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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

New York State Public Assistance Cost-Sharing Policies: Implications For Federal Policy

GAO used New York's cost-sharing policy for dividing the State's share of public assistance costs with county governments as a case study of the interaction of Federal and State aid. New York's policy does not consider the geographic distribution of public assistance recipients, and as a result places a greater financial burden on counties with large numbers of public assistance recipients.

The Federal Government divides public assistance costs with the States according to the Medicaid formula, which is based on per capita income and does not take into account the geographic concentration of public assistance recipients. States with high concentrations of recipients will bear a greater fiscal burden for public assistance than will States with low concentrations. If consideration were given to concentrations of recipients in the Medicaid formula, these burdens would be equalized across States.

PAD-81-11
DECEMBER 16, 1980

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

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

This report is the third of three reports examining similarities and differences in the intergovernmental grant distribution policies of the Federal and New York State governments. This report demonstrates the impact State government policy has on the distribution of Federal aid to local governments in the area of public assistance. The two companion reports are: "The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid" (PAD-80-9) and "The Interaction of Federal and State Aid in New York State: Trends and Patterns, 1969-1975" (PAD-81-10).

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, and the Secretary of the Department of Health and Human Services.

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

NEW YORK STATE PUBLIC ASSISTANCE COST-SHARING POLICIES: IMPLICATIONS FOR FEDERAL POLICY

D I G E S T

Recent Federal welfare reform bills have attempted to establish eligibility criteria and minimum benefit payments levels for public assistance programs, while continuing to divide the costs of these programs between Federal and State governments.

Currently, States with large concentrations of welfare recipients (measured as a percentage of the State population) incur a greater fiscal burden than do States with lower concentrations. This creates an incentive for States with high concentrations of recipients to mitigate the additional burden by establishing strict eligibility criteria and/or low benefit payment levels. In this report, GAO shows that a cost-sharing formula that took into account different geographic concentrations of program recipients would impose equal fiscal efforts on all State governments.

OBJECTIVES, SCOPE, AND METHODOLOGY

New York is one of several States which share the cost of public assistance with their county governments. Eligibility and payment standards are determined by the State government. The State mandates that county governments finance part of State public assistance expenditures from local county revenue sources. Thus, New York State provides a good case study of the fiscal impact of varying concentrations of recipients and uniform eligibility and payment standards have on the fiscal effort of a State government administering a public assistance program. (See p. 1.)

This report draws on economic theory to spell out what is meant by the level of fiscal effort made by local governments. GAO used economic analysis to clarify how State policy interacts with the demographic and the socioeconomic characteristics of counties to determine their fiscal effort. For a more detailed discussion on this report's methodology, see appendices I-III, pp. 26-42.

IMPACT OF NEW YORK STATE'S COST-SHARING POLICY

The State government follows a policy of sharing State public assistance costs with county governments on a 50-50 basis. (See p. 9.) Consequently, county governments must finance, from local revenue sources, public assistance programs in direct proportion to the number of recipients located in their county. In 1975, the largest contributions were mandated from metropolitan counties with the largest concentrations of recipients. (See p. 15.)

From 1969 to 1975, the largest increase in mandated contributions occurred in the rural counties. (See p. 12.) Further analysis indicated that greater mandates were directly associated with high levels of fiscal effort. (See p. 20.) Thus, GAO has concluded that high concentrations of public assistance recipients in a county imposes a greater level of fiscal effort.

IMPLICATIONS FOR FEDERAL POLICY

The formula most often used by the Federal Government to determine Federal-State cost shares is the Medicaid formula, which also applies to the Aid to Families with Dependent Children in most States. It is different from the 50-50 policy of New York State; under the Medicaid formula the State share is directly proportional to the square of its per capita income and subject to maximum and minimum constraints of 50 percent and 17 percent respectively. However, both this and the State formula fail to account for differences in the concentration of recipients. Consequently, Federal welfare reform that would establish national eligibility criteria and minimum payment benefits would impose greater fiscal effort in those States with the largest concentration of public assistance recipients under any new national eligibility standards.

MATTERS FOR CONSIDERATION BY THE CONGRESS

Formulas such as those proposed in the 96th Congress would reduce States' cost shares but would continue to create a greater fiscal effort in States with larger concentrations of public assistance recipients, other things being equal. One proposal was to equalize benefits and eligibility across States. Introducing the percentage of a State population receiving benefits into the matching formula would provide an incentive to States with strict eligibility criteria to liberalize their standards since doing so would reduce the State's share of program costs. In the event that national eligibility criteria and payment standards were established while mandating a portion of program costs on States, then modifying the Medicaid formula as described above would produce an equal level of fiscal effort for all States. GAO is not making a recommendation at this time because the report is a case study and does not develop the financial impact of such a charge on Federal or State budgets.

AGENCY COMMENTS

GAO sent copies of the report to the Department of Health and Human Services, the Office of Management and Budget, the Advisory Commission on Intergovernmental Relations, the the Governor of New York State, and the New York Association of County Governments. The Office of Management and Budget and the Governor's office did not respond formally; written comments from the other organizations are in appendix IV.

In general, the comments were in agreement with the issues we raised concerning public assistance cost-sharing policies. (See p. 24.)

C o n t e n t s

TABLES

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FIGURES

ABBREVIATIONS

ACIR	Advisory Commission on Intergovernmental Relations
AFDC	Aid to Families with Dependent Children
DHHS	Department of Health and Human Services
GAO	General Accounting Office
OMB	Office of Management and Budget
SDSS	New York State Department of Social Services
SMSA	Standard Metropolitan Statistical Area

CHAPTER 1

INTRODUCTION

The distributional trends of Federal and State grants-in-aid to New York local governments during the period 1969 to 1975 we describe in another report. 1/ Similarities and differences in the distributional trends of these types of aid were also reported. Based on that review, two functional areas on the interaction of Federal and State aid were selected as case studies. The first study evaluated the targeting of Federal and State revenue sharing aid. 2/ In this report we examine the influence of State policies concerning the distribution of Federal and State public assistance aid and their implications for Federal policy.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this report is to demonstrate that when benefit payments to public assistance recipients are equalized, that a greater fiscal burden is incurred by those governments which have the largest concentration of recipients within their borders. In this report, GAO draws on economic theory to spell out what is meant by the level of fiscal effort made by local governments. GAO used economic analysis to clarify how State policy interacts with the demographic and the socioeconomic characteristics of counties to determine their fiscal effort.

Our analysis of the impact of State policy on both the distribution of Federal aid and its fiscal impact on local governments was confined to public assistance programs for two reasons. First, two-thirds of all Federal aid to New York State is in the form of public assistance aid. Second, in New York, the county government is a major supplier of local public services. In fact, public assistance expenditures account for the largest share (33 percent) of county expenditures. So, State policy will have an important effect on the fiscal condition of county governments.

1/"The Interaction of Federal and State Aid in New York State: Trends and Patterns, 1969-75," U.S. General Accounting Office, PAD-81-10.

2/"The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid," U.S. General Accounting Office, PAD-80-9, June 11, 1980.

PUBLIC ASSISTANCE PROGRAMS IN NEW YORK

Almost $5.6 billion was spent in New York State in 1975 for the five major public assistance programs. Nearly $4 billion came from Federal and State aid (see table 1). Between 1969 and 1975, public assistance spending increased 70 percent, largely due to inflation, increases in the number of recipients, and changes in State policies.

Table 1

Federal and New York State Public Assistance Aid to County Governments, State Fiscal Year 1975

Program	Percent of total public assistance aid, 1975	Total $ 1975 (millions)
Medicaid	38.2	$1,524.37
AFDC a/	26.9	1,074.34
Adult assistance b/	16.2	647.77
Local administration	15.3	610.87
Home relief	3.4	138.03
Total	100.0	$3,995.38

a/Aid to Families with Dependent Children.

b/Primarily Supplemental Security Income.

Source: State Comptrollers Annual Report, 1975.

Federal law allows each State to administer its own public assistance program and structure its own adminstrative system. In New York, State policy makes its county governments partners in administering public assistance programs, requiring them to finance half of the State's public assistance costs. Thus, county governments finance 25 percent of the Federal programs and 50 percent of State programs, such as home relief.

The rest of this report examines the effect the State's 50-50 cost sharing policy has on the fiscal effort imposed on county governments. A more detailed discussion of the data sources and methodology used in this report appears in appendices I-III, pp. 26-42.

CHAPTER 2

SOURCES OF COUNTY GOVERNMENT PUBLIC ASSISTANCE EXPENDITURES

County government expenditures on public assistance programs financed from local revenue sources are determined by two factors: the size of the population participating in the various public assistance programs and program policies set by the State government. Both of these factors are beyond the control of local county government officials. In this chapter we describe what determines the size of the public assistance population, and present some baseline data to provide a perspective on the sources of fiscal effort exerted by county governments. The effects of State policies are the subject of chapter 3.

To analyze the trends in public assistance programs within New York State, GAO grouped 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 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:

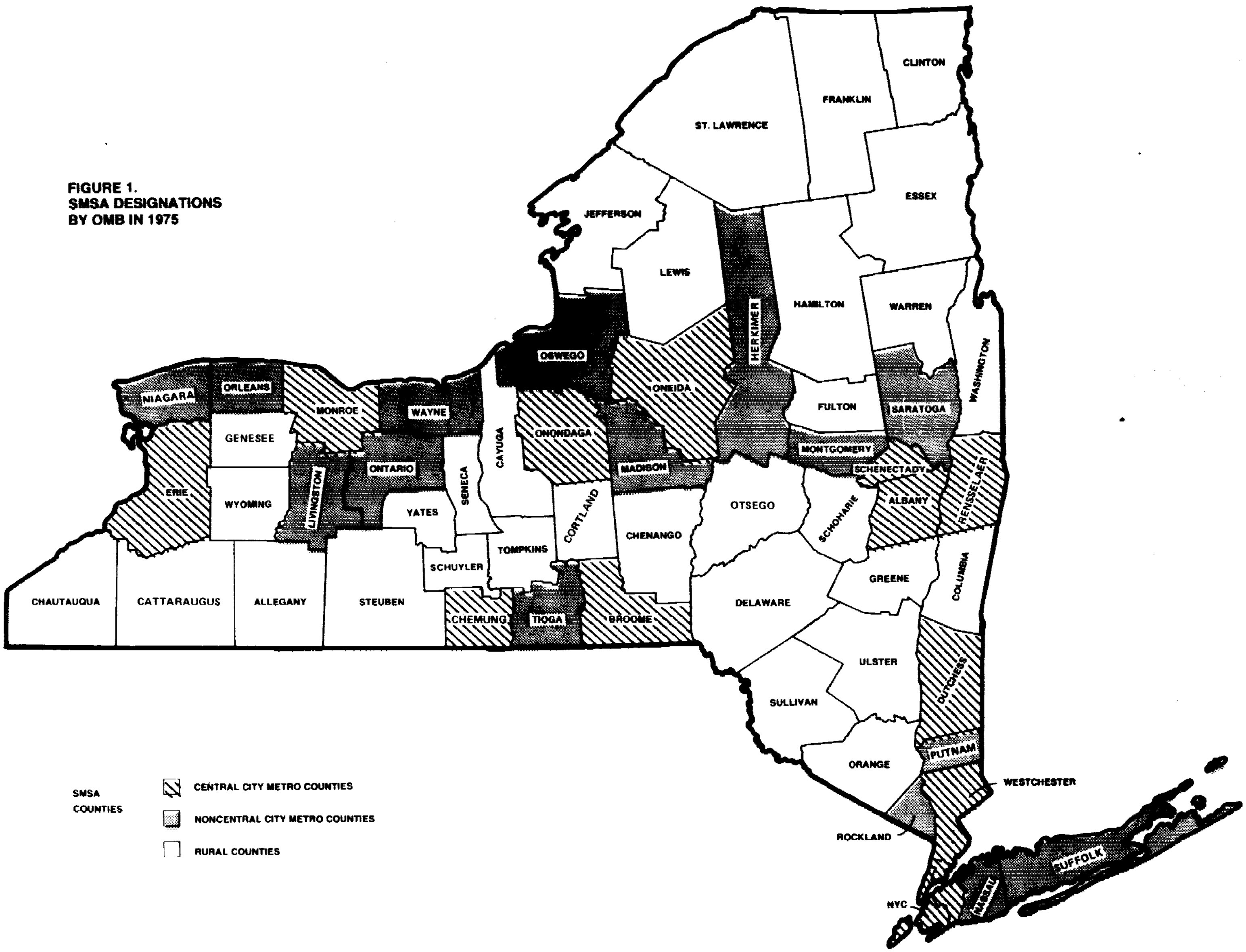
- nonmetropolitan counties are called rural;
- metropolitan counties containing a central city are called central city metro; and
- metropolitan counties that do not encompass a central city are called noncentral city metro.

There are 11 central city metro (excluding New York City), 15 noncentral city metro, and 31 rural counties in New York State (see figure 1). Because of the sheer size, the five counties of New York City are reported separately from the central city metro grouping.

DETERMINANTS OF THE PUBLIC ASSISTANCE POPULATION

Two factors determine the number of people actually participating in a public assistance program: the size of the population legally eligible and the rate at which those

FIGURE 1.
SMSA DESIGNATIONS
BY OMB IN 1975



eligible actually participate in a program. This relationship can be expressed by the formula:

$$\text{Number of people receiving public assistance} = \left(\text{Number of people which meet eligibility requirements}\right)\left(\text{Participation rate}\right)$$

Size of the eligible population

Data on the number of people eligible are not available. To provide a rough indication of the size of the "potential" public assistance population, data on the number of people below the poverty line 1/ are presented in table 2 by metropolitan status for 1970.

Table 2

Poverty Population by Metropolitan Status, 1970

Metropolitan status	People below poverty line	Percent
New York City	1,164,673	14.8
Central city metro	369,113	8.0
Noncentral city metro	224,859	6.0
Rural	227,309	11.7

Not surprisingly, New York City contained the largest number of poor, nearly 15 percent of its population. The rural counties also had a relatively high percentage of its population officially classified below the poverty line compared to metropolitan counties.

Economic conditions

The state of the local economy is probably the most important determinant of the size of the eligible population. While data on poverty by county area are not available for noncensus years, a look at changing economic conditions

1/Based on Bureau of Census definitions and data. The definition of poverty used by the Federal Government is not identical to the eligibility criteria used by New York State. Consequently, AFDC recipients, for example, are not necessarily below the poverty line.

between 1969 and 1975 indicates changes in the potential public assistance population took place during this time.

A simple index of economic growth based on changes in population, employment, and income between 1969 and 1975 is shown, along with unemployment rates, in table 3. 1/ The growth index was normalized so that the growth of the median county has an index value of 1.

Table 3

Growth and Unemployment Rates by Metropolitan States, 1969-75

Metropolitan status	Growth index	Unemployment rate		
		1970	1975	Percentage change
New York City	a/	4.8	10.6	121
Central city metro	.52	3.5	8.4	140
Noncentral city metro	1.12	3.4	8.1	138
Rural	1.17	3.9	9.3	138

a/New York City declined in population and employment.

According to the growth index, New York City actually declined, losing population and employment between 1969 and 1975. The central city metro counties' average growth was less than half that of the rural and noncentral city metro counties. New York City and the rural counties experienced higher rates of unemployment.

The unemployment figures indicate a general decline in economic activity corresponding to the 1973-75 recession. This decline probably led to a general increase in the potential public assistance population throughout the State between 1970 and 1975.

THE PUBLIC ASSISTANCE PARTICIPATION RATE

The second important factor which determines the actual number of public assistance recipients is the rate at which

1/Details concerning the construction of the index are contained in appendix I.

those eligible actually participate in public assistance programs. This rate is primarily determined by the demographic characteristics of the county population, such as the percent of the population under 18 and over 65 years of age, racial composition, education levels, and the number of households headed by females. A third important factor is the degree to which information is made available to potential participants.

Using 1970 census data, we obtained a crude estimate of the public assistance participation rate by calculating the number of people participating in public assistance programs. Our results are shown in table 4.

Table 4

Public Assistance Participation Rate, 1970

Metropolitan status	Percentage of population below poverty line participating in public assistance
New York City	93.8
Central city metro	58.7
Noncentral city metro	60.3
Rural	32.3

A comparison of tables 2 and 4 shows that of the four categories, not only did New York City have the largest percentage of its population below the poverty line, but it also had a high proportion of its poor participating in public assistance programs. In contrast, while rural counties also had a relatively large percentage of their population below the poverty line, a very low percentage of those presumably eligible actually participated in the public assistance programs.

Data reflecting changes in the participation rate during the 1969-75 time period are unavailable. New York State officials indicated that the participation rate has risen more rapidly among the rural counties as a result of a successful advocacy program by public interest groups to inform people of their rights to receive public aid. These programs, beginning in New York City in the late 1960s, were successful, and branched out to other sections of the State during the early 1970s. To the extent that increases in public assistance recipients are attributable to a permanently higher participation rate in rural areas (and not just the temporary recession-induced rise in unemployment) then a long-run shift in the concentration of public assistance recipients occurred in the 7-year period ending in 1975.

CHANGES IN THE PUBLIC ASSISTANCE POPULATION

Although we do not have data accurately showing changes in participation rates and potential public assistance participants, the results of these changes are reflected in changes in the number of public assistance recipients.

Even with the general decline in economic conditions between 1969 and 1975, the number of people receiving some form of public assistance actually fell in New York City but increased substantially throughout the rest of the State, particularly among rural counties. The actual public assistance population increased 6.5 percent from 1.37 million to 1.46 million between 1965 and 1975 (see table 5).

Table 5

Size of Public Assistance Population by Metropolitan Status

Metroplitan status	1969	1975	Percentage change
New York City	1,016,405	998,750	- 1.7
Central city metro	180,110	221,520	+30.0
Noncentral city metro	112,579	147,162	+30.7
Rural	62,053	92,219	+48.6
State total	1,371,147	1,459,651	+ 6.5

CONCLUSIONS

The concentration of public assistance recipients varies across the State with the largest concentration in New York City. While the recession between 1973 and 1975 increased the number of recipients, this increase did not occur evenly across the State; the largest gains occurred in the rural counties (a 49 percent increase from 1969 to 1975).

CHAPTER 3

THE IMPACT OF STATE POLICY

ON MANDATED COUNTY GOVERNMENT EXPENDITURES

STATE POLICY

The State determines expenditures of county governments through policies that the counties must implement. With public assistance, the most important State policies affecting cost increases are eligibility requirements, benefit payment levels, and aid matching ratios. These three policies are shown schematically in figure 2. State eligibility policy and prevailing economic conditions determine the number of "potential" public assistance recipients, which in combination with the participation rate, determines the number of "actual" recipients, as shown in figure 2.

At a second step, the State also sets benefit payment levels which, when applied to the number of participants, determines the amount of public assistance expenditures.

Finally, once total public assistance expenditures are determined, the State requires the county government to finance half the non-Federal share from local revenue sources. From this requirement the fraction of locally raised revenues mandated by State policy is derived. The result of this policy is a direct correspondence between concentrations of public assistance recipients and mandated local expenditures, representing a loss in local control over local budget resources.

MEASURING LOCAL MANDATED EXPENDITURES

Revenue sources used to meet expenditures

County revenues increased 98 percent between 1969 and 1975, increasing per capita revenues to $697. 1/ Total Federal aid grew more rapidly than did either State aid or local revenues, increasing the fraction of total revenues from Federal sources from 19.9 to 28.4 percent, an increase of 8.5 percentage points. Thus, the State and local shares were able to decline 2.8 and 5.7 percentage points respectively. 2/ However, this decline was not uniform across the State but

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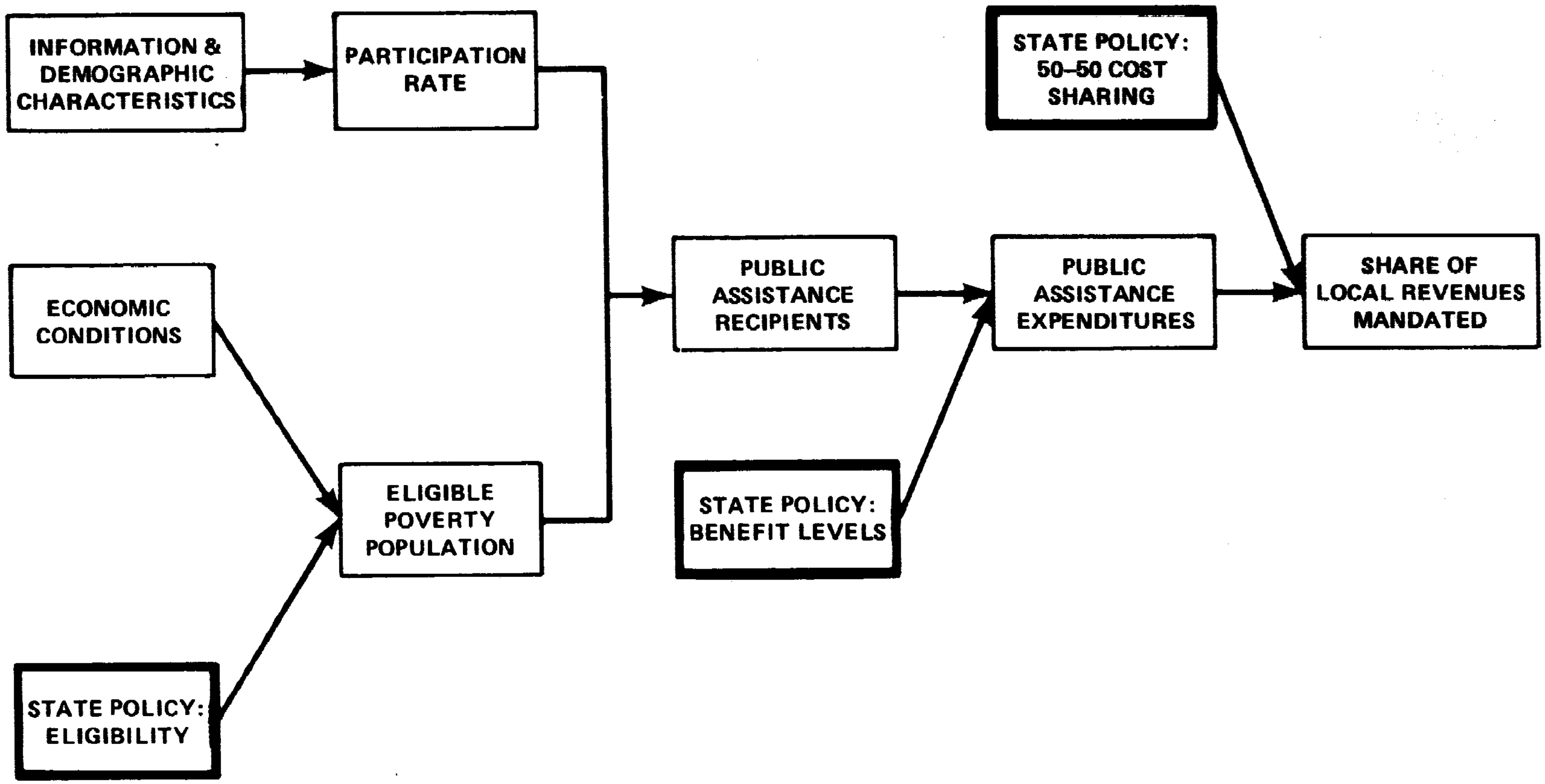
1/If New York City is excluded, the figure is $364 per capita.

2/In dollars, State aid and local spending increased 76 percent and 77 percent respectively; however, their share of total expenditures fell 5 percentage points each.

FIGURE 2

THE IMPACT OF STATE POLICY ON MANDATED EXPENDITURES



rather differed according to metropol tan status. Table 6 shows the increase in the Federal share and the resulting decline in local and State shares.

Table 6

Changes in the Sources of County Government Revenues, 1969-75

Metropolitan status	Federal share increase	Local share decline	State share decline
New York City	+ 9%	-7%	-2%
Central city metro	+11	-7	-4
Noncentral city metro	+ 8	-4	-4
Rural	+10	-4	-6

The greater decline in the local share for central city metro counties indicates that in effect a larger share of the Federal increase is passed through to this group of county governments. For noncentral city metro and rural counties roughly half was passed through.

Local revenues mandated for public assistance

As a result of these changes, by 1975 county governments were financing 54 percent of their total revenues from local sources, compared to 59 percent in 1969. Of these locally raised revenues, what fraction represented public assistance mandates and corresponding losses in local discretion over locally raised budget resources? To make a crude estimate of the loss in local discretion, the amount of local spending implied by the 50-50 cost sharing policy was computed to determine the fraction of locally raised revenues. The results of this calculation are shown in table 7.

While these figures show the fraction of local revenues mandated for public assistance, they do not accurately reflect the loss in control over local resources. The reason is that communities have two possible responses to the 50-50 cost sharing mandate; they can either maintain the same level of expenditures by reducing spending in other areas or they can raise additional revenues to meet the mandate, raising the size of their budget. Other factors being equal, communities choosing the second option will show a smaller share of its budget mandated than will communities who reduce

Table 7

Percentage of Local Revenues Mandated to Support State Public Assistance Programs, 1969-75 a/

Metropolitan status	1969	1975	Change
Central city metro	22.6	24.7	+2.1
Noncentral city metro	13.7	15.1	+1.4
Rural	19.2	23.8	+4.6
Total State	19.1	22.1	+3.0

a/New York City has been excluded from this analysis because it is responsible for providing a wider variety of services than the upstate counties, and would make comparisons misleading.

spending in other areas. Yet it could be argued that, while the response is different, the same degree of control over local resources is lost.

To compensate for this complication, we have calculated how much revenue counties would raise if they taxed themselves at the same rate. Using these standardized revenues we have a measure which reflects more accurately losses in local control over local revenues. The results of these calculations are shown in table 8. 1/

The ranking after adjusting for different tax rates remains the same, although the difference between the noncentral city metro counties and the rest of the State is not as great as the crude estimate shown in table 7. In general, the central city metro and rural counties experience the greatest loss in control over locally raised revenues as a result of the State's 50-50 cost sharing mandate.

1/See appendix II for a more detailed description of how standardized mandates are calculated.

Table 8

Standardized Public Assistance
Mandates by Metropolitan Status, 1975

Metropolitan status	Percent
Central city metro	28.7
Noncentral city metro	21.9
Rural	25.1
Total State	26.0

INCREASES IN BOTH FEDERAL AND STATE REVENUE SHARING AID HAVE NOT OFFSET MANDATED EXPENDITURES

State officials often commented that the State expends three-fifths of its budget in grants to localities. Most of these grants stipulated that local government must match the State grants with monies of their own, but State officials still felt its aid policies ultimately helped relieve local fiscal burdens. Federal and State revenue sharing programs were cited as a major source of relief.

We compared the increase in the amount of fiscal relief provided by both the Federal and State revenue sharing programs (which are the aid programs over which local officials have complete discretion) versus the increase in local mandates. We found that in all cases the increase in mandated public assistance expenditures exceeded the relief provided by increases in State revenue sharing as well as the addition of Federal revenue sharing, which began in 1972 (see table 9).

Table 9

Per Capita Increases in Mandates Not Offset by
Increases in Revenue Sharing Aid, 1969-75

Central city metro	$13.17
Noncentral city metro	9.99
Rural	11.29
Total State	$11.17

PUBLIC ASSISTANCE MANDATES DIRECTLY RELATED TO SIZE OF PUBLIC ASSISTANCE POPULATION

We find a direct relationship between a county's loss in control over local revenues (mandates) and the fraction of the county's population receiving public assistance. This relationship is demonstrated in table 10.

Table 10

Relationship Between Mandates and the Public Assistance Population, 1975

Metropolitan status	Mandates (standardized revenues)	Fraction of population receiving public assistance
Central city metro	28.7%	4.8%
Noncentral city metro	21.9	3.7
Rural	25.1	4.5

Central city metropolitan counties, on the average, had the largest share of local revenues mandated, experienced the greatest loss in discretion over local revenues, and also had the largest share of its population receiving some form of public assistance. The reverse was true of the noncentral city metro counties which had the smallest mandates, loss in control, and public assistance recipients.

The relationship between concentrations of public assistance recipients and mandates is demonstrated in a slightly different form in table 11. The 57 counties have been grouped into quartiles according to the fraction of their population receiving some form of public assistance. Those counties with the largest concentrations of recipients (shown in column 3) also had the largest share of their locally raised revenues mandated for public assistance expenditures (shown in column 4).

GREATER PUBLIC ASSISTANCE MANDATES NOT IMPOSED ON LOW-INCOME COUNTIES

While greater concentrations of public assistance recipients impose larger losses in local control over the use of locally financed expenditures due to the 50-50 cost sharing policy of the State government, this loss is unrelated to

Table 11

Share of County Population Receiving Public Assistance Versus Mandates, 1975

Quartiles	Number of counties	% of population receiving public assistance a/	Standardized mandates
1	14	2.7%	16%
2	14	3.7	22
3	14	4.3	27
4	15	5.6	36

a/The figures represent the median in each quartile.

the income of county residents. That is, the mandates that result from the 50-50 cost sharing policy impose roughly the same loss in control for high-income as for low-income counties. Table 12 shows the percentage of a standardized budget mandated for public assistance by per capita income of county residents. The 57 counties were classified as high/low income if their per capita income was above/below the State per capita income. Similarly, they were classified as high/low mandate if their standardized mandates were above/below that of the median county.

Table 12

Relationship Between Standardized Mandate and Per Capita Income

	Low Mandate		High Mandate	
	No. of governments	Median	No. of governments	Median
Low income	14	19%	15	34%
High income	15	18%	13	31%

The data shows that the percentage of mandated expenditures is roughly the same for high and low income counties (19 percent versus 18 percent for the low mandate counties and 34 percent versus 31 percent for the high mandate counties).

CONCLUSIONS

The information presented demonstrates that the State's 50-50 cost sharing (matching) policy affects county governments differently throughout the State. Those counties with the largest share of their local revenues mandated by the State's 50-50 cost sharing, and the corresponding loss in local control over local revenues, are those counties with the largest number of public assistance recipients relative to their total population. The State government's 50-50 cost sharing policy fails to account for these differences and consequently puts a greater demand on local resources in those counties with the greatest concentrations of public assistance recipients and was neutral with respect to county income levels.

Data presented in chapter 2 indicate that these concentrations were highest in the metropolitan counties but that over the 1969-75 time frame the concentration shifted toward the rural counties. Thus, while the State cost sharing policy in the past has the greatest impact on the central-city metro counties over time, its impact on rural counties is growing.

CHAPTER 4

STATE PUBLIC ASSISTANCE MANDATES

AND LOCAL FISCAL EFFORT

We examine here the consequences of the State's 50-50 cost-sharing policy and what effects the resulting mandates have on the fiscal effort made by county governments. Our analysis indicates that those counties with the largest loss in local control over local revenues were making the greatest fiscal effort. We also found that counties with comparable losses in discretionary revenues but with higher incomes made less fiscal effort than did the lower income counties.

DETERMINANTS OF LOCAL TAX BURDENS

The tax burden of a local government is a function of its revenues, expenditures, tax base, and intergovernmental aid and inflation. The demand for expenditures results from several factors: the need for new services, State policies (such as increased benefit levels), and increases in the service population (such as public assistance recipients). Thus, a demand is made for revenues from local sources, such as taxes and user fees, as well as requests for more Federal and State aid. Evidence of local fiscal effort includes a comparison of the tax burdens levied.

The forces affecting local tax burdens are presented schematically in figure 3 in the context of public assistance programs. If mandated public assistance costs lead to an imbalance in revenues and expenditures, local officials must either reduce expenditures in other budget areas or increase the local tax rate to raise additional revenues to balance the budget.

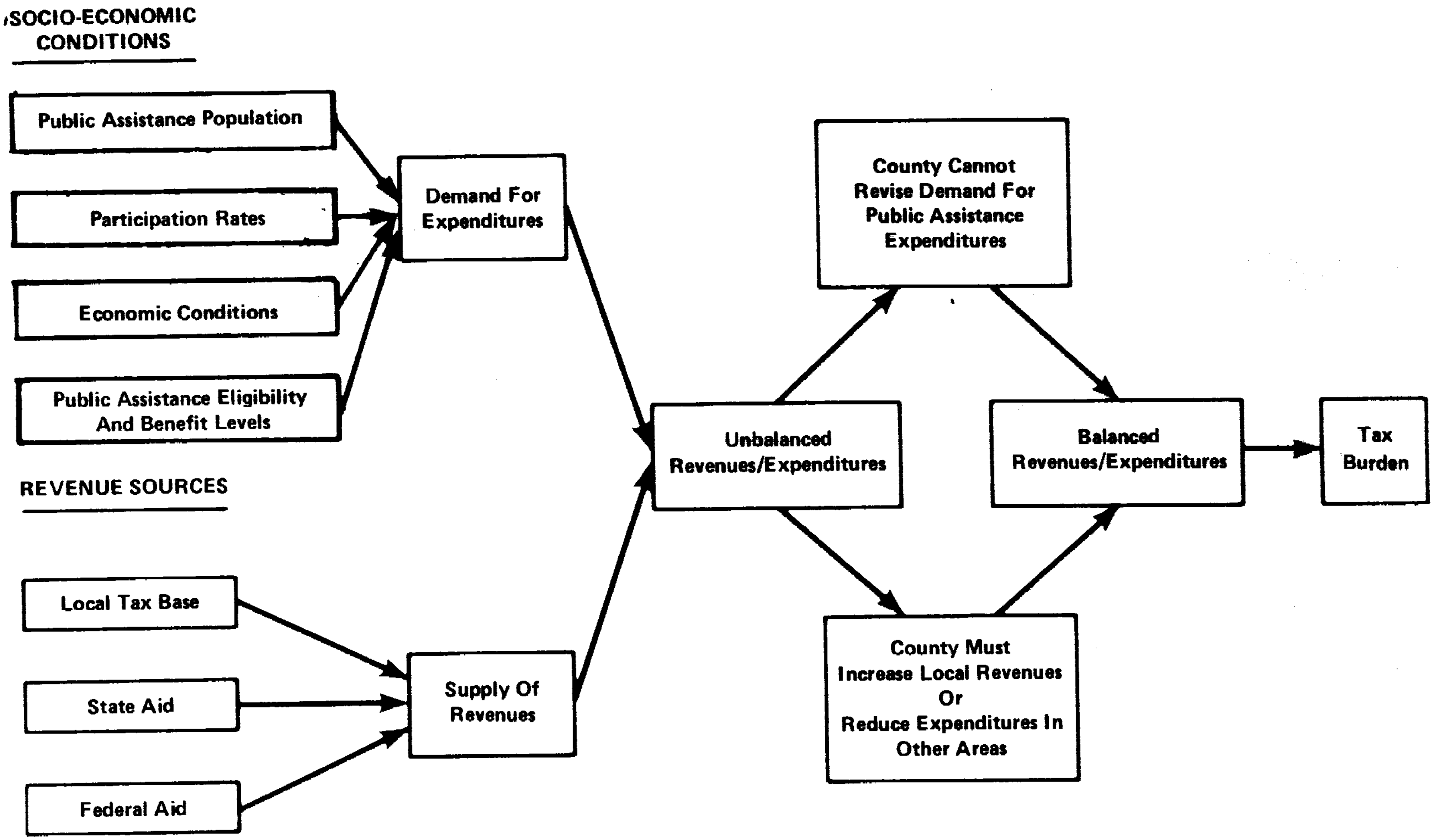
DEFINING FISCAL EFFORT

What impact does the State's mandate policy have on the "effort" made by county governments to supply public services to its citizens? To make this determination requires an empirical measure of effort. The measure of effort adopted by us is based on the underlying normative principle that equal effective tax rates ought to produce revenues sufficient to purchase equal amounts of public services on a per capita basis. The development of this measure of effort is presented in appendix III of this report and will be referred to as fiscal effort.

The fiscal effort of county governments (shown schematically in figure 4) is the product of two factors: (1) the

FIGURE 3

DETERMINANTS OF LOCAL TAX BURDEN IN THE CONTEXT OF PUBLIC ASSISTANCE MANDATES



effective tax rate of the county government (the first term in parentheses); and (2) the per capita tax base of the county government relative to the average per capita tax base of all county governments within the State (the second term in parentheses).

Figure 4

Definition of Fiscal Effort

$$\text{Fiscal effort} = \left(\frac{\text{Local per capita revenues}}{\text{Local per capita tax base}}\right)\left(\frac{\text{State per capita tax base}}{\text{Local per capita tax base}}\right)$$

The traditional approach to measuring "effort" has been to use the effective tax in isolation. We have criticized this method in a previous report 1/ because it favors high per capita tax base communities since the same effective tax rate applied to a larger tax base will enable that community to consume a higher level of public services on a per capita basis. The second term compensates for this advantage by scaling the effective tax rate up or down for low or high tax base communities.

We have used a comprehensive definition of revenues that includes all locally raised revenues such as taxes, user charges, license fees, and special assessments, all of which represent burdens borne by local citizens for the public services provided by the county government. The tax base is measured by the full market value of taxable property.

GREATER FISCAL EFFORT MADE BY THOSE COUNTIES WITH LARGEST MANDATES

Our previous analysis demonstrated that the State's 50-50 cost sharing policy imposed greater losses in discretionary control over local budget resources in those counties with the highest concentrations of public assistance recipients. Now we demonstrate that those counties with the greatest loss in discretionary revenues are making the greatest fiscal effort.

1/"The Impact of Tiering and Constaints on the Targeting of Revenue Sharing Aid," U.S. General Accounting Office, PAD-80-9, June 11, 1980, pp. 11-13.

The relationship between the loss in local control and the fiscal effort made by county governments is shown in table 13. Because fiscal effort is related to both standardized mandates and per capita income, the 57 counties were divided into the 29 lowest- and 28 highest-income counties so that the influence of mandates and per capita income on fiscal effort could be separated. Within each income group, counties were classified as having low/high mandates if the percentage of their standardized budget mandated for public assistance was below/above the median mandate of all counties.

Table 13

The Relationship of Fiscal Effort to Income and Standardized Mandates

	Low-income counties		High-income counties	
	Low mandate	High mandate	Low mandate	High mandate
No. of counties	14	15	15	13
Median mandate	19%	34%	18%	31%
Median fiscal effort	90	157	78	100

The table shows that the mandates imposed by the State's 50-50 matching rate policy has the same impact on both low- and high-income jurisdictions. The loss in discretion (as measured by standardized mandates) is independent of county per capita incomes. The low mandate governments have nearly the same percentage of their budget's mandate regardless of their income levels (19 percent vs. 18 percent). The same is true for the high mandate governments (34 percent vs. 31 percent). For the low-income counties, the median fiscal effort index has a value of 90 compared to 157 for the high mandate counties. Similarly, among the high-income counties, the low mandate counties had a median fiscal effort of only 78, compared to 100 among the high mandate governments. The relationship between per capita income and fiscal effort is also shown in this table. Among the counties with low mandates the low-income counties show a median fiscal effort of 90 compared to 78 among high-income counties, a difference of 15 percent. Similarly, among the high mandate counties those in the low-income group had a median effort of 157 compared to 100 for the high income counties, a difference of nearly 57 percent. From these results we conclude that after taking differences in per capita income into account, there is a direct relationship between the percentage of a county's budget mandated for public assistance expenditures and the level of fiscal effort it must undertake to fulfill that mandate.

CONCLUSIONS

The State's 50-50 cost sharing policy for financing public assistance programs does not reflect differing concentrations of public assistance recipients. The high concentration of recipients, combined with the State Government's 50-50 cost sharing policy, leads to high mandates. High mandates, in turn, are directly associated with greater fiscal burdens. The result is greater fiscal pressure (as measured by the fiscal effort index) in those counties with the largest public assistance mandates.

CHAPTER 5

POLICY IMPLICATIONS

In our review of the relationship of Federal and State public assistance aid and their relation to the fiscal effort exhibited by county governments, we found State mandated expenditures contributed to increased fiscal effort of county governments.

Counties have no control over the cost of the public assistance mandates because costs are based on the demographic features of each county while the eligibilty and benefit levels are set by the State. Increases in public assistance recipients create an increase in public assistance expenditures, which in turn may increase the county's expenditures from locally raised revenues.

Our analysis demonstrated that counties with large shares of their budgets mandated for public assistance costs were precisely those with the greatest fiscal effort. Thus, we conclude that New York State aid policies are a contributing factor leading to increased fiscal pressures experienced by some county governments. This situation exists primarily because the State does not make allowances for the size of public assistance populations when it distributes Federal and State public assistance aid to its county governments.

IMPLICATIONS FOR STATE POLICY

If the State government were to adopt the objective of imposing an equal fiscal effort on county governments in financing their share of public assistance costs, then the State should change its 50-50 cost sharing policy. The current 50-50 matching rate fails to account for the larger fiscal impact that large concentrations of public assistance recipients have on county expenditures. It also fails to take into account the ability of the respective county governments to finance their share of public assistance benefits from local revenue sources.

If the State cost sharing policy is to increase public assistance mandates proportionately on all county governments then the share of public assistance costs borne by the county government should vary in direct proportion to the square of its per capita tax base and in inverse proportion to the percentage of the county population receiving public assistance benefits. 1/

If the matching rate is tied to concentrations of program recipients, the impact on county government fiscal effort will be neutral, eliminating the incentive of high income people to segregate themselves from low income people to avoid local taxes that redistribute benefits to low income groups. 2/ The implications for central cities is particularly obvious. Neutralizing the fiscal effort impact of income redistribution programs will eliminate one incentive for high-income people to move out of central cities (which serves to reduce the tax base and increase the fiscal effort required by these governments). Tying the matching rate to concentrations of recipients would also relieve the fiscal effort imposed on those rural communities which have large concentrations of low-income people. This effect on rural communities is particularly important if participation rates are increasing more rapidly in rural than in nonrural communities. These rising rates would increase the concentration of recipients which in turn increases their fiscal effort more rapidly than the more urban counties.

IMPLICATIONS FOR FEDERAL POLICY

In contrast to New York's 50-50 cost sharing policy the Federal Government does attempt to take each State's per capita tax base into account in determining the State share of program costs. Currently, the formula contained in the Medicaid program is used to determine the State's share of both Medicaid and Aid to Families with Dependent Children (AFDC). Under this formula, each State's share of program costs is directly proportional to the square of its per capita income. 3/ This results in higher income States financing an increasingly higher fraction of program costs.

Like New York, the Federal formula also fails to take the concentration of recipients into account. Consequently,

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1/See appendix III for the algebraic derivation of this formula.

2/The avoidance of redistributive taxation is only one of several factors which influence the location decisions of households and its relative importance is unknown.

3/State per capita income can be interpreted as an indicator of the State's tax base.

other things being equal, the current method of sharing costs results in a higher fiscal effort in those States with larger concentrations of recipients. However, modifying the current Medicaid formula by dividing each State's squared per capita income by the fraction of the State's population receiving program benefits would produce an equal fiscal effort on all States for purposes of financing public assistance programs. 1/

MATTERS FOR CONSIDERATION BY THE CONGRESS

Formula proposals in the 96th Congress, such as those contained in H.R. 4904, would reduce State's cost shares but would continue to create a greater fiscal effort in those States with larger concentrations of recipients, other things being equal. One of the objectives of H.R. 4904 is to equalize benefits and eligibility across States. Introducing the percentage of a State population receiving benefits into the matching formula would provide an incentive to those States with strict eligibility criteria to liberalize those standards since doing so would reduce the State's share of program costs. In the event that national eligibility criteria and payment standards were established while mandating a portion of program costs on States, then modifying the Medicaid formula as described above would produce an equal level of fiscal effort for all States.

The purpose of this report is to demonstrate that when benefit payments to public assistance recipients are equalized, that a greater fiscal burden is incurred by those governments which have the largest concentration of recipients within their borders.

AGENCY COMMENTS

Draft copies of the report were sent to the Department of Health and Human Services (DHHS), Office of Management and Budget (OMB), the Advisory Commission on Intergovernmental Relations (ACIR), the Governor of New York, and the New York State Association of Counties. OMB and the Governor's office provided oral comments; written comments from DHHS, ACIR, and the New York Association of Counties are presented in appendix IV.

The Department of Health and Human Services stated that it was currently studying possible changes in the matching rate formula and was therefore not prepared to take a posi-

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1/See appendix III for an algebraic demonstration of this fact.

tion on altering the matching rate formula. Representatives of OMB pointed out that taking the concentration of program recipients into account in the Medicaid formula is a logical consequence of the equal fiscal effort criterion. Therefore, making such a change represents an improvement in the equity of financing public assistance programs only if equal fiscal effort is a valid objective of Federal policy. OMB also pointed out that accepting this criterion is a value judgment which the Congress may or may not accept. We agree with this position. The Congress must decide if equalizing fiscal effort is the proper objective of Federal policy.

ACIR emphasized that the New York case study represents a useful example demonstrating the wide differences in fiscal burdens created by the uneven distribution of public assistance recipients. ACIR commented that we did not provide an assessment of the fiscal impact of incorporating the concentration of program recipients into the cost-sharing formula. Such an assessment was beyond the scope of this report.

The New York Association of Counties expressed their concern over New York State's 50-50 cost-sharing policy and stated their position that the costs should be borne by the State government. Representatives of the Governor's office provided several technical comments on the draft but did not take issue with the analysis or conclusion of the report.

SOURCES AND QUALITY OF DATA

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.

To address policy issues in this report, we needed to collect financial, program, and socioeconomic data from a variety of sources and arrange them into 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 comprising public assistance). The data covers 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 calender year basis for over 180 different categories on a uniform basis through accrual accounting methods, and covered revenue sources as well as expenditures by program areas. This procedure 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 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, 1968-1975, Bureau of Research and Evaluation.

Only the functional area of public assistance was examined in program-level detail in this report. 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 calender year. Its financial data 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 permits comparisons of program data with county government revenue and expenditure data.

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, there was concern about the quality of the data. Interviews were conducted with State officials responsible for primary data collection and cross-checks were performed on data when more than one source existed.

The financial data were 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 can exist. One examines aid to county areas, the other to 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 accurate for use as time-trend data. However, in individual counties some aberrations might occur because of higher rates of ineligible claims.

The reliability of the socioeconomic data were 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

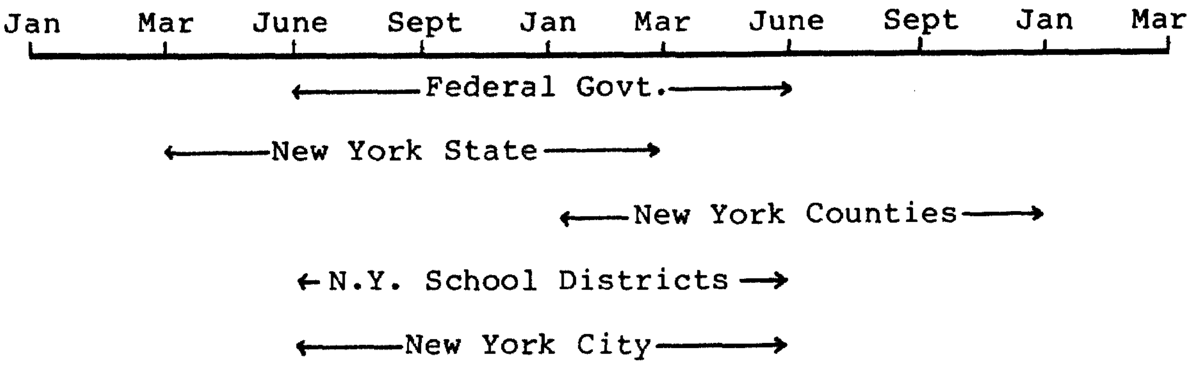
The variety of data sources creates problems in data comparability because of differing formats and standards in primary data collection. The information has been reprocessed to a standardized format to allow easy comparisons of the numbers, but the limitations on the use of those numbers remains. Some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

Different fiscal years

Different sources use various end points for their data collection periods, as shown in figure 5. While the variance in fiscal years prevents direct comparisons on an annual basis, this difference diminishes if the data are used for time series analysis.

Figure 5

Comparison of the Overlap of Fiscal Years for Five Types of Governments for FY 1969



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 end-points 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.

Another case where caution in data interpretation is needed is when unusual percent increases in county-level time series data occurs 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 percentage change than an increase of 50 cases in New York City with a population of 7 million.

Difference in service levels

When comparing per capita dollar amounts, the levels of services provided by each level of goverment 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, while 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.

CONSTRUCTION OF INDICES

GROWTH INDEX

The growth index was constructed from three components: population change, changes in per capita personal income, and change in total employment between 1969 and 1975. The change in each variable was normalized by dividing it by the value of the median county. That is,

(a) $P_i^N = P_i/P_{med}$; $Y_i^N = Y_i/Y_{med}$; $E_i^N = E_i/E_{med}$

where P_i = population change of the i^{th} county

P_{med} = population change of the median county

P_i^N = normalized population change of the i^{th} county

Y = personal per capita income

E = total employment

The growth index is the average of each of the three normalized variables.

(b) Growth index $= \frac{1}{3}\left(P_i^N + Y_i^N + E_i^N\right)$

STANDARDIZED MANDATES

Standardized mandates attempt to measure the loss in discretion over locally raised budget resources due to the State's 50-50 cost sharing policy. Differences in the fraction of locally raised revenues do not accurately reflect differences in the loss of discretion because there are different possible responses to the imposition of the State's mandate. The local government may respond by maintaining the same level of revenues collected and cutting spending in other areas to finance the mandates. If we let M represent the amount of mandated expenditures and R the amount of local revenue raised before the mandate was imposed, then the share of local revenues mandated would be represented by the ratio M/R.

Another possible response would be to maintain local spending at the pre-mandate level and raise additional local revenues to meet the mandate. In this case local revenues would be the sum of local revenues raised before the mandate

(R) and the imposed mandates (M). Thus, our measure of the fraction of local revenues mandated would become M/(R+M). Of course, there are innumerable responses between these two extremes. Depending on the response of local officials different measures of mandated expenditures are obtained even though the loss in control over local resources is the same. 1/ To more adequately reflect the size of State mandates relative to local resources, we have standardized local revenues by assuming that each community taxes itself at the same rate. In this case, standardized local revenues is the tax rate times the tax base. If we let V represent the tax base, our measure of standardized mandate becomes $M/\bar{t}(V)$. Since $\bar{t}$ is the same for all communities, our measure of the loss in discretion over local budget resources is directly proportional to the size of the State's mandated expenditures and inversely proportional to the ability to finance local services as measured by the communities' tax base.

For purposes of our empirical analysis we have used the full market value of taxable property as the measure of the tax base in tables 14 and 15. The tax rate used was $15.46 per $1,000 of full market value.

1/Note that $M/R > M/(R+M)$.

Table 14

Data Used in the Analysis, 1969

County	Public assistance population	Standardized mandates	Per capita income	Fiscal effort index a/
1. Albany	3.2%	21%	$4,269	66
2. Allegany	2.4	23	2,867	153
3. Broome	2.7	16	3,805	52
4. Cattaraugus	3.5	30	3,202	167
5. Cayuga	3.6	24	3,309	108
6. Chautauqua	3.2	19	3,393	65
7. Chemung	3.4	21	3,577	107
8. Chenango	4.3	29	3,265	136
9. Clinton	3.7	36	2,740	227
10. Columbia	1.8	16	3,420	84
11. Cortland	4.1	25	3,308	143
12. Delaware	2.9	17	3,258	62
13. Dutchess	1.4	7	3,964	41
14. Erie	4.5	25	3,942	92
15. Essex	3.9	28	3,091	121
16. Franklin	4.8	44	2,549	241
17. Fulton	4.1	30	3,177	154
18. Genesee	3.4	19	3,704	100
19. Greene	2.4	12	3,457	74
20. Hamilton	1.0	3	3,031	18
21. Herkimer	2.0	13	3,631	81
22. Jefferson	3.8	27	3,280	156
23. Lewis	3.6	25	2,997	210
24. Livingston	1.4	11	3,456	81
25. Madison	3.6	22	3,311	124
26. Monroe	3.5	18	4,644	56
27. Montgomery	2.9	19	3,539	175
28. Nassau	2.6	12	5,849	49
29. Niagara	4.1	24	3,860	100
30. Oneida	4.9	32	3,400	158
31. Onondaga	5.7	30	3,905	110
32. Ontario	2.9	15	3,721	68
33. Orange	3.3	18	3,840	67
34. Orleans	4.7	26	3,550	121
35. Oswego	3.3	16	3,085	76
36. Otsego	3.4	26	3,098	147
37. Putnam	1.6	10	4,597	42
38. Rensselaer	3.5	33	3,438	210
39. Rockland	2.6	14	4,382	64
40. St. Lawrence	5.4	32	2,819	136
41. Saratoga	0.8	10	3,438	82

a/State average = 100

APPENDIX II

County	Public assistance population	Standardized mandates	Per capita income	Fiscal effort index a/
42. Schenectady	2.9%	23%	$4,060	96
43. Schoharie	1.5	13	2,833	93
44. Schuyler	2.9	22	2,956	135
45. Seneca	1.8	16	3,245	113
46. Steuben	1.9	16	3,414	112
47. Suffolk	3.9	16	4,076	55
48. Sullivan	4.7	19	3,607	67
49. Tioga	2.3	21	3,531	103
50. Tompkins	2.5	16	3,563	125
51. Ulster	2.0	16	3,886	66
52. Warren	3.2	20	3,502	82
53. Washington	2.3	28	3,023	200
54. Wayne	2.3	13	3,775	74
55. Westchester	3.8	18	6,353	36
56. Wyoming	1.3	11	3,295	162
57. Yates	2.2	9	3,159	52

a/State average = 100

Table 15

Data Used in the Analysis, 1975

County	Public assistance population	Standardized mandates	Per capita income	Fiscal effort index a/
1. Albany	4.3%	20%	$6,461	86
2. Allegany	5.1	35	4,443	136
3. Broome	3.5	31	5,719	86
4. Cattaraugus	4.2	36	4,805	166
5. Cayuga	5.2	43	5,207	143
6. Chautauqua	5.0	30	5,270	78
7. Chemung	5.7	43	5,438	123
8. Chenango	3.9	29	4,997	128
9. Clinton	3.7	33	4,336	196
10. Columbia	2.3	13	5,259	83
11. Cortland	6.0	32	5,526	150
12. Delaware	2.7	13	4,647	62
13. Dutchess	2.9	16	6,549	62
14. Erie	5.1	32	5,921	89
15. Essex	6.3	23	4,860	106
16. Franklin	6.9	43	4,099	256
17. Fulton	3.8	34	4,856	160
18. Genesee	3.0	23	5,578	98
19. Greene	2.5	16	5,309	89
20. Hamilton	3.8	4	5,684	14
21. Herkimer	3.7	23	4,734	78
22. Jefferson	4.8	38	5,054	157
23. Lewis	2.9	26	4,335	214
24. Livingston	2.9	17	5,097	83
25. Madison	3.6	23	5,030	118
26. Monroe	5.5	27	7,009	65
27. Montgomery	3.9	29	5,246	181
28. Nassau	2.8	18	8,841	59
29. Niagara	5.5	34	5,821	103
30. Oneida	5.4	40	5,218	121
31. Onondaga	4.8	32	5,802	100
32. Ontario	3.2	20	5,578	78
33. Orange	5.7	20	5,718	82
34. Orleans	6.5	39	5,479	121
35. Oswego	5.6	22	4,565	97
36. Otsego	3.5	23	4,878	138
37. Putnam	1.7	9	6,565	37
38. Rensselaer	3.8	25	5,308	229
39. Rockland	3.6	15	6,854	73
40. St. Lawrence	5.4	37	4,322	134
41. Saratoga	2.6	16	5,205	120

a/State average = 100

County	Public assistance population	Standardized mandates	Per capita income	Fiscal effort index a/
42. Schenectady	3.7%	25%	$6,430	84
43. Schoharie	2.4	12	4,388	83
44. Schuyler	2.8	28	4,523	108
45. Seneca	3.2	22	5,307	104
46. Steuben	4.0	27	5,399	110
47. Suffolk	4.6	18	6,094	64
48. Sullivan	5.9	21	5,132	52
49. Tioga	3.9	23	5,284	100
50. Tompkins	4.0	23	5,329	104
51. Ulster	4.9	26	5,593	67
52. Warren	4.3	16	5,430	63
53. Washington	4.0	24	4,669	172
54. Wayne	3.8	21	5,731	82
55. Westchester	5.2	25	9,106	45
56. Wyoming	1.7	16	5,299	154
57. Yates	2.8	12	5,185	52

a/State average = 100

 APPENDIX III

DERIVATION OF A COST-SHARING FORMULA

JUSTIFICATION OF OUR FISCAL EFFORT MEASURE

We are using the fiscal effort measure defined on p. 19 for several reasons:

--The normative principle on which the measure is based has been used in the public finance literature for evaluating intergovernmental grant programs.

--The measure used here is conceptually sound.

--The measure is that used in the Federal revenue sharing program.

The principle that equal benefits should be associated with equal tax rates has been the basis of several studies on intergovernmental grants in the public finance literature of the 1960s and early 1970s. This principle has been advocated in educational finance as a means of achieving equity among school districts, and satisfying the constitutional objectives to local school finance raised by the famous Serrano decision in California. 1/ A similar case has been brought by the school district in New York against the State Government. 2/

The measure of effort used here is derived from this principle and represents an index of the effort the local government would have to make to achieve it.

The fiscal effort concept is sound

Equal revenues per tax rate can be expressed in mathematical form as:

(a) $R/t = k = \text{constant}$

where R = local per capita revenue
Y = per capita tax base
$t = R/Y$ = effective tax rate.

This principle in effect equalizes the tax base of all communities. (Note $k = y$ = constant for all jurisdictions.)

1/Serrano vs. Priest [135 Cal. Rptr. p. 435, 557 P. 2d 929 (Cal 1976)].

2/Levittown vs. Nyquist [94 misc. 2d 446, 408 N.Y.S. 2d p. 606 (1978)].

How is the tax effort to be measured? To equalize local per capita revenues per tax rate (R/t), some hypothetical level of revenues (R^*) must be raised. To raise this level of revenue from local sources would require what might be referred to as an adjusted tax rate given by $R^* = t^*Y$, where t^* is defined as fiscal effort to distinguish it from the effective tax rate t. Substituting $R^* = t^*Y$ in equation (a) and solving for t^* we obtain:

(b) $$t^* = \frac{kt}{Y} = \frac{k}{Y} * \frac{R}{Y}$$

where t^* = an index of the additional local revenues a jurisdiction would have to make to achieve a specified benefit-effort ratio k.

A simple example is presented to clarify in what sense fiscal effort (defined in figure 4 on p. 19) is conceptually sound. In table 16, column (1) represents each county's full market value of taxable property, or its tax base, on a per capita basis. Column (2) is the effective tax rate per $100 of market value with the resulting per capita revenues displayed in column (3). One possible measure of effort is the tax burden of local citizens, but this clearly is inadequate in that the measure does not take into account each community's ability to raise revenues. If per capita taxes were used to indicate effort (shown in column 3) we would conclude that the wealthy county was making the largest effort. This has led to using the effective tax rate for purposes of measuring the effort made by a government since it does take into account the revenue-raising ability of each government by dividing its per capita revenues by its per capita tax base, shown in column 2. Based on this measure of effort it would be concluded that all three governments were making the same effort. However, even based on this measure, the high tax base governments have an advantage because the same proportional sacrifice (2.5 percent of their tax base in this example) will finance more services in the high tax base community than in the low tax base one. In fact, the extra revenue raised by a one percentage point increase in the tax rate is directly proportional to the local tax base (see column 4). The measure of fiscal effort shown in figure 4 overcomes this weakness. Our measure of fiscal effort is shown in column 5. Using this measure of effort, revenues per tax rate are equalized as shown in column 6 and county A would be judged as making the greatest effort and county C making the least.

Table 16

Relationship Between Tax Base, Tax Revenues, and Fiscal Effort

	Tax base per capita	Effective tax rate	Revenues per capita	Revenues tax rate	Fiscal effort	Adjusted revenues	Adjusted revenues per tax rate
County A	$18,000	$2.50	$450	180	2.78	500	200
County B	20,000	2.50	500	200	2.50	500	200
County C	22,000	2.50	550	220	2.27	500	200
	(1)	(2)	(3) = (1) x (2)	(4) = (3) : (2)	(5)	(6) = (5) x (1)	(7) = (6) : (2)

Fiscal effort used in the Federal revenue sharing formula

In our report, "The Impact of Tiering and Constraints on the Targeting of Revenue Sharing Aid," PAD-80-9 (June 11, 1980), it is shown that this is the same measure of effort used in the Federal revenue sharing formula with two differences. First, the revenue sharing program uses only taxes and license fees while we have used a more comprehensive measure of own source revenues. We have made this change because these nontax revenues represent burdens borne by local residents in supplying local public services and because the revenue sharing formula has been criticized for this omission. Second, the revenue sharing program uses income while we have used the full market value of taxable property to represent the tax base. The revenue sharing program has been criticized on these grounds as well because income does not fully reflect the commercial, industrial, and agricultural tax base included in the property tax which is the major revenue source of local government.

A COST-SHARING FORMULA BASED ON FISCAL EFFORT

The fiscal effort concept was defined in equation (b) above. If public assistance mandates, resulting from uniform eligibility and benefit payment levels, are to result in the same fiscal effort for all local governments, then fiscal effort (t^* in equation b) must be equal for all governments. In the context of public assistance mandates, per capita own source revenues used to finance public assistance expenditures (R_1) is substituted for all locally raised revenues (R). Thus, equal fiscal effort from public assistance mandates would require that:

(c) $$t^* = \frac{kR_1}{Y^2} = \text{constant}$$

Per capita expenditures on public assistance (R_1) can be expressed as the product of the number of recipients (P_1) times the per capita benefit payment levels per recipient (B) times the share of public assistance expenditures which must be financed from local revenue sources (m). Making these substitutions in equation (c) results in:

(d) $$t^* = \frac{kmB(P_1/P)}{Y_2} = \text{constant}$$

where P = total population.

Solving for the local share m we obtain the formula:

$$\text{(e)} \qquad m = \left(\frac{t^*}{k}\right)\left(\frac{1}{B}\right)\left(\frac{Y^2}{(P_1/P)}\right)$$

The first term in parentheses is a constant arbitrarily chosen by policy makers. This constant determines the overall State-county (in New York) or Federal-State (in the case of Federal welfare reform) shares of total public assistance expenditures. In the case of New York State, the benefit payments per recipient (B) is the same in all counties and therefore can be treated as a constant along with the first term.

In the case of Federal welfare reform, if the Federal Government sets a minimum payment level which States can exceed if they wish, then two options are available. First, the Federal minimum can be used, in which case the second term is a constant; or the State's actual per capita benefit payment level can be used, resulting in a reduction in the State's share of total costs if the State opts for benefit payment levels which exceed the Federal minimum.

The third term in equation (e) indicates that the local cost share is directly proportional to the square of the per capita tax base and inversely proportional to the fraction of the population receiving public assistance benefits.

Comparison of Federal and State matching rates

As stated in the text, the cost share between State and county governments in New York State is 50-50. This implies that the local cost share is:

$$\text{(f)} \qquad m = .50$$

The current Medicaid formula used to determine Federal-State cost share is:

$$\text{(g)} \qquad m = .45\ Y^2$$

Comparing equation (f) with equation (e) indicates that New York State's cost sharing policy fails to take into account both the county tax base and the concentration of public assistance recipients, which in part is the cause of higher levels of fiscal effort experienced by low income counties with large concentrations of public assistance recipients, as reported in chapter 5.

Equation (g) indicates that, for the Medicaid formula, the constant term in equation (e) is set at .45 and fails to account for differences in the distribution of public assistance recipients. Consequently, federally imposed eligibility criteria and benefit payment levels would mandate more fiscal effort in those States with high concentrations of recipients.

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

September 16, 1980

Mr. Jerry C. Fastrup
Office of the Deputy Director
Program Analysis Division
United States General
Accounting Office
Washington, D. C. 20548

Dear Mr. Fastrup:

Enclosed is the internal memorandum that you requested, reviewing the GAO draft report, "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy." I apologize for the delay in the forwarding of this memorandum. Thank you for the opportunity to review your report. If I can provide any clarification of the memorandum, please feel free to contact me.

Sincerely,

Charles Richardson

Charles Richardson
ACIR Fellow
Taxation and Finance

Enclosure

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

September 3, 1980

M E M O R A N D U M

TO: John Shannon

FROM: Charlie Richardson CR

SUBJECT: Review of GAO Report on Public Assistance Cost Sharing

The authors of the GAO draft report, "New York State Public Assistance Cost Sharing Policies: Implications for Federal Policy," argue that the shortcomings of the federal welfare formula are similar to the problems caused by New York State's 50-50 split of nonfederal public assistance costs with its counties. In their report, the authors successfully raise two important issues concerning cost sharing:

1. That the uneven distribution of public assistance cases places higher costs on states and counties with above average case load concentrations.

2. That the use of personal income in the federal formula is inadequate to measuring the ability of a state to bear welfare costs.

The usefulness of the New York example is that since benefit levels are set by the state, variations in the tax effort necessary to finance the county share of public assistance costs are due solely to variations by county in public assistance case loads and tax wealth. The report shows that considerable disparities exist from county to county in the tax effort needed to finance public assistance.

- 2 -

The report authors go on to argue that a main difference between the New York example and the federal formula is that the letter includes personal income as a proxy for state ability to pay. However, since state and local taxes fall on many resources other than the personal income of their inhabitants, the report authors argue that a more direct measure of all revenue resources would be preferable. The authors conclude that this substitution, as well as the inclusion of a case load concentration measure, would make the federal formula substantially more equitable.

The primary difficulty with the report, which hopefully will be remedied in the future, is that its points are made by analogy, without direct reference to conditions existing in the fifty states. While variations from state to state in public assistance case load concentration and tax wealth do exist, it may be that the net effect of these differences are not as severe as in the New York example. In addition to measuring the degree of disparities a complete analysis of the federal formula would have to include estimates of the extent to which differing benefit levels and the variable federal funding rate, as well as differing state case load concentration and tax wealth, contribute to disparities.

It should be noted that the ACIR's "tax wealth" or "representative tax method," as updated in Kent Haldstead's Tax Wealth in the Fifty States, could be used in determining state-local revenue effort for public assistance.

Some minor problems with the report are that there is insufficient description of the federal public assistance formulas and the appendices tend to rely too much on algebra where English would be more helpful. Further, the use of jargon such as "discretionary control," while it may be unavoidable, does get a bit confusing at times.

New York State Association of Counties

150 STATE STREET ALBANY, NEW YORK 12207 (518) 465-1473

September 22, 1980

Mr. Dennis J. Dugan
Deputy Director
Program Analysis Division
United States General Accounting Office
441 G. Street, N. W.
Room 5033
Washington, D. C. 20548

Dear Mr. Dugan:

Thank you for the opportunity to review and comment upon your draft report entitled "New York Public Assistance Cost-Sharing Policies: Implications for Federal Policy." As the representative agency of New York State's 62 county governments, we are vitally concerned over the issue of State/County cost-sharing policies particularly as they apply to the public assistance and medical assistance programs and appreciate the interest of your agency.

We are in general agreement with your findings and have long echoed them on both the State and federal levels. As you clearly note, counties have no control over the cost of public assistance (and Medical assistance) mandates yet are treated as equal partners with the State in terms of financing the programs. This situation places county officials in the untenable position of being held locally accountable for large expenditures over which they are powerless to affect.

From the State's perspective, officials are quick to point out the failure of federal cost-sharing policies to consider factors other than per capita tax base or similar measures of fiscal effort in the determination of levels of reimbursement. However these same State officials appear to feel it is unnecessary to provide even this limited consideration to their own local governments when determining levels of local reimbursement for public assistance activities.

Local officials believe that funding policies for all programs should reflect two major considerations. First, the level of government controlling policy should bear responsibility for funding. By so doing, the public is assured that accountability is lodged with those responsible for the program or activity. Second, the source of funding should be reflective of the nature of the program it is supporting. Taking public assistance programs as an example, if eligibility and program benefits are to be uniform statewide, then the source of funding

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Mr. Dennis J. Dugan
September 22, 1980

should be the most equitable within the jurisdiction, in this case the State income tax.

We would hope future funding policies on both the State and federal levels would reflect these considerations and recommend they be included in your report. We again thank you for the opportunity to review your study and look forward to its formal release.

Yours very truly,

Edwin L. Crawford

Edwin L. Crawford
Executive Director

ELC:pms

New York State Association of Counties

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

10 SEP 1980

Mr. Gregory J. Ahart
Director, Human Resources Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "New York State Public Assistance Cost-Sharing Policies: Implications for Federal Policy." The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Richard B. Lowe III

Richard B. Lowe III
Inspector General (Designate)

Enclosure

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT ENTITLED, "NEW YORK STATE PUBLIC ASSISTANCE COST-SHARING POLICIES: IMPLICATIONS FOR FEDERAL POLICY"

GAO proposed that Congress modify the current matching formula for dividing the costs of public assistance programs between Federal and State governments by incorporating the concentration of program recipients into the formula. Although we are committed to providing fiscal relief to the States by raising the Federal matching rate, we are not prepared at this time to take a position on any structural reform in matching rates. We have a study underway on the impacts of various matching rate formulas. The study is scheduled to be completed before January, when the Congress is expected to study changes in matching rates.

GAO states (pg IV) that Federal welfare reform which would establish national eligibility criteria and minimum payment benefits would impose greater fiscal effort in those States with the largest concentration of program recipients under any new national eligibility standards. This statement is not necessarily correct. States like New York that have large concentrations of recipients would not be affected by the minimum benefit. Other provisions in the proposed Bill (H.R. 4904) would reduce total spending in those States, and the State share of the total would be reduced by 10 percent. The States that would be forced to spend more because of the Bill would be protected by its hold harmless provision.

Also, the concept of equal fiscal effort implies that a locality's expenditures are determined solely by its revenue sources and are independent of total expenditures. Such a system may be desirable for sharing expenses between State and local governments when the local government administers a program but has no role in determining the rules of the program, but the Federal government has traditionally given the States complete freedom to determine the financing of the non-Federal costs to the Aid to Families with Dependent Children (AFDC) program. Since local governments have no power to raise or lower costs, the State government might be expected to bear the full cost when it mandates a change in expenditures.

The GAO study minimizes the fact that the issue of cost sharing is more complicated at the Federal level. The Federal government and the State government both set rules that affect the cost of the program. Under current law, the State sets its benefit level which in turn determines both the number of eligible families and total expenditures. H.R. 4904 would have the effect of placing a floor on eligibles and expenditures, but States would continue to be free to have a more generous program. In designing a Federal-State matching rate scheme, it is necessary to balance the desire for equal fiscal effort with the need to impose fiscal discipline on the States by making them share in expenses that they are allowed to determine.

The statement on page III-7 that benefits are the same in all counties is incorrect since New York State does vary payment levels by geographical location.

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