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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

The Interaction Of Federal And State Aid In New York State: Trends And Patterns, 1969-75

While some Federal aid goes directly to local governments, large amounts pass through or are administered by the States. A better understanding of the States' role in aid distribution will help the Congress to assess the effectiveness of current and future Federal intergovernmental aid programs.

GAO selected New York State for a series of in-depth case studies to highlight the similarities and differences in Federal and State policies. In examining the trends and patterns of Federal and State aid to local governments in New York from 1969-75, GAO found that these distribution patterns differ considerably.

PAD-81-10
DECEMBER 16, 1980

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-197848

To The President of the Senate and the
Speaker of the House of Representatives

This report is one of three reports which examines similarities and differences in the intergovernmental grant distribution policies of the Federal and New York State governments. This report provides an overview of the distributional patterns of Federal and State aid to New York State local governments. It served as a building block to a more detailed analysis of State policy in two companion reports: "The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid" (PAD-80-9) and "New York State Public Assistance Cost-Sharing Policies: Implications For Federal Policy" (PAD-81-11).

This report also draws attention to the fact that the interrelationship between a State and its local governments represents a unified governmental fiscal system. Consequently, Federal policymakers should be conscious of this relationship when designing grant programs which impact local governments.

We are sending copies of this report to the Governor and the congressional delegation of New York. Copies are also being sent to the Director, Office of Management and Budget.

Elmer B. Staats
Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

THE INTERACTION OF FEDERAL AND STATE AID IN NEW YORK STATE: TRENDS AND PATTERNS, 1969-75

D I G E S T

A large share of Federal aid to local government either passes through or is administered by the States. GAO analyzed the State's role in distributing such grants-in-aid to local governments, using New York State as a case study. The results of GAO's studies are reported in this and two other reports. 1/ GAO believes a better understanding of the States' role in aid distribution will help the Congress to assess the effectiveness of current and future Federal intergovernmental aid programs.

OBJECTIVES, SCOPE, AND METHODOLOGY

This report examines the distributional trends and patterns of Federal and State aid to local areas in New York State from 1969 to 1975. It analyzes differences in the patterns of Federal and State aid and describes how the patterns have changed during this time. GAO used this 7 year period because it is commonly referred to as the New Federalism, a period in which many Federal programs were decentralized to State and local governments. Because this study is concerned with the States' influence on aid distribution programs, GAO limited its analysis to examining only those major Federal formula aid programs having similar State or local counterparts, or those receiving State or local contributions. New York was chosen because it has a highly decentralized service delivery system supported by large intergovernmental grants and it maintains reliable, uniform information on its local governments.

1/"The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid," U.S. General Accounting Office, PAD-80-9, June 11, 1980; and "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy," PAD-81-11.

URBAN VERSUS RURAL DIFFERENCES IN FEDERAL AND STATE AID DISTRIBUTION TRENDS

From 1969 to 1975, Federal and State aid increased at different rates. This growth and other factors contributed to changes in the urban-rural distribution of Federal and State aid. (See p. 17.)

Four trends in aggregate aid flows to county areas (New York City is considered as one county in the analysis) contributed to changes in aid distribution patterns:

--Federal aid grew at a rate over twice that of State aid, mainly in urban counties, between 1969 and 1972. From 1972 to 1975, both types of aid grew at the same rate. (See p. 19.)

--In 1969, the State gave much more aid per capita to rural counties and New York City than to other counties. But between 1969 and 1972, the State decreased this gap by distributing more to urban areas. Between 1972 and 1975, further increases in per capita aid was geographically balanced so that in 1975, the State continued to distribute more per capita to New York City and rural counties. (See p. 20.)

--Federal aid distribution patterns changed so much between 1969 and 1975 that the rank order of aid distribution among New York City rural and urban areas changed. Federal per capita aid in 1969 was highest in New York City, followed by rural then urban areas, much like the distribution of State aid. But by 1972, large increases in per capita aid to urban areas caused urban counties to replace rural counties in the rank order. Between 1972 and 1975, increases in per capita Federal aid were slightly higher in rural than urban areas, but not enough to reverse the new distribution pattern. (See figure 4, p. 21.)

--The State decreased the size of the urban-rural differences in its per capita aid grants between 1969 and 1972. In subsequent years, aid to urban and rural areas grew at roughly the same rate. Federal aid followed a similar pattern.

When combined, the trend in the distribution pattern of Federal and State aid in New York shifted slightly from rural to urban areas. The source of this shift was changes in Federal aid distribution patterns.

SOURCES OF DIFFERENCES AND CHANGE IN AID DISTRIBUTION PATTERNS

Because public assistance, education, and revenue sharing composed 90 percent of all the intergovernmental grants in New York State, GAO focused its analysis in these areas.

Differences among programs

Two-thirds of all Federal aid to New York State is in public assistance grants. Half of all State aid is in education. Per capita Federal public assistance aid is mainly focused in urban areas and State education aid is focused in rural areas. The Federal and State revenue sharing programs, while roughly the same size in the amount of money each may distribute, differ in distribution patterns. (See figure 5, p. 23.) The Federal program favors rural areas; the State, urban ones. The sheer size of Federal public assistance and State education aid influences the aggregate distribution of aid allocated by the two levels of government. (See pp. 22-24.)

Changes among programs

The major growth in Federal aid occurred through increases in public assistance between 1969-75. The creation of the revenue sharing program in 1972 represented a significant increase in total Federal aid. The State focused its increases in education and its own revenue sharing programs. When these changes in increases in public assistance were viewed in relation to their urban-rural distribution, GAO found that Federal public assistance increased faster in urban than rural areas. State aid (in education and revenue sharing) increased at the same rate in both urban and rural areas. (See p. 27.)

SUMMARY

GAO found that the distribution patterns of Federal and State aid to local areas in New York State differ considerably. One reason is the different types of programs that are funded with Federal and State monies.

GAO also found that the growth and distribution of Federal and State aid changed from 1969-75. The driving forces for shifts in Federal and State aid distribution were the public assistance and revenue sharing programs. These changes resulted, in part, from changes in Federal and State roles in these programs.

AGENCY COMMENTS

This report was sent to the Office of Management and Budget, the Advisory Commission on Intergovernmental Relations, and the Governor of New York. Representatives for the Office of Management and Budget and the Governor provided oral comments, saying the report contained a good deal of useful information. The Commission emphasized the hazards involved in making policy recommendations based on aggregate aid flows expressed simply in per capita terms according to urban-rural classification. (See p. 27.)

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ABBREVIATIONS

ACIR Advisory Commission on Intergovernmental Relations

AFDC Aid to Families with Dependent Children

GAO General Accounting Office

GNP Gross National Product

OMB Office of Management and Budget

SDSS New York State Department of Social Services

SSI Supplementary Social Security

CHAPTER 1

INTRODUCTION

During the past decade, two important changes occurred in the intergovernmental aid system. First, the amount of money awarded to local governments from Federal and State sources increased tremendously. Second, Federal programs turned increasingly from grants awarded at the discretion of Federal agencies to automatic grants based on mathematical and economic formulas.

While some Federal aid goes directly to local governments, large amounts pass through or are administered by the States. With expanded Federal aid and involvement in local finances, the details of the States' role in distributing and targeting aid becomes important for Federal policymakers. Better understanding of the States' role will help the Congress to assess the effectiveness of current and future Federal intergovernmental aid programs.

We selected one State for a series of in-depth analyses of its role in distributing and targeting aid. Because all States vary in their structure and policy, we felt it was appropriate to select and concentrate on one State to gain a detailed understanding of the ways in which a State can influence Federal aid distribution patterns. Variations between States prevent us from making specific recommendations based on the case studies contained in this report. The studies will, however, serve as a model for similar analyses of other States.

This series of reports examines the aid distribution policies in New York State during 1969-75. New York was chosen because it has a highly decentralized service delivery system supported by large intergovernmental grants and it maintains reliable, uniform information on its local governments.

OBJECTIVES, SCOPE, AND METHODOLOGY

This report examines the trends and patterns in Federal and State aid to local governments and the effects of State policies on local units of government. This review was undertaken to identify areas where Federal and State distribution policies may be working at cross purposes. Based on findings contained in this report, a more detailed policy analysis in the areas of revenue sharing and public assistance has been undertaken. 1/ A case study of New York State was undertaken because the delivery of public services is dominated by local government. This domination has resulted in a system with a substantial amount of State grants-in-aid. Three-fifths of New York State's budget is distributed as aid to its local governments. Another factor in selecting New York was because it maintains detailed, reliable, and uniform information on its local governments. 2/

Our study encompasses 7 years, 1969 through 1975. This period is commonly referred to as the New Federalism, during which many Federal programs were decentralized to State and local governments. During this period, several new Federal programs were designed to provide relief at the local level, notably the General Revenue Sharing and the Supplemental Security Income (SSI) programs. The study period ends just as major Federal anti-recessionary grants began to funnel large amounts of Federal aid direct to local governments.

Because this study is concerned with the States' influence on aid distribution patterns, we limited our analysis to examining only those major Federal formula aid programs having similar State or local counterparts, or those receiving State or local contributions. We also excluded capital expenditure programs, such as highway aid, because of the uneven flow of such aid between levels of government. As a result, our analysis spans only three major functional areas: public assistance, general revenue sharing, and elementary and secondary education. Public assistance programs, such as Medicaid, were included because they receive State and local contributions; other programs, such as the Food Stamp Program, were excluded because they are funded almost exclusively with Federal monies.

Previous GAO reviews

Several recent GAO reports concluded that, to assess the effect of distributing Federal aid, the role of State policies and programs in distributing grant monies must be understood. Our report on Federal aid programs in New York City demonstrated that State policies influenced the flow

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1/"The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid," U.S. General Accounting Office, PAD-80-9, June 11, 1980; and "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy," PAD-81-11.

2/See app. I.

of Federal aid. 1/ Another report concluded that State policies, mandates, and regulations had a major impact on the city's budget and financial situation. 2/ No comprehensive study has been conducted nationwide, however, because of the lack of uniform data and the immensity of such an effort. However, we feel continued work in assessing the States' role in the grants-in-aid system is important, especially in light of local governments' recently reduced ability to raise revenues. Recent initiatives, such as Proposition 13 in California, will likely mean further local reliance on aid from Federal and State governments.

Data sources

We constructed a computerized data base to help analyze the patterns of aid distribution in New York. The data were financial, program, and socioeconomic. The financial data were collected by the New York State Comptroller's Department of Audit and Control. We accepted the department's criteria for aggregating program data into major functional areas. These reports covered both the State's aid disbursements and local governments' financial reports to the State. Program-level data were collected only for the public assistance function. Those data were provided by the New York State Department of Social Services. The socioeconomic data were collected from a variety of Federal and State sources, including the U.S. Census Bureau, the U.S. Department of Commerce's Bureau of Economic Analysis, and the New York State Statistical Yearbooks (see app. I for more detail on the data and their limitations).

1/"Most Federal Assistance to New York City Unlikely to Be Affected by City-Initiated Budget Cuts," U.S. General Accounting Office, PAD-77-27, January 21, 1977.

2/"The Long-Term Fiscal Outlook for New York City," U.S. General Accounting Office, PAD-77-1, April 4, 1977.

CHAPTER 2

THE NATIONAL GROWTH IN INTERGOVERNMENTAL AID

AND THE ROLE OF THE STATES

Between 1969 and 1975, Federal and State aid to local governments increased 125 percent, to $101 billion. Most of this increase was in Federal dollars. But since 1978 Federal aid increases have almost ceased. Now, all levels of government need to reassess their roles in the intergovernmental grants system to ensure more effective spending patterns. The States' role is important because States, in terms of total dollars, distribute more than the Federal Government, and each State's control of Federal "passthrough" dollars has increased in recent years.

In 1969, Federal aid to State and local governments was $19.7 billion, or 10.7 percent of total Federal spending for that year. In the same year, State aid to local levels of government was $24.8 billion. Combined Federal and State aid were 5 percent of the gross national product (GNP). By 1975, Federal aid had increased 150 percent and State aid, 100 percent, so their total share of the GNP increased to 7 percent. In the past, much of the discussion and the efforts to evaluate the effect of aid distributed through the grants-in-aid system was directed at the Federal role of financing services at the State and local levels. As the Federal Government has increased using substate allocation formulas to distribute its grants, even more attention has been directed at the local levels receiving Federal aid. However, this approach overlooks the important role of the States in financing local services.

The growth in Federal Government intergovernmental grants has now ended as part of the effort to slow Government spending. This lack of fiscal growth indicates that all levels of government will have to ensure more effective spending of a fixed amount of money. Thus, the Federal and State aid systems will be under more pressure to coordinate the distribution of grants-in-aid to those governments who have the greatest need.

IMPORTANCE OF STATE AID

Although the Federal Government allocates some aid directly to local units of government, most Federal aid goes to the States. In 1975, Federal grant programs distributed $49.7 billion to State and local governments. Of that, 71 percent ($35.5 billion) was allocated to States. Roughly 40 percent of that $35.5 billion to States was shared with local units of government. Between 1969 and 1975, these passthroughs increased substantially. In addition to distributing Federal aid, most States have substantial local assistance programs of their own. In 1969, some local governments received more aid from their States than from the Federal Government, but with increased passthroughs, this situation was reversed by 1975 in some States.

To understand better the importance of the States' overall role in the grants-in-aid system, the magnitude and general composition of State aid programs need to be reviewed. 1/ State financial assistance to local governments comprised one-third of total State government expenditures in 1975. During 1969 to 1975, State aid grew from $24.8 billion to $52.0 billion--a 13 percent annual increase. Federal aid increased even faster, with a 17 percent annual rate of growth, from $19.7 billion to $49.7 billion.

Table 1 shows the distribution of State aid among major program functions from 1969 to 1975. Nationwide, in 1975, the largest portion of State aid to local governments was to support elementary and secondary education (61 percent), followed by public assistance (14 percent), highways (6 percent), and general support functions (19 percent).

In New York State, county governments and New York City are the main recipients of State aid for highways, public welfare, and hospitals. Grants for elementary and secondary education are awarded by the State to local school districts. In general, New York cities are the dominant recipients of State aid for revenue sharing.

1/Many studies consider State aid to local governments to mean aid raised from State sources as well as Federal aid that passes through State hands. We make a distinction between State aid from State revenues and Federal aid passthroughs.

Table 1

Composition of State Aid to Local Governments, Total U.S.
1969-75
(in millions)

Year	Total Dollars	Total Per-cent	Education Dollars	Education Per-cent	Highways Dollars	Highways Per-cent	Public Assistance Dollars	Public Assistance Per-cent	Other Dollars	Other Per-cent
1969	$24,779	100	$14,858	60.0	$2,109	8.5	$4,402	17.8	$3,410	13.8
1970	28,892	100	17,085	59.1	2,439	8.4	5,003	17.3	4,366	15.1
1971	32,640	100	19,292	59.1	2,507	7.7	5,760	17.6	5,081	15.6
1972	36,759	100	21,195	57.7	2,633	7.2	6,944	18.9	5,987	16.2
1973	40,822	100	23,316	57.1	2,953	7.2	7,532	18.4	7,021	17.2
1974	45,600	100	27,107	59.4	3,211	7.0	7,029	15.4	8,253	18.1
1975	51,000	100	31,110	61.0	3,225	6.3	7,137	14.0	9,531	18.7

a/Percentage for program areas may not total exactly 100, due to rounding.

Source: Facts and Figures on Government Finance, 1977, Tax Foundation, Inc.

Table 2 shows the source of funding for selected major functions of State and local governments for the year 1973. Except for public assistance, State aid is a more dominant factor than Federal aid as a source of funding in all the major program areas.

Table 2

Revenue Sources for Major Local Programs, Total U.S., 1973

Function	State and local expenditures	Federal aid	State government	Local government
	--(billions)--	---------(percent)	---------	---------
Elementary and secondary education	$56.5	7.5	43.0	49.5
Public assistance	23.6	58.1	32.1	9.8
Highways	18.6	25.3	54.8	19.9
Health and hospitals	13.8	4.4	44.8	49.2
Criminal justice	11.9	4.7	27.8	67.5

Source: Academy for Contemporary Problems, Urban Options, 1976.

Little research has been done to document the amount of Federal aid State governments pass through to their local governments. However, several studies indicate that the amount of Federal aid may be increasing. A study by Syracuse University estimated that for 1972, $7.1 billion (20 percent) of the $36.8 billion distributed by States as aid were Federal monies redistributed to local governments. A study of 22 States by the U.S. Advisory Commission on Intergovernmental Relations in 1974 showed that 40 percent was redistributed by the States. In both studies, the Federal component of State aid for redistribution was heavily concentrated in public assistance and education.

These figures indicate that not only is the State component of aid to local governments quite large, but that the States' control over Federal aid passed through to the local level may be expanding.

CHAPTER 3

PROGRAM AREAS USED IN ANALYZING

AID DISTRIBUTION IN NEW YORK

Federal and State financial assistance is given to local governments through many programs. Normally this support is in the form of grants-in-aid, although sometimes it takes the form of loans or technical assistance. This report analyzes only grants-in-aid that flow either through the State or, like revenue sharing, have a counterpart State program. We included only current expenditure items which receive intergovernmental financial support: public assistance, education, and revenue sharing. In 1975, these three program categories composed 90 percent of all Federal and State aid ($8.4 billion) to localities in New York. Our analysis, therefore, focused on these areas.

PUBLIC ASSISTANCE

Almost 40 percent of total Federal and State aid to local governments in New York State is spent on public assistance. 1/ Various matching formulas determine the amount of Federal aid for each State. Under the two largest programs, Medicaid and Aid to Families with Dependent Children (AFDC), a State is reimbursed for between 50 and 83 percent of expenditures, depending on its level of per capita income. 2/ Since New York has a high per capita income, it is only reimbursed for 50 percent of total expenditures. The State, in turn, splits its share of the costs with the county governments responsible for administering the program. Therefore, total program funding for most public assistance programs is 50 percent Federal, 25 percent State, and 25 percent local. For those programs not receiving Federal reimbursements, New York State splits the cost with its 57 counties and New York City (which is composed of five counties) on a 50-50 basis.

Eligibility criteria and benefit payment levels for all public assistance programs are determined by the States. In 1975, New York had the highest benefit payment levels in the country as well as the second largest program population.

1/The public assistance category is composed of the following programs: income maintenance, medical assistance, emergency assistance to adults, and local administration.

2/Two formulas exist in Federal law. Most States, including New York, use the one mentioned here.

ELEMENTARY AND SECONDARY EDUCATION

Public education is generally considered to be a State and local responsibility. New York State provides basic support to all public school-aged children through aid to approximately 700 school districts. Federal education assistance is targeted to specific student populations, such as the handicapped and the poor.

Federal aid is primarily provided under the Elementary and Secondary Education Act of 1965. This program does not require matching funds from State and local governments. It is allocated by the Federal Government to school districts according to a formula that mainly considers (1) the number of children in families below the 1970 poverty level, and (2) two-thirds of those receiving AFDC but who were above the poverty level. Other factors and smaller programs allocated the remainder of the aid. New York State had no discretionary control over most of the aid distributed through those Federal programs.

State aid to education in 1975 was distributed according to a formula in which the major factors were the number of pupils, a school district's tax base, and its tax rate. New York State established a basic per pupil level of expenditure. Then it provided aid based on that level of support and a uniform tax rate. New York State paid in aid the difference between the basic level of expenditure and the yield in a district from the uniform school district tax rate. In 1975, the State guaranteed that it would "share" the cost of education with a school district up to a $1,200 ceiling per pupil. School districts were also eligible for other forms of State financial aid such as aid for handicapped children.

REVENUE SHARING

Both the Federal and State governments have revenue sharing programs. New York State's program began in 1946. In 1975 New York distributed almost $600 million to 1,600 units of governments--$130 million more than the Federal revenue sharing funds distributed to local governments in New York.

The Federal formula, adopted in 1972, allocates a fixed amount of funds among the States according to the more favorable of two formulas, one which favors urban States and the other favoring less populated States. New York receives its assistance through the urban formula which considers factors such as per capita income, State income tax revenues, and general tax effort. Of the amount allocated to each State, one-third is set aside for use by the State government and the other two-thirds are shared with local general purpose government units.

In 1975, New York's revenue sharing program distributed a fixed share of the State's income tax revenues (18 percent). The distribution was based on population and jurisdictional classification. Local jurisdictions legally classified as cities receive considerably more than those classified as towns, counties, villages, etc. Because the determination of a jurisdiction's state revenue sharing grant is based on its legal status, some villages that have the same population and provide similar levels of public service compared to some cities receive less aid because of their legal classification.

OTHER AID PROGRAMS

The State shares some of its revenue receipts with the local governments, for instance, mortgage taxes, motor vehicle fees, and motor fuel taxes.

The State administered about 70 other local assistance programs in 1975 and, as a rule, paid half the costs. The major programs in this category were highway construction, housing and urban development, public and mental health, and judicial court expense.

CHAPTER 4

DEFINING URBAN AND RURAL AREAS IN NEW YORK STATE

Distributing aid is most often evaluated with respect to the needs of the recipients. The most commonly used measure of need is the size of the target population in a local community. To analyze the trends of Federal and State aid within New York State, we grouped the populations into county areas. We then divided the counties into urban and rural areas using the standard definition for population centers created by the Office of Management and Budget--the Standard Metropolitan Statistical Area (SMSA). An SMSA is a county or a group of contiguous counties with at least one 50,000 plus population center. OMB classifies counties as either metropolitan or nonmetropolitan, depending on whether or not they contain a population center of 50,000 or more people. OMB further subdivides metropolitan counties into those containing a central city and those that do not. Throughout this report, our terms for the 57 counties are as follows:

- nonmetropolitan counties are referred to as rural;
- metropolitan counties containing a central city are called central city metro; and
- metropolitan counties that do not encompass a central city are called noncentral city metro.

There are 11 central city metro (not including New York City), 15 noncentral city metro, and 31 rural counties in New York State (see figure 1). Because of sheer size, the five counties of New York City are aggregated and reported separately from the central city metro grouping. In 1975, 42 percent of the 18.1 million New Yorkers lived in New York City (see table 3).

FIGURE 1.
SMSA DESIGNATIONS
BY OMB IN 1975

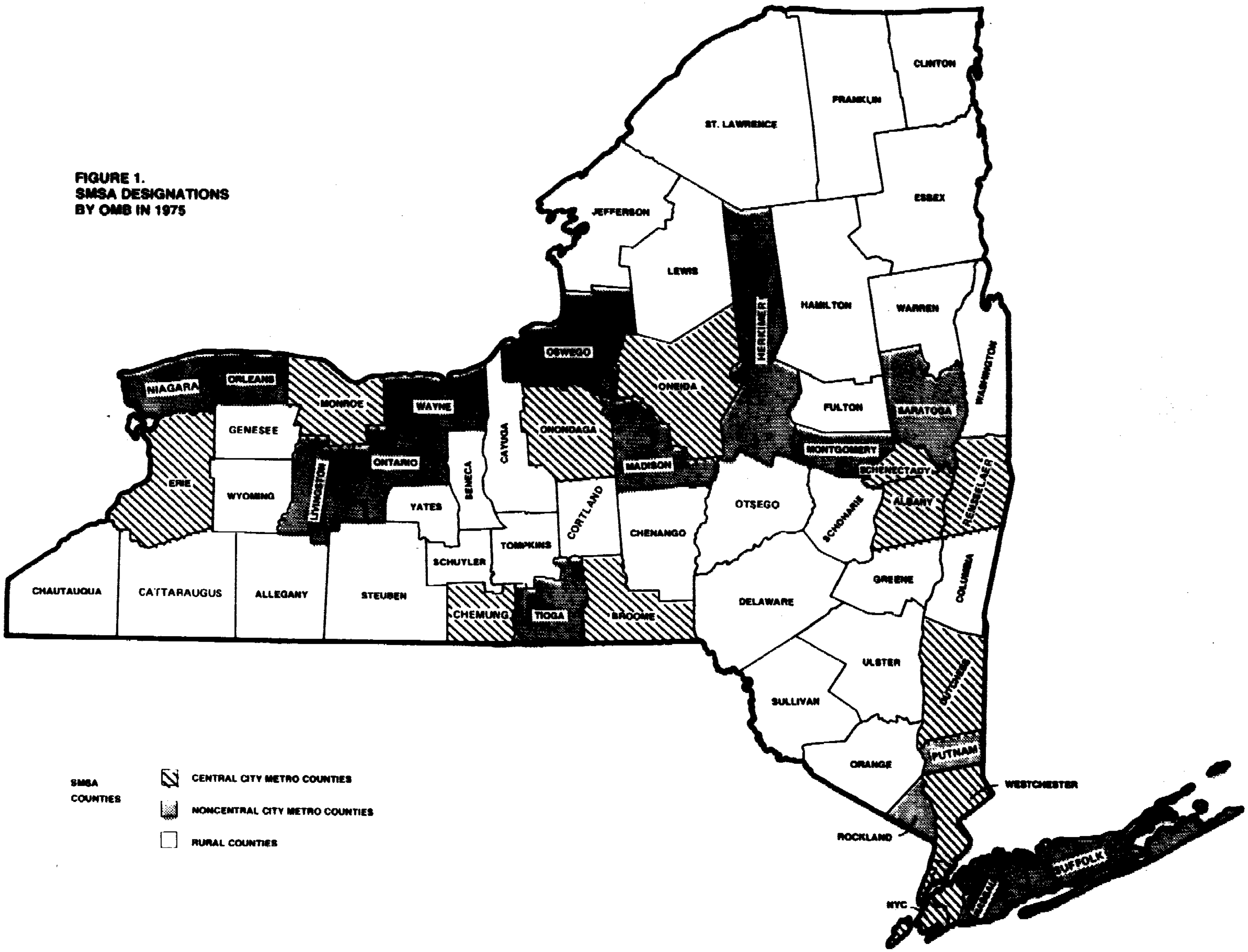


Table 3

New York State Population by Metropolitan Status, 1975

	Population	Percentage of total population
Total State	18,122,400	100.0
New York City	7,576,900	41.8
Central city metro counties	4,569,700	25.2
Noncentral city metro counties	3,929,700	21.7
Rural counties	2,055,100	11.3

Source: Local Area Personal Income Statistics, 1975. U.S. Department of Commerce, Bureau of Economic Analysis.

CHAPTER 5

FEDERAL AND STATE AID DISTRIBUTION TRENDS AMONG URBAN AND RURAL AREAS IN NEW YORK STATE, 1969-75

In surveying the distribution of Federal and State aid flows within New York State between 1969 and 1975, we found that four important trends emerged.

--From 1969 to 1972, Federal aid increased at twice the rate of State aid to New York local governments. From 1972 to 1975, Federal and State aid increased at roughly the same rate.

--In using metropolitan status to classify counties, we found that between 1969 and 1972 increases in Federal aid were skewed more toward central city metro counties. The distribution switched to a geographically balanced growth pattern between 1972 and 1975.

--The distribution of State aid by metropolitan status changed little over the 1969-75 timeframe. New York City and rural counties consistently received the largest per capita amounts of State dollars.

--Between 1969 and 1972 there was a trend toward convergence in the wide variation of per capita amounts of aid distributed to counties. After 1972 the convergence pattern was checked so that the relative differences in per capita aid among counties remained stable through 1975. This pattern was the same for both Federal and State aid.

DISTRIBUTION OF AID BY METROPOLITAN STATUS: 1969

Federal and State grants in aid to local governments are distributed through a complex set of formulas, applied to categorical and block grants, that attempt to meet the goals of the programs of which they are a part. Table 4 provides some perspective of the proportions distributed to urban and rural areas in State fiscal year 1969. 1/

1/Unless otherwise mentioned, the fiscal years in this chapter are New York State fiscal years, April 1 through March 31.

Table 4

Percent Shares of Total, Federal, and State Aid, State Fiscal Year 1969

	Total percentage	Federal percentage	State percentage
New York City	52.7	68.2	46.9
Central city metro counties	19.3	15.1	20.9
Noncentral city metro counties	17.1	9.9	19.7
Rural	10.9	6.8	12.5
All groupings	100.0	100.0	100.0
Total aid (in millions)	$4,444	$1,213	$3,231

Source: New York State Comptroller's Annual Report, 1969.

Slightly more than half the total aid went to New York City, with the Federal Government sending a much larger share of its aid to the city than the State did--68 percent versus 47 percent.

Local governments can receive their share of aid in two ways. They can receive it directly from the Federal or State governments, or they can receive Federal funds from the State in a "passthrough" arrangement. Some analysts label passthrough monies as State aid but we analyze the passthrough money in this report as Federal aid. Thus, State aid includes only that generated from non-Federal, State revenues.

A slightly different perspective is achieved when the distribution is viewed on a per capita basis as shown in figure 2. The combined level of Federal and State aid was $245 per person in 1969.

There were major differences in Federal and State distribution policies toward metropolitan areas within the State in 1969. Two and one-half times more Federal aid per capita was distributed to New York City than to rural counties (see table 5). In contrast, more State aid was distributed to rural areas on a per capita basis than to New York City.

FIGURE 2

COMBINED FEDERAL AND STATE AID PER CAPITA STATE FISCAL YEAR 1969

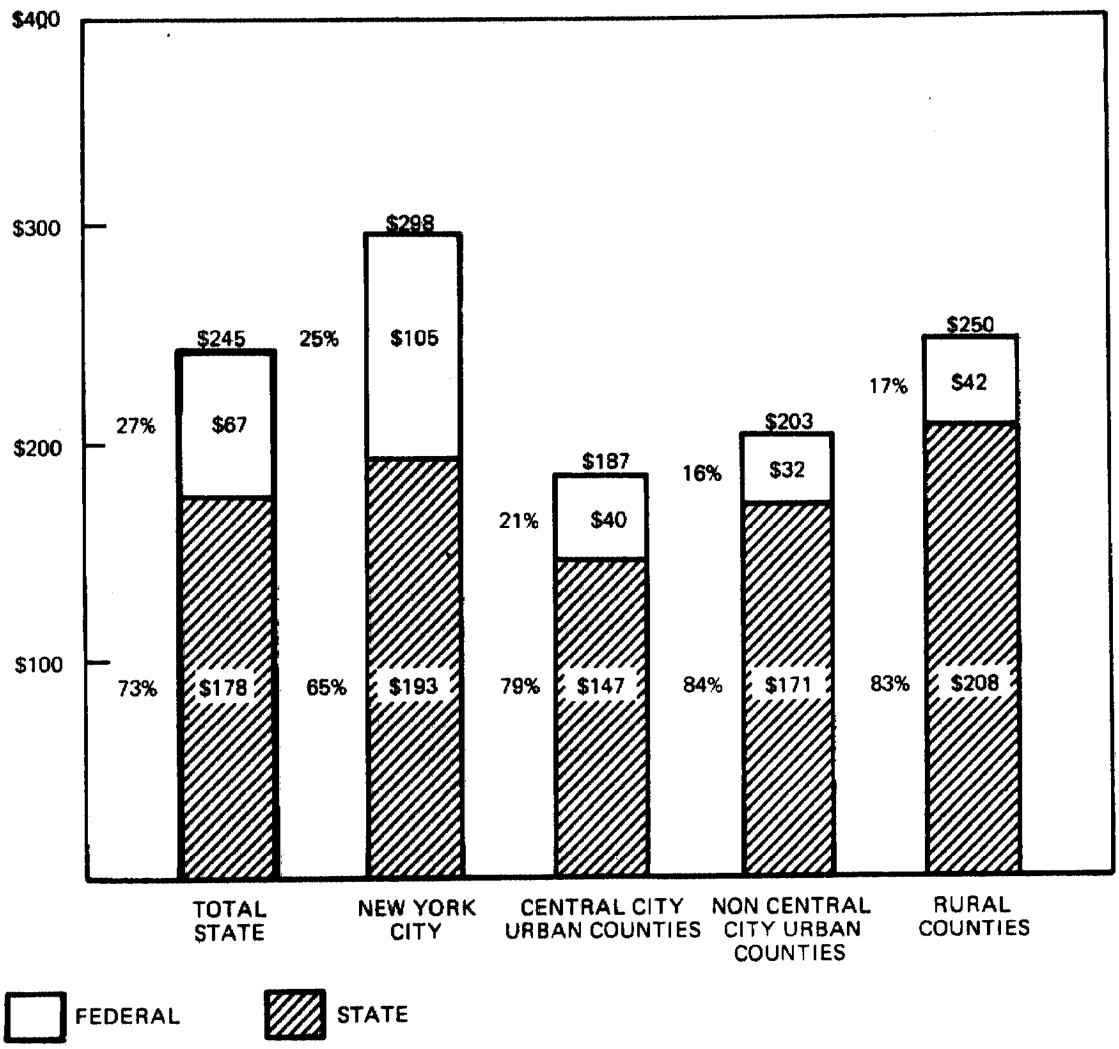


Table 5

Ranking of Counties by Per Capita Aid and Metropolitan Status: 1969

Federal ranking: Metropolitan status	Dollars	State ranking: Metropolitan status	Dollars
New York City	$105	Rural counties	$208
Rural counties	42	New York City	193
Central city metro counties	40	Noncentral city metro counties	171
Noncentral city metro counties	32	Central city metro counties	147

CHANGES IN PER CAPITA AID: 1969-72 AND 1972-75

Between 1969 and 1972, Federal aid to local governments in New York State increased at roughly more than twice the rate of State increases. Over this 3-year period, Federal aid increased 26 percent per year (to $133 per capita). During the same period, State aid increased 10 percent per year (reaching $234 per capita). The higher Federal rate of increase caused its share of total aid to rise from 27 percent in 1969 to 36 percent in 1972 (see figure 3).

Federal and State aid both grew at the same rate of 8 percent annually from 1972-1975. Thus, while total per capita aid increased to $465 per person in 1975, the Federal share of the total remained at 36 percent, the same as 1972.

CHANGES IN FEDERAL AND STATE AID BY METROPOLITAN STATUS: 1969-72 AND 1972-75

The 1969-72 increases in both Federal and State aid were skewed toward the more urban areas of the State. With Federal aid, the average annual rate of increase to central city metro counties was higher than to rural counties (see table 6). This rate of increase was sufficient to reverse the 1969 ranking of rural and central city metro counties (as shown earlier in table 5). That is, in 1969 rural counties received more per capita Federal aid than central city metro counties but the increase in Federal aid to central cities increased enough that, by 1972, central city counties received more than rural counties.

FIGURE 3
CHANGES IN COMBINED FEDERAL AND STATE AID PER CAPITA: 1969-1972-1975

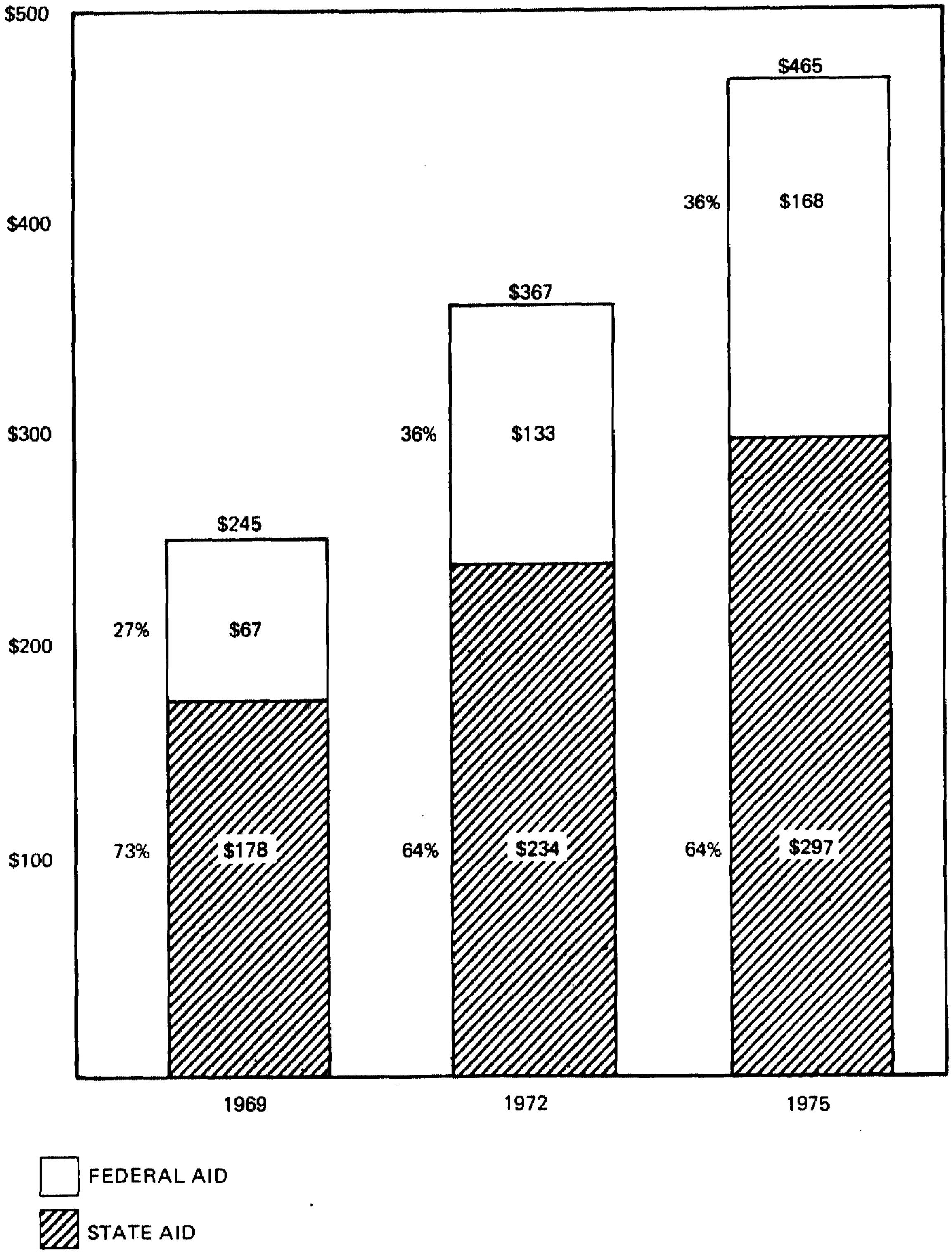


Table 6

Average Percentage Growth in Federal and State Aid Per Year by Metropolitan Status, 1969-72 and 1972-75

	Average annual rate of growth			
	Federal		State	
	1969-72	1972-75	1969-72	1972-75
Metropolitan status	(Percent)			
New York City	25	9	11	9
Central city metro counties	29	9	10	8
Noncentral city metro counties	30	8	8	8
Rural counties	23	8	6	8
State average	26	8	9	8

Similarly, the rate of increase in State aid to New York City was nearly twice the increase to rural counties and was sufficient to reverse the ranking of New York City and the rural counties by 1972 (see table 7).

From 1972 to 1975 the annual growth in Federal aid to all but the rural counties was cut by two thirds (see table 6). Federal per capita aid increases shifted to rural areas (but not enough to reverse the urban/rural ranking in 1972). State aid, meanwhile, grew at roughly the same rate as it did in the 1969-72 period. Its 1972-75 growth was roughly equal in urban and rural areas. Since Federal and State aid grew at similar rates, the rankings of urban and rural amounts of per capita aid did not change between 1972 and 1975 (see table 7).

CONVERGENCE IN PER CAPITA AID AMONG COUNTIES BY METROPOLITAN STATUS

During 1969-72, the disparity in per capita amounts of aid between urban and rural areas decreased (figure 4). 1/ Central city metro counties received the smallest per capita amounts of State aid from 1969 to 1975. But, as figure 4 shows, the gap between central city and rural areas narrowed from a 41 percent differential in 1969 to a 26 percent differential in 1972. This 26 percent differential continued through 1975.

Table 7

Ranking of Counties by Per Capita Aid and Metropolitan Status: 1969, 1972, and 1975

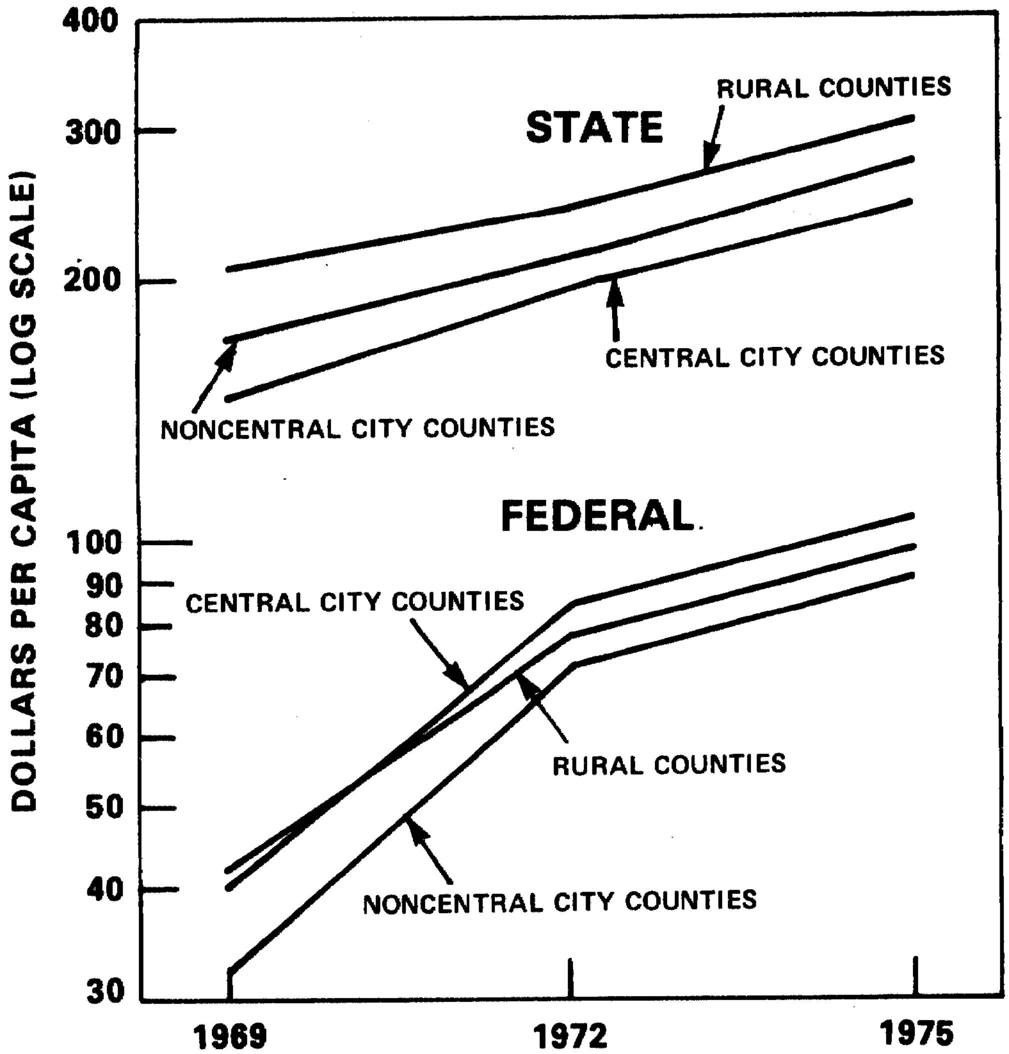
Federal ranking				State ranking			
Metropolitan status	1969	1972	1975	Metropolitan status	1969	1972	1975
New York City	$105	$205	$265	New York City	$193	$261	$337
Central city metro	40	85	107	Rural counties	208	246	308
Rural counties	42	78	98	Noncentral city metro	171	217	272
Noncentral city metro	32	72	91	Central city metro	147	195	244

In the Federal aid programs, noncentral city metro areas received the smallest amounts of Federal aid. From 1969 to 1972, the disparity between rural and noncentral city metro counties went from a 31 percent differential to 8 percent. Similarly, the differential between central and noncentral city metro counties fell from 25 percent to 18 percent. Between 1972 and 1975, these differences remained almost constant.

1/We excluded New York City from this discussion because of the size of its per capita aid grants ($265 Federal and $337 State in 1975).

FIGURE 4

CONVERGENCE IN FEDERAL AID PER CAPITA AMONG COUNTIES BY METROPOLITAN STATUS



a/A logarithmic scale is used in order to depict percentage differences between two points.

CHAPTER 6

SOURCES OF DIFFERENCES AND CHANGES IN AID DISTRIBUTION PATTERNS IN NEW YORK STATE

Differences and changes in the ranking of urban and rural areas and the convergence in the per capita amounts of aid distributed from Federal and State sources can be better understood by disaggregating the total dollar amounts and examining the aid distribution by individual program areas.

State aid is concentrated in three major program areas--education, which accounts for roughly 50 percent of the total State aid flow; public assistance, which accounts for roughly 25 percent of the aid flow; and State revenue sharing, which accounts for 10 percent.

Federal aid is concentrated in the public assistance area, which accounts for roughly 66 percent of the Federal aid we considered. This is followed by revenue sharing, amounting to about 15 percent, and aid for education, which accounts for approximately 10 percent (see figure 5).

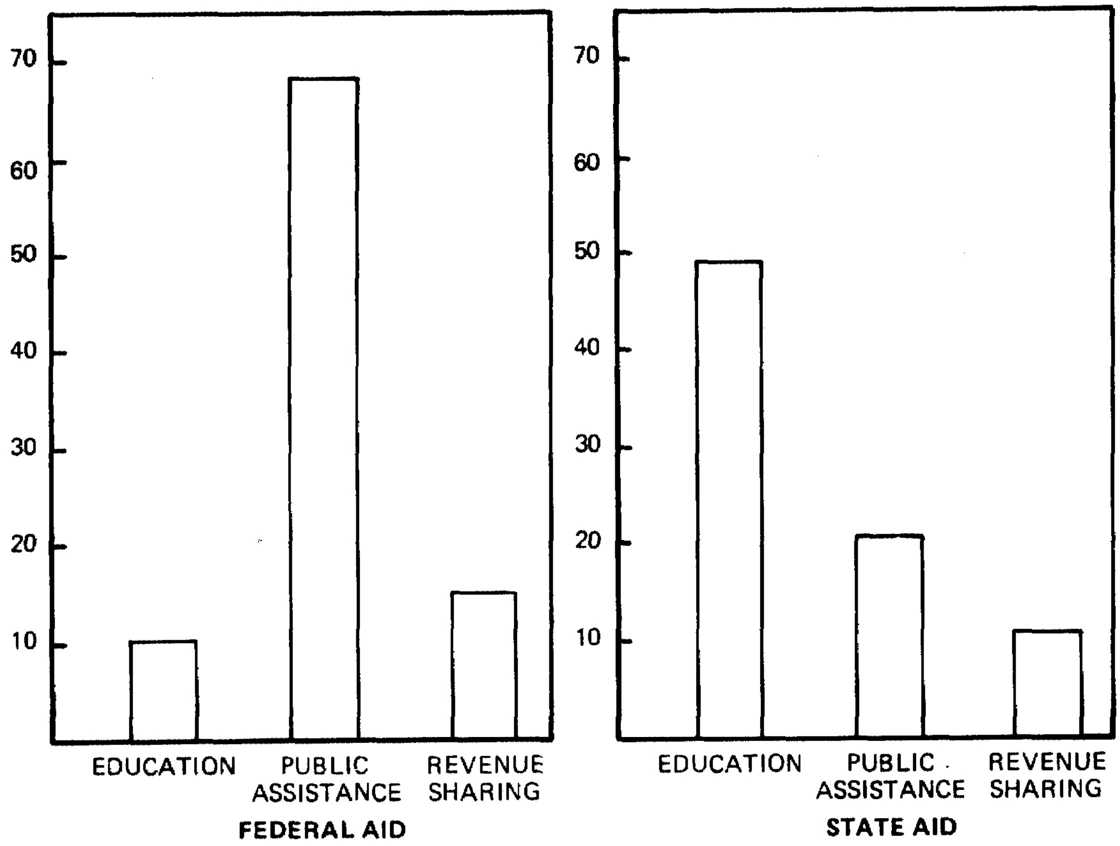
The 1969-72 shift in Federal aid toward urban areas was a result of changes in aid patterns in the areas of public assistance and education. Public assistance spending in central city metro counties increased at nearly twice the rate as in rural counties (see table 8). Similarly, in the area of education, Federal aid increased more rapidly in central city metro counties than in rural counties. Although the advent of Federal revenue sharing in 1972 accounts for a significant share of the 1972-75 increase in Federal aid (and was skewed more toward rural counties), the 1969-72 increases in public assistance and education more than offset it.

The convergence in the variation of the amounts of per capita Federal aid distribution between noncentral city metro counties and the rest of the State 1/ from 1969-75 is explained by the fact that these counties experienced the highest rates of increase in both education and public assistance dollars (see table 8). This might be explained by demographic shifts in noncentral city counties since public assistance populations and student enrollment grew faster there than the rest of the State.

1/Figure 4, excluding New York City.

FIGURE 5

PERCENT DISTRIBUTION OF EXPENDITURES OF FEDERAL AND STATE AID BY PROGRAM AREA: 1975



Convergence in the per capita amounts of State aid from 1969-72 between central city metro and rural counties can be explained by the significantly higher growth rates in all three program areas in the central city metro counties. The convergence of central city and noncentral city metro counties between 1969-72 is the result of large increases in State revenue sharing aid to central city areas.

We mentioned earlier that between 1972 and 1975, Federal aid shifted toward rural counties (table 6). One of the reasons, besides the creation of Federal revenue sharing, was the larger increases in public assistance to rural counties (table 9, column 1). Even though Federal per capita aid for education and revenue sharing actually declined among rural counties, the sheer size of the relatively high rate of

Table 8

Average Annual Rates of Increase of Federal and State Aid, by Program Area and Metropolitan Status State Fiscal Years 1969-72

Metropolitan status	Average annual rates of increase				
	Public assistance		Education		Revenue sharing
	Federal	State	Federal	State	State a/
	(Percent)				
New York City	16	7	46	4	39
Central city metro counties	19	16	21	6	30
Noncentral city metro counties	19	16	24	6	21
Rural counties	10	10	16	4	23
State average	16	9	33	5	33

a/The Federal program did not begin until FY 72.

growth in public assistance in rural counties accounts for the moderate trend back toward rural areas. (Public assistance costs increased sharply in rural areas because the economy went into a slump in 1974, affecting rural areas first. Also, the participation rates among eligible recipients increased by a large amount in rural areas and a court decision 1/ increased benefit payment levels for rural counties.)

The 1972-75 trend in State aid increases was relatively even across the State. In the area of public assistance, the growth of State aid actually declined in all counties of the State with the exception of New York City. This general leveling of the rates of increases across the different groups of counties between 1972-75 ended the State trend toward equalizing the differences in per capita aid amounts distributed among urban and rural counties.

1/Rosado vs. Wyman, 322 F. Supp. p. 1173, aff'd, 437 F. 2d 619 (1970).

Table 9

Average Annual Rate of Increase of Federal and State Aid, by Program Area and Metropolitan Status State Fiscal Years 1972-75 a/

Metropolitan status	Average annual rates of increase in: Public assistance		Education		Revenue sharing	
	Federal	State	Federal	State	Federal	State
	(Percent)					
New York City	9	5	4	9	10	11
Central city metro counties	7	-5	4	9	4	10
Noncentral city metro counties	8	-2	2	9	5	9
Rural counties	9	-1	3	9	0	9
State average	8	3	3	9	7	10

a/All numbers rounded to the nearest percent.

CHAPTER 7

SUMMARY

There has been a growing concern over the distribution of Federal financial assistance to urban and rural areas. While the differential impact of Federal financial aid policies on these areas may be significant, to look at Federal policy in isolation may lead to a serious distortion in the overall impact on financial assistance policy. Because of this we have tracked the flow of Federal and State dollars to metropolitan and nonmetropolitan areas of New York State during 1969-75.

Important differences exist in the distribution patterns of Federal and State grants-in-aid to metropolitan and urban rural areas of New York State. The differences in distribution patterns lie primarily in the differences between Federal and State responsibilities and objectives. Federal aid focuses on public assistance programs; State aid focuses predominantly on education assistance. So obviously, the distribution patterns would be different. However, even in cases such as revenue sharing, where Federal and State programs are roughly the same size and they have similar objectives, we found differences in the aid distribution patterns. The Federal program distributed more per capita in central city areas while the State one distributed more in rural areas.

We found the growth of public assistance programs, the advent of Federal revenue sharing, and large increases in the State's own revenue sharing program to be the driving forces of change in Federal and State aid distribution patterns from 1969 to 1975. These changes in aid distribution are caused in part by shifts in the needs of the target population, but they also imply differences and changes in Federal and State roles and responsibilities for these grants-in-aid programs.

No recommendations are made in this report, but we believe the information presented will help the Congress when it considers revisions in Federal aid programs. Based on the information contained in this report, we have examined, in more detail, the State's role in public assistance and revenue sharing grants and the implications this role has for companion Federal programs. 1/

1/"The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid," U.S. General Accounting Office, PAD-80-9, June 11, 1980; and "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy," PAD-81-11.

AGENCY COMMENTS

This report was sent to the Office of Management and Budget (OMB), the Advisory Commission on Intergovernmental Relations (ACIR), and the Governor of New York. OMB and a representative for the Governor provided oral comments, saying the report was interesting, and contained a good deal of useful information. ACIR emphasized the hazards involved in making policy recommendations based on aggregate aid flows expressed simply in per capita terms according to urban-rural classification. It is because of this problem that the report is limited to a description of the changes which have occurred in Federal and State aid flows to local governments. Examination of the trends and patterns identified in this report has resulted in two companion reports which represent a more detailed policy analysis of two specific program areas, revenue sharing and public assistance referred to above. The complete text of ACIR's comments is included in appendix II.

SOURCES AND QUALITY OF DATA USED

Financial information on Federal and State aid distribution exists in many forms at various levels of government, but because of nonstandardized data collection techniques, it is difficult to make intergovernmental comparisons of financial aid distribution or relate the aid distribution to other factors, such as local fiscal conditions, target population needs, or program goals.

We collected financial, program, and socioeconomic data from a variety of sources and arranged the data in a standardized format. The data were then analyzed to identify trends and aberrations.

FINANCIAL DATA

1. Comptroller, State of New York, Annual Financial Reports of the Comptroller, 1969-75, Local Assistance Audit Bureau.

2. Comptroller, State of New York, Reports on Municipal Affairs, 1969-75, Municipal Research and Statistics Bureau.

3. U.S. Department of Health, Education, and Welfare, Supplemental Security Income, State and County Data, 1974 and 1975.

4. U.S. Office of Revenue Sharing, Federal Revenue Sharing in New York State, unpublished, 1972-75.

The first two data sources are the most important. They cover program expenditures in detail, such as health, hospital, and police. They also include revenues from Federal, State, and local sources, identified by dedicated function where appropriate, such as the Federal and State shares of AFDC and Medicaid costs.

The first data source is the State's disbursement records of Federal and State aid to county areas. These are aggregate data of all units of government in the geographic bounds of each county. The second is the revenue and expenditure balance sheets submitted by each unit of government within the geographic boundaries of each county (in our analysis, we chose the county government).

Each of these sources has advantages and disadvantages. The disbursement records are compiled on cash accounting principles and may not reflect actual expenditures. The information is on a State fiscal year basis (ending March 31) and covers functional areas, not individual programs (e.g., "public assistance," not the individual programs composing public assistance). The data cover all dollars disbursed to a county and all local governments located within its bounds.

On the other hand, the local revenue and expenditure data were collected on a calendar year basis and covered revenue sources as well as expenditures by program areas. These data were collected for over 180 different categories on a uniform basis through accrual accounting methods. This allowed detailed analysis of sources of program revenues and objects of expenditure. The data used in this report are only for county units of government, not subcounty units; therefore those functional responsibilities not assigned to county governments, such as public education, could not be analyzed in program detail. However, the use of county government data was very useful in the analysis of fiscal pressure.

PROGRAM DATA

5. New York State Department of Social Services, Statistical Supplements to Annual Reports, 1968-75, Bureau of Research and Evaluation.

Only the functional area of public assistance was examined in detail at the program level. 1/ All program data came from the New York State Department of Social Services (SDSS). Data were derived from annual statistical reports of program case loads (such as the number of persons receiving AFDC assistance) and dollars authorized for allocation based on those case loads. SDSS data are based on the calendar year. The financial data of SDSS do not match the Department of Audit and Control figures because the SDSS figures do not include audit exceptions and adjustments which can occasionally be substantial. Therefore, financial comparisons with disbursement data are not reconcilable. However, all public assistance data are for county governments because they are the primary service delivery units for public assistance, and this fact permits comparisons of program data with county government revenue and expenditure data.

1/See "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy," U.S. General Accounting Office, PAD-81-11.

SOCIOECONOMIC DATA

6. U.S. Bureau of Census, 1970 Fourth Count Census.

7. U.S. Bureau of Economic Analysis, Local Area Personal Income, 1969-75.

8. New York State Department of Commerce, Employment and Unemployment Statistics, unpublished, 1969-75.

9. New York State Division of the Budget, Statistical Yearbooks, 1968-77.

DATA RELIABILITY

Because of the different sources of data, we were concerned about the quality of the data. Interviews were conducted with State officials responsible for primary data collection and crosschecks were performed on data when more than one source existed.

The financial data were the most reliable. They have been audited and used by State agencies for years, and officials consider them accurate and uniform. The only limitation is on the use of New York City revenue and expenditure data because of changes in the city's accounting system, different fiscal years and different accounting standards.

Because two sets of financial data sources are used, two sets of policy interpretations exist. One examines aid to county areas, the other is for county governments. In the case of revenue sharing, for instance, the disbursement data are the aggregate of all units of government within the county as reported by both the State and Federal governments. The aggregation methods were not checked for their accuracy.

The public assistance program data, based on a review of the collection methodology, are reliable but unaudited. The public assistance program population figures reflect average caseload claims by counties, and the dollar figures are claims based on the caseloads. Although claims are not the same as actual disbursement figures reported by the Comptroller, the data are sufficiently accruate for use as time-trend data, although, in individual counties some aberrations might occur because of higher rates of ineligible claims.

The reliability of the socioeconomic data was assessed on a case-by-case basis because some of the data were constructed estimates based on census information. Survey data, such as unemployment statistics, were collected in accordance with accepted sampling procedures. Other data, such as population and earnings, were estimated based on accepted methodologies.

LIMITATIONS ON DATA INTERPRETATIONS

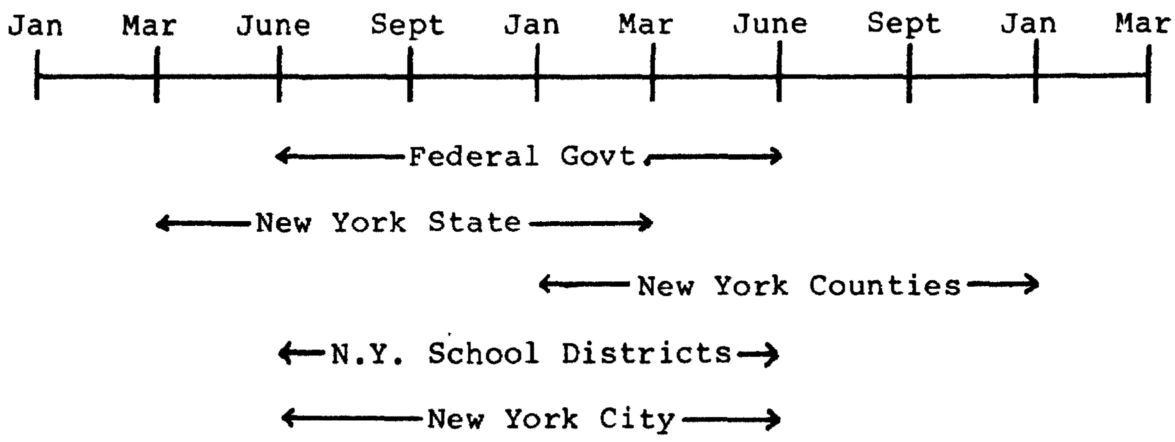
The variety of data sources creates problems in data comparability because of differing formats and standards in primary data collection. The information has been reprocessed to a standardized format to allow easy comparisons of the numbers, but the limitations on the use of those numbers remains. Some of those limitations are presented below.

Different fiscal years

Different sources use various end points for their data collection periods. The Federal financial data uses the Federal fiscal year, which from 1969-75 ended on June 30. New York State used its fiscal year ending point, March 31, and New York counties used December 31, the calendar year, as their endpoint. New York City used the old Federal fiscal year and school districts operated on a June 30 endpoint. This prevented direct comparisons on an annual basis, but this difference diminishes if the data are used for time series analysis (see figure 6).

Figure 6

Comparison of the Overlap of Fiscal Years (FY) for Five Types of Governments



County level discrepancies

For several reasons, the literal interpretation of county area financial data may not be valid. State and Federal aid disbursement figures used by the State Comptroller make no distinction between capital construction aid and operating budget aid. Construction aid is normally single purpose and disbursed in lump sums. If such aid occurred in the endpoints of time series analysis, it could overstate total increases in aid to a locality. When performing time series analyses, it will appear that aid has increased over time when in reality it was a one-time grant. We did not attempt to identify such occurrences in our analysis because they were not statistically important in regression analysis.

Caution is also needed in data interpretation when unusual percent increases in county-level time series data occur as a result of the population scale of counties. An increase of 50 welfare cases in Hamilton County, with a population of 5,000, would cause a much larger percent change than an increase of 50 cases in New York City with a population of 7,000,000.

Difference in service levels

When comparing per capita dollar amounts, the levels of services provided by each level of government to a given population must also be considered. For instance, the per capita expenditures for police and fire protection will be substantially higher in New York City because it is the only unit of government in that area. But police and fire expenditures by the Erie County government will look much lower because the county government provides a limited degree of those services because other units of government in the area, such as the City of Buffalo, also provide those services. Since this survey examines revenues and expenditures of only the county governments, only comparable levels of service can be used. Therefore, New York City is often excluded from our analysis.

APPENDIX II

ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

September 2, 1980

Mr. Dennis J. Dugan
Deputy Director
United States General
Accounting Office
Washington, D. C. 20548

Dear Dennis:

You asked for comments on the draft report PAD-80-10, so I asked a senior staff member here, Al Davis, to comment. Enclosed is his response. He's given the report a thoughtful critique so I hope you'll find the comments helpful.

Sincerely,

John Shannon
Assistant Director
Taxation and Finance

Enclosure

ADVISORY
COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

September 2, 1980

MEMORANDUM

TO: John Shannon

FROM: Al Davis

SUBJECT: Draft GAO Report PAD-80-10

I've reviewed "The Interaction of Federal and State Aid in New York State: Trends and Patterns, 1969-1975," and have these comments.

The digest states that "a more meaningful analysis of federal and state differences can be made only after aggregate amounts of aid are broken into specific program areas." I certainly agree; a simple urban-rural analytical prism splits aid flows into only two categories, neither of which may be directly related to the stated purposes of the aid programs under study. If the urban-rural distinction is to be analytically tied to policy issues, productive work will require consideration of more particular program needs of local governments and citizens living in different conditions.

Otherwise, the urban-rural issue should be analyzed more broadly than just in terms of aid payments. The "equity" of the entire scope of government activity is presumably the concern, so direct expenditure programs as well as taxes and other revenues should also be considered. Otherwise, myopic conclusions emerge about geographic distributions because of differences among localities and states in delegation of service responsibilities among levels of government. For example, is it adequate to talk about New York's aid system being "skewed" toward urban or rural areas without considering the distribution of benefits from direct state expenditure programs as well as the distribution of tax burdens? Would one state show up as pro-rural because it made extensive use of aids that benefited rural areas, while another state was neutral because the state instead provided similar services directly?

The usefulness of the urban-rural distinction is also limited somewhat by unavoidable arbitrariness in dealing with two data aggregation problems: size of geographic areas to be classified as urban or rural, and the extent to which to consolidate data from overlying units of government. I was struck by the decision in this study to aggregate aid payments for all local governments within a county area; in contrast, the GAO sister study on targeting of revenue sharing (PAD80-9) in New York compared aid flows only among county governments. One reason for the GAO finding of variation ("inequity") in federal revenue sharing among similar counties may have been the varying splits between the county and municipal levels caused by tiering. If, in that study, the GAO had considered federal revenue sharing for all governments within a county area, they might have found less variation across similar county areas. In the current study, even if not in PAD-80-9, a comment or two would be helpful on the possible sensitivity of findings to the choice of data aggregation level.

On page 1-2, New Federalism is characterized as a period in which many programs were decentralized to state and local governments. Decentralization may have been intended by the advocates of New Federalism, but Commission staff research suggests that the final legislative products of that period represented more of a pause in the reaching out of federal activity rather than a reversal. The block grant strategy was considerably compromised in the legislative process, and while federal revenue sharing could have been increased and used to underlay a devolution of responsibilities to the states, this did not occur.

On page 1-4 reference is made to a data base including socioeconomic and other data. The appendix also includes references to such data, including some that was not aggregated to the county area level. Since this study, PAD-80-10 did not actually use all of this data, possible confusion would be avoided if references were made only to the data actually used in this study.

The second chapter, now only six double spaced pages, can only barely touch the surface of its topic, "National Growth in Intergovernmental Aid and the Role of the States." Issues are raised that cannot really be thoroughly addressed such as the pass-through aid data problem and its policy significance, or the ideas about better federal state coordination of aid policies to "ensure more effective spending patterns." Also, because the body of the report is really about New York urban-rural trends in aid, and since the GAO rightly calls attention to the hazards of generalizing from one case study, chapter two could be deleted. Instead, chapter one might include tabular information on the relative magnitudes of federal and state aids, their composition and, perhaps, a reference to the diversity of situations to be found among the states--depending in part on how states have allocated services and financing responsibilities. Chapter three would be the place to briefly explain that passed-through federal public assistance and education aid has been separated from purely state funds, so that federal aid data reflect all federal dollars.

It would be prudent, in my view, to give even stronger and earlier emphasis to the implications of using per capita aid levels to compare urban and rural areas. This could be done briefly in the digest and in the main text before chapter five findings are presented. Chapter three would be a place for elaboration. Chapter three might begin by noting that the urban-rural distribution is compared on a per capita basis although population may be unrelated to need for an aid program. It could be further noted that education aid might seem pro-rural because the ratio of school children to population might be higher in rural than urban areas or because per student tax base is lower. Public assistance might seem pro-urban only because the case load is higher relative to population in urban areas. Related discussion which is now postponed to chapter six could also be deepened by citing added factors besides demographics that can help explain the changed urban-rural distribution of aid, possible factors like changed scope of public assistance benefits, eligibility criteria, reimbursement percentages, altered formulas for matching, or changing participation rates.

On page 5-10, the phrase "a change in priorities" should be reconsidered. The phrase is used to describe a urban-rural shift in federal aid, but federal aid policies were, as implied in chapter six, probably not consciously driven by an urban vs. rural policy perspective. This problem comes up again in the bottom paragraph of page 5-9. Why "interpret the ranking of the three metropolitan [i.e., urban-rural] groupings as reflecting their need as perceived by the donor government," when this assumption is so improbable?

The GAO deserves applause for its reluctance to make policy recommendations based on the report. Not only is there the hazard of generalizing from a one state case study, but also the intrastate urban vs. rural aid question is not one framed to be very germane to likely federal policy choices.

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