	(1.8)
Higher Education	7	(0.8)	6	(0.7)
Special Education	18	(2.1)	1	(0.1)
Average Percent		(4.8)		(5.0)
Controversial/Economies of Scale				
Transit	28	(3.4)	119	(14.0)
Parks/Recreation	22	(2.6)	20	(2.4)
Airports	38	(4.4)	46	(5.4)
General Control	7	(0.8)	3	(0.3)
Liquor Stores	12	(1.4)	12	(1.4)
Natural Resources	0		4	(0.4)
Average Percent		(2.1)		(3.9)
Controversial/Diseconomies of Scale				
Local Schools	37	(4.3)	48	(5.6)
Corrections	13	(1.5)	111	(13.1)
Housing/Renewal	108	(12.7)	224	(26.5)
Police	5	(0.6)	6	(0.7)
Public Welfare	122	(14.4)	185	(21.8)
Categorical Assistance	34	(4.0)	21	(2.4)
Average Percent		(6.2)		(11.2)

*Of 845 municipalities in universe.

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Five functions experienced a net increase among the 845 municipalities (more assumptions than transfers) from 1967 to 1977 (see *Table A-18*), while seven experienced a net decline. Functional responsibility for ten functions remained unchanged; and, in the case of four services, the number of municipalities with the service both increased and decreased over the ten-year period. Functions experiencing trivial or no change are generally activities basic to all general purpose governments (i.e., police, fire, general control, etc.). Functions experiencing net changes have all been the object of extensive federal grant assistance. This does not constitute evidence supportive of a direct federal aid impact on functional change. *Table A-18*, however, does show that change is most likely to involve functions associated with significant federal-local aid allocations.

The distribution of functional assumptions is biased toward a few functions. Health, housing/urban renewal, parking, and general assistance account for nearly half of the functions assumed between 1967 and 1972 (see *Table A-19*). The trend changes slightly by 1977. Housing/urban renewal and public welfare other than categorical assistance remain the dominant functions assumed by municipal governments, but corrections and transit replace health and parking among the top four.

The top four functions assumed from 1972 to 1977 accounted for 60% of all assumptions for that period, revealing a slightly smaller distribution of assumptions among the remaining 22 functions than in the prior five-year period. Those functions which had previously been assumed continued to be the object of new program initiatives by municipal governments as a group. This latter observation is supported by a strong rank order correlation ($\rho = .765$) between the percent of municipalities assuming each function in 1967-72 and 1972-77.

Transfer of municipal services has been a more infrequent occurrence, though its incidence increased by 18% between 1972 and 1977. Transfers tended to be concentrated among a few functions and these were the same as those in which assumptions were clustered—health, parking, public welfare, other than categorical assistance, and housing/urban renewal (see *Table A-20*). In both five-year periods, these four functions accounted for over half of all municipal transfers.

The significant correlation between functions assumed and transferred within both periods (see *Figure A-5* and *Table A-21*) suggests that activities assumed by certain municipalities are transferred by

Table A-18
**FUNCTIONAL REASSIGNMENT, BY
TYPE OF CHANGE AND FUNCTION,
1967-77**

- I. Consistent Change in One Direction During Two Five-Year Periods
 - A. Net Increase
 - Transit
 - Parks/Recreation
 - Corrections
 - Housing/Urban Renewal
 - Water Supply
 - B. Net Decrease
 - Parking
 - Libraries
 - Health
 - Hospitals
 - Categorical Assistance
 - Higher Education
 - Special Education
- II. No Change During Two Five-Year Periods
 - Highways
 - Sewerage
 - Sanitation
 - Financial Administration
 - Electrical Supply
 - Gas Supply
 - Fire Prevention and Suppression
 - Natural Resources
 - Police
 - General Control
- III. Erratic Change During Two Five-Year Periods: Up and Down or Down and Up
 - Liquor Stores
 - Local Schools
 - Public Welfare
 - Airports

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977.*

Table A-19
**NUMBER AND PERCENT OF MUNICIPAL GOVERNMENTS ASSUMING
 FUNCTIONAL RESPONSIBILITIES FOR THE PERIODS
 1967-72 AND 1972-77**

Function, by Type	1967-72		1972-77	
	Number	Percent*	Number	Percent*
Noncontroversial/Economies of Scale				
Highways	1	(0.1)	5	(0.5)
Parking	50	(5.9)	72	(8.5)
Sewerage	36	(4.2)	20	(5.5)
Water Supply	8	(0.9)	10	(1.8)
Sanitation	36	(4.2)	27	(3.1)
Libraries	26	(3.0)	33	(3.9)
Financial Administration	9	(1.0)	3	(0.3)
Electrical Supply	1	(0.1)	1	(0.1)
Gas Supply	0		3	(0.3)
Average Percentage		(2.2)		(2.3)
Noncontroversial/Diseconomies of Scale				
Health	66	(7.8)	72	(8.5)
Hospitals	3	(0.3)	7	(0.8)
Fire	2	(0.2)	2	(0.2)
Higher Education	0		5	(0.6)
Special Education	0		1	(0.1)
Average Percentage		(1.7)		(2.1)
Controversial/Economies of Scale				
Transit	28	(3.3)	95	(11.3)
Parks/Recreation	16	(1.8)	11	(1.3)
Airports	21	(2.4)	11	(1.3)
General Control	5	(0.5)	2	(0.2)
Liquor Stores	0		12	(1.4)
Natural Resources	0		4	(0.4)
Average Percentage		(1.4)		(2.7)
Controversial/Diseconomies of Scale				
Local Schools	24	(2.8)	14	(1.6)
Corrections	11	(1.5)	106	(12.5)
Housing/Renewal	62	(7.3)	159	(18.8)
Police	3	(0.3)	3	(0.3)
Public Welfare	50	(5.9)	110	(13.0)
Categorical Assistance	3	(0.3)	8	(0.8)
Average Percentage		(3.0)		(7.9)

*Of 845 municipalities in universe.

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Table A-20

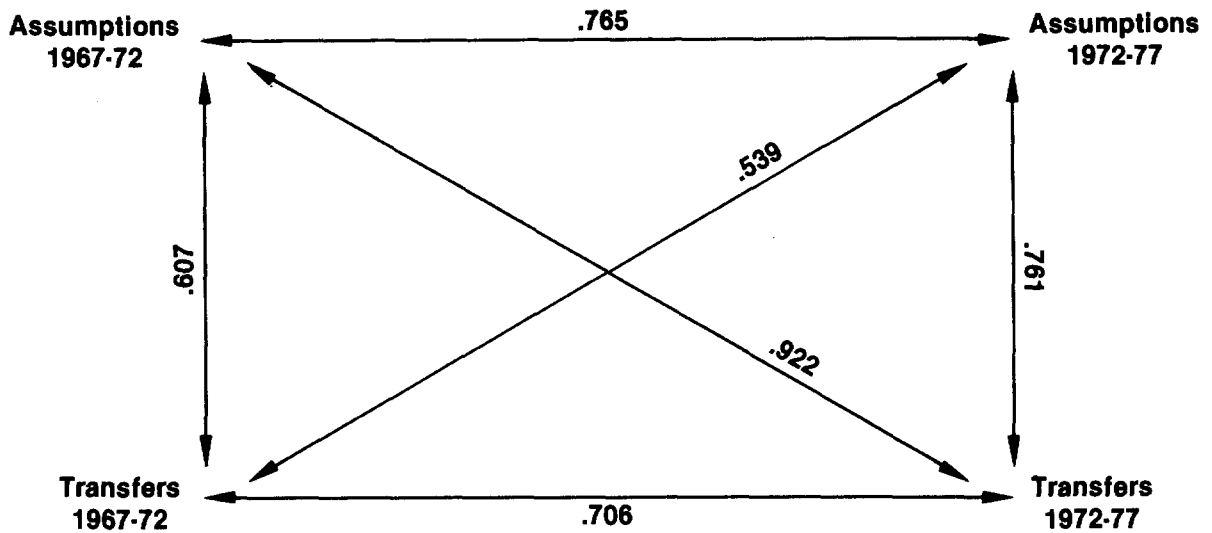
NUMBER AND PERCENT OF MUNICIPAL GOVERNMENTS TRANSFERRING FUNCTIONAL RESPONSIBILITIES FOR THE PERIODS 1967-72 AND 1972-77

Function, by Type	1967-72		1972-77	
	Number	Percent*	Number	Percent*
Noncontroversial/Economies of Scale				
Highways	3	(0.4)	1	(0.1)
Parking	69	(8.1)	90	(10.6)
Sewerage	20	(2.3)	27	(3.2)
Water Supply	0		5	(0.6)
Sanitation	25	(3.3)	28	(2.9)
Libraries	39	(4.6)	59	(6.9)
Financial Administration	3	(0.3)	2	(0.2)
Electrical Supply	0		2	(0.2)
Gas Supply	1	(0.1)	0	
Average Percentage		(2.1)		(2.8)
Noncontroversial/Economies of Scale				
Health	88	(10.4)	96	(11.3)
Hospitals	16	(1.9)	18	(2.1)
Fire	3	(0.3)	8	(0.9)
Higher Education	7	(0.8)	1	(0.1)
Special Education	18	(2.1)	0	
Average Percentage		(3.1)		(2.9)
Controversial/Economies of Scale				
Transit	1	(0.1)	23	(2.7)
Parks/Recreation	6	(0.7)	9	(1.0)
Airports	17	(2.0)	35	(4.1)
General Control	2	(0.2)	1	(0.1)
Liquor Stores	12	(1.4)	0	
Natural Resources	0		0	
Average Percentage		(0.7)		(1.3)
Controversial/Diseconomies of Scale				
Local Schools	13	(1.5)	34	(4.0)
Corrections	2	(0.2)	5	(0.5)
Housing/Renewal	46	(5.4)	65	(7.6)
Police	2	(0.2)	3	(0.3)
Public Welfare	72	(8.5)	75	(8.8)
Categorical Assistance	31	(3.6)	13	(1.5)
Average Percentage		(3.3)		(3.8)

*Of 845 municipalities in universe.

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977.*

Figure A-5
**RANK ORDER CORRELATIONS BETWEEN PERCENT OF MUNICIPALITIES
 TRANSFERRING AND ASSUMING FUNCTIONS, BY TIME PERIOD**



SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977.*

other municipalities. This pattern is more pronounced between 1972 and 1977, witness the increased size of the correlation between percent of functions assumed and transferred for this period (see *Figure A-5*).

The correlation between the percentage of municipalities assuming a function in 1967-72 and the percentage transferring a function in 1972-77 ($\rho = .922$) reveals an instability in the assignment of certain functions. A small number of municipalities assumed responsibility for specific activities in the earlier period, only to shed responsibility for them by 1977. *Table A-22* lists the number of municipalities which experienced both transfers and assumptions of the same function between 1967 and 1977. Four functions—parking, public welfare, health, and housing/urban renewal were most frequently the object of shifting functional responsibilities. There is, however, no particular pattern to the changes these functions experienced within each community. There was a near equal number of communities which assumed and then transferred these activities as there were communities which transferred and later assumed the same functions.

The findings in *Tables A-21* and *A-22* suggest some interpretations. It is possible that different factors caused the assumption and transfer of the same function. Conversely, the same factors may have induced both the transfer and assumption of particular functions depending on the factor values associated with each municipality. For example, federal aid might stimulate the assumption of new functional responsibilities, while the acute and prolonged absence of federal assistance might lead to the shift of the same activity in another municipality.

Many municipalities which slipped into and out of certain activities performed these functions on a limited basis. In separate interviews by the author with officials from a number of these communities, it was apparent that short-term programs were assumed and later transferred or devolved after available authority and revenues were exhausted. Between 1967 and 1972, for example, the city of Burbank, CA, undertook a redevelopment program in the central business district. This project, entailing a municipal expenditure of over \$500,000, was made possible through a special incremental tax arrangement authorized by the state of California and sup-

Table A-21
**RANKINGS OF FUNCTIONS, BY PERCENT OF MUNICIPALITIES EXPERIENCING
 REASSIGNMENT, ASSUMPTIONS, AND TRANSFERS,
 1967-72 AND 1972-77**

Function	Reassignment*		Assumptions		Transfers	
	1967-72	1972-77	1967-72	1972-77	1967-72	1972-77
Health	1	3	1	5.5	1	1
General Assistance	2	2	3.5	2	2	3
Parking	3	4	3.5	5.5	3	2
Housing	4	1	2	1	4	4
Libraries	5	7	8	7	5	5
Sanitation	6	8	5.5	8	7	9
Sewerage	7	10	5.5	9	8	8
Airports	8	11	11	12.5	10	6
Local Schools	9	9	9	10	12	7
Categorical Assistance	10	13	18	15	6	12
Transit	11	5	7	4	22.5	10
Fire	12	17	10	23.5	17	14
Parks/Recreation	13	14	12	12.5	15	13
Hospitals	14	12	18	16	11	11
Special Education	15	26	24	25.5	9	24.5
Corrections	16	6	13	3	20	15.5
Financial Administration	17.5	21	14	21	17	18.5
Liquor Stores	17.5	16	24	11	13	24.5
Water	19	15	15	14	25	15.5
Higher Education	20.5	19	24	17.5	14	21
General Control	20.5	24	16	23.5	20	21
Police	22	19	18	21	20	17
Highways	23	19	20.5	17.5	17	21
Electric	24.5	24	20.5	25.5	25	18.5
Gas	24.5	24	24	21	22.5	24.5
Natural Resources	26	22	24	19	25	24.5

*Reassignments = transfers + assumptions.

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

Table A-22
**NUMBER OF MUNICIPALITIES EXPERIENCING CONFLICTING SERVICE
 REASSIGNMENTS, BY FUNCTION, FOR THE
 PERIODS 1967-72 AND 1972-77**

Function	Function Assumed in 1972 and Transferred in 1977	Function Transferred in 1972 and Assumed in 1977
Public Welfare	33	22
Parking	21	33
Health	24	29
Housing/Renewal	25	22
Libraries	12	14
Sanitation	9	16
Local Schools	16	0
Airports	9	3
Sewerage	6	7
Liquor Stores	0	10
Transit	8	1
Parks/Recreation	5	2
Higher Education	1	5
Police	1	2
Highways	0	3
General Control	0	2

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

ported with federal monies. Once the project was completed (the building of a parking facility), Burbank ceased to be in the business of urban renewal.

The operation of parking facilities is a function which municipalities often assume and abandon with some rapidity. Modesto, CA, contracted with a private concern in 1972 for the operation of its municipal parking system (meters and lots). Renegotiation of the contract proved unprofitable and, in 1977, the city assumed responsibility for parking services.

Municipalities' Participation in Federal Aid Programs

For changes in functional assignment to be affected by federal aid, there must be a significant level of municipal participation in the federal aid system. Clearly if a substantial number of communities are not receiving any fiscal support from the federal government, there can only be a minimal impact for federal assistance on functional scope. It is important, therefore, to get a reading on the extent of federal aid participation among the municipalities studied.

Table A-23 shows that these municipalities' participation in the federal aid system, relative to their involvement in state aid systems, has grown significantly during the last decade. In 1967 slightly more than half of the 845 municipalities participated in at least one federal aid program. Participation increased to 62.9% in 1972 and in 1977, after five years of general revenue sharing and the initiation of the Comprehensive Employment and Training and Community Development block grants, it swelled to 100%. Participation in grant programs other than General Revenue Sharing rose by 23% during 1972-77—a greater increase than that for 1967-72. Revenue sharing, it should be emphasized, accounted for less than one-third of the increase in municipal utilization of federal aid programs between 1972 and 1977.

The findings in *Table A-23* suggest a causal relationship between federal aid and functional scope. Yet, it does not necessarily follow that all participants in the federal aid system either experience changes in functional assignment or that such changes are a result of federal aid received. Moreover, as was noted earlier, the factors other than federal assistance—specifically, state and municipal

Table A-23
**PERCENT OF MUNICIPALITIES OVER 25,000 POPULATION PARTICIPATING
 IN FEDERAL AND STATE DIRECT AID PROGRAMS, 1967, 1972, AND 1977**

Year	Percent Participation in Federal Programs	Mean Federal Dollar Allocation	Percent Participation in State Aid Programs	Mean State Dollar Allocation
1967	52.4%	\$ 846,182	93.7%	\$ 3,852,453
1972	62.9	1,927,900	94.5	7,117,975
1977	100.0	8,374,149	99.7	13,871,314
1977 ¹	86.2	2,121,703	—	—

¹Federal aid programs excluding General Revenue Sharing.

SOURCE: ACIR staff calculation based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977.

influences—also affect the functions performed by municipal governments. Any effect federal aid may have on municipal services is likely to be mediated by these state and substate influences.

The Determinants of Inclusiveness: A Multivariate Analysis

The original model specified three levels of influence and 14 variables within those levels which affect the assignment and reassignment of municipal functional responsibility. In order to assess the relative importance of each indicator and the overall explanatory power of the entire model, multiple regression is now employed as an analysis technique.

Regression analysis provides a standardized regression coefficient for each hypothesized determinant of functional inclusiveness. The coefficient, which ranges between +1.00 and -1.00, characterizes the relationship between each determinant and functional scope, controlling for the effects of all other variables in the model. The sign associated with each coefficient indicates whether the independent variable has a positive or negative relationship to functional scope. A positive coefficient between federal aid and inclusiveness indicates that larger amounts of federal aid are associated with a larger number of functions. Larger coefficients reflect the relative importance of each variable in accounting for the variation in functional scope among municipalities.

Empirically, regression analysis provides a means of predicting the functional inclusiveness values for each community from the observed values of the hypothesized determinants of functional scope. Know-

ing the actual inclusiveness score provides a means of assessing the predictive powers of the model by comparing predicted and observed inclusiveness scores. A summary measure of the fit between predicted and known inclusiveness values is provided by the R square (R^2). This represents the proportion of variation in inclusiveness explained by the hypothesized model.

A problem that is often encountered in multiple regression analysis is the degree to which individual determinants of functional inclusiveness (or any other dependent variable) are correlated. It is expected that many, if not most of the hypothesized determinants of functional scope are related. An extremely high intercorrelation between predictors, however, will create a condition of redundancy for the hypothesized model of functional scope (i.e., multicollinearity). If this condition exists, it will be difficult to separate the unique effects of the correlated predictors on the functional scope.

Inspection of the correlation matrix for the hypothesized predictors of functional scope reveals that property taxes and state aids for each year are highly intercorrelated ($r = .986$). The standard procedure for dealing with this problem requires that either one of the two variables be dropped from the model or that a third variable be created which is a combination of both variables. The latter procedure is ill-advised in this instance, since the two variables, though statistically related, are conceptually dissimilar. For the purpose of analyzing functional inclusiveness and reassignment (i.e., assumptions and transfers), state aid has been eliminated from the prediction model.⁹⁰ This choice is based on two facts: (1) the effects of state aid on functional scope without property tax in

the regression model are insignificant in each year studied; and (2) state aids to municipal governments generally are in the form of shared revenues and taxes and are not targeted to specific functions. Furthermore, shared taxes and revenues are allocated on the basis of population size and/or the municipality's current tax base (i.e., origin basis), thus accounting for the extremely high intercorrelation between property tax revenues and state aids.⁹¹ In fact, the majority of state aids are allocated to independent school districts, special districts, and county governments, and not municipal governments. This is principally a function of the large percent of state aids appropriated for public schools, welfare, and hospitals—functions generally not performed by municipal governments.

The decision to drop state aid rather than property taxes from the analysis is based on the explicit causal ordering between these two variables. Property taxes determine, in most states, the level of state aid received by each municipality. In this regard, property taxes and state aid both measure the same thing—municipal fiscal effort.

The regression model's general predictive power is significant in each year studied. Over 60% of the variation in municipal functional scope is accounted for by the model, with a high of 65% explained in 1967 and a low of 62% explained in 1977 (see *Table A-25*).

The predictive powers of individual variables reveal that only six of the 13 variables studied contributed significantly to an explanation (i.e., prediction) of municipal functional scope in any one year. In spite of this narrowness in the number of significant determinants of functional inclusiveness, there is a fairly even distribution of significant determinants across each level of government.

FEDERAL

The influence of federal assistance is negligible in both 1967 and 1972 (i.e., $b = .016$ and $.020$) (see *Table A-24*). This changes dramatically in 1977, with the coefficient increasing to $.364$, second in magnitude only to property taxes. The increased explanatory power of federal aid is clearly linked to the increase in municipal participation in federal aid programs. It is possible that the amount of federal aid is less important in structuring the number of functions a municipal government finances, than the mere participation in the federal aid system. In any case, however, it would be hasty to conclude from this

finding that the introduction of general revenue sharing in 1972 alone accounts for the increased impact of federal aid on inclusiveness between 1972 and 1977. In fact, there is substantial evidence to indicate that revenue sharing did not produce a significant increase in expenditures for new program activities.⁹² The size of the regression coefficient for general revenue sharing (.142) supports the view that GRS monies were used mainly for property tax relief through expenditures on established functional activities.

The augmented influence of federal aid on functional scope reflects either an increase in grant utilization (*Table A-23*) and dollar allocations or the influence of other mediating factors (i.e., state and local level determinants). The former explanation is quite plausible since a significant expansion in the size and number of grant flows occurred between 1972 and 1977. Changes in other factors and relationships, which may affect the impact of federal aid on functional scope, offer additional explanatory insights. The diminished coefficients for local determinants in 1972 and 1977 tentatively suggest that federal aid may have merely picked up the slack created by the reduced influence of municipal and to a lesser extent state level determinants (i.e., direct state expenditures).

STATE

The regression coefficients for state level determinants of functional scope exhibit a slightly erratic pattern over the ten years. Only direct state expenditures and mandated services have significant coefficients across two or more years. Direct state expenditure is a significant predictor of functional scope in each year, though the magnitude of its coefficient diminishes by 20% between 1967 and 1977.

As hypothesized, the size of direct state expenditures is negatively related to municipal functional scope, suggesting that as this measure increases, municipal functional scope decreases. Direct state expenditures reflect the state's assumption of responsibility for providing services, thereby tending to limit localities' need to engage in a wide variety of functions.

State-authorized local functional and fiscal discretion have only a minimal and uneven influence on the number of functions provided by municipal governments. State laws regulating municipal annexation had a significant but weak impact on functional scope in 1967; their impact diminished to insig-

Table A-24
**THE REGRESSION MODEL AND ESTIMATES OF THE EFFECTS OF
 FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS ON
 FUNCTIONAL INCLUSIVENESS, 1967, 1972, AND 1977**

Variables	Standardized Regression Coefficients		
	1967	1972	1977
Federal Level			
Federal Aid	.016	.020	.364*
			GRS .142
State Level			
Annexation	.144*	.041	.023
Home Rule	.021	.045	.064
Functional Discretion	.005	-.005	.004
Fiscal Discretion	.031	.017	.078*
Mandates	.072*	-.106*	.047
Consolidation	.050	.136*	.066
Direct Expenditures	-.345*	-.263*	-.270*
Municipal Level			
Home Value	-.023	-.024	-.019
Governmental Form	.034	.038	.012
Property Taxes	.356*	.334*	.402*
Social Need	.568*	.560*	.271*
Social Heterogeneity	.297*	.306*	.231*
	R ² = .647	R ² = .631	R ² = .621

*P ≤ .05

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 197; and *Consolidated City Data File*, 1948-77.

nificance in 1972 and 1977. Similarly, consolidation laws were weakly related to inclusiveness in 1972, with no statistically significant relationship between the two variables in any other year. Restrictions on local fiscal authority tended to suppress functional scope only in 1977.

State-mandated activities, widely thought to account for a significant number of newly performed functional activities, had a positive and significant effect on the number of municipal services provided in 1967 and 1972. Moreover, this relationship increased in magnitude between 1967 and 1972 but diminished to insignificance in 1977. This finding, however, requires some qualification, since the

original hypothesis suggested that mandated services were intended to affect new municipal activities and not those already provided by municipal governments. The operational measures for this concept included activities performed by most municipal governments (i.e., fire, police, and general personnel services). The impact of these mandates, then, is likely to be reflected through increased expenditures for current functional activities and not in the expansion of new functional responsibilities. This, however, does not lessen the potential impact of state mandates on functional scope. State mandates place added fiscal pressure on funded activities, reducing the resources available for new functional activities.

MUNICIPAL

Three of the five municipal level variables were consistent and strong predictors of municipal functional scope. Social need is the model's best predictor of inclusiveness in two of the three years studied. The magnitude of the coefficient for social need in 1977 was less than half the size of its coefficients in 1972 and 1967. The diminished influence of social need on functional scope may reflect the reduced variation in social need among municipal governments, or the increasing influence of other factors, replacing need as a dominant predictor of functional scope. Broadened eligibility requirements in 1977 for federal aid programs may have reduced the effect of social need on inclusiveness by introducing a large number of less needy communities into the federal aid system.

Total property taxes was the model's most consistent and significant determinant of functional scope. Its relative explanatory power remains virtually unchanged over the ten-year period, though it did increase somewhat in 1977. As hypothesized, available local revenues have a positive influence on the number of functional activities performed by municipal governments.

Social heterogeneity provides a moderate but consistently significant set of coefficients for the predictive equation, despite its diminishing impact in 1977. Greater social heterogeneity is related to a higher level of functional scope, reflecting the increased demand for municipal public services. On the other hand, home value, a measure of municipal fiscal capacity, and the form of municipal government had no independent effect on the scope of municipal functional activity.

DISCUSSION

Examined collectively, the results of this regression analysis reveal a pronounced growth in the influence of federal aid on the assignment of functional responsibility and a decline in the influence of state and municipal level determinants. Though state direct expenditures continue to be a significant determinant of functional inclusiveness, their influence, along with other factors (i.e., mandates) has waned appreciably since 1967. The reduced explanatory power of state and, to a lesser extent, municipal-level factors is replaced by the increased influence of federal aid. This conclusion is drawn from the increased size of the 1977 federal aid coefficient and the relatively stable R^2 for each year studied.

The initial evidence would suggest that the flow of

federal dollars has begun to rival state and local influences which previously dominated the assignment of functional responsibility. The findings of the regression analysis, however, do not support the view that the influence of federal aid is independent of other factors, nor do they provide strong evidence that federal aid is the sole determinant of functional scope. To the contrary, the moderate regression coefficient associated with federal aid suggests that other variables, along with federal aid, operate to affect the number and mix of functional services offered by municipal government.

The Determinants of Functional Reassignment: Assumptions, Transfers, and Net Change

The overwhelming majority of the municipalities studied transferred and/or assumed two or less functions during either of the time periods studied. This narrow scope of functional change does not allow us to employ regression techniques in testing the hypothesized model of functional reassignment, since the assumptions associated with multiple regression analysis do not apply to a categorical dependent variable (e.g., dichotomies). Hence, an alternative method must be used, and for this study discriminant function analysis is employed.

The chief advantage of discriminant analysis is that it provides a means of classifying cases on a nominal or ordinal dependent variable (e.g., transfer/nontransfer) on the basis of their independent variable values. Discriminant function analysis results in a widely recognized summary statistic—the percent of cases correctly predicted. This statistic enables us to identify whether the model can correctly predict which municipalities will transfer and/or assume new functional responsibilities. A discriminant coefficient for each independent variable accompanies the analysis and can be interpreted much as a standardized regression coefficient.⁹³

Net functional change is made operational in terms of those municipalities experiencing: (1) a net decline in functional scope; (2) those experiencing no net functional change; and (3) those municipalities experiencing a net increase in functional scope. Separate dichotomous measures of functional transfers and assumptions were employed. Municipalities were divided into two categories: those which transferred and/or assumed one or more functions, and those which did not transfer and/or assume any functional activities.

NET FUNCTIONAL CHANGE

The hypothesized model of functional change correctly classifies nearly two-thirds of the communities on net functional change for the period 1967-72 (Table A-25). Only two of the 13 independent variables, however, produced significant coefficients, suggesting that the general model is both narrow and weak in predicting the occurrence of net functional change.

Property taxes were positively related to functional change, indicating that, at least during this early period, available community resources were a dominant predictor of net functional change. Among state-level indicators of change, mandated services was the only significant predictor of net change. The impact of state mandates on functional change, how-

ever, was not in the predicted direction, since state-mandated services were found to be a factor reducing the number of new functional initiatives, rather than increasing the number of functional activities performed by a municipal government. This would tentatively support an earlier hypothesis that state mandates place a greater fiscal stress on funded services, thus limiting the fiscal capacity of a municipality to assume and/or maintain new functional activities. The magnitude of this relationship is moderate and should not be interpreted as indicating that state mandates force wholesale cutbacks in municipal functional activities. Federal aid, as might be expected, had no influence on net functional change during the 1967-72 period.

The model's predictive powers improve moderately for the period, 1972-77. The model correctly

Table A-25
**DISCRIMINANT COEFFICIENTS AND ESTIMATES FOR THE EFFECTS OF
FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS ON
NET FUNCTIONAL CHANGE, 1967-72 AND 1972-77**

Variable	Discriminant Function Coefficient	
	1967-72	1972-77
Federal Level		
Federal Aid	NS	.503*
State Level		
Annexation	NS	NS
Home Rule	NS	NS
Functional Discretion	NS	NS
Fiscal Discretion	NS	.203*
Mandates	.473*	-.102*
Consolidation	NS	NS
Direct Expenditures	NS	NS
Municipal Level		
Home Value	NS	NS
Governmental Form	NS	NS
Property Taxes	.503*	NS
Social Need	NS	-.343*
Social Heterogeneity	NS	.198*
Percent of Cases		
Correctly Predicted	65.7	76.5

* $P \leq .05$

NS = Not statistically significant.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977; and *Consolidated City Data File*, 1948-1977.

classified 76.5% of the municipalities on net functional change. This modest increase in predictive power was accompanied by a greater number of state, municipal, and federal factors directly influencing changes in municipal scope.

Federal aid had the strongest influence on net change of any variable, increasing from an insignificant coefficient in 1967 to a coefficient of .503 in 1977. As hypothesized, then, federal aid had a positive influence on net functional change.

Mandated services increased in influence, retaining its negative impact on new functional initiatives. Fiscal constraints imposed by the state on municipal budgetary activities had a weak but significant effect on functional change in 1977. Here, a positive relationship indicates that fewer state-imposed fiscal restrictions (i.e., greater fiscal discretion), were

related to an increase in functional scope. This relationship reflected an upsurge in state regulation of municipal fiscal matters during the early part of this decade. Prior to 1972, few states overtly interfered in municipal fiscal matters, except through standard home rule charters, debt limitations, and state constitutional provisions. An ACIR study found that prior to 1970, only 14 states had adopted controls on local taxing and spending powers.⁹⁴ By 1976, 40 states had imposed some form of control on municipal expenditures.

Municipal-level determinants of functional reassignment changed between 1972 and 1977. Property taxes, previously the only significant municipal-level determinant of net change, no longer was an effective predictor of functional change. Instead, social need was found to be the strongest municipal-level deter-

Table A-26
**DISCRIMINANT COEFFICIENTS AND ESTIMATES FOR THE EFFECTS OF
FEDERAL, STATE, AND MUNICIPAL LEVEL INDICATORS ON
FUNCTIONAL ASSUMPTIONS, 1967-72 AND 1972-77**

Variable	Discriminant Function Coefficient	
	1967-72	1972-77
Federal Level		
Federal Aid	NS	NS
State Level		
Annexation	NS	NS
Consolidation	NS	-.241*
Functional Discretion	NS	.187*
Fiscal Discretion	NS	NS
Mandates	NS	-.207*
Home Rule	NS	-.200*
Direct Expenditures	NS	NS
Municipal Level		
Home Value	NS	NS
Governmental Form	NS	NS
Property Taxes	.341*	NS
Social Need	.324*	NS
Social Heterogeneity	NS	NS
Percent of Cases		
Correctly Predicted	75.4	80.4

*P ≤ .05

NS = Not statistically significant.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977*; and *Consolidated City Data File, 1948-1977*.

minant of change during this period. The negative coefficient associated with the effect of social need on net change shows that municipalities with higher levels of need were more likely to experience a reduction in the number of functions provided to their constituents. This suggests that municipalities experiencing excessive demand for goods and services from a population with a diminished capacity to finance these goods and services are likely to find themselves retrenching rather than adding to the package of municipal services.

The reduced importance of property taxes as a determinant of net change could mean that the negative impact of social need on functional growth prevailed in spite of increases in tax revenues. The diminished explanatory power of local property taxes may further reflect worsening economic conditions during this period. High rates of inflation have artificially increased property tax revenues to the point where their previous relationship with net change was lessened.⁹⁵

Social heterogeneity had a moderate but significant and positive effect on functional change. Diverse populations can generate increased demands for services, which frequently result in the delivery of new municipal services. It would appear, however, that social need tempers the degree to which social heterogeneity stimulates functional growth.

FUNCTIONAL ASSUMPTIONS

The predictive model for functional assumptions is moderately accurate, correctly predicting the assumption experiences of 75.4% of the communities studied (see *Table A-26*). For the period 1967-72, municipal-level determinants completely dominate the explanation of functional assumptions. Social need and property taxes are of equal importance in classifying communities on their functional assumption experiences. Higher levels of social need and the availability of local revenues together account for municipalities assuming at least one new functional activity during this period.

The determinants of functional assumptions during the second half of the decade are dominated by state-level factors. Both property taxes and social need diminish to insignificance during the period 1972-1977. Four of the eight state-level determinants have significant coefficients. State laws regulating consolidation are the model's strongest predictor of assumptions. Municipalities in states with permissive consolidation laws are more likely to assume new

functional responsibilities.

A cautionary note is necessary on this finding. Since 1947, there have been 68 attempts at consolidation by referendum with 17 successfully implemented.⁹⁶ State laws regulating consolidations were significantly less restrictive than the national average in each of the states with successful consolidations. Seven cities that merged successfully with their overlapping county were dropped from the Census Bureau's listing of municipal governments used in this study (see *Table A-27*). Each of these cities experienced a dramatic decline in functional responsibility after being absorbed by the county government. The remaining cities experienced either no change or an increase in functional responsibilities and retained their census classification as a municipal government.

Our own data base reflects the census reclassification of cities which were either absorbed by county government or were transformed to a city-county as a result of consolidation.⁹⁷ Cities experiencing a reduction in functional responsibilities are not included in the analysis, thus producing the positive relationship between state consolidation laws and functional assumptions.

State-mandated services continued to have a significant and negative effect on functional growth, suppressing the number of new functions a government performs in order to support new mandated expenditures for current functions. Greater home rule authority and flexible laws regulating the provision of municipal services (e.g., intergovernmental service agreements) have a significant and positive impact on the assumption of new functions. Though these relationships are moderate, they reflect the increased impact state laws had on the assumption dimension of functional reassignment between 1972 and 1977.

In neither period was federal aid a significant determinant of functional assumptions. This finding is paradoxical, since previous analyses of inclusiveness (functional scope) and net functional change revealed that federal aid did affect functional reassignment during the latter half of the decade. The fact that federal assistance does not generate functional assumptions severely undercuts the belief that federal assistance stimulates new functional initiatives by municipal governments. Still, this particular finding is not altogether surprising.

Though federal assistance stimulates municipal expenditures in the aided area,⁹⁸ this effect may be limited to traditional and current functional responsibilities. Dye and Garcia⁹⁹ found no relationship be-

Table A-27

**FUNCTIONAL INCLUSIVENESS SCORES IN VARIOUS YEARS FOR
MUNICIPALITIES ADOPTING CITY-COUNTY CONSOLIDATIONS BY
REFERENDUM BETWEEN 1947 AND 1977**

Jurisdiction	Number of Functions			
	1967		1972	1977
Baton Rouge, LA	*	12	12	16
Hampton, VA	*	14	15	17
Miami, FL #	*	13	13	10
Newport News, VA	*	12	12	14
Nashville, TN		18	*	20
South Norfolk, VA	*	NA	NA	NA
Virginia Beach, VA	*	15	15	15
Jacksonville, FL		15	*	18
Columbus, GA		13	*	10
Suffolk, VA #		13	*	0
Lexington, KY		14	*	14
Carson City, NV #		13	*	0
Juneau, AK #		12	*	0
Sitka, AK #		10	*	0
Anchorage, AK		13	13	*
Anaconda, MT #		15	0	*
Butte, MT #		12	0	*

*Period in which consolidation was adopted.

#Dropped from sample due to reclassification as a county or city-county.

SOURCE: Vincent Marando, "City-County Consolidations: Reform, Regionalism, Referenda, and Requiem," *Western Political Quarterly*, December 1979, pp. 409-429; and ACIR staff calculations from Census Bureau unpublished data.

tween expenditure levels for common functions (i.e., fire, police, and general control) and either the acquisition of new functions or expenditure levels for newly acquired functional activities. The fact that federal aid stimulates expenditures and not functional assumptions underscores the unique character of expenditures and functional assumptions. These findings should not be interpreted as implying that federal aid has absolutely no stimulative effect on functional assumptions, however. Specific functions or groups of functions may be the object of special federal efforts to stimulate municipal functional assumptions. Separate analysis of individual functional assumptions should provide a clearer understanding of the effect of federal aid.

There has been a dramatic shift from municipal to state level determinants of functional assumptions over the last decade. Between 1967 and 1977, municipal level factors decreased in their influence on assumptions, replaced almost totally by state level factors. As noted earlier, this change is partially

reflective of vigorous state regulation of municipal fiscal activities after 1972.

FUNCTIONAL TRANSFERS

The model accounts for the transfer experience of 66.2% of the communities studied (*Table A-28*). During the period 1967-72, only direct state expenditures had an independent and direct effect on municipal transfer activities. Greater state direct expenditures lessened the need for municipal service delivery and hence, stimulated functional transfer, presumably to the state government.

Between 1972 and 1977 the determinants of functional transfers broadened to include federal, state, and municipal-level factors. By far the strongest determinant of transfers was federal aid, which had a significant and negative effect on functional transfers. A decline in the level of federal aid received by a municipality generated the transfer of at least one function.

The upsurge in municipal utilization of federal aid programs in the 1970s created a growing reliance on federal assistance. This reliance, however, did not produce a greater assumption of new functional responsibilities, but rather the maintenance of ongoing functional activities. Federal assistance during the last five-year period enabled municipalities to avoid transferring activities that they found increasingly difficult to finance. As was noted earlier, this did not eliminate the possibility that federal assistance stimulated the assumption of particular functions or categories of functions. This latter issue will be examined in greater detail in the analysis in the following section.

Direct state expenditures had a diminished effect on functional transfer in 1977. State laws regulating consolidations have replaced direct state expendi-

tures as the dominant state level determinant of functions transferred. Consistent with previous findings, flexible consolidation laws have a negative effect on functional transfers.

Two municipal level factors emerged as significant predictors of functional transfers between 1972 and 1977. Social need and property taxes both had a significant and complementary effect on the level of transfers experienced by municipal governments. The negative sign associated with the coefficient for property taxes reveals that declining levels of municipal resources necessitated the shedding of at least one functional activity. Declining tax bases, coupled with a rising level of social need, created an environment in which the maintenance of basic services (e.g., police, fire) required the reassignment of certain functions.

Table A-28
**DISCRIMINANT COEFFICIENTS AND ESTIMATES FOR THE EFFECTS OF
FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS ON
FUNCTIONAL TRANSFERS, 1967-72 and 1972-77**

Variable	Discriminant Function Coefficient	
	1967-72	1972-77
Federal Level		
Federal Aid	NS	-.503*
State Level		
Annexation	NS	NS
Consolidation	NS	-.301*
Functional Discretion	NS	NS
Fiscal Discretion	NS	NS
Mandates	NS	NS
Home Rule	NS	NS
Direct Expenditures	.294*	NS
Municipal Level		
Home Value	NS	NS
Governmental Form	NS	NS
Property Taxes	NS	-.341*
Social Need	NS	.219*
Social Heterogeneity	NS	NS
Percent of Cases Correctly Predicted	66.2	75.2

* $P \leq .05$

NS = Not statistically significant.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File, 1967, 1972, and 1977*; and *Consolidated City Data File, 1948-1977*.

To summarize, functional transfers in the second half of the decade were structured by an even mix of federal, state, and municipal-level indicators. Nevertheless, federal aid clearly was the dominant determinant of functional transfers during this latter period, underscoring the degree of municipal dependence on federal aid and its impact on functional assignment.

DISCUSSION

A perplexing finding in the descriptive analysis section was the degree to which functions frequently assumed were also the object of functional transfers. This phenomenon was initially thought to be a result of either: (1) different variables affecting the assumption and transfer of the same function, or (2) differing thresholds for the variables affecting both the transfers and assumptions of the same function. The latter explanation assumed that transfers and functional acquisitions were at opposite ends of the same continuum. The former explanation suggests that the two types of functional reassignment, though sharing common functions, are significantly different in terms of the processes and factors which affect their occurrence.

The findings in *Tables A-26* and *A-28* provide some insights into the causes of this phenomenon. Only in one instance (i.e., state consolidation laws) did the same variable structure both the assumption and transfer of functional activities. This confirms the hypothesis that different variables structure functional transfers and assumptions. The determinants of assumptions wax and wane between municipal and state variables, while transfers exhibit a broad range of determinants. The evidence thus far points to the existence of two distinct dimensions of functional reassignment.

The Determinants of Inclusiveness (Functional Scope) by Functional Category

Directing our attention to the determinants of inclusiveness by functional category (e.g., controversial economies of scale, controversial diseconomies of scale, etc.), we observe significant variations (*Table A-29*). The hypothesized model of inclusiveness is more accurate in predicting functional scope for services associated with significant political and economic liabilities (controversy and diseconomy of scale). Moreover, the variation in R^2 (i.e., percent of variation explained) appears to be a function of the

varying influence each independent variable has on inclusiveness of different functional categories. These findings are consistent with the hypothesized typology for functional assignment.

As noted earlier in the theory section, certain functions engender less political controversy (e.g., water supply, sanitation, libraries, etc.). Their assignment to municipal government is unlikely to be altered by either state or federal-level factors. Municipal-level conditions (i.e., need, demand for services, available resources) are the most direct determinants of inclusiveness for noncontroversial economies of scale functions.

Municipal responsibility for functions associated with controversial diseconomies of scales is generally ill-advised due to the excessive political and economic costs. Assumption of these functions—welfare, corrections, housing and urban renewal—requires extra-local incentives in order to defray the excessive costs of operation as well as to justify the additional political conflict likely to be generated. The reader should note that measures of federal aid and direct state expenditures include monies only for those programs included in each functional category.

The findings in *Table A-29* substantiate the hypothesized relationships between inclusiveness and the determinants of functional assignment. State and federal-level determinants have their most significant effect on controversial and noncontroversial diseconomies of scale functions. Moreover, the strength of these relationships increased over time. In fact, federal aid, which is an insignificant determinant of overall inclusiveness in 1967 and 1972, has a significant influence on inclusiveness for controversial diseconomies of scale functions in each year studied. Municipal-level determinants do not diminish in their influence on inclusiveness scores for controversial or economically inefficient functions. The additional influence of state and federal-level factors merely adds to the overall explanatory power of the model, a condition which did not prevail when examining the model's explanatory power for functional activities in the aggregate. The assignment of controversial diseconomies of scale functions requires both the need and capacity generated at the municipal level as well as the incentives and occasional coercion provided by state and federal programs and policies.

The relative influence of individual determinants conforms with the general model for functional inclusiveness reported in *Table A-24*. Among municipal level determinants, property taxes, social need, and social heterogeneity are consistently significant

Table A-29
**REGRESSION COEFFICIENTS AND ESTIMATES FOR THE EFFECTS OF
 FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS OF
 FUNCTIONAL INCLUSIVENESS, BY
 FUNCTIONAL CATEGORY AND YEAR,
 1967, 1972, AND 1977**

Function	1967				1972				1977			
	ESN	ESC	DSN	DSC	ESN	ESC	DSN	DSC	ESN	ESC	DSN	DSC
Federal Level												
Federal Aid	-.104	-.030	-.021	.307*	.066	.000	.045	.095*	.119*	.195*	.201*	.510*
State Level												
Annexation	-.030	.070	.032	.292*	-.070	.013	-.052	.194*	-.081	-.022	-.037	.177*
Consolidation	-.019	-.057	.100*	.124*	-.006	.051	.220*	.145*	.055	.002	.205*	.036
Function	-.106*	-.062	.077*	.118*	-.080*	-.104*	.089*	.087*	-.079*	-.086*	.091*	.102*
Fiscal	.051	-.088*	.010	-.066*	.103*	-.048	.004	-.048	.116*	-.012	.086	.007
Mandates	-.018	-.133*	.038	-.233*	.002	.052	.070	-.227*	-.008	-.051	.038	-.137*
Home Rule	-.058	.023	-.030	.073	.100*	-.055	.017	.012	-.017	.099	.000	.050
State Expenditures	-.221*	-.234*	-.190*	-.268*	-.084	-.267*	-.100*	-.263*	-.093	-.271*	-.106	-.264*
Municipal Level												
Property Tax	.146*	.414*	.379*	.154*	.197*	.404*	.088	.219*	.231*	.494*	.227*	.271*
Home Value	-.014	-.061	.055	-.034	.016	-.065	.022	-.018	.000	-.045	.029	-.031
Governmental Form	-.085	-.126*	.063	.050	-.051	-.126*	.072	.097*	-.025	-.117*	.125*	.065
Social Need	.313*	.566*	.340*	.375*	.319*	.531*	.252*	.407*	.199*	.425*	.236*	-.012
Social Heterogeneity	.243*	.090*	.145*	.249*	.217*	.138*	.129*	.272*	.204*	.055	.079	.227*
R Square	.418	.412	.543	.777	.401	.436	.503	.741	.439	.414	.653	.730

* $P \leq .05$

Key: ESN—Functions characterized by noncontroversial economies of scale.

ESC—Controversial economies of scale.

DSN—Noncontroversial diseconomies of scale.

DSC—Controversial diseconomies of scale.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977; and *Consolidated City Data File*, 1948-1977.

Table A-30
**STANDARDIZED REGRESSION COEFFICIENTS FOR THE EFFECTS OF
 FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS ON
 FUNCTIONAL ASSUMPTIONS FOR THE
 PERIODS 1967-72 AND 1972-77**

Determinant/ Category	1967-72				1972-77			
	ESN	ESC	DSN	DSC	ESN	ESC	DSN	DSC
Federal Level								
Federal Aid	.030	.015	.017	.021	.045	-.011	.116*	.155*
State Level								
Annexation	-.154*	-.139*	.053	.014	-.009	-.124*	-.037	-.057
Consolidation	.027	.022	.006	.092	-.082	-.066	-.098	-.100*
Functional Discretion	.048	.051	.034	.068	.021	-.042	.000	.059
Fiscal Discretion	.091*	.087*	.054	-.079	-.026	.027	.043	.052
Mandates	.092*	.078*	.018	-.048	.074	.135*	.049	.025
Home Rule	.027	.001	.003	-.084*	.086*	-.021	.029	-.101*
State Expenditures	.040	.002	-.035	-.081*	.009	-.039	-.010	.003
Municipal Level								
Property Tax	.021	.000	.025	.395*	.023	.039	.010	.147*
Home Value	.066	.006	.069	.006	.074	.135*	.049	.059
Governmental Form	.074	.065	.064	.030	.068	.001	.021	-.033
Social Need	.015	.037	-.035	.437*	-.080	-.045	.039*	.243*
Social Heterogeneity	.060	.082*	.016	.018	-.045	-.072	-.056	.020

* $P \leq .05$

Key: ESN—Functions characterized by noncontroversial economies of scale.

ESC—Controversial economies of scale.

DSN—Noncontroversial diseconomies of scale.

DSC—Controversial diseconomies of scale.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977; and *Consolidated City Data File*, 1948-1977.

predictors of inclusiveness for each functional category. There are, however, a number of noteworthy exceptions to this pattern. In 1977, social heterogeneity diminished in significance, replaced by governmental form as a significant determinant of functional inclusiveness for the middle categories. Social heterogeneity remained a significant determinant of inclusiveness for controversial diseconomies of scale functions and as expected, it had its greatest influence on those functions most susceptible to exploitation by diverse social groupings.

State-level determinants of inclusiveness exhibit a slightly erratic pattern across the four functional categories, though the findings in *Table A-29* reveal a significant influence for such determinants on the assignment of controversial diseconomies of scale functions. State expenditures are consistently related to functional inclusiveness for all categories of functions. Moreover, they exert their strongest influence

on the assignment of controversial diseconomies of scale functions. Through direct expenditures, the states have assumed fiscal responsibility for functions which municipal governments have been reluctant to perform.

State-mandated services had a significant and negative impact on inclusiveness for controversial diseconomies of scale services, but their impact was insignificant on other functional categories. As expected, the states' granting of local functional discretion was moderately related to all categories of functional inclusiveness. This relationship did not vary in magnitude, even though the direction of the relationship changed from negative to positive for diseconomies of scale functions. Flexible state laws governing municipal functional discretion had a moderate and positive effect on municipal functional assignment of all diseconomies of scale functions, but tended to suppress the number of economies of scale

Table A-31
**STANDARDIZED REGRESSION COEFFICIENTS FOR THE EFFECTS OF
 FEDERAL, STATE, AND MUNICIPAL-LEVEL INDICATORS ON
 FUNCTIONAL TRANSFERS FOR THE
 PERIODS 1967-72 AND 1972-77**

Determinant/ Category	1967-72				1972-77			
	ESN	ESC	DSN	DSC	ESN	ESC	DSN	DSC
Federal Level								
Federal Aid	.022	.007	-.111*	-.161*	.016	.003	-.220*	-.187*
State Level								
Annexation	.011	.004	.002	.133*	.038	.064	-.039	-.030
Consolidation	-.023	-.120*	.075	.081*	-.144*	-.012	-.081	-.015
Functional Discretion	-.035	.014	-.020	.127*	.008	-.041	-.007	.064
Fiscal Discretion	-.021	.070	.000	.074	-.064	-.038	-.103*	.001
Home Rule	-.045	.046	.046	.095*	.059	.105*	.062	-.042
Mandates	-.096*	.001	-.102	.107*	-.076	-.047	-.030	.045
State Expenditures	.030	-.173*	.003	.028	.061	.100*	-.018	-.081
Municipal Level								
Property Tax	-.120*	.014	.008	-.126*	-.180*	-.180*	.030	.045
Home Value	-.011	.060	.021	-.012	.069	.069	.010	-.049
Governmental Form	.041	-.109*	-.037	-.040	.005	.005	.067	.007
Social Need	.173*	.010	.004	.199*	.002	.002	-.070	.217*
Social Heterogeneity	.022	.009	.060	.062	.037	.065	.029	.103*

*P ≤ .05

Key: ESN—Functions characterized by noncontroversial economies of scale.

ESC—Controversial economies of scale.

DSN—Noncontroversial diseconomies of scale.

DSC—Controversial diseconomies of scale.

SOURCE: ACIR staff calculations based on U.S. Department of Commerce, Bureau of the Census, *Census of Governments Finance File*, 1967, 1972, and 1977; and *Consolidated City Data File*, 1948-1977.

functions performed by municipal governments. The operational measure for functional discretion was heavily tied to the municipality's ability to engage in intergovernmental service agreements with other municipalities. It is possible that this form of functional assignment was preferable for diseconomies of scale functions (i.e., as a means of defraying costs across two or more municipalities) while functions associated with economies of scale were more profitable when assigned to individual municipalities. This interpretation is consistent with the supply dimension of our functional typology.

State annexation and consolidation laws have an uneven effect on the inclusiveness of certain functional categories. If any trend is discerned, it is that fewer state restrictions on annexation and consolidation increased the number of diseconomies of scale functions provided by municipal governments. Flexibility in changing municipal boundaries thus seemed

to provide some incentives for local governments to assume functions they might not otherwise perform.

Determinants of Functional Reassignment (Assumptions and Transfers) by Functional Categories

Attempting to analyze the determinants of functional assumptions and transfers for specific service areas presents a serious methodological problem. An extremely small percentage of the communities studied transferred or assumed a function within each of the defined categories of municipal services. Neither regression nor discriminant function analysis can be employed in evaluating the explanatory model in instances where the distribution of cases is so skewed as to make the number of municipalities studied virtually invariant on the dependent variable.

For this reason, the summary statistic—percent of cases correctly predicted—is not reported.

Tables A-30 and A-31 report the standardized regression coefficients for each independent variable for assumptions and transfers, respectively.¹⁰⁰ Caution should be taken when interpreting the results of these analyses. The intent here is only to identify the basic trends in the correlates of reassignment across functional categories and time.

The assumption of specific functional responsibilities by municipalities between 1967 and 1972 appears to relate in varying degree to state and municipal-level determinants (*Table A-30*). Federal aid had no significant effect on the assumption of any category of functional activity during this period. Assumption of conventional economies of scale functions was strongly influenced by state grants of local home rule and fiscal discretionary authority. Flexible laws regulating annexation, home rule and municipal fiscal discretion had a positive effect on the acquisition of traditional municipal functions (e.g., financial administration, sewage, highways, etc.). Overall, state determinants waned in their influence on the assumption of diseconomies of scale functions, replaced by the significant influence of municipal property taxes and social need.

The most significant change in the determinants of functional assumptions between 1972 and 1977 was the increased influence of federal aid and the diminished effect of municipal variables on the acquisition of controversial and noncontroversial diseconomies of scale services. The provision of housing, corrections, welfare and local school services were each strongly enhanced by the availability of federal aid between 1972 and 1977. During the same time period, social need and property taxes declined significantly in their influence on functional assumptions. Social need, however, did retain its role as the dominant determinant of assumptions for controversial diseconomies of scale services.

No specific pattern was observed for the influence of state level determinants. Observed relationships are likely to be reflective of trends unique to specific functions within each category.

Transfers of specific activities by functional category exhibit a wide range of determinants (*Table A-31*). During the first half of the decade, determinants of functional transfers for all categories were evenly divided between state and municipal-level variables. The impact of federal aid on functional transfers was limited to those functions associated with diseconomies of scale. This latter finding supports earlier

observations that declining levels of federal aid are associated with the shedding of less conventional functional responsibilities (i.e., housing, urban renewal, corrections, health, hospitals, etc.).

During the period 1972-77, federal aid continued to have a significant and negative impact on transfers of diseconomies of scale functions. The magnitude of this relationship increased, reflecting the added dependence of municipal governments on federal assistance. State-level determinants diminished significantly in their influence on functional transfers in this five-year span. This trend was most pronounced in the case of functions associated with diseconomies of scales. Municipal-level determinants exhibited substantial variation in their effect on functional transfers. Declines in available property taxes tended to increase transfers of noncontroversial economies of scale functions, while diseconomies of scale functions were unaffected by variations in available municipal revenues. Conversely, social need and heterogeneity both had a significant and positive impact on transfers of controversial diseconomies of scale activities, but was unrelated to transfers of services in other functional areas. This would suggest that rising need and accompanying levels of diverse social preferences serve to encourage municipal governments to divest themselves of politically divisive and economically inefficient functions.

The evidence in *Tables A-30 and A-31* appears to support the hypothesis that functional content has a significant intervening effect on the determinants of functional reassignment. Those service activities associated with significant economic and political liabilities are consistently more susceptible to functional reassignment when federal assistance is either on the increase or decrease. Moreover, a significant influence for federal aid on the assumption of certain functions has been identified. There is strong evidence to support the conclusion that federal aid is most stimulative of functional assumptions for service activities which require strong fiscal and political incentives for municipal programmatic action.

CONCLUSIONS

The findings of this study clearly point to the growing, but narrow, influence of federal assistance on the assignment of municipal functional responsibility. Reflective of the strained fiscal condition of municipal governments, federal aid is limited to maintaining existing functional activities and only

minimally supportive of functional growth and expansion. The chief determinant of this impact is the significant increase in the number of communities receiving federal aid during the period between 1972 and 1977.

The research suggests that federal policymakers are limited to promoting the assumption of controversial diseconomies of scale functions, whereas state and municipal officials have a broader range of functional activities over which they can affect functional assumptions. Conversely, federal influence on the transfer of service responsibilities is broad, though significantly greater for functions associated with controversial diseconomies of scale.

Federal authorities seeking to influence the assumption of functions must be aware of the mediating influence of state and municipal-level factors. Moreover, the added influence of functional content only serves to underscore the complexity and uniqueness of each mechanism of functional change.

It should be noted that direct federal attempts at influencing municipal functional assignment have met with some success. Federal aid supportive of municipal assumptions of housing and urban renewal, and correction programs generally have met with a positive response by municipal governments. It is not clear, however, whether other aid programs directed at less controversial policies were, in fact, intended to stimulate functional change. The conclusion that federal assistance is not stimulative of functional assumptions presumes, without clear justification, that all federal aid programs were intended to achieve this goal. This question must temper any conclusions arrived at concerning the impact of federal assistance on municipal functional assignment.

Historically, the findings point to a waning of municipal control over its own functional scope. State and federal influences play an important role in the assignment of functions to municipal governments. Increased fiscal aid and increased direct state expenditures have placed municipal governments in a more

dependent posture. Again, loss of municipal control over functions is not without qualification. Traditional functions and those which afford municipal governments significant economies with little political costs continue to be structured by local conditions.

An important finding is that functional transfers and assumptions are separate dimensions of functional reassignment. The fact that the two mechanisms of functional change are structured by different forces has a significant impact on the nature of federal, state, and local policies. As Dye and Garcia have shown empirically, the assumption of one function does not necessarily require a concomitant decline in other functions. Moreover, the spillover effects so troublesome in many policy endeavors are only minimally problematic when simultaneously pursuing policies stimulative of functional transfers and assumptions.

The findings of this study are not without significant qualifications. The number and scope of functions studied remains a severe limitation on our knowledge of functional assignment and its determinants. Essentially, the problem here is definitional in nature. What constitutes a function? Operationally, any response to this question is likely to lead to an inventory of program subfunctions or activities. As an indication of the complexity of the task, a 1942 study of governmental programs in the City of Detroit identified over 400 separately funded and administered functional activities.¹⁰¹ Police patrols and police communications, for example, are significantly different in terms of their demand and supply characteristics. This problem, however, is not widespread. With the exception of fire and police services, functions seem to consist of relatively homogeneous program activities. Any added insights to be gained from examining the program activities that comprise each of the 26 functions studied would be at the expense of greater generalization, which has been the object of this study.

FOOTNOTES

¹Advisory Commission on Intergovernmental Relations (ACIR), *The Challenge of Local Governmental Reorganization*, Vol. III of *Substate Regionalism and the Federal System (A-44)*, Washington, DC, U.S. Government Printing Office, February 1974, p. 7.

²ACIR, *Pragmatic Federalism: The Reassignment of Functional Responsibility (M-105)*, Washington, DC, U.S. Government Printing Office, July 1976, p. 4.

³Roland Liebert, "The Partial Eclipse of Community Govern-

ments: The Trend Toward Functional Specialization," *Social Science Quarterly*, September 1975.

⁴Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, New York, NY, Academic Press, 1976, p. 22.

⁵Thomas R. Dye, John A. Garcia, "Structure, Function, and Policy in American Cities," *Urban Affairs Quarterly*, Vol. 14, No. 1, September 1978, pp. 103-122. Caution should be exercised when making direct comparisons between the studies of Liebert and Dye and Garcia. Liebert's sample included all cities over 25,000 while Dye and Garcia limited their study to cities over 50,000 in size. This difference makes any comparisons

tentative and subject to further empirical tests.

- ⁶ACIR (M-105), *op. cit.*, p. 65.
- ⁷Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, *op. cit.*, p. 18.
- ⁸ACIR, *A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975 (A-52a)*, Washington, DC, U.S. Government Printing Office, 1978.
- ⁹ACIR (M-105), *op. cit.*, p. 65.
- ¹⁰*Ibid.*, p. 38, Chart 1.
- ¹¹*Ibid.*, pp. 62 and 65.
- ¹²John A. Agnew, Lawrence A. Brown, J. Paul Herr, "The Community Innovation Process: A Conceptualization and Empirical Analysis," *Urban Affairs Quarterly*, Vol. 14, No. 1, September 1978, pp. 3-30. Research on the federal promotion of municipal innovations has focused on project rather than formula-based aid programs. Though there are some exceptions, our discussion of innovation theory centers on federal project grants and their impact on promoting municipal adoptions of federally sponsored innovations.
- ¹³The allocation mechanisms for a significant number of formula and project grants employ population size as a positive determinant of grant disbursements. For a discussion of this issue, see ACIR, "Issues in Federal Grant Allocation," *Categorical Grants: Their Role and Design (A-52)*, Washington, DC, U.S. Government Printing Office, 1977, pp. 197-227.
- ¹⁴Richard Bingham, "Innovation, Bureaucracy, and Public Policy: A Study of Functional Adoption by Local Governments," *Western Political Quarterly*, June 1978, p. 20.
- ¹⁵Agnew, Brown, and Herr, *op. cit.*, p. 25.
- ¹⁶*Ibid.*, p. 26.
- ¹⁷Bingham, *op. cit.*, p. 20.
- ¹⁸Martha Derthick, *New Towns in Town*, Washington, DC, The Urban Institute, 1972, p. 84.
- ¹⁹*Ibid.*, p. 86.
- ²⁰James Vanecko, "Community Mobilization and Institutional Change: The Influence of Community Action Programs in Large Cities," *Social Science Quarterly*, December 1969, pp. 608-630; Susan Orden, "The Impact of CAP on Social Service Agencies," *Social Problems*, Winter 1973, pp. 18-32; and J. David Greenstone and Paul E. Peterson, *Race and Authority in Urban Politics: Community Participation and the War on Poverty*, New York, NY, Russell Sage Foundation, 1973.
- ²¹For 1976-77, the pass through has been estimated at \$12,262 million, or 43% of all federal-local assistance. See ACIR, *Recent Trends in Federal and State Aid to Local Governments (M-118)*, Washington, DC, U.S. Government Printing Office, July 1980.
- ²²The SPAs do have local representation on them, it should be noted.
- ²³ACIR, *State Mandating of Local Expenditures (A-67)*, Washington, DC, U.S. Government Printing Office, 1978, p. 16.
- ²⁴In addition to matching requirements, there exist a number of hidden costs associated with grant seeking activities and the receipt of grant monies. These include: (1) application costs; (2) implementation costs; and (3) opportunity costs. For a further discussion of this issue, see Walter Johnson, *Determining Grantee Costs in Federal Grant-in-Aid Programs*, Ph.D. dissertation, University of Texas-Austin, TX, 1974, p. 135.
- ²⁵ACIR (M-105), *op. cit.*, p. 62; and ACIR (A-67), *op. cit.*
- ²⁶See G. Ross Stephens, "Erosion of Local Autonomy," *Journal of Politics*, May 1976, p. 75.
- ²⁷ACIR, *Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates (A-61)*, Washington, DC, U.S. Government Printing Office, February 1977, p. 17.
- ²⁸ACIR, *The States and Intergovernmental Aids (A-59)*, Washington, DC, U.S. Government Printing Office, February 1977, p. 11.
- ²⁹Virginia Gray and Bruce Williams, "Agencies and Their Environments: An Interorganizational Analysis of Criminal Justice Agencies," a paper presented at the 1978 American Political Science Meeting, New York, NY.
- ³⁰*Ibid.*, p. 24.
- ³¹Jeffrey Stonecash, "The Intergovernmental Relations Context of Municipalities: State Policies Regarding Municipalities," a paper delivered at the 1978 American Political Science Association Meeting, New York, NY.
- ³²*Ibid.*, p. 25.
- ³³*Ibid.*
- ³⁴For a description of the sociopsychological model on which this observation is based, see Angus Campbell, et al, *The American Voter*, New York, NY, John Wiley, 1960, pp. i-xxi.
- ³⁵Robert Bish, *The Public Economy of Metropolitan Areas*, Chicago, IL, Markam, 1971, p. 49.
- ³⁶Robert Lineberry and Edmund Fowler, "Reformism and Public Policies in American Cities," *American Political Science Review*, September 1967, pp. 701-717; William Lyons, "Reformism and Response in American Cities: Structure and Policy Reconsidered," *Social Science Quarterly*, June 1978, pp. 118-132; and Bish, *op. cit.*, pp. 50-51.
- ³⁷Bish, *op. cit.*, p. 51.
- ³⁸Alvin D. Sokolow, "Small Community Policy Making and the Revenue Sharing Program," in David Caputo and Richard L. Cole (eds.), *Revenue Sharing*, Lexington, KY, D.C. Heath, 1976, p. 12.
- ³⁹*Ibid.*, p. 11.
- ⁴⁰*Ibid.*, p. 11.
- ⁴¹Richard Nathan, et al, *Monitoring Revenue Sharing: The Second Round*, Washington, DC, The Brookings Institution, 1977, p. 121.
- ⁴²Donald F. Kettl, "Capacity and Vision: The Local Role in the Federal System," a paper presented at the 1978 Annual Meeting of the American Political Science Association, New York, NY, August 31-September 3, 1978, p. 11.
- ⁴³*Ibid.*, p. 13.
- ⁴⁴Lineberry and Fowler, *op. cit.*, pp. 701-717.
- ⁴⁵Albert Karnig, "Private Regarding Policy, Civil Rights Groups, and the Mediating Impact of Municipal Reforms," *American Journal of Political Science* 19 (February 1975), pp. 91-106.
- ⁴⁶Lineberry and Fowler, *op. cit.*, p. 715.
- ⁴⁷*Ibid.*
- ⁴⁸Roland Liebert, *Disintegration and Political Action: The Changing Functions of City Governments in America*, *op. cit.*, p. 33.
- ⁴⁹Dye and Garcia, *op. cit.*, p. 114.
- ⁵⁰*Ibid.*
- ⁵¹Reva Clayton and Anne Stevens, "Municipal Expenditures and Revenues Under Contracting," Los Angeles, CA, Institute of Government and Public Affairs, 1974.
- ⁵²*Ibid.*, p. 9.
- ⁵³The survey sample suggests the need for some caution in applying the result nationwide, since interlocal contracting has had a very strong tradition in California.
- ⁵⁴Clayton and Stevens, *op. cit.*, p. 7.
- ⁵⁵Robert Bish and Vincent Ostrom, *Understanding Urban Government: Metropolitan Reform Reconsidered*, Washington, DC, American Enterprise Institute, 1976; Bish, *The Public Economy of Metropolitan Areas*, *op. cit.*; Robert Bish, "Public Choice Theory: Research on Issues for Non-Metropolitan Areas," prepared for Committee on Agriculture, Nutrition, Forestry, U.S. Senate, Washington, DC, U.S. Government Printing Office, 1977; Geoffrey Brennan, "The Optimal Provision of Public Good: A Comment," *Journal of Political Economy*, March 1969, pp. 23-41; and Alan Williams, "The Optimal Provision of Public Goods in a System of Local Government," *Journal of Political Economy*, February 1966, pp. 18-33.
- ⁵⁶Bish and Ostrom, *op. cit.*, p. 20.

- ⁵⁷August Losch, *The Economies of Localism*, New Haven, CT, Yale University Press, 1954.
- ⁵⁸Elinor Ostrom, "Metropolitan Reform: Propositions Derived From Two Traditions," *Social Science Quarterly*, December 1972, p. 79.
- ⁵⁹Werner Hirsch, "Local Versus Areawide Urban Government Service," *National Tax Journal*, December 1964, pp. 331-339.
- ⁶⁰Bish and Ostrom, *op. cit.*, p. 78; also see William Fox, et al, *Economies of Scale in Local Government: An Annotated Bibliography*, U.S. Department of Agriculture, Research Report #9, 1979.
- ⁶¹L.R. Gabler, "Economies and Diseconomies of Scale in Urban Public Sectors," *Land Economics*, September 1969, pp. 423-434; ACIR, *Urban and Rural America: Policies for Future Growth* (Report A-32), Washington, DC, U.S. Government Printing Office, 1968, Chapter II; and Nels Hanson, "Economy of Scale as a Cost Factor in Financing Public Schools," *National Tax Journal*, June 1964, pp. 92-95.
- ⁶²It is important to note that *Table A-9* merely dichotomizes an otherwise continuous variable. The economies of scale associated with a public function can be plotted along a continuum expressing the relationship between per unit cost output and plant size. On one end of the continuum, we can identify a condition where the cost per unit output would increase at a slower rate than the increase in production plan size (i.e., economies of scale). At the other end of the continuum, cost per unit output would increase at a faster rate than the increase in production plan size (i.e., diseconomies of scale). A zero relationship between cost per unit output and production plan size indicates no economies or diseconomies of scale are present in the production of a given public service. This condition would be represented by the mid-point on the continuum.

Economies of Scale	Neutral Effect	Diseconomies of Scale
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For a further discussion of this issue see: Donald Phares, "Assignment of Functions, An Economic Framework," in ACIR, *Governmental Functions and Processes: Local and Areawide*, Vol. IV of *Substate Regionalism and the Federal System* (A-45), Washington, DC, U.S. Government Printing Office, 1974.

- ⁶³James Simons, "Changing Residence in the City: A Review of Intra Urban Mobility," *Geographical Review*, October 1968, pp. 622-651; Edgar Chasteen, "Who Favors Public Accommodations? Demographic Analysis," *Sociological Quarterly*, Summer 1968, pp. 309-317; John Speight, "Community Homogeneity and Consensus on Leadership," *Sociological Quarterly*, Summer 1968, pp. 387-396; and Irving Horadan, "The Effect of Neighborhood on Voting Behavior," *Political Quarterly*, December 1968, pp. 425-434.
- ⁶⁴Brett Hawkins, "Fringe-City Lifestyle Distance and Fringe Support of Political Integration," *American Journal of Sociology*, November 1968, pp. 248-255; and W.E. Lyons and Richard Engstrom, "Socio-Political Cross Pressures and Attitudes Toward Political Integration of Urban Governments," *Journal of Politics*, August 1973, pp. 682-711.
- ⁶⁵Bish, *The Public Economy of Metropolitan Areas*, *op. cit.*, p. 51.
- ⁶⁶Oliver Williams, "Lifestyle Values and Political Decentralization in Metropolitan Areas," *Social Science Quarterly*, December 1967, pp. 299-310.
- ⁶⁷Robert Thomas, "Policy Issues and Intergovernmental Responsibility: A State Legislative Perspective on Change," *State and Local Government Review*, May 1977, pp. 54-59.
- ⁶⁸Samuel Kirkpatrick and David Morgan, "Policy Support and Orientation Toward Metropolitan Political Integration Among

Urban Officials," *Social Science Quarterly*, December 1971, pp. 656-671.

- ⁶⁹David Mars, "Localism and Regionalism in Southern California," *Urban Affairs Quarterly*, June 1967, pp. 47-74.
- ⁷⁰Oliver Williams, *op. cit.*, p. 301.
- ⁷¹Robert M. Stein, "Functional Integration at the Substate Level: A Policy Approach," *Urban Affairs Quarterly*, December 1980, Vol. 16, No. 2, pp. 211 and 233.
- ⁷²ACIR (Report M-105), *op. cit.*, pp. 66-67.
- ⁷³U.S. Bureau of the Census, *Classification Manual, Governmental Finances*, Washington, DC, U.S. Government Printing Office, 1976. See *Exhibit A* at the end of this appendix for definitions of 26 functions employed.
- ⁷⁴The results obtained from a more conservative operationalization of functional activity (i.e., expenditures in excess of \$1,000 and \$1.00) did not vary significantly from the \$10,000 cut-off.
- ⁷⁵For a more detailed discussion of federal aid data bases, see Thomas Anton, "Creating a Data Base for Intergovernmental Fiscal Analysis," Ann Arbor, MI, Ph.D. Program in Urban Regional Planning, The University of Michigan, The Intergovernmental Fiscal Analysis Project Paper #1, August 1978.
- ⁷⁶The CSA in early 1979 had figures on federal aid allocations to municipal governments over 25,000 in population for the period, 1968-77. The data files for the period, 1968-72 were of questionable accuracy and detail below the state level. Current estimates approximated the entire data set's accuracy at 65% with data collected prior to 1972 somewhat lower in accuracy. The Intergovernmental Fiscal Analysis Project under the direction of Thomas Anton of the University of Michigan was engaged in an effort to update and correct omissions and errors in the *Federal Outlays* allocation figures. The product of their work should provide an extremely accurate and extensive accounting of aid allocations to municipal and state governments. *Ibid.*
- ⁷⁷ACIR (A-61), *op. cit.*, pp. 6-7.
- ⁷⁸Each of the independent variables was made operational in terms of a set of multiple indicators. It was hypothesized that each set of indicators represented a single underlying dimension, and thus their summated or composite scores would provide an appropriate operationalization of the independent variable. Factor analysis was employed as a data reduction technique and as a means of verifying the dimensionality hypothesis. For each operational measure, factor scores were computed by inputting the hypothesized indicators to a principal component analysis. Components associated with eigenvalues of one or greater were retained. It was hypothesized that only one component per concept would be extracted. Variable scores were then computed by summing indicators.
- ⁷⁹ACIR (A-67), *op. cit.*, p. 16.
- ⁸⁰The summated index scores are constructed so that each is a positive measure of local discretionary authority (i.e., the higher the score, the greater amount of discretion afforded the local government).
- ⁸¹Melvin B. Hill, Jr., *State Laws Governing Local Government Structure and Administration*, Athens, GA, Institute of Government, University of Georgia, 1978.
- ⁸²ACIR (M-105), *op. cit.*, p. 11.
- ⁸³ACIR (A-59), *op. cit.*
- ⁸⁴The Census Bureau's measure of state aid expenditures includes federal aid monies passed through to municipal governments, and thus tends to systematically overstate the amount of state aid. The problem of separating federal pass-through monies from state aid expenditures is widely recognized but only minimally discussed in the literature (see Thomas J. Anton, *Data Systems for Urban Fiscal Policy: Toward Reconstruction*, a paper delivered at the National Science Foundation Conference on Comparative Urban Research, Chicago, IL, April 26-27, 1979, p. 28). One effort to obtain an estimate of the federal pass-through component is ACIR's (A-59), *op. cit.* The

ACIR estimated the federal portion of state-local aid expenditures by functional activity. ACIR's analyses reveal that most pass-through monies go to independent school districts and counties (e.g., welfare and highways) and not to municipal governments. This fact lessens the degree to which state aids misstate federal allocations in this municipal analysis. For a 1979 update of the pass through prepared for the ACIR, see ACIR (M-118), *op. cit.*

¹⁵John Sullivan, "Political Correlates of Social, Economic, and Religious Diversity in the American States," *Journal of Politics* 35, February 1973, pp. 70-84; and Stanley Lieberson, "Measuring Population Diversity," *American Sociological Review* 34, December 1969, pp. 850-862.

¹⁶Group, in its generic form, is broadly defined to include collectivities of individuals who share both perceived (i.e., attitudinal and formal group membership) and nonperceived (demographic and aggregate) group traits.

¹⁷No per capita or percentage measures have been employed in the measure of social need, for want of a theoretically compelling reason. The inclusion of total population together with per capita measures of other independent variables in a single equation would artificially suppress the explanatory power of population by introducing a control for size through the use of per capita or percentage measure. See Eric Uslaner, "The Pitfalls of Per Capita," *American Journal of Political Science*, February 1976, pp. 125-33.

¹⁸Though yearly data are available for the dependent variables, federal and state aid measures, some of the municipal level variables are available for only one time period. Generalizing across time from data at a single time period is not a new technique. (See Richard Bingham, *Public Housing and Urban Renewal: An Analysis of Federal-Local Relations*, New York, NY, Praeger, 1975). The major flaw with such a procedure is that time constitutes a rival explanation for the dependent variable. To avoid this problem and the limitation of a single year analysis, we have employed a series of critical tests designed to show that variations in selected independent variables (i.e., municipal need and local discretionary authority) are not statistically significant across the period under study (1967-77). If we can show that these independent variables would not vary significantly over time, we can use measures of these variables at one time to generalize to other times. The results of these tests confirm the no-change hypothesis.

¹⁹There is considerable evidence to indicate that neither form of government is applied in model form in all situations. It has been found that the traits which define mayor-council and manager-council forms tend to overlap. This does not, however, detract from the basic structural differences between the two forms of government. It does suggest that the policy impacts of governmental form may be dependent on another variable (e.g., composition of community). A small number of communities employed a commission form of government. In order to preserve the dichotomous measure of local government form, commission governments were grouped with the council-manager type.

²⁰For a more elaborate discussion of this issue see Robert P. Althaus, "Multicollinearity and Non-Additive Regression Models," in H.M. Blacock, ed., *Causal Models in the Social Sciences*, Chicago, IL, Aldine, 1971, pp. 453-472; and Robert Gordon, "Issues in Multiple Regression," *American Journal of*

Sociology 72, pp. 592-616.

²¹ACIR (A-59), *op. cit.*, p. 27.

²²See Richard Nathan, et al, *Monitoring Revenue Sharing*, Washington, DC, Brookings Institution, 1975; and David Caputo and Richard L. Cole, *Revenue Sharing*, Boston, MA, Lexington, 1976.

²³One of the principal uses of discriminant function analysis is to identify the underlying dimensions for two or more groups of observations. In this regard, discriminant analysis operates in a manner similar to factor analysis. For the purposes of this study, it is assumed that there is a single underlying dimension to our dependent variables; and, thus, the discriminant solution will produce only one function. This hypothesis can be tested by examining the eigenvalues associated with each extracted function. Only one function with an eigenvalue of 1.0 or greater was expected and observed. The initial analysis included all hypothesized determinants of functional reassignment. Only those variables with significant discriminant coefficients were included in the reported analyses. Inclusion of variables with insignificant discriminant coefficients actually reduces the model's predictive powers by bringing the centroid means (i.e., differences between categories on the dependent variable) together. See Nie, et al, *Statistical Package for the Social Sciences*, New York, NY, McGraw Hill, 2nd edition, 1975, p. 343, for additional elaboration of this issue. For a further discussion of discriminant functional analysis, see John Aldrich and Charles Cnudde, "Probing the Bounds of Conventional Wisdom: Regression, Probit and Discriminant Analysis," *American Journal of Political Science*, June 1973, pp. 571-608; and James Gibson, "Discriminant Functions, Role Orientations and Judicial Behavior: Theoretical and Methodological Linkages," *Journal of Politics*, November 1977, pp. 984-1007.

²⁴ACIR, *State Limitations on Local Taxes and Expenditures* (A-64), Washington, DC, U.S. Government Printing Office, February 1977.

²⁵There is substantial evidence that inflation had had its most pronounced effect on property values. For collaborative evidence, see Office of the President, *Economic Report of the President*, Washington, DC, U.S. Government Printing Office, 1979, p. 239; and Robert Crider, *The Impact of Inflation on State and Local Government*, Washington, DC, The Academy for Contemporary Problems, 1975, p. 5.

²⁶Vincent Marando, "City-County Consolidations: Reform, Regionalism, Referenda, and Requiem," *Western Political Quarterly*, December 1979, pp. 409-429. Indianapolis-Marion County were consolidated in 1969 by mandate of the state legislature.

²⁷U.S. Department of Commerce, Bureau of the Census, *Finances of Municipalities and Township Governments*, U.S. Government Printing Office, Washington, DC, 1979, p. 8.

²⁸ACIR (A-61), *op. cit.*, pp. 48-49.

²⁹Dye and Garcia, *op. cit.*, p. 114.

³⁰Since the operational measure employed for both transfers and assumptions is a dichotomy (e.g., assumed/not assumed) the assumptions associated with standardized regression coefficients (i.e., partial correlation coefficients) are met. See Herbert Blalock, *Social Statistics*, New York, NY, Random House, 1976.

³¹Lent D. Upson, *The Growth of a City Government*, Detroit, MI, Bureau of Governmental Research, 1942.

Exhibit A
DEFINITIONS OF FUNCTIONS

Function	Definition
Airports	Provision, operation, and support of airport facilities. Includes own expenditures for leased facilities but not those of lessees. Excludes regulation of air transportation.
Correction	Confinement and correction of adults and minors convicted of offenses against the law; and pardon, probation, and parole activities. Excludes jails primarily for detention of person awaiting trial and confinement of person serving short-term sentences for minor offenses.
Local Schools	Elementary and secondary schools and any other educational institutions other than institutions of higher education. Includes other activities operated through school system.
Higher Education	Universities, colleges, junior colleges, and other schools beyond the high school level operated by government.
Special Education	Special programs and institutions for the blind, deaf, and other handicapped persons if their primary purpose is to train or educate such persons. Excludes programs and institutions for the handicapped that are primarily for physical rehabilitation and care of such persons.
Financial Administration	Office of finance director, auditor, comptroller, treasurer, and other central accounting, budgeting, and purchasing activities. Includes tax assessment and collection, disbursement of funds, investments, etc.
Fire	Includes fire fighting, organization and auxiliary services, rescue squads, inspections, etc.
General Control	Judicial, legislative, and executive functions of municipal government.
Hospitals	Establishment and operation of hospital facilities, provision of hospital care, support of other public or private hospitals.
Health	Health services, other than hospital care and financial support of health programs of other governments. Includes research labs, education, statistical compilation, nursing, environmental health programs (e.g., inspection of water supply), immunization programs, etc.
Highways	Expenditures for streets and highways and related structures (including garages and administrative buildings), snow and ice removal, and street and highway lighting.
Natural Resources	Activities through which governments seek to conserve, promote and develop their natural resources of soil, water, forest, minerals, wild life, etc.

Exhibit A (cont.)

DEFINITIONS OF FUNCTIONS

Function	Definition
Parking Facilities	Provision and operation by government of parking lots, garages, and other distinctive parking facilities on a commercial basis. Purchase and maintenance of parking meters.
Parks/Recreation	Provision of recreational and cultural-scientific facilities and activities. Includes golf courses, zoos, museums, etc.
Police	Preservation of law and order and traffic safety whether administered as part of police department or separately.
General Assistance	Support of and assistance to needy persons contingent upon their need, including provision and operation of welfare institutions.
Categorical Assistance	Direct payments to beneficiaries under the federal categorical public assistance programs—old-age assistance, aid to families with dependent children, supplemental security income. Includes cash benefits under these programs in excess of or supplementary to those financed with federal participation.
Sanitation	Includes street cleaning and waste collection and disposal activities. Excludes regulatory activities for health purposes.
Sewerage	Provision and maintenance of government sewers and sewage disposal facilities, and combined water and supply and sewage disposal system.
Liquor Stores	Includes only expenditure relating to the establishment and operation of liquor stores. Excludes licensing and law enforcement of liquor laws.
Water Supply	Expenditure for the purchase and production and/or acquisition of water supplies, including interest on debt.
Gas Supply	Expenditure for the purchase and production and/or acquisition of natural gas supplies, including interest on debt.
Electric Supply	Expenditure for the purchase and production and/or acquisition of electrical supplies including interest on debt.
Transit	Expenditure for the purchase and maintenance of public transportation systems including bus and rail systems.
Libraries	Includes libraries operated by the government concerned, support of privately operated libraries and governmental libraries for public use.

SOURCE: U.S. Department of Commerce, *Classification Manual, Governmental Finances*, Washington, DC, U.S. Government Printing Office, 1976, pp. 50-67.

Exhibit B
**DESCRIPTIONS OF VARIABLES IN THE MODEL OF
 FUNCTIONAL ASSIGNMENT**

Variable Name	Description
Federal Aid	Total direct federal dollar assistance to each municipal government by individual year.
Annexation	Scale score for the restrictiveness of state laws regulating municipal annexations. (High score, less restrictions on municipal annexation.)
Home Rule	Scale score for the restrictiveness of state home rule laws and/or constitutional provisions. (High score, less restrictions on home rule authority.)
Function	Scale score for the restrictiveness of state laws regulating municipal functional discretion (e.g., interservice agreements, etc.). (High score, less restrictions on functional discretion.)
Mandates	Percent of state-mandated functional activities, based on a total number of 77 possible mandated activities.
Consolidation	Scale score for the restrictiveness of state laws regulating municipal consolidation. (High score, less restrictions on municipal consolidations.)
Direct Expenditures	Total direct state expenditures on 11 functional areas for individual years.
Home Value	Median owner-occupied home value.
Governmental Form	Reformed (1) and unreformed (0) governmental structures.
Property Taxes	Total full value property tax revenues for individual years.
Social Need	Factor score summarizing presence of large number of dependent populations in municipal boundaries.
Social Heterogeneity	Additive score summarizing degree to which population is comprised of a large number of diverse socioeconomic groups.

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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 states nominated by the National Governors' Association, the National Conference of State Legislatures, 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.