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Changing Patterns of Federal Aid to State and Local Governments, 1969-75. PAD-78-15; B-146285. December 20, 1977. 43 pp. + 3 appendices (21 pp.).

Report to the Congress; by Elmer B. Staats, Comptroller General.

Issue Area: Intergovernmental Relations and Revenue Sharing (400).
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Authority: State and Local Fiscal Assistance Act. Elementary and Secondary Education Act of 1965. Comprehensive Employment and Training Act of 1973. Emergency Jobs and Unemployment Assistance Act of 1974.

An analysis of the distribution by State and region of Federal aid to State and local governments showed that Federal aid per capita is distributed more uniformly than 7 years ago and that the Northeast has begun to receive a larger proportion of Federal aid than it pays in Federal personal income taxes. Federal aid to State and local governments totaled about $60 billion in fiscal year 1976 or about 15% of the Federal budget. Findings/Conclusions: In 1975 the five largest categories of Federal aid used in the study were: public assistance, concentrated in the Northeast; revenue sharing, distributed rather evenly by population; the highway trust fund, which went in large portions to the Mountain States; comprehensive manpower programs, the greatest share of which went to Westerners; and aid to elementary and secondary education, the biggest portion of which went to residents of East South Central States. Major trends during 1969 through 1975 included: (1) Federal aid per capita increased by more than twice the percentage of gains in per capita income; (2) the aid became more evenly distributed by population, partly because of the addition of revenue sharing in fiscal year 1973; (3) the East North Central region continued to contribute a greater share of Federal personal income taxes than it received of aid; (4) the Northeast, while its population grew most gradually and its unemployment rate rose to the highest in the Nation, began to receive a greater percentage of Federal aid than it paid in Federal taxes; and (5) the South's and the West's shares of Federal aid declined but were still somewhat larger than their shares of Federal income taxes. (Author/SC)

REPORT TO THE CONGRESS

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Changing Patterns Of Federal Aid To State And Local Governments 1969–75

This study analyzes the distribution by State and region of Federal aid to State and local governments. This aid totaled $60 billion in fiscal year 1976, or about 15 percent of the budget. Two primary trends are identified.

--Federal aid per capita is distributed more uniformly than 7 years ago.

--The Northeast has begun to receive a larger proportion of Federal aid than it pays in Federal personal income taxes, suggesting a response to declining economic conditions.

The study avoids value judgements and makes no recommendations, beyond identifying areas meriting further research.

PAD-78-15

DECEMBER 20, 1977

E R R A T A

To the recipients of the Comptroller General's report the Congress entitled "Changing Patterns of Federal Aid to State and Local Governments 1969-75" (PAD-78-15, Dec. 20, 1977):

On page 7, line 1, "appendix I" should read "appendix II".

On page 7, paragraph 2, line 8, "the South 8," should read "the South 10,".

On page 8, paragraph 1, line 6, "app. II." should read "app. I."

On page 9, paragraph 5, line 4, "162 percent" should read "163 percent".

On page 17, line 5, "22 percent" should read "23 percent".

On pages 36 and 37, figures 9 and 10, 1975 per capita public assistance for Alabama and for Mississippi should read "52", not "51".

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

B-146285

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

Because of current concern about the distribution of Federal spending among States and areas of the Nation, we have tracked the flow of Federal aid dollars during 1969-75. Using data in the Treasury Department's annual report, Federal Aid to the States, we computed per capita figures--for total aid to State and local governments and for each of the five largest program categories--for each State and each of the four sections and nine regions established by the Census Bureau. We compared these figures with personal income tax contributions per capita and considered them in the light of various socioeconomic factors.

No recommendations are made in this report, but we believe the information presented will be useful when the Congress considers revisions in Federal aid programs. The data considered has been retained in our computer to meet the future needs of the Congress.

We made our review pursuant to the Impoundment Control Act of 1974 (31 U.S.C. 1400). We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of the Treasury.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

CHANCING PATTERNS OF FEDERAL AID TO STATE AND LOCAL GOVERNMENTS, 1969-75

D I G E S T

This report examines the flow, over the 7-year period 1969-75, of one component of Federal expenditures--aid to State and local governments as defined by the Department of the Treasury. This aid totaled about $60 billion in fiscal year 1976, or about 15 percent of the Federal budget. This is the portion of Federal spending whose destination is most readily identifiable and most subject to congressional control. The distribution of all Federal expenditures has been analyzed elsewhere.

The report is descriptive and makes no recommendations. It shows the value of looking at the flow of Federal aid as a whole. Comparisons between States or regions are naturally a part of this type of analysis. However, the question of whether a particular State or region is receiving its "fair share" is beyond the scope of the report.

During 1969-75, per capita Federal aid increased more rapidly in the Northeast than to other sections of the country. Meanwhile, population and income growth slowed and unemployment soared in the Northeast. (See pp. 7 and 14.)

In 1975 the five largest categories of Federal aid used in GAO's study were

--public assistance (29 percent of the total), concentrated in the Northeast (see p. 9),

--revenue sharing (13 percent), distributed rather evenly by population (see pp. 9 and 10),

--the highway trust fund (10 percent), which went in large portions to the Mountain States (see p. 12),

--comprehensive manpower programs (5 percent), the greatest share of which went to Westerners (see p. 12), and

--aid to elementary and secondary education (5 percent), the biggest portion of which went to residents of East South Central States (see p. 13).

Federal aid to State and local governments approached $60 billion in fiscal year 1976--about one-fourth of total State and local spending--thus becoming a more important part of the national economy. The funds were supplied under several hundred programs, each with its own criteria for distribution.

Despite a 6-percent growth in U.S. population, and compared with a 60-percent rise in per capita personal income during 1969-75, Federal aid per capita swelled 132 percent, from $97 to $228. Among regions, Federal funds became more evenly distributed. In 1969, regional per capita aid figures ranged from $74 to $136. In 1975, the range was from $192 to $265, which represents half the relative disparity of 1969.

Comparing Federal aid receipts with Federal income tax contributions allows identification of those States that are net contributors to Federal aid and those that are net recipients. However, such an analysis does not imply that a given State should be receiving the same share of Federal aid as it contributes in Federal taxes. Some States are more in need of aid than others, and naturally these may not be the States with the highest income levels, and, therefore, the highest taxes. (Indeed, some States choose not to take advantage of certain Federal aid programs.) The purpose of this comparison is to show how the Federal aid/tax system distributes income.

Major trends during 1969-75 included the following:

--Federal aid per capita increased by more than twice the percentage of gains in per capita income.

--This aid became more evenly distributed by population, partly because of the addition of revenue sharing in fiscal year 1973.

--The East North Central region (Illinois, Indiana, Michigan, Ohio, and Wisconsin) continued to contribute a greater share of Federal personal income taxes than it received of aid.

--The Northeast, while its population grew most gradually and its unemployment rate rose to the highest in the Nation, began to receive a greater percentage of Federal aid than it paid in Federal taxes.

--The South's and the West's shares of Federal aid declined but were still somewhat larger than their shares of Federal income taxes.

Although per capita income is a factor in most of the formulas which allocate Federal aid to State and localities, high-income States frequently get more aid than low-income States. One reason is that high-income States have more revenue with which to match Federal grants, as is required by most aid programs. Other factors which influence the flow of aid are levels of State and local taxation and the discretion of Federal, State, and local officials. (See ch. 5.)

Comments were received from the Advisory Commission on Intergovernmental Relations; the Office of Management and Budget; and the Departments of Transportation, Labor, the Treasury, and Health, Education, and Welfare. Informal comments were received from nongovernmental agencies. Some comments suggested additional research and analysis beyond the scope of this report; some agencies disagreed, in part, with the report's methodology and conclusions. Other approaches are possible and may lead to valuable studies, but GAO thinks that its data and analyses support the report's findings and that this study will be valuable in the congressional decisionmaking process. Agency comments are discussed in chapter 5 and are reproduced in appendix III.

Contents

ABBREVIATIONS

ACIR	Advisory Commission on Intergovernmental Relation
AFDC	aid to families with dependent children
HEW	Department of Health, Education, and Welfare
OMB	Office of Management and Budget

CHAPTER 1

CONCERN OVER THE DISTRIBUTION OF FEDERAL FUNDS

Federal aid to State and local governments approached $60 billion in fiscal year 1976--about one-fourth of total State and local spending and 15 percent of the Federal budget. These funds were supplied under several hundred programs, each with its own criteria for distribution.

RECENT STUDIES

Perceptions persist that Federal taxation and spending favor the fastest growing regions of the Nation at the expense of those on the decline. Articles published in national magazines 1/ compared States' tax contributions with their share of Federal spending and concluded that the Northeast and Great Lakes States, where growth in population and income levels is slow, are subsidizing the rapidly growing South. The higher income regions are also experiencing high unemployment rates which add to the complexity of addressing various needs.

SCOPE OF OUR STUDY

In contrast to these surveys, our study is more sharply focused. While they considered Federal employment, income security payments, procurement, and grants to the States, we concentrated on direct Federal aid to States and localities (about 15 percent of total Federal outlays in fiscal year 1975). (See fig. 1.) In comparing Federal spending with State contributions to the Federal budget, the surveys included corporate taxes and retirement payments, whereas we considered only personal income taxes.

1/"Special Report: The Second War Between the States," Business Week, May 17, 1976, pp. 92-114.

Joel Havemann, Neal R. Pierce, and Rochelle L. Stanfield, "Federal Spending: The North's Loss Is the Sunbelt's Gain," National Journal, vol. 8, no. 26, June 26, 1976, pp. 878-91.

Havemann and Stanfield, "A Year Later, the Frostbelt Strikes Back," National Journal, vol. 9, no. 27, July 2, 1977, pp. 1028-37.

FIGURE 1

FEDERAL EXPENDITURES
FISCAL YEARS 1969 AND 1975

	1969		1975	
	AMOUNT (billions)	PERCENT	AMOUNT (billions)	PERCENT
PURCHASES OF GOODS AND SERVICES (defense and non-defense)	$ 98	53	$119	36
TRANSFER PAYMENTS (to persons and foreign countries)	51	28	134	41
GRANTS-IN-AID TO STATE & LOCAL GOVERNMENTS	19	10	48	15
NET INTEREST AND OTHER	17	9	28	8
TOTAL	$ 185	100	$ 330	100

SOURCE: The Budget of the United States Government, Fiscal Year 1978, table 20.

We narrowed our scope for several reasons. Of the four basic components of Federal spending mentioned above, aid to the States can be most clearly placed with particular States and is most often viewed as responsive both to needs created by economic changes and to congressional control. We wanted to give the Congress information to help it assess the policies that control the distribution of these funds.

Furthermore, much of the data included in the magazine reports is misleading. Procurement dollars were assigned to the prime contractors' States, but since subcontracts are frequently awarded in other States, this money is difficult to trace. Likewise hard to pin down are corporate taxes, which are paid by corporation headquarters--frequently in the Northeast--but which may stem from income earned by subsidiaries in other regions and are ultimately paid by consumers and shareholders across the country.

Our study also differs in that we considered trends in Federal aid and taxation over a period of time--1969-75. We were thus able to note correlations between shifts in the direction of Federal assistance and State and regional changes in socioeconomic variables, such as personal income, Federal personal income taxes, State and local taxes, population, unemployment, and certain measures of poverty. This data appears in appendix I.

Depth of analysis

In commenting on this report, various agencies suggested more detailed analyses. For example, the Departments of Labor and of Health, Education, and Welfare indicated that since public assistance (see p. 9) is aimed at the poor, receipts in this category should be measured in terms of numbers of poor rather than total population. Such analyses are indeed possible with the information in appendix II and are potential subjects of future reports. However, in this study we wished to consider only the total picture of how Feder l aid, along with its chief components, is distributed to th populations of States and regions and how it compares to their tax contributions.

Value judgment avoided

This review is descriptive. It makes no recommendations, but it shows the value of looking at the flow of Federal aid as a whole. Comparisons between States or regions and between aid receipts and tax payments are naturally a part of this type of analysis. But, as the Department of the Treasury commented, the goal of Federal aid policy is not to return funds to the States equally or in proportion to tax contributions; it is to insure that funds affect individuals equitably and reach those in need. The question of whether a particular State or region is receiving its "fair share" is beyond the scope of this report.

DIFFERENT RESULTS

Because of our different focus, our results varied somewhat from those of other studies. For example, their inclusion of defense spending tended to exaggerate Federal funds received by the West, where prime contractors are concentrated, and the South, which, along with the West, has a disproprotionate share of military bases. On the other hand, the inclusion of corporate taxes made the Northeast's contribution appear larger. Furthermore, viewing changes in data over time allowed us to observe trends which suggest that the direction of Federal aid is shifting in response to changing regional economic conditions.

Major trends during 1969-75 included the following:

--Federal aid per capita increased by more than twice the percentage of gains in per capita personal income, thus becoming a more important part of the national economy.

--This aid became more evenly distributed by population, partly because of the addition of revenue sharing in fiscal year 1973.

--The East North Central region (Illinois, Indiana, Michigan, Ohio, and Wisconsin) continued to contribute a greater share of Federal personal income taxes than it received of aid.

--The Northeast, as its population grew most gradually and its unemployment rate rose to the highest in the Nation, began to receive a greater percentage of Federal aid than it paid in Federal taxes.

--The South's and the West's shares of Federal aid declined but were still somewhat larger than their shares of Federal income taxes.

CHAPTER 2

BACKGROUND

PURPOSE OF OUR STUDY

There is no single policy for distributing Federal aid. States and localities receive funds under several hundred programs, each with its own set of rules for allocating them.

The information in this study will show the Congress the overall impact that this conglomerate of funding, as well as some of its larger fragments, has on each State and area of the country. The Congress should then be better able to evaluate the numerous policies which distribute aid.

REGIONAL ANALYSIS

Federal funds are directed both to States and to a varied array of local governments. We have grouped all local aid within the data for each State. We then combined figures for the 50 States and the District of Columbia into figures for the four sections and nine regions established by the Bureau of the Census and used widely in the Federal Government. (See fig. 2.)

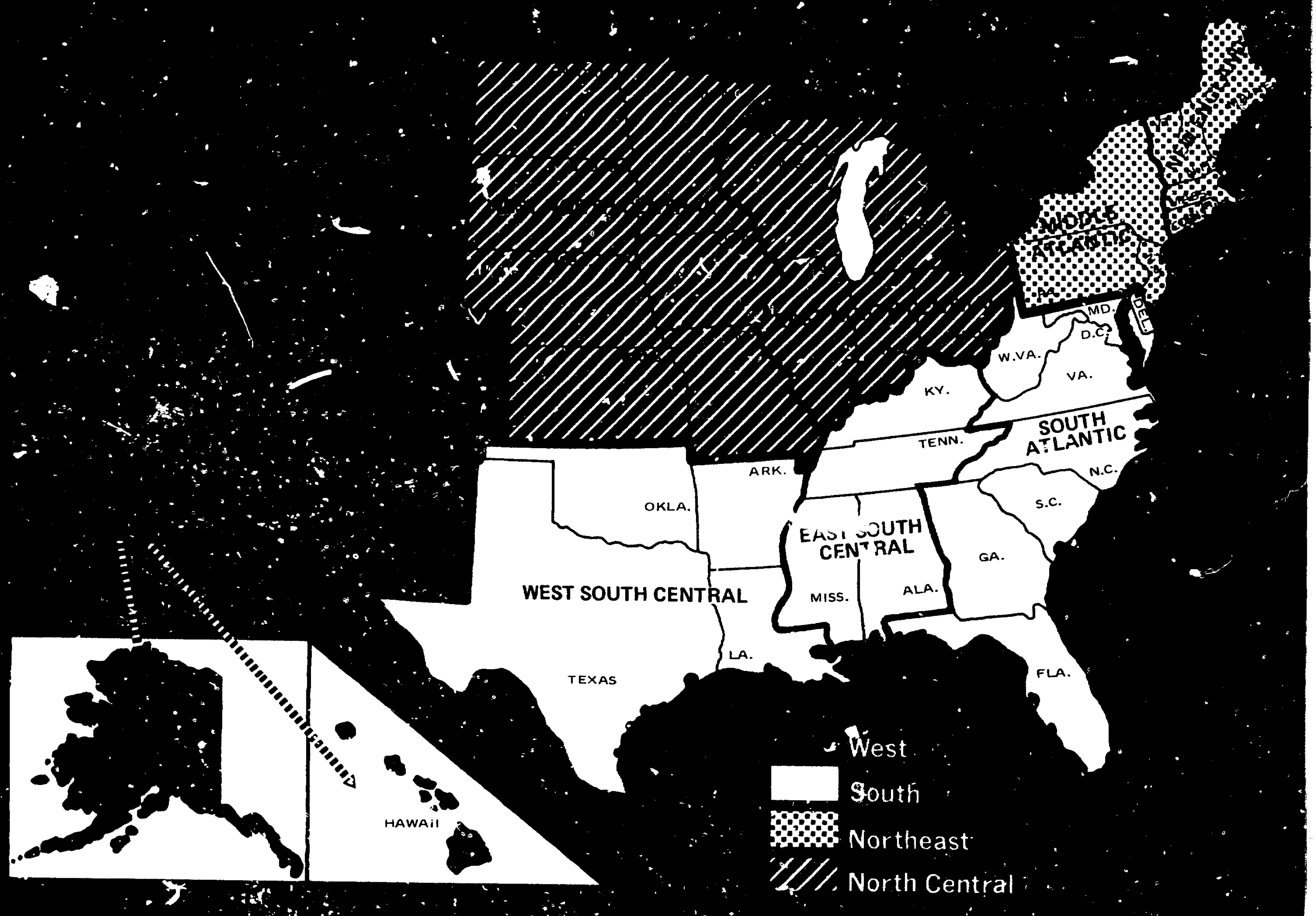
Such regional groupings are, of course, arbitrary. One might well argue, for example, that Delaware has more in common with New Jersey than with its South Atlantic "neighbor" Florida.

For that matter, the use of State boundaries could be considered even more arbitrary. Certainly, the States of Illinois and Ohio, when considered as wholes, share more characteristics than do the city of Cleveland and the town of Ravenna, just an hour's drive apart. The complex question of how Federal funds are dispersed among localities, from metropolises to rural counties, is a matter for future research.

Another problem with regional grouping is that data for large States, such as California, tends to dominate data for the regions as a whole (just as data for per capita income levels in Los Angeles and San Francisco will obscure the income levels of less populous areas of the State.)

FIGURE 2

CENSUS REGIONS AND SECTIONS OF THE UNITED STATES



At any rate, the data in appendix I demonstrates that States within a region do bear certain similarities in population growth, income levels, poverty, etc. For example, 1975 per capita income ranged from $5,653 (Indiana) to $6,789 (Illinois) in the East North Central States, and from $4,051 (Mississippi) to $4,895 (Tennessee) in the East South Central States. We will point out exceptional States in discussing each region.

1969-75 NATIONAL TRENDS

The period of our study was a time of declining birth rates, rising incomes, and increasing unemployment in the United States. It was also a time of major migration, when many people and businesses quit the cities for the suburbs and deserted the old industrial strongholds of the North for the booming outposts of the "Sunbelt." While population increased 6 percent nationally, the Northeast gained only 2 percent, the North Central section 3, the South 8, and the West 10. Population was stable in New York and Rhode Island; Florida and Arizona grew by more than one-fourth. The District of Columbia, typical of many cities, lost 6 percent of its populus, while neighboring Maryland and Virginia increased 6 and 8 percent.

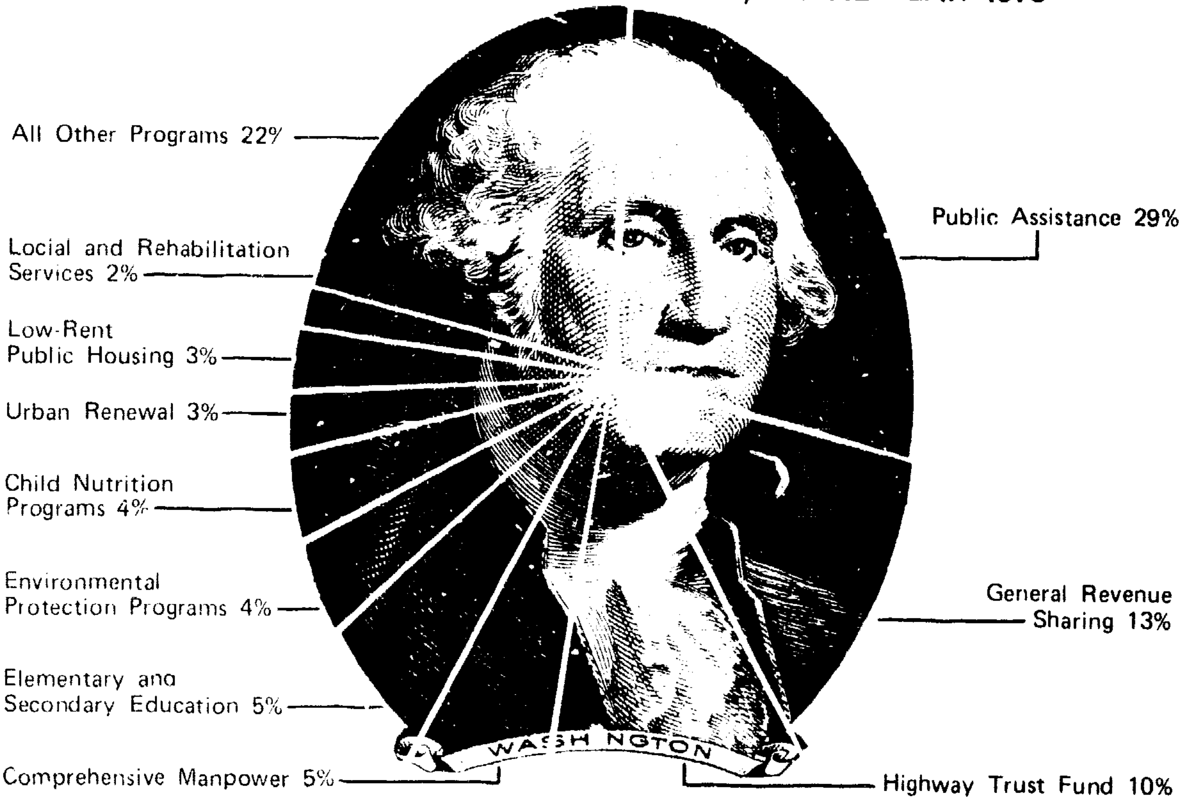
Business conditions, especially in the Northeast, were dampened. The unemployment rate rose nationally from 5.0 to 8.5 percent. In the Northeast, the second most employed section in 1970, the jobless rate more than doubled to 9.6 percent, the Nation's highest. But in Wyoming and Alaska, the unemployment rate actually dropped while population grew 14 and 19 percent, respectively. In Rhode Island, on the other hand, with no population increase, the rate rose from just above the national jobless rate to 13.9 percent, the worst in the country.

THE VARIETY OF FEDERAL AID

Federal assistance is provided to support the services of State and local governments under a multitude of programs. This support usually takes the form of grants, but some is provided as loans or as materials (as in the school lunch program).

Our data on Federal aid is drawn from Federal Aid to States, a series of reports the Department of the Treasury publishes annually from information furnished by various Federal departments and agencies. The 1975 version records data in 95 program categories. The 10 largest comprised 77 percent. (See fig. 3.)

FIGURE 3
TEN LARGEST PROGRAM CATEGORIES, FISCAL YEAR 1975



SOURCE: Department of the Treasury, Federal Aid to States, 1975.

Defining Federal aid

Federal aid to State and local governments is a difficult concept to define. We have accepted the definition (and the data) presented in the Treasury Department's report: "resources provided by the Federal Government in support of State or local programs of governmental service to the public." (See app. II.)

Such aid consists mainly of funds provided directly to State and local governments; however, it includes payments to nonprofit and academic institutions under a State plan or to augment public programs. Medicaid is included, because funds are given to the States and then passed on under a State plan to the providers of medical care. Medicare and other social security benefits are excluded, however, because providers or beneficiaries receive payments directly from the Federal Government.

The top five categories

Almost $30 billion, or about 60 percent of Federal aid to States and localities, was provided in five categories of programs in 1975. Separate data for these categories is shown in appendix II and trends for each region are discussed in chapter 3.

Public assistance

The largest category, termed public assistance, is composed chiefly of reimbursements to State governments for welfare spending. 1/ Approximately 60 percent of State and local public assistance was supported with Federal funds in 1975. Under broad Federal guidelines, States draw up plans for spending which are subject to approval by the Department of Health, Education, and Welfare (HEW).

Various matching formulas determine the amount of Federal aid for each State. Under medicaid, one of the two biggest programs, a State is reimbursed for 50 to 83 percent of expenditures, depending on its per capita income. This percentage can also be applied to the other major program, "maintenance assistance"--chiefly aid to families with dependent children (AFDC)--or the State may, if it would profit, use another formula based solely on its level of payments.

Thus, two factors clearly influence the distribution of public assistance funds: State policies toward welfare and State income levels.

Although public assistance is the largest category, it is not, as HEW suggested in comments on this report, the main determiner of the flow of Federal aid. In the Northeast, where public assistance grew 162 percent during 1969-75, even larger increases in other components, which comprise about 70 percent of Federal aid, combined to raise the Northeast's per capita overall aid figure by 169 percent.

Revenue sharing

In 1972 the Congress passed the State and Local Fiscal Assistance Act to

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1/We have combined the five public assistance programs into one category for comparative purposes.

--improve the financial position of State and local governments suffering from rising costs and taxpayers' reluctance to approve bond issues,

--allow these governments to decide how to use Federal aid, and

--reduce their dependence on regressive taxes, i.e., those like sales and property taxes which take a greater share of a poor person's income than of a wealthy person's.

The revenue sharing program authorized by this act differs from other Federal aid in that State and local governments were given wide discretion in applying the funds provided. The act restricted the use of funds by local governments to certain "priority expenditures."

However, many governments used these revenues to replace their own, so they could avoid tax increases or release funds for purposes other than "priority expenditures." Thus, State and local spending for priority areas did not always increase as a result of revenue sharing. The 94th Congress deleted the priority expenditure requirement in renewing the act.

Each State is allocated shared revenue--two-thirds is earmarked for local governments--according to the more favorable of two formulas. These formulas are the product of a compromise between the House and Senate. This compromise is interesting because it illustrates some of the factors which determine the distribution of Federal aid. The House of Representatives, whose Members are distributed among and within the States according to population, proposed a formula based on population, urbanized population (the number of people in the metropolitan areas of cities of 50,000 or more), per capita income, total State income tax revenues, and "general tax effort"--total State and local taxes divided by total personal income. The Senate, where small States are represented equally with large ones, supported a formula which considers only population, general tax effort, and per capita income. The House formula favors urbanized States and encourages State income taxes; the Senate formula favors less populous, rural, lower income States. With these dual formulas, Mississippi, New York, the District of Columbia, and South Dakota received the highest amounts of per capita revenue sharing in 1975.

PHOTO COURTESY U.S. DEPT. OF TRANSPORTATION

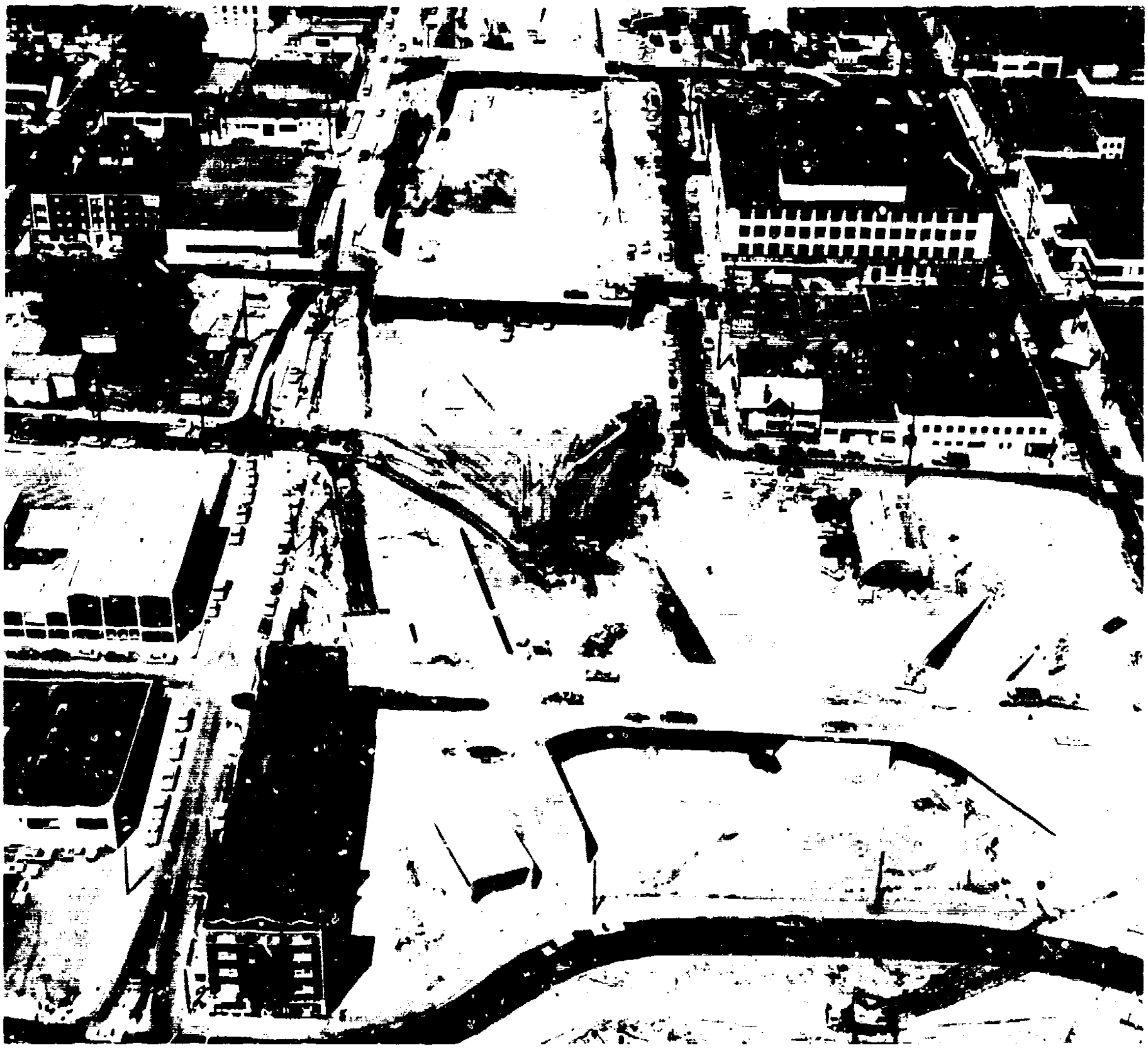


PHOTO COURTESY D.C. DEPT. OF HIGHWAYS & TRAFFIC

INTERSTATE HIGHWAY CONSTRUCTION IN PORTLAND, ORE., & WASHINGTON, D.C.

Highway trust fund

Federal funds are available to finance every aspect from planning to repair of everything from bicycle paths to interstate highways. Some of these funds are granted for specific projects at the discretion of the Federal Highway Administration; others are allocated to States by formulas. These formulas consider population, area, intercity mail route mileage, and the area and value of national forest lands. They usually require the States to contribute 30 percent of a project's cost. The formula for interstate highway construction is based on the cost to complete the National System and requires only a 10-percent State contribution. States with large public lands pay a smaller share.

Highway aid per capita varies widely from region to region, tending to be concentrated in sparsely populated areas, which naturally have more highway miles per capita. In 1975, Alaska, by far the least populated State, received close to three times as much per capita from the highway trust fund as its nearest competitor, Wyoming (the second sparsest State.)

Comprehensive manpower programs

States and localities, and institutions acting on their behalf, receive Federal funds to be used to strengthen their labor forces and to combat unemployment. Most of these funds are provided under the Comprehensive Employment and Training Act of 1973. Grants to develop training and employment opportunities and to assist areas of high unemployment are provided to "prime sponsors"--usually State or local governments serving populations of 100,000 or more. Funds are allocated under two formulas that consider levels of unemployment and the number of adults in low-income families; some are distributed at the Secretary of Labor's discretion.

Other manpower programs include grants to and contracts with individuals, charities, colleges, and businesses, to supply employment, training, and research. These funds are supplied at Labor's discretion, although some grants require a contribution from the recipient. Many are directed toward helping certain "chronically unemployed" groups, such as migrant workers, the aged, or minorities.

Because many manpower programs were consolidated by the Comprehensive Employment and Training Act of 1973 and the Emergency Jobs and Unemployment Assistance Act of 1974, we did not trace the flow of all these programs funds back to 1969. Therefore, manpower aid is included in our data, but we did not compare 1975 and 1969 levels.

Elementary and secondary education

Federal aid to elementary and secondary education stems mainly from one piece of legislation, the Elementary and Secondary Education Act of 1965, as amended--particularly title I. This title provides a series of programs, allocating over $1.8 billion in fiscal year 1975, to help States and localities meet the needs of "educationally deprived children"--the handicapped, the poor, the neglected, the delinquent, and the orphaned.

The chief program among these is aimed at children in low-income areas and provides funds to school districts on a county-by-county basis. In fiscal year 1975, over $1.5 billion was allocated according to a formula which considered (1) the number of children in families below the poverty level, 1/ (2) two-thirds of the number receiving AFDC in excess of the poverty level, or (3) neglected or delinquent children residing in institutions not State-operated, and (4) foster children supported with public funds.

Other smaller programs supply funds to various levels of government. Some are project grants which allocate specific amounts for specific programs at the discretion of the Office of Education. Some have formulas which, like the one above, consider the number of children to be served and frequently the level of State spending in the area. Some also require the recipient government to contribute to the program.

Also under title I, a program of "special incentive grants" allocates $1 per eligible child for each hundredth of a percent that a State exceeds the national ratio of State and local public education expenditures to total personal income. To encourage spending for education, $14 million was granted under this program in 1975. This money had to be used to benefit educationally deprived children.

In 1975, Mississippi, which led the States in percentages of families below the poverty line and in recipients of AFDC, also received the most elementary and secondary education aid per capita. The District of Columbia, however, with nearly twice Mississippi's percentage of AFDC recipients, far outdistanced her in per capita education funds from the Federal Government.

1/1970 Census Orahansky data.

CHAPTER 3

TRENDS IN PER CAPITA AID, 1969-75

MORE EVEN DISTRIBUTION

Despite a 6-percent growth in U.S. population, and compared with a 60-percent rise in per capita personal income during 1969-75, Federal aid per capita swelled 132 percent, from $97 to $228. Among regions, Federal funds became more evenly distributed. In 1969 regional per capita aid figures ranged from $74 to $136. In 1975, the range was from $192 to $263, which represents half the relative disparity of 1969.

REGIONAL SHIFTS

Meanwhile, the relative position of some regions also changed. Most striking is the increased flow of aid to the Middle Atlantic States. From a standing slightly below the national average, this region rose to become the leading per capita recipient of Federal aid. New England also moved up from fifth to third. These two Northeast regions had the smallest percentage increases in per capita income during the same period.

While the Northeast was gaining, the South Central States were slipping. From 1969 to 1975, the East South Central region dropped from second to fifth. The West South Central region, fourth in 1969, had fallen to eighth by 1975. At the same time, per capita personal income in these regions increased fastest. These regional shifts suggest that the distribution of Federal aid responds to changing economic conditions.

TRENDS ILLUSTRATED

Figures 4 and 5 illustrate regional trends in per capita aid. Figure 4 graphs per capita aid for each region relative to the national norm during 1969-75. The graph shows, for example, that in 1975 New Englanders got $1.08 and residents of the Pacific States got $1.07 for each $1.00 that was distributed per capita nationally. The convergence of regional levels is readily apparent in this graph. Figure 5 charts per capita aid to the regions in 1969 and 1975. A comparison shows clearly the gains made by the Northeast.

FIGURE 4
PERCAPITA AID RELATIVE TO THE NATIONAL AVERAGE
1969–1975

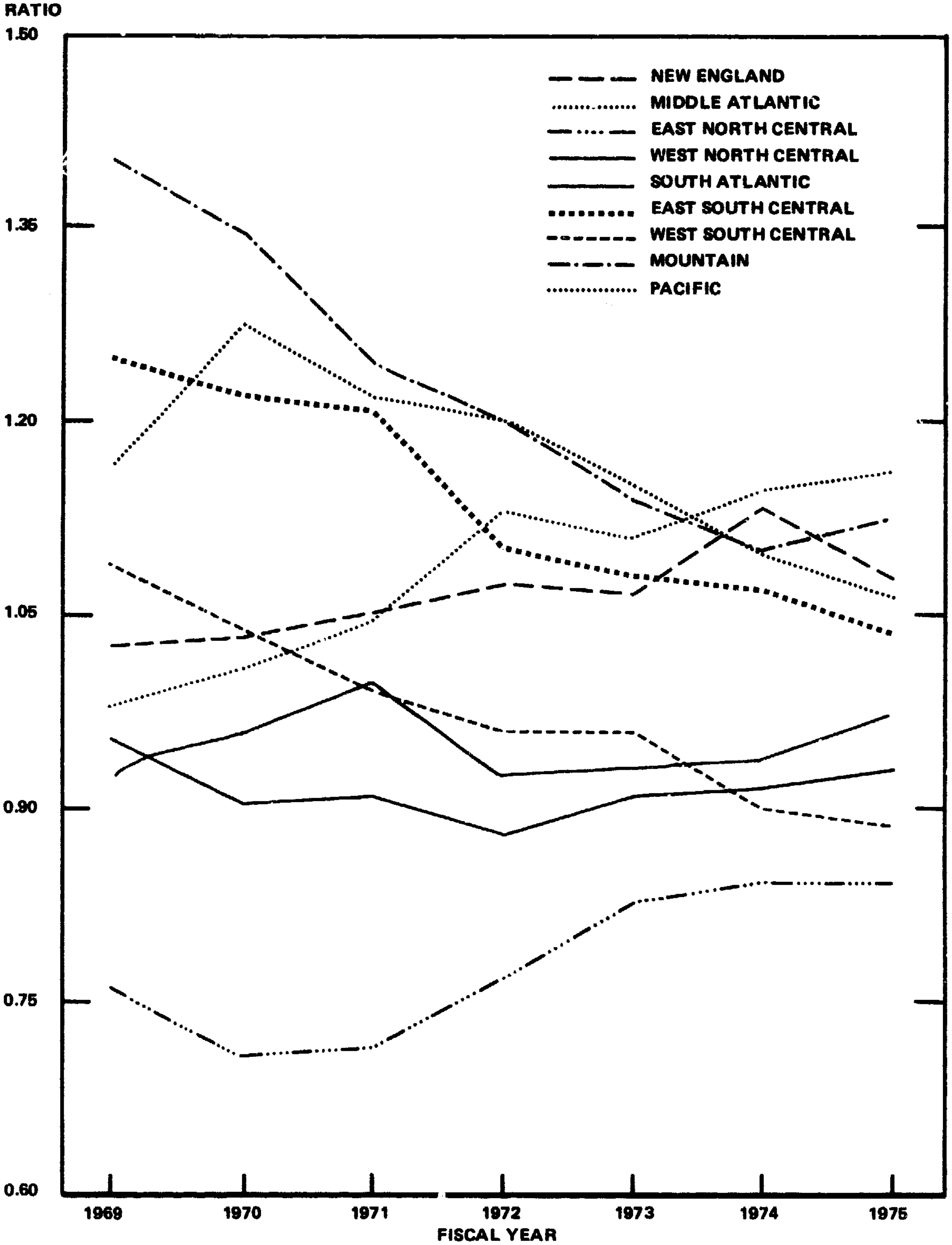
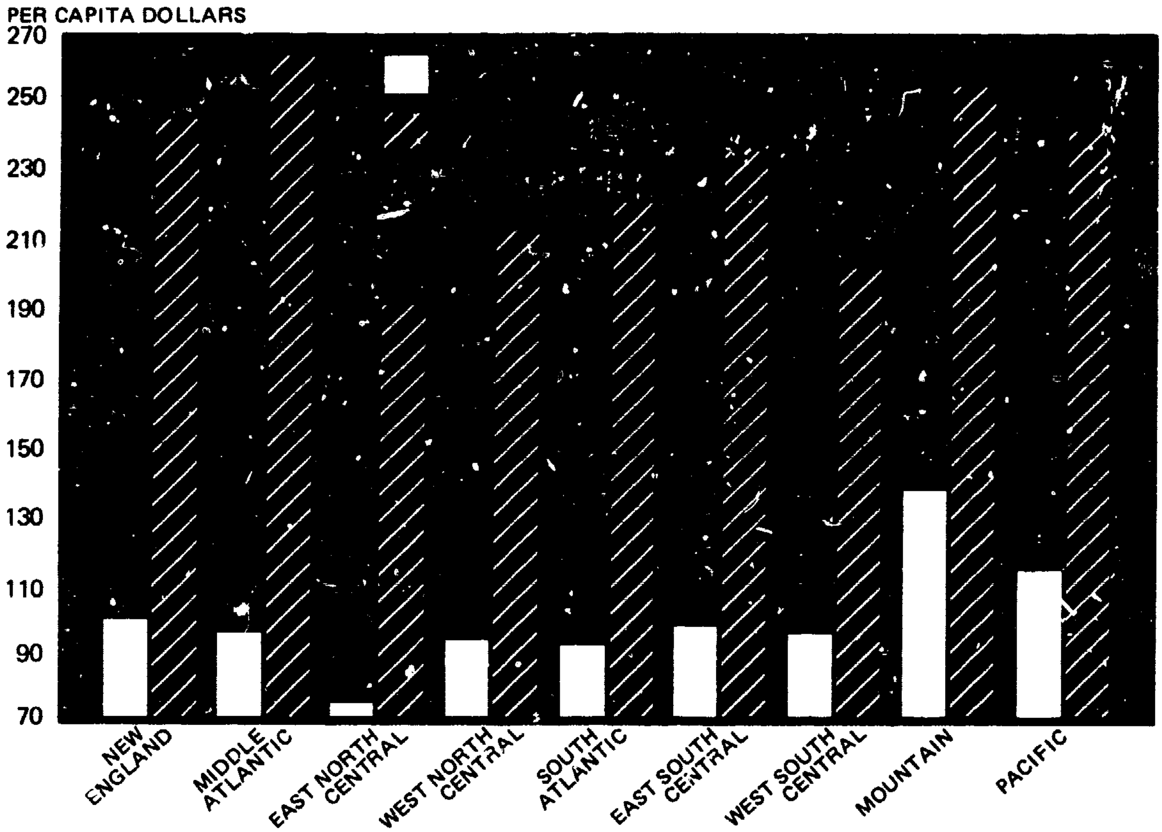


FIGURE 5
PER CAPITA FEDERAL AID FOR 1969 AND 1975



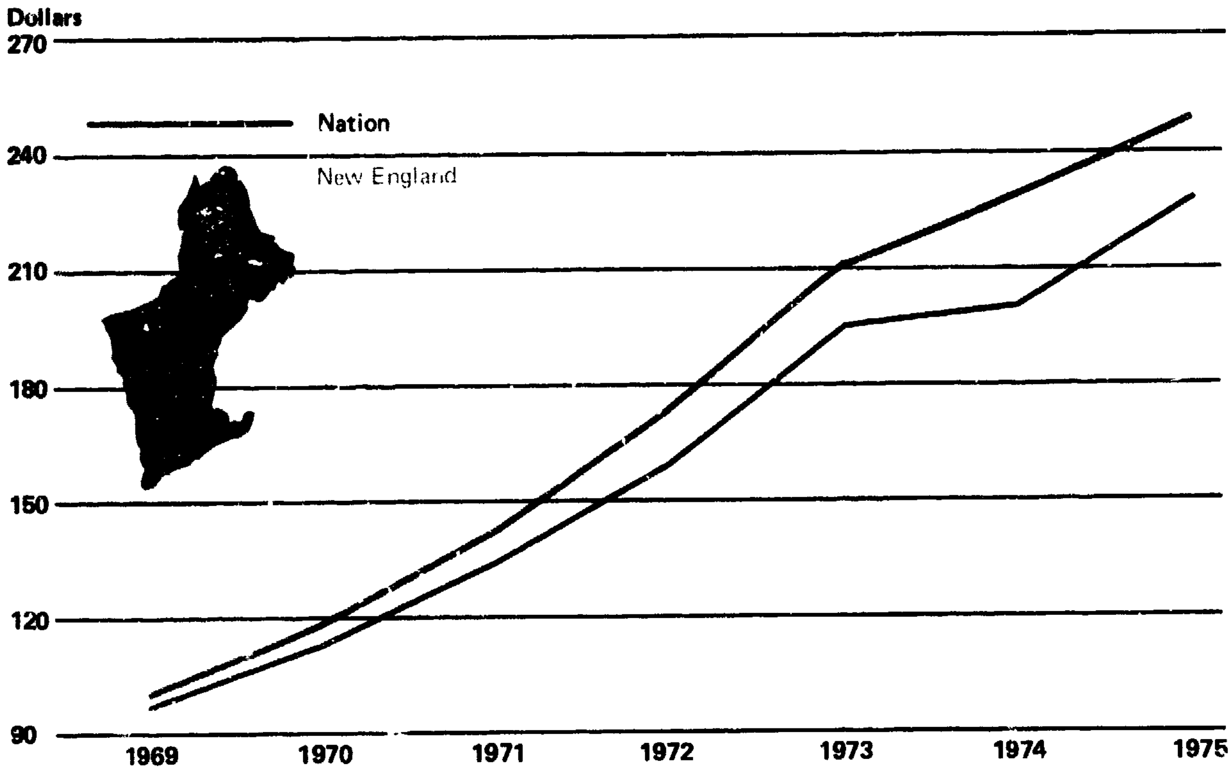
HOW EACH REGION FARED

When data for each region is examined separately, a clearer picture of distributional trends and of the factors which affect them results.

New England

New England is considered to be in economic decline. During the period under study, unemployment climbed to over 10 percent, the Nation's high. Per capita income gains were among the smallest, and per capita Federal personal income taxes grew the least. Although in 1969 New England had the least poverty, the proportion of its population receiving AFDC increased 42 percent faster than the Nation's between 1969 and 1975.

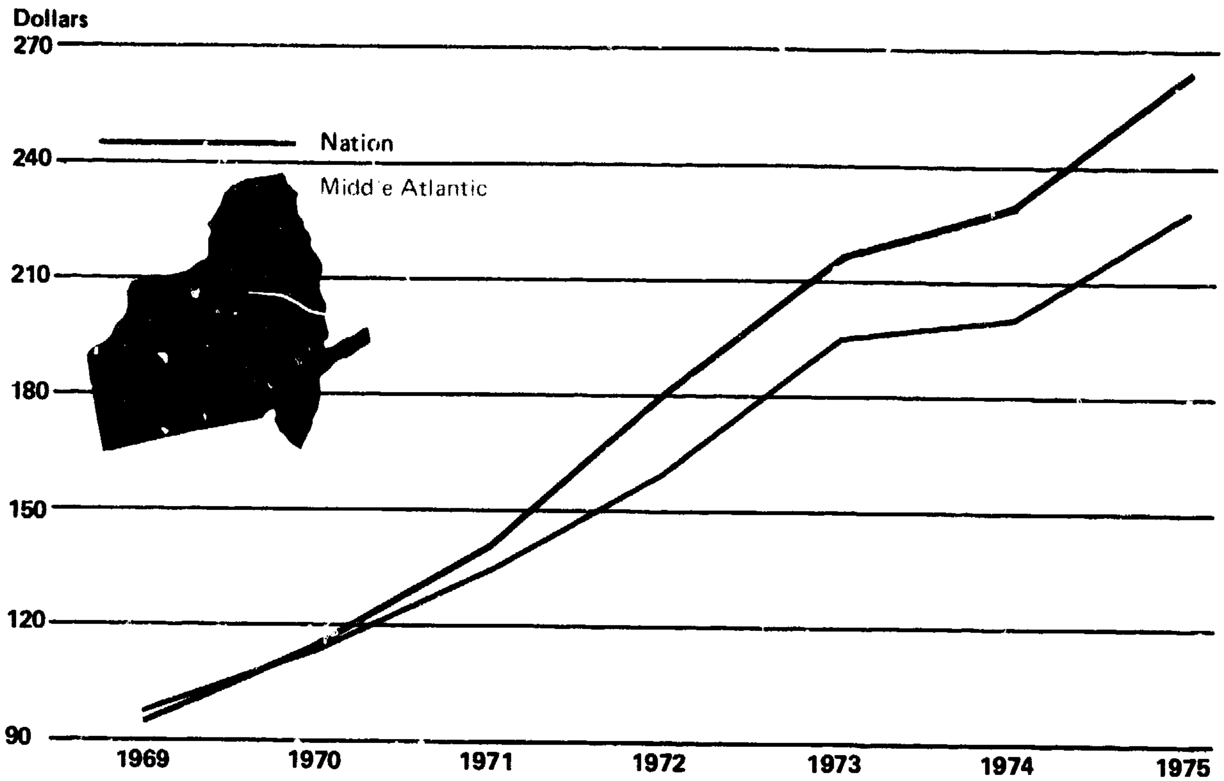
New England stood third among the regions in per capita Federal public assistance in 1975, and its 1969-75 increase exceeded the national average by 21 percent. State and local governments in the region spent more of their budgets on welfare than did those in any other region.



Although per capita Federal aid for elementary and secondary education increased 53 percent faster than the national average, New England still stood among the lowest regions in per capita receipts in fiscal year 1975. The region lost 22 percent of its aid from the highway trust fund between 1969 and 1975. This is partly the result of the near completion of the interstate highway system in this region.

Though New England is considered somewhat homogeneous, numerous anomalies exist. In 1975, New Hampshire and Connecticut, unlike the region as a whole, received less Federal aid and less public assistance per capita than the national average, despite the fact that New Hampshire's AFDC caseload per capita was the second highest of the 50 States. New Hampshire was an exception among New England States also in that its population grew much faster than the Nation's. Connecticut's residents had higher incomes and paid a heavier share of Federal taxes than those anywhere else in the 48 contiguous States.

The three southernmost States of the region--Rhode Island, Massachusetts, and Connecticut--were the second, third, and fourth densest States in 1975. The unemployment rate in Rhode Island was the Nation's worst and Massachusetts was third, while New Hampshire's was well below the average.



The Middle Atlantic States, like their neighbors to the northeast, are suffering under economic pressures. They, too, face declining industry, static population, and high unemployment. Their 1975 AFDC caseload was the heaviest of any region in the Nation.

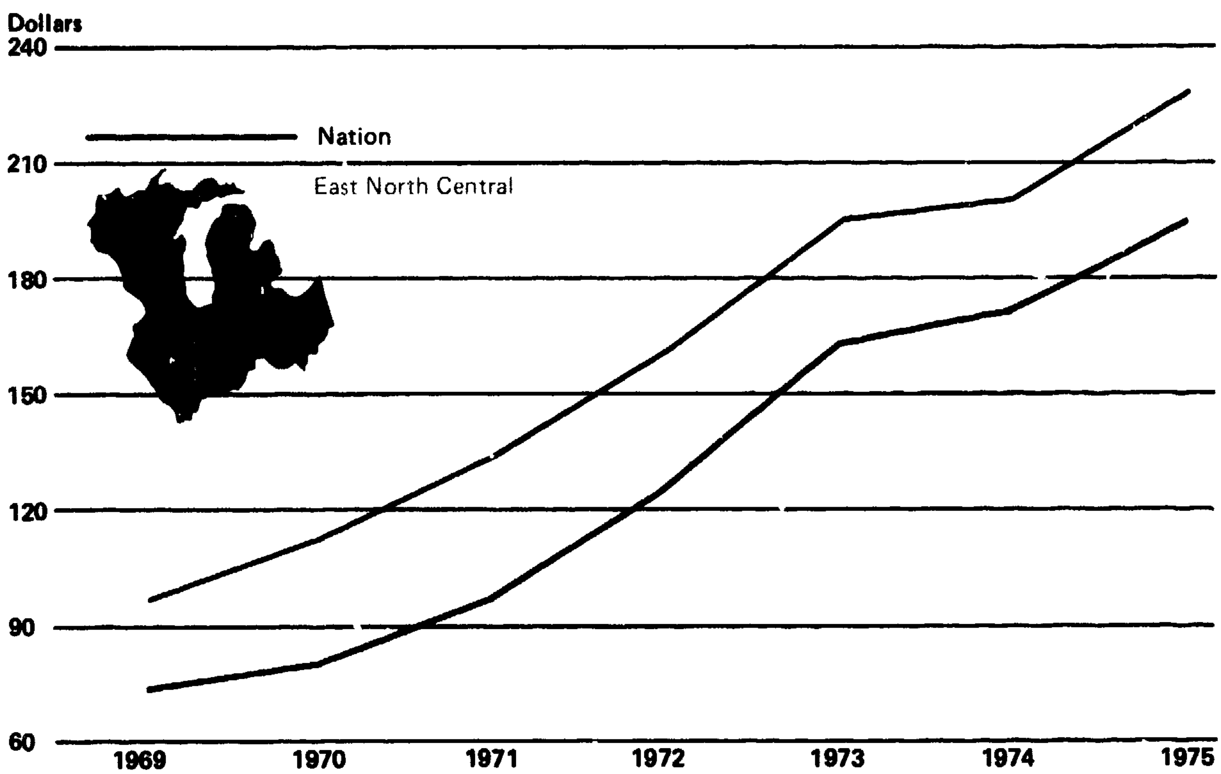
New York, largest in population, tends to overshadow its neighbors when the region is considered as a whole. In income levels, for example, New York and New Jersey far exceeded the 1975 national average, while Pennsylvania was just slightly above it. New York made the least percentage gains in income of any State during 1969-75, pulling regional gains also to a national low (equal with New England), but Pennsylvania's increase was higher than the Nation's. New York and New Jersey were among the most urban States in 1970, while Pennsylvania was slightly less urban than the country as a whole. Although unemployment had been increasing quickly in all three States, Pennsylvania's rate was still below average in 1975. New York and its local governments taxed 16 percent of personal income, a national high; New Jersey and Pennsylvania were average in this respect.

Per capita aid to New York was the fourth highest among the 48 contiguous States in 1975. On the other hand, Pennsylvania's receipts were just average and New Jersey's were below average. Yet all three States gained faster than the Nation as a whole during 1969-75 and the region made the greatest gains of any.

New York received far more 1975 public assistance per capita than any other State; Pennsylvania's receipts were just above average, and New Jersey's just average. Here too, though, all three gained rapidly, and New Jersey gained faster than any State but one. Public assistance was supported at the 52-percent level by Federal sources, compared with a national average of 60 percent. All three States spent an above average share of State and local budgets on welfare; the region was second among the nine. AFDC caseload in Pennsylvania and especially in New Jersey grew faster than the Nation's during 1969-75; New York's grew much more slowly.

With its high urban population and heavy taxes, New York was one of the leaders in per capita revenue sharing in 1975. New Jersey and Pennsylvania were below average. The densest of the nine, the Middle Atlantic region received the fewest dollars per capita from the highway trust fund. Regional gains in aid to elementary and secondary education were the highest in the Nation during 1969-75, and New York gained more than any other State.

East North Central



The East North Central region is diverse, and its economic picture, while mixed, is similar to those for the northe   regions. Here too, income and population levels are growing more slowly and unemployment rates are higher than in the rest of the country.

Although still in last place in per capita aid received, the East North Central region had increased its share more than any other region except the Middle Atlantic during 1969-75. It also made the greatest gains in public assistance, as its AFDC caseload was increasing most quickly.

Per capita aid to elementary and secondary education also grew at above average rates but was still among the country's lowest in 1975. The region was last in revenue sharing and second to last in highway trust fund receipts.

These States differ in some ways. Illinois was 83-percent urban in 1970; Indiana, only 65 percent. Michigan had the second highest unemployment in the Nation in 1975; Wisconsin and Illinois were below average. Illinois incomes were the second highest of the 48 contiguous States; incomes in Indiana, Wisconsin, and Ohio were below average; the region as a whole ranked third.

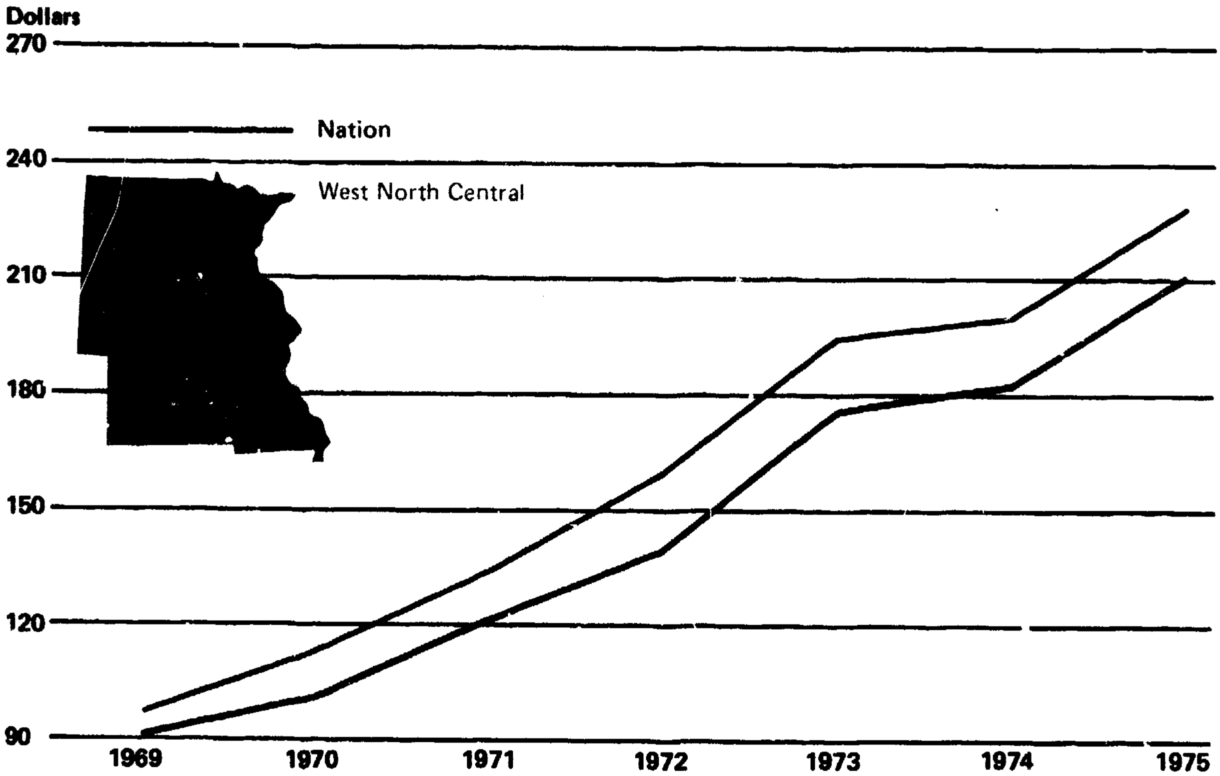
State and local taxes in 1975 comprised 13 percent of personal income in Wisconsin, 10 percent in Indiana, 9 percent in Ohio, an   ercent (the national average) in the other East Nor   l States. Of State and local spending, 15 percent went   welfare in Michigan, 14 percent in Wisconsin, 13 percent in Illinois, 11 percent in Ohio, and only 8 percent in Indiana. Differences in State and local taxation and welfare spending undoubtedly contributed to other disparities:

- --Michigan received above average per capita aid, while Indiana received the least and Ohio the third least in the Nation.

- --Michigan, Wisconsin, and Illinois scored high in per capita public assistance, while Indiana and Ohio were among the lowest recipients in the Nation in 1975.

- --Wisconsin and Michigan led the region in per capita revenue sharing, while Indiana and Ohio were again near the bottom of the national list.

West North Central



The Mississippi River seems to mark the western boundary of the northern area of economic decline. The West North Central States had higher than average income gains and lower than average unemployment increases during 1969-75. By 1975 this region had the least unemployment in the Nation. Farming is a major occupation, and the region's economic health can be region's attributed partly to the recent growth in farmers' incomes. On the other hand, its dependence on agriculture subjects it to the effects of fluctuations in production and price.

After a relative drop from 1969 to 1972, per capita aid to the region increased in relation to the national average. For every dollar of national per capita aid in 1975, the West North Central States received $0.93, ranking seventh among the nine regions.

They also ranked low in per capita public assistance received. This is not surprising, since they had the second smallest AFDC caseload, spent a below average share of State and local budgets on welfare, and were reimbursed by the Federal Government for these expenditures at a below average rate.

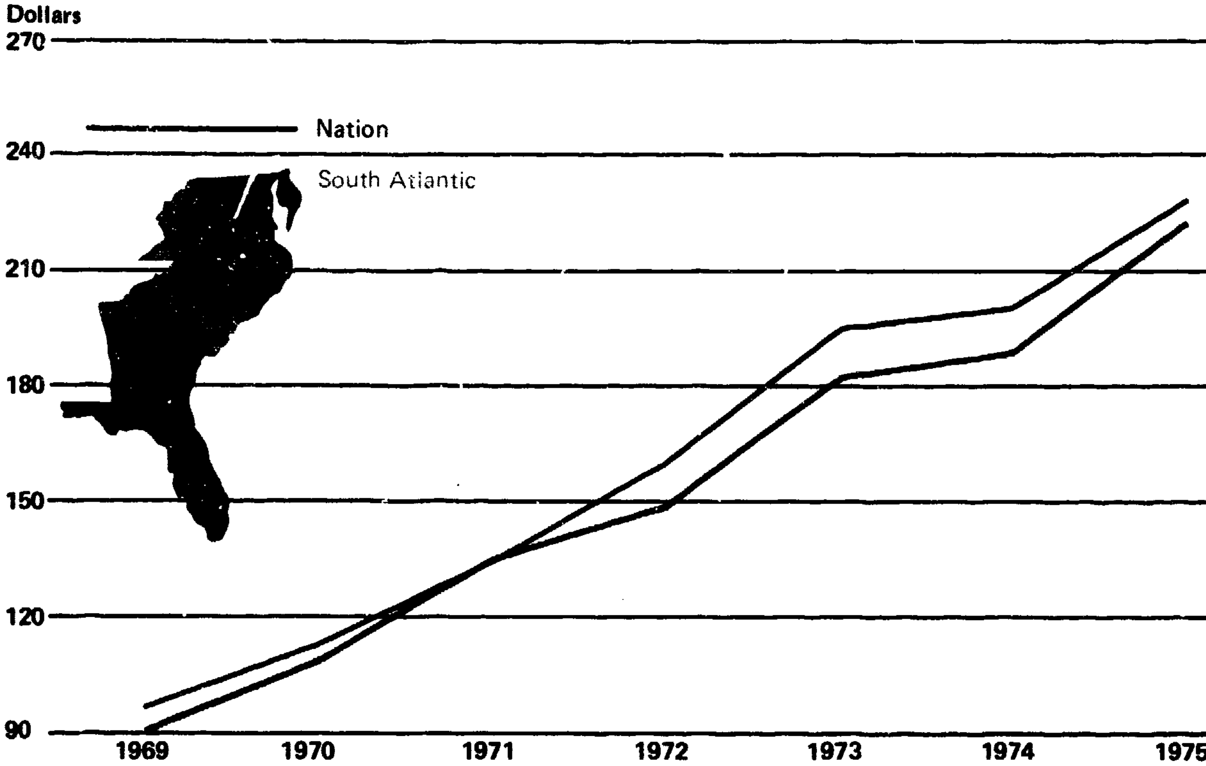
This region's highway trust fund receipts rose rapidly; it ranked second in 1975. It received an average amount of elementary and secondary education funds, but its share had been decreasing.

Minnesota stands out among these States in certain areas of aid. The region's only State where welfare spending was higher than the national percentage of State and local budgets, it was also the only one to receive more than average public assistance in 1975, having nearly tripled these receipts in 6 years. On the other hand, it was the only West North Central State not to receive more than the national average from the highway trust fund.

North and South Dakota led the region in total per capita aid, as well as in revenue sharing and highway trust fund receipts in 1975. However, per capita aid decreased relative to the national average during 1969-75 in the Dakotas; they and Missouri were responsible for the decline in the region's share. These three States also had above average poverty.

Missouri, with one of the Nation's lowest State and local tax efforts, received lower than average per capita benefits from revenue sharing, public assistance, and aid to elementary and secondary education, and received a much smaller share of the last two categories in 1975 then in 1969. Between these years its unemployment and AFDC caseload more than doubled; they were the highest in the region in 1975. Moreover, in contrast to the other West North Central States, Missouri's income levels increased more slowly than the Nation's. The State's difficulties may be attributed to St. Louis, a city whose economic problems would seem to place it east of the Mississippi.

South Atlantic



The South Atlantic region is the second fastest growing. Incomes are increasing at above the national rate. In contrast to the rest of the South, however, unemployment there has risen more rapidly than in any region except New England.

The South Atlantic States ranked just below their western neighbors in per capita aid in 1975, but had increased their share of aid slightly since 1969. These gains came largely from growing portions of the highway trust fund and public assistance. Typical of the South, this region taxed its inhabitants lightly, spent small amounts on welfare programs despite a large percentage of poor, and relied heavily on the Federal Government to finance these programs. Revenue sharing was somewhat below, and aid to elementary and secondary education slightly above, the national average.

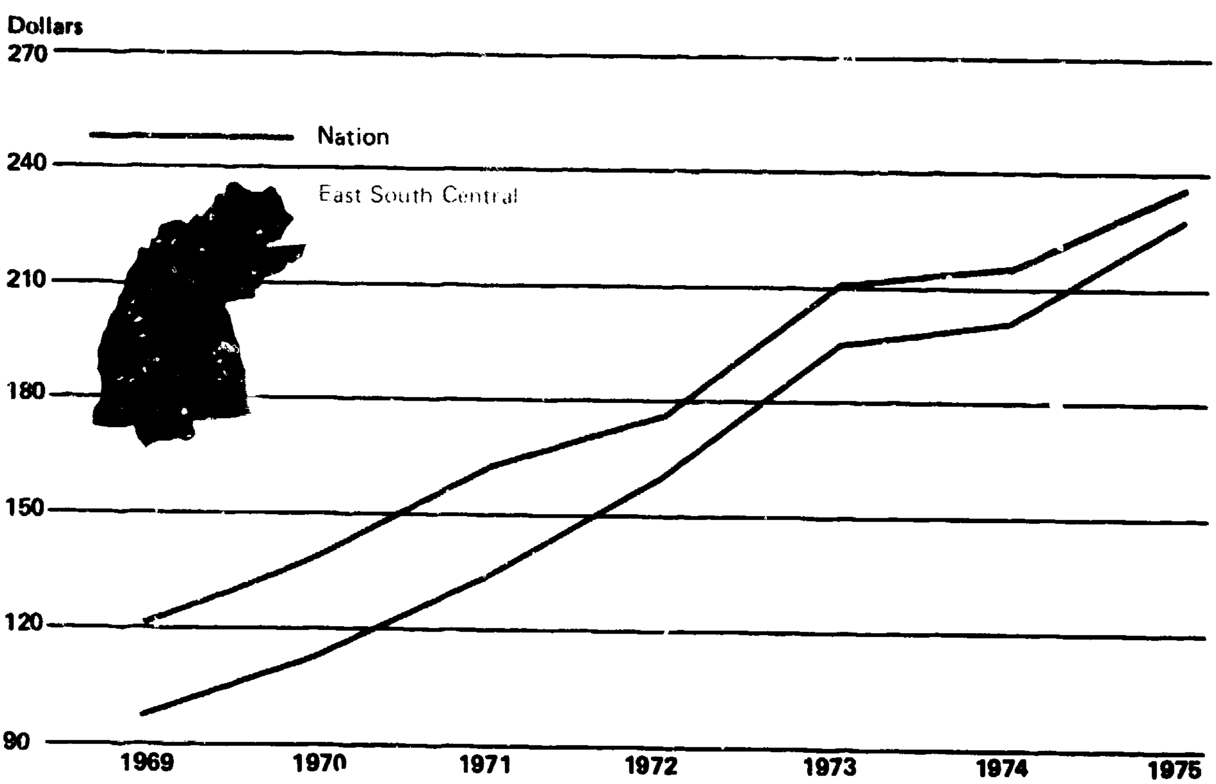
Spanning some 1,300 miles of Atlantic coast, the South Atlantic States exhibit some differences. The region's northern portion was responsible for its relative growth in per capita aid. Public assistance to Virginia and the District of Columbia increased by over 500 percent, while Maryland's highway trust fund receipts more than doubled.

Aid to elementary and secondary education in Washington, D.C., increased 883 percent per capita. The northern portion of the region generally has higher incomes with larger AFDC caseloads and contributes more to State and local welfare programs.

In many ways the District of Columbia is not comparable with the States, partly because of its special relationship with the Federal Government. For every inhabitant, in 1975 it received over $1,000 in aid, including over $150 in public assistance and $44 in aid to elementary and secondary education--more than any State. Revenue sharing, too, was high, thanks to a 100-percent urban population. The District of Columbia spent a larger share of its budget on welfare than any State outside of New England.

Florida is another exception in this region. Its population grew faster than that of any State except Arizona. Unemployment grew rapidly also, to the fourth highest in the Nation in 1975. The State received the least aid, the least revenue sharing, and the lowest public assistance in its region.

East South Central



Residents of the East South Central States have the lowest yet fastest growing incomes in the country. Unemployment there is low and increasing somewhat more slowly than the national rate. As in the rest of the South, manufacturing is on the rise.

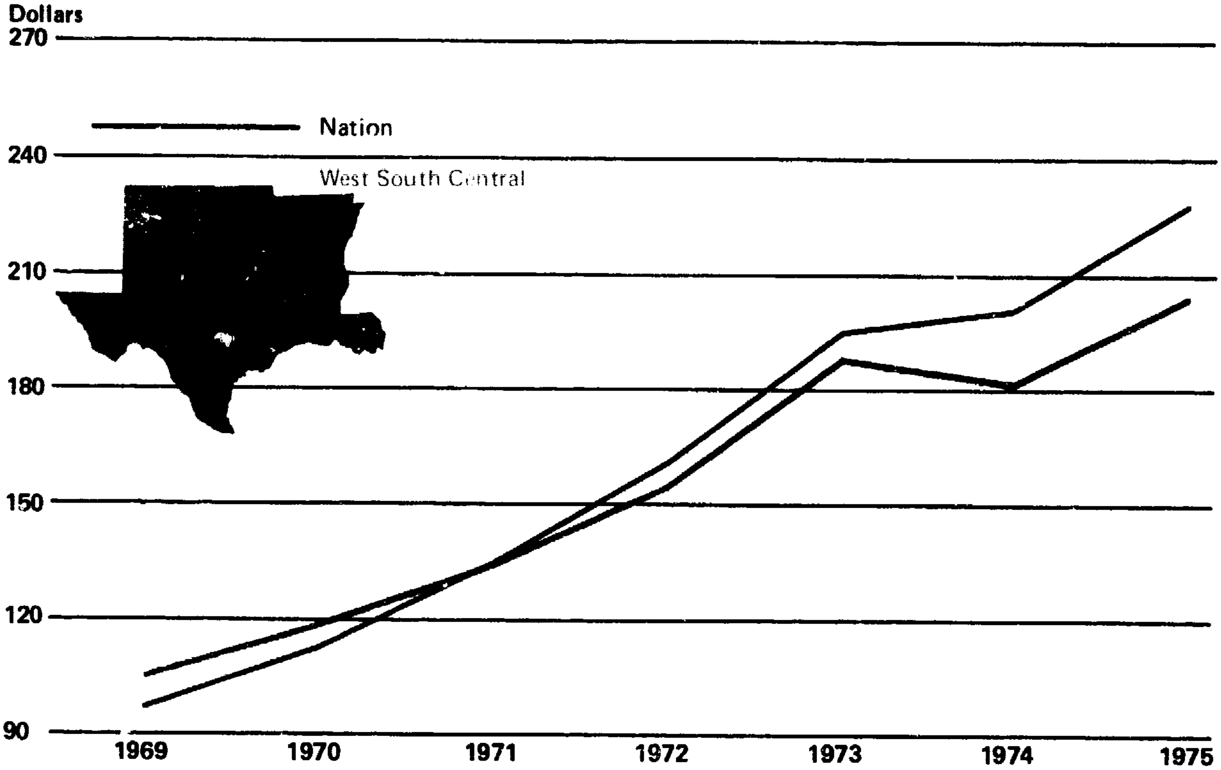
Per capita aid to this region has been declining relative to the norm since 1969, when it ranked second. It was overtaken first by the regions in the West, then by those in the Northeast. This decline is evident in aid for public assistance, highways, and elementary and secondary education.

Despite the Nation's largest proportion of poor--one-fourth of the region's population in 1969--these States have small welfare budgets. Their below average 1975 Federal public assistance receipts represented a larger share of these budgets than in any other region.

In spite of slow growth, aid to elementary and secondary education was still the highest in the country. Highway trust funding showed no increase during 1969-75, but also remained above average. Revenue sharing, too, was above the norm, thanks to low income levels.

Mississippi, a largely rural State with the lowest incomes in the Nation and 35 percent of its population below the 1969 poverty line, received the largest per capita amounts in revenue sharing and aid to elementary and secondary education of any State. The 78-percent Federal share of public assistance was the highest in the country.

West South Central



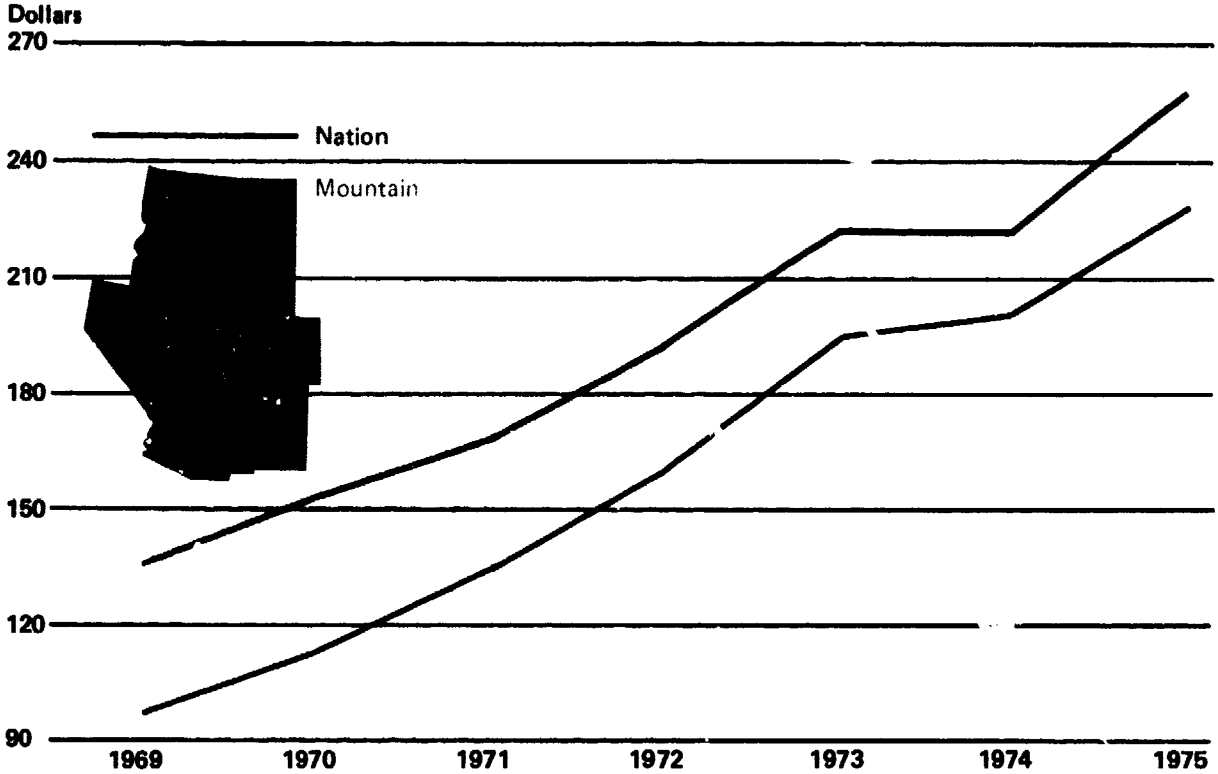
Per capita income in the West South Central States was the Nation's second lowest in 1975 but had been growing second fastest since 1969. Population had been increasing 50 percent faster than the Nation's during this period. This growth can be partly attributed to a concentration of energy resources, particularly oil. Furthermore, as industry is declining in the Northeast, it is increasing in these States; thus, unemployment is low and grew more slowly during 1969-75 than in any other region.

The region received the second least per capita aid in 1975. State and local welfare spending was low and heavily supported by Federal public assistance, which, nevertheless, was low per capita and had increased less there than in any other region. Revenue sharing was low. Receipts from the highway trust fund were average but had increased at only a third of the national rate. Only in elementary and secondary education funds was the region slightly above average.

Louisiana is exceptional in some ways. Its population was denser than the national average in 1975 but growing more slowly. Thanks to heavy State and local taxes, it ranked near the top in revenue sharing. On the other hand, per capita public assistance was low--despite a larger than average AFDC caseload--and had actually fallen since 1969.

The two northernmost States in the region, Arkansas and Oklahoma, actually got more per capita aid than average. Texas, however, ranked near the bottom.

Mountain



Population in the Mountain States grew three times as fast as the Nation's during 1969-75, but the region is still the most sparsely populated of the nine. Incomes also climbed faster there than nationally. As national unemployment rose rapidly, this region's increased slowly, from just over the national rate to well under it.

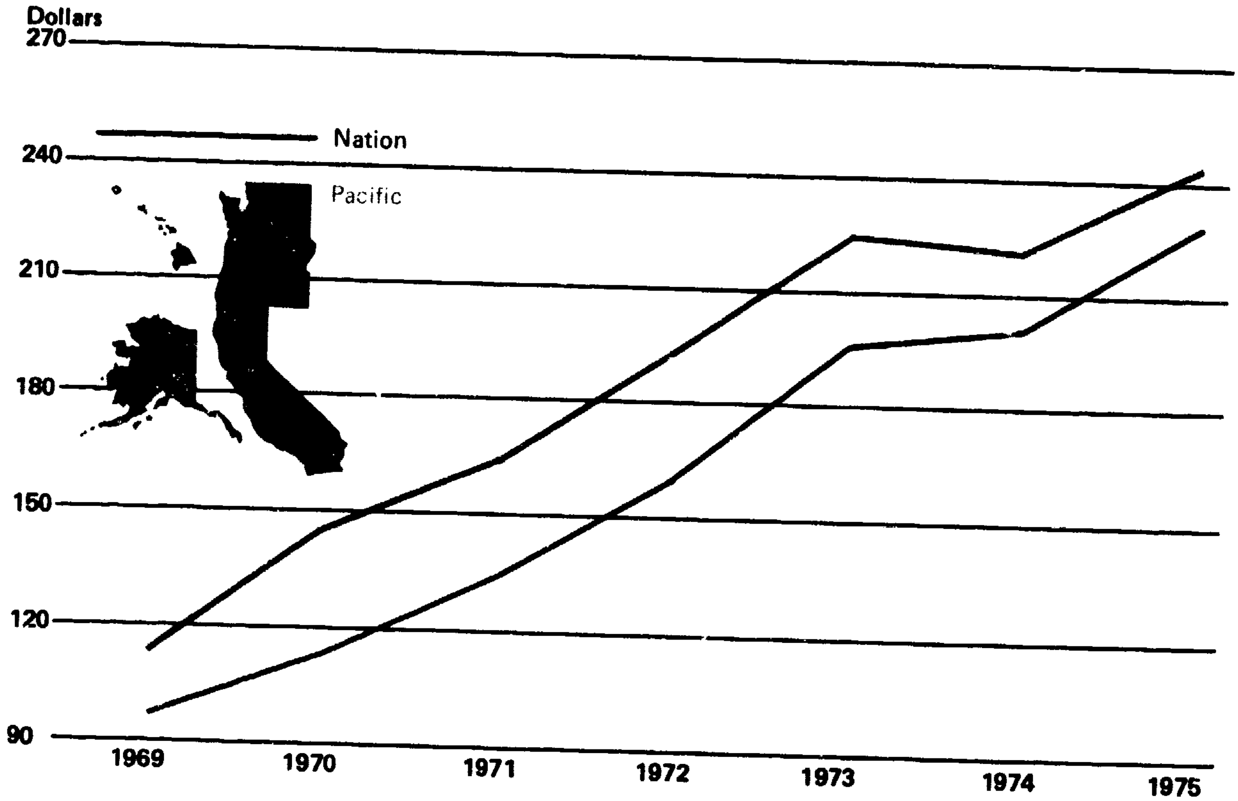
During this period of relative prosperity, the Mountain region's per capita aid receipts increased less than any other region's; it moved from first to second place. Unlike the other regions, its largest source of per capita aid has been the highway trust fund, where it leads the Nation. Yet these per capita receipts decreased slightly during 1969-75 as population grew.

State and local governments in the Mountain region had the lowest AFDC caseload and spent the smallest share of their budgets on welfare in 1975. Public assistance was supported with a 63-percent Federal share of costs, just above average, yet represented fewer dollars per capita than in any other region. And only the West South Central region gained less in per capita public assistance during 1969-75.

The region was also one of the lowest recipients of aid to elementary and secondary education in 1975, and again these funds grew most slowly. In revenue sharing these States were average, as in their level of State and local taxation.

Nevada and Wyoming stood out among these States with above average personal income levels in 1975. But while Nevada faced slow income growth and mounting unemployment, Wyoming's average income was rising faster than that of any other State except Alaska and its unemployment rate actually dropped to a national low. Meanwhile, its per capita Federal aid increased the least, but it still received more, in total per capita aid and from the highway trust fund, than any other State except Alaska. Wyoming and Arizona State and local governments spent the Nation's smallest portions of their budgets on welfare and received the least per capita public assistance.

Pacific



The Pacific region has the Nation's highest per capita personal income, though it is increasing less rapidly than average. While unemployment is still relatively high, it has risen more slowly than in the rest of the Nation. The region has the largest percentage of people in urban areas, and State and local taxes are among the heaviest.

Per capita aid to this region reached a relative peak in 1970 and has since been declining toward the national average. The Pacific States ranked second in Federal public assistance in 1975, but in this area, too, they were in relative decline. Elementary and secondary education and highway trust fund aid, on the other hand, were increasing more rapidly than the national averages.

Overall figures tell little about the Pacific region, however, because:

--It is the most diverse region, geographically, demographically, and socially.

--Populous California overbalances statistics for the other four States. For example, public assistance was below average for all the States except California, and ranged as low as 62 percent of average in Alaska. Yet regional public assistance was 18 percent above average.

Alaska is unique in many respects. Incomes were 35 percent higher than in the next richest State in the Nation (Connecticut) and were growing at over twice the national rate between 1969 and 1975. Welfare spending represented a lower portion of State and local budgets in Alaska than in any other State but Arizona and Wyoming in 1975. It was one of two States where unemployment dropped during 1969-75. (Wyoming was the other.) It had one-fourth the density of the next sparsest State (again Wyoming) in 1975. Like many Mountain States (notably Wyoming), but unlike any other Pacific State, it received more from the highway trust fund than from public assistance. In fact, highway trust aid per capita was more than 10 times the national figure in 1975. And total per capita aid was more than twice that of the nearest competitor (Wyoming).

In contrast, California in 1975

--had the largest AFDC caseload, spent the greatest portion of funds on welfare, and received the most per capita public assistance of any State west of the Mississippi,

--was the densest Western State, had the largest urban population of any State, and thus received the least per capita aid from the highway trust fund of any Western State, and

--got slightly more than average total per capita aid.

In 1975, Washington was the only State in the region to obtain a below average share of 1975 Federal aid. Oregon had the most unemployment and the lowest per capita personal income; it received the largest increase in public assistance. Hawaii took in more Federal aid than most States, despite its high and relatively increasing income level.

CHAPTER 4

THE FLOW OF FEDERAL AID COMPARED WITH ITS SOURCE

So far we have been considering Federal aid as it is distributed to States and localities by the Government. Yet this money is not freshly minted each year, it comes from tax revenues collected from the people who live in the same States and localities which receive it, though not in the some proportion.

Comparing Federal aid receipts with Federal tax contributions allow us to identify those States which are receiving above average amounts from Federal aid and those which are paying above average amounts. However, such an analysis does not imply that a given State should be receiving the same share of Federal aid as it contributes in Federal taxes. Some States are more in need of aid than others, and naturally these may not be the States with the highest income levels, and, therefore, the highest taxes. (Indeed, some States choose not to take advantage of certain Federal aid programs.) Viewed in this manner, the Federal aid/tax system is a method of redistributing income. The purpose of this analysis is to describe this redistribution and to show which States and regions were net contributors and which were net recipients.

A comparison of Federal aid to State and local governments with Federal personal income taxes results in at best a rough measure of the flow of total aid versus tax revenues. The personal income tax is not an ideal measure of tax contributions (although much more reliable than corporate taxes), since the State of residence, where the tax payments are allocated, is not necessarily the State in which the income was earned. Other technical difficulties, such as tax year versus fiscal year, may cause problems.

Federal aid to States and localities for fiscal year 1975 was equal to 38 percent of Federal personal income tax liability for 1975. Thus, the residents of each State can be considered to have contributed 38 percent of their income taxes to Federal aid. 1/ This amount can then be compared

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1/Not all Federal aid is financed from income tax receipts. The highway trust fund programs, for example, are financed mostly from highway-transport-related user charges, such as gasoline and oil taxes. Altering our analysis either to include these other receipts or to exclude the highway trust fund programs in the calculation of aid/support ratios does not substantially affect our findings.

PHOTOS COURTESY U.S. OFFICE OF EDUCATION

FEDERAL AID TO ELEMENTARY AND SECONDARY EDUCATION INCREASED BY MORE THAN HALF DURING 1969-75.

to aid receipts in various ways, such as per capita aid minus per capita taxes (per capita net aid), percentage of aid minus percentage of taxes (percent net aid), or dollars of aid received per dollar of contribution (aid/support ratio).

In Montana, for example, residents paid an average of $513 to the Federal Government in 1975, or a contribution to Federal aid of $195 (38 percent of $513). Thus, if 1975 Federal aid ($228 per capita) had been distributed evenly by population, Montana would have received $34 more per capita than it contributed. But Montana governments actually received $308 per capita. Their net benefit was thus $308 minus $195 or $113 in per capita net aid.

Looking at it another way, Montana's share of the Federal personal income tax was 0.29 percent. Its share of Federal aid was 0.47 percent. The difference between these shares expresses percent net aid, for Montana +0.18 percent.

Still another way of considering Montana's benefit is as a ratio. Montana's ratio can be expressed as $308 divided by $195 or 1.58. (The same answer would result if total amounts, rather than per capita amounts, were compared.) Thus, for every dollar which Montanans contributed to the Federal aid pool, $1.58 was returned to them.

Taking Nebraska as a second example, we find it contributed about the average share of taxes ($600 per capita, of which 38 percent, or $228, was its contribution to Federal aid) and received a below average share of aid ($219 per capita). Its per capita net aid was thus -$9 ($219 - $228), its percent net aid was -0.03 percent and its aid/support ratio was 0.96 ($219 ÷ $228). Its below average share of taxes only partially compensated for its low share of aid.

Figures 6, 7, and 8 illustrate how aid and taxes compared in the nine regions. Figure 6 tabulates per capita net aid, percent net aid, and aid/support ratios for 1975; figure 7 graphs trends in aid/support during 1969-75; and figure 8 maps 1975 aid/support for each State and the District of Columbia.

Figure 7 shows that the East North Central region, because of its relatively high per capita income and some States' disinclination to take full advantage of certain aid requiring matching, was the major net contributor to Federal aid throughout 1969-75. The data also shows that the East South Central region received the most net aid, but this figure has fallen rather dramatically since 1969. Although per capita income there has increased the fastest among the regions, it was still the lowest, and this influenced both aid and taxes.

FIGURE 6
NET AID BY REGION, 1975

	PER CAPITA NET AID	PERCENT NET AID	AID/SUPPORT RATIO
NEW ENGLAND	$ 8	0.2	1.03
MIDDLE ATLANTIC	16	1.2	1.07
EAST NORTH CENTRAL	-53	-4.5	.78
WEST NORTH CENTRAL	-7	-.3	.97
SOUTH ATLANTIC	13	0.9	1.06
EAST SOUTH CENTRAL	71	2.0	1.43
WEST SOUTH CENTRAL	-4	-.2	.98
MOUNTAIN	49	1.0	1.24
PACIFIC	-7	-.4	.97

MEDICAID IS A MAJOR PART OF FEDERAL PUBLIC ASSISTANCE.

FIGURE 7
RATIO OF AID/SUPPORT
1969--1975
BY REGION

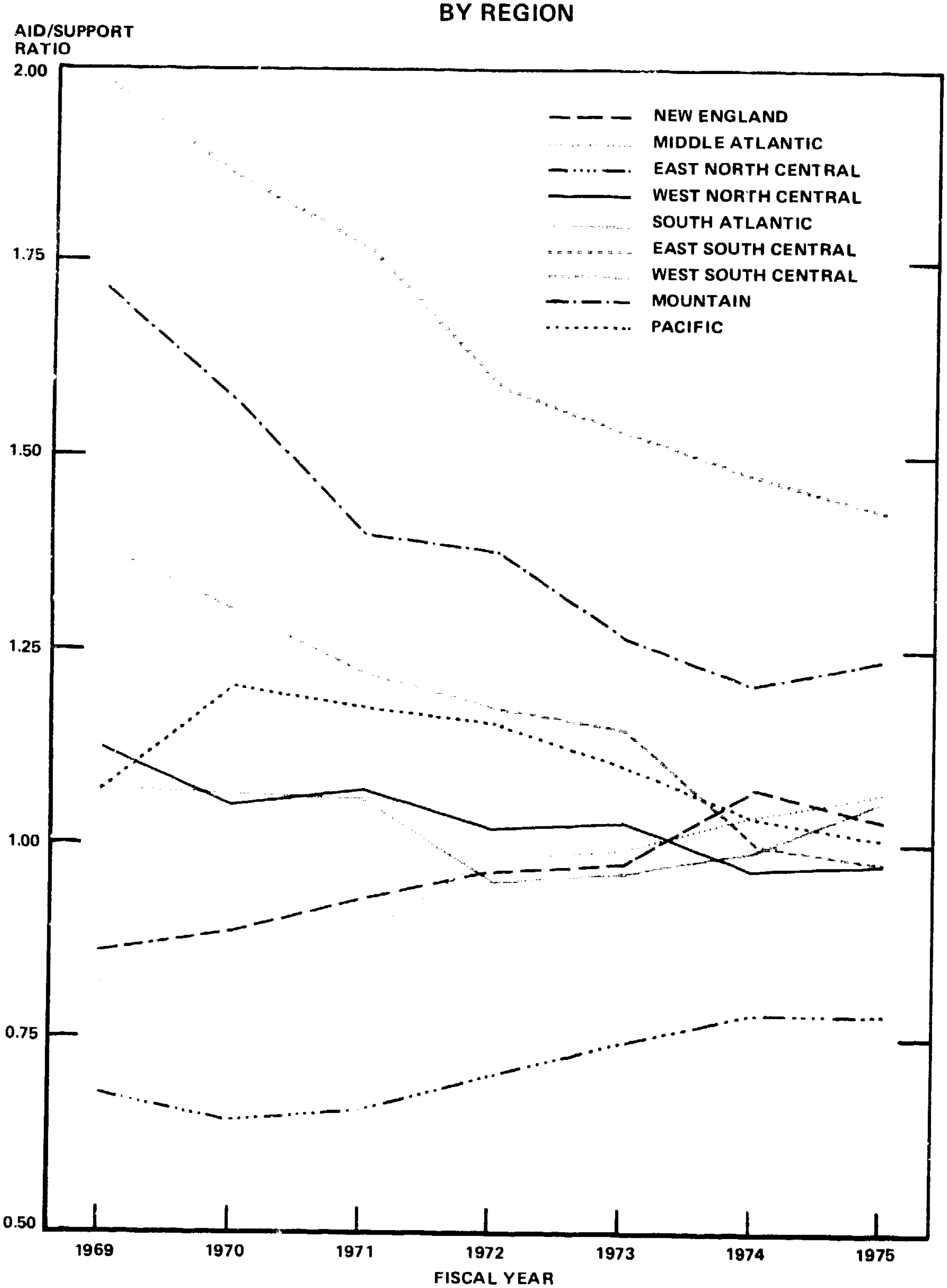
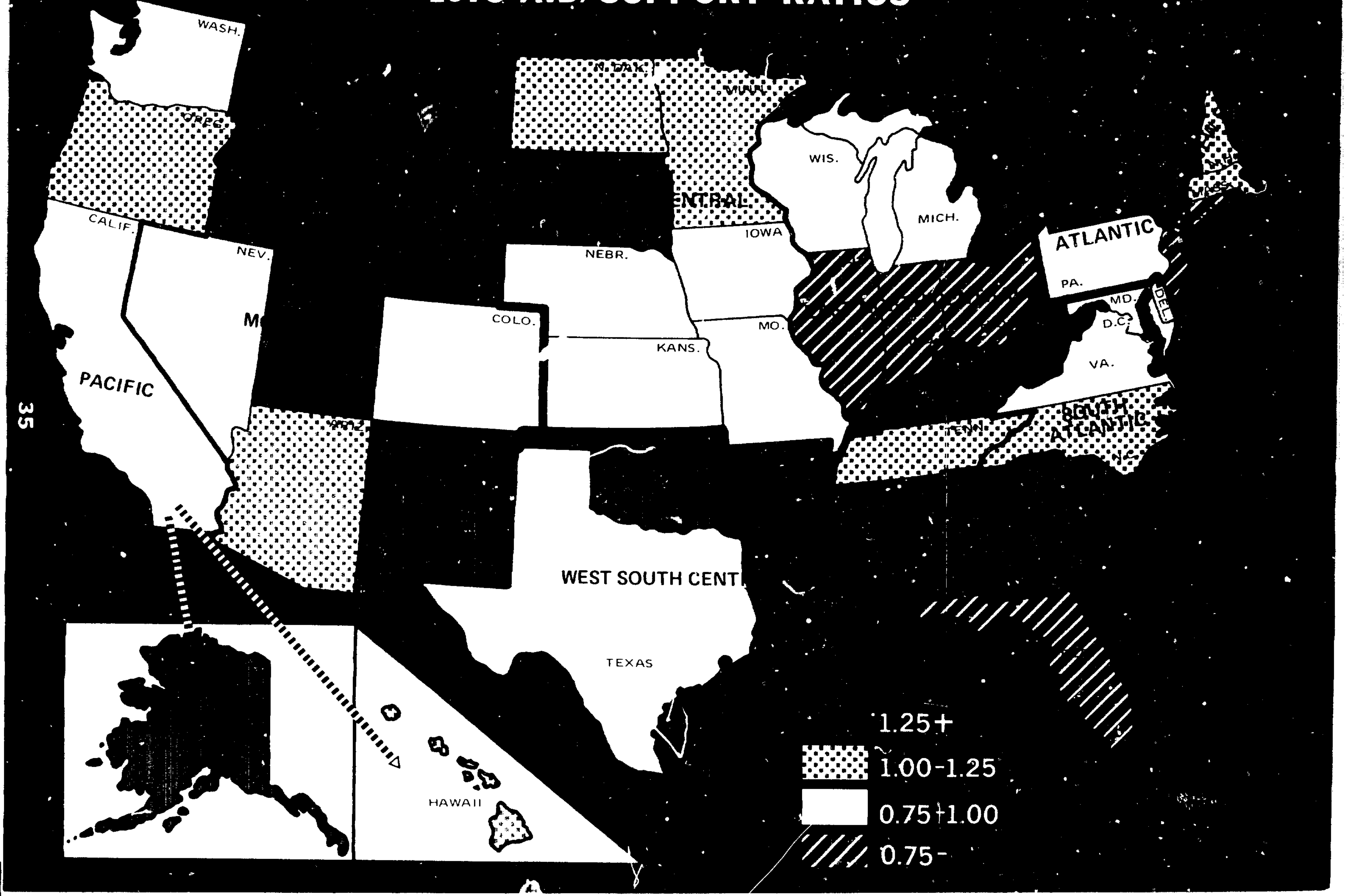


FIGURE 8

1975 AID/SUPPORT RATIOS



CHAPTER 5

CONCLUSIONS

FACTORS WHICH INFLUENCE THE FLOW OF AID

Formulas

The discussion in chapter 2 of the formulas used to distribute aid in the largest program categories indicates several State and local conditions which attract Federal aid. States with low income and high poverty levels or generous welfare programs (the two are rarely combined) tend to draw public assistance funds. Those with low incomes or high taxes (again two factors which usually exist separately) tend to receive more revenue sharing per capita. Large, sparsely populated States, and those with large national forests, public lands, or uncompleted interstate highways, take the lion's share of the highway trust fund. Manpower funds go mainly to States with many unemployed or low-income adults. The number of indigent or institutionalized children influences the flow of aid to elementary and secondary education.

State and local resources

Income

The above statements suggest a hypothesis that income levels are a determining factor in the flow of aid. However, other factors override income, as shown by figure 9 which gives the 1975 public assistance receipts of the five highest and five lowest income States, listed in order of per capita income.

FIGURE 9

	1975 PER CAPITA PUBLIC ASSISTANCE	1975 MEDICAL ASSISTANCE REIMBURSEMENT RATE (percent)
HIGH-INCOME STATES:		
ALASKA	$40	50
CONNECTICUT	60	50
ILLINOIS	72	50
DELAWARE	43	50
NEW JERSEY	65	50
LOW-INCOME STATES:		
NEW MEXICO	54	73
ALABAMA	51	74
ARKANSAS	58	75
SOUTH CAROLINA	41	74
MISSISSIPPI	51	78

This table demonstrates that per capita public assistance does not in general favor the low-income States. Although the Federal Government contributes a larger percentage to the lower income States, three of the five highest income States get more than any of the lowest income States. There is no significant difference between the average public assistance received by the two groups.

The reason is suggested by figure 10, which ranks these 10 States in order of the percent of State and local spending devoted to welfare.

FIGURE 10

	1975 PERCENT OF STATE AND LOCAL BUDGETS SPENT ON WELFARE	1975 PER CAPITA PUBLIC ASSISTANCE
ILLINOIS	13	$72
NEW JERSEY	13	65
CONNECTICUT	11	60
ARKANSAS	11	58
ALABAMA	10	51
MISSISSIPPI	9	51
DELAWARE	9	43
NEW MEXICO	8	54
SOUTH CAROLINA	7	41
ALASKA	5	40

With the sole exception of New Mexico (where public assistance has been falling sharply in relation to the national norm), the ranks of these States per capita for public assistance correspond precisely to their ranks in welfare spending. This correlation may be partially explained by the matching requirements.

Like many other grant programs, the main components of public assistance--medicaid and aid to families with dependent children--reimburse the States (and through them the local governments) for expenditures in a program area. The rate of reimbursement for medicaid, for example, is determined by State income levels, but within limits of 50 to 83 percent. That income does have an effect can be seen from the fact that Federal support for medicaid ranged from 73 to 78 percent in 1975 in the five poorest States, and was 50 percent in the five richest States. However, the effect of income on the rate of reimbursement can be outweighed by the amount to be reimbursed; thus, States which can and will support generous welfare programs receive more dollars from public assistance than States with low welfare spending.

Federal aid in general follows a pattern similar to that of public assistance. Of the five States which received the most per capita aid in 1975, three had above average income levels. All of the five States receiving the least per capita aid were below average in income.

Tax effort

The low-income exceptions among the top aid recipients were New Mexico, which received large amounts from the highway trust fund, a category with small matching requirements, and Vermont, where State and local governments made up for their small tax bases by taxing their residents at the second highest rate in the Nation. Tax effort helps draw Federal aid in two ways: by providing more funds for matching and by raising a State's revenue sharing benefits.

State and local discretion

State and local governments must be not only able but also willing to spend funds in areas designated for Federal matching, if they are to receive these grants. The States must formulate the programs, determine eligibility for benefits, and set the level of payments. These vary widely among the States. For example, the families of unemployed fathers are eligible for AFDC in some States, ineligible in others. Maximum monthly payments for a family of four under this program in 1974 ranged from $60 in Mississippi to $403 in Wisconsin. Thus, the discretion of State officials influences the flow of grants, and in turn, the availability of matching funds affects State and local spending priorities.

Federal discretion

At the Federal level, too, discretion plays a part. State programs must be approved by Federal agencies. In some cases grants allocated by formula may be modified by the administering agencies. Other grants are allocated solely by executive discretion, like some of the funds provided by the community development block grant program.

Summary

The factors which influence the flow of Federal aid can now be summarized:

--The formulas which determine the allocation of most aid and which usually consider

1. population,

2. income levels, and

3. the number of people to benefit from a particular program.

--The resources of State and local governments, which determine the funds available to match Federal contributions and are determined by

1. income levels and

2. State and local taxation rates.

--State and local spending priorities and policies toward eligibility.

--The discretion of Federal authorities in making project grants and categorical grants and in approving State plans.

FEDERAL AID AND NATIONAL TRENDS

Regional differences in aid distribution are decreasing, both on a per capita basis and in comparison to tax contributions. This convergence is occurring at the same time that population is shifting away from the denser northeastern States and toward the sparser southwestern States. Incomes also are growing slowly in the richer regions--New England, the Pacific, and the Middle Atlantic and East North Central States--and rising rapidly in the poorer States of the South and the West North Central and Mountain regions.

Those regions in a relative economic decline are gaining relatively in Federal aid. Thus, the complex formulas and other factors which determine the flow of aid do seem responsive to changing conditions. The recent recession had a more acute impact in the Northeast, and more public assistance flowed to that region. Whether these trends will continue, given the pressure of high and rising taxes and the growth of welfare spending in the Northeast, remains to be seen.

Wide disparities persist

Despite the general convergence, some States still receive far more aid than others. Indiana gained 144 percent in per capita Federal aid during 1969-75; Wyoming gained only 38 percent, yet Wyoming still received more than twice as much aid per capita in 1975 as Indiana.

AREAS NEEDING FURTHER STUDY

An information gap separates us from a fuller understanding of the impact of Federal aid.

Cost of living

One unanswered question is how differences in the value of money modify the impact of Federal aid. How much of something a dollar will buy in a given location, often expressed as the "cost of living," clearly varies among and (even more) within the States, but reliable statistics to measure these variations are unavailable. Because labor costs, for example, differ, a million dollars of highway aid will not build as many miles of road in Alaska as it will in Mississippi. Thus, the relative effect of aid to States or regions cannot be assessed without information on the size of such differences. Presumably, however, the cost of living is higher where income levels are higher, so the advantage in aid enjoyed by the Northeast is tempered by ths factor, that enjoyed by the Mountain States is emphasized, and the net losses of the East North Central States are rendered all the worse.

To some presently undeterminable extent, cost of living is already a factor in the distribution of aid because of formulas and matching requirements. For example, aid to local educational agencies considers State per-pupil expenditures and thus favors States which pay high teacher salaries. Furthermore, where incomes are high and State and local tax revenues are also high, more matching funds will be available.

State policies crucial

Another major factor in the distribution of Federal aid is State policy. Not only does a State exert great influence over the amount of aid it recieves, it also largely controls the distribution of aid to localities. In most cases plans for allocating programs funds are synthesized at the State level for Federal approval. The funds then must filter down through a State agency for distribution to local governments or beneficiaries. Besides dispersing Federal aid to counties, cities, school districts, etc., States have their own aid programs. Some cities, like New York, receive more aid from their States than from the Federal Government. The apportionment of State aid affects and is affected by the presence of

Federal funds. The impact of Federal aid programs thus cannot be assessed without an understanding of State policies.

AGENCY COMMENTS

We received written comments directly from the Advisory Commission on Intergovernmental Relations (ACIR), the Office of Management and Budget (OMB), and the Department of the Treasury. Those of the Departments of Transportation; Labor; and Health, Education, and Welfare were forwarded by OMB. (See app. III.) Many of these comments called for additional research and analyses which deserve attention but are beyond the scope of this report.

ACIR found our study "pioneering and valuable." It recommended further analysis of factors which influence the flow of aid, such as income, poverty levels, and unemployment, since these variables enter into many grant formulas and might be removed or added to others.

OMB also found the report a useful contribution. It warned against using aid/support ratios, such as those illustrated in figure 7, for value judgments. OMB recommended additional research on trends for all Federal expenditures and the impact and implications of corporate taxes and cost-of-living differences.

OMB suggested that other regions might be selected and might yield different results. As noted, regional groupings are essentially arbitrary.

OMB's reply also included Transportation and Labor comments. In connection with chapter 4, Transportation pointed out that the Federal-aid highways program (highway trust fund) is financed in large part from user revenues rather than from personal income taxes. We made calculations to allow for this distinction, but this change made little difference in our results. Transportation also took exception to the suggestion made in this report that "largely sparsely populated States receive high percentages of Federal highway funds." It noted that "for major highway programs the apportionment formula involves mileage and population in addition to land area." We are aware of the factors included in the formula, but our data show that, per capita, these funds flow largely to the more sparsely populated Western States.

Labor found the selection of programs included in our study arbitrary. As pointed out in chapter 2, we used

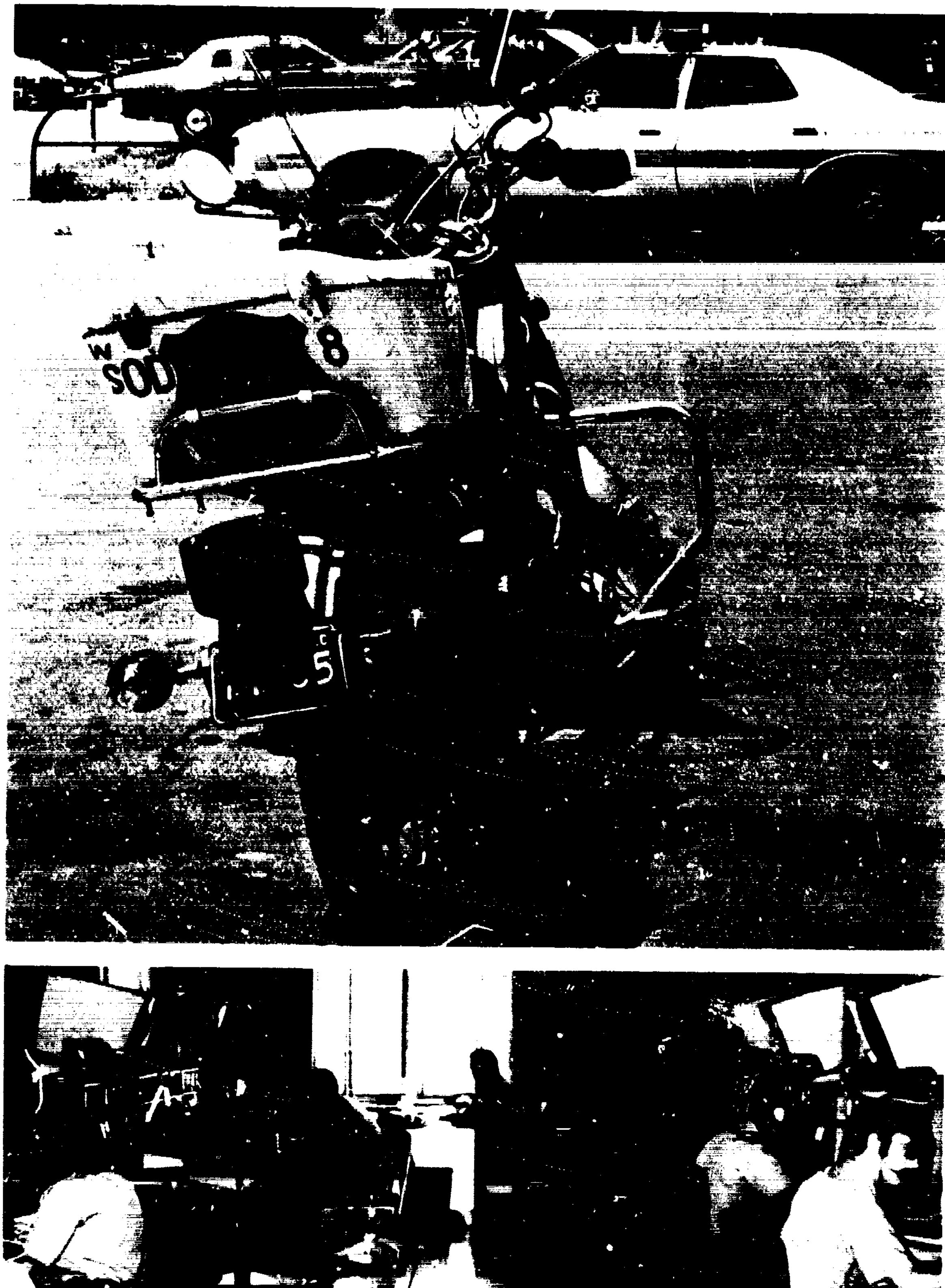


PHOTO COURTESY U.S. DEPT. OF JUSTICE

LAW ENFORCEMENT RECEIVES MUCH SUPPORT FROM REVENUE SHARING.

Treasury's definition of Federal aid and of the programs which it encompasses. Labor also questioned our use of average per capita income, particularly as it applies to public assistance, and suggested we construct "a measure of aid per capita poor." We used families and persons below the poverty line and AFDC caseload per thousand, as well as per capita income, in our discussion of public assistance trends. (See ch. 3 and app. II.)

HEW questioned our treatment of public assistance funds and our conclusion that shifts in the flow of Federal aid are responsive to declining economic conditions. The large increases in the Northeast's receipts of total aid and of public assistance funds support our conclusions.

Treasury termed the report complete and accurate and commended it for avoiding pitfalls by excluding potentially inaccurate data and focusing sharply on its subject. The Department suggested we emphasize that:

> "The goal of Federal tax and expenditure policies should not be to return funds to each State in proportion to its tax contribution, but rather to insure that Federal tax policies affect individuals equitably and that Federal expenditures are made in response to the need for these expenditures. A comparison of taxes paid and expenditures is, in effect only a residual of these decisions."

We also obtained oral and informal comments from staff of the Academy for the Study of Contemporary Problems, the Council of State Governments, and the National Governors Conference (now the National Governors Association). Those of the Academy and the Council were positive.

The Governors raised several questions, primarily concerning the scope of the report. They suggested that the report analyze all Federal spending and tax expenditures and place more emphasis on differences within States and regions. The Conference also took the position that formulas and Federal policy decisions deserved more emphasis as determining factors in the distribution of Federal aid. We beleive that formulas and Federal policy permit States to have a substantial impact on the flow of aid.

Federal Aid to States

Fiscal Year
1975

DEPARTMENT OF THE TREASURY

Fiscal Service - Bureau of Government
Financial Operations

Division of Government Accounts and Reports

FOREWORD

This report contains data on Federal aid to State and local governments and provides detailed support for the Federal aid to State and local governments data published in the "Special Analyses of the Budget of the United States Government." Neither this report nor the "Special Analyses" provides data on Federal grants-in-aid to individuals and private institutions within the States.

The "Federal Aid to States" report is compiled from data furnished by the departments and agencies, on a cash payments or comparable basis, pursuant to Treasury Circular No. 1014, and Chapter 7000 of Part II of the Treasury Fiscal Requirements Manual. Similar data are also reported by the agencies to the Office of Management and Budget pursuant to OMB Circular No. A-11, but at the program level only, not by State.

Federal aid to State and local governments as shown in this report, and as defined in OMB Circular No. A-11, consists of resources provided by the Federal Government in support of State or local programs of governmental service to the public. This definition includes:

(a) Direct cash grants to State or local governmental units, to other public bodies established under State or local law, or to their designees; e.g., Federal aid for highway construction.

(b) Outlays for grants-in-kind, such as purchases of commodities distributed to State or local governmental institutions; e.g., school lunch programs.

(c) Payments to nonprofit institutions when: (1) The program is coordinated or approved by a State agency; e.g., the Hill-Burton hospital construction program, (2) payments are made directly because of provisions of a State plan or other arrangements initiated by a State or local government; e.g., Federal aid for higher education, or (3) payments are made with the explicit intent of augmenting public programs; e.g., community action programs.

(d) Shared revenues and payments in lieu of taxes; e.g., payments from receipts of Oregon and California grant lands.

(e) Payments to regional commissions and organizations which are redistributed at the State or local level to provide public services.

(f) Federal payments to State and local governments for research and development that is an integral part of the State and local governments' provision of services to the general public; e.g., research on crime control financed from law enforcement assistance grants or on mental health associated with the provision of mental rehabilitation services. See (c) and (d) below for *exclusions* related to research and development.

(g) Direct Federal loans to State and local governments for purposes similar to those for which grants are made.

Items *not included* under this definition are:

(a) Federal administrative expenses associated with programs (a)-(g) above.

(b) Grants made directly to nonprofit institutions not covered above, individuals, and profit-making institutions; e.g., payments for Job Corps centers and to trainees.

(c) Payments for research and development not directly related to the provision of services to the general public; e.g., basic research.

(d) Payments for services rendered; e.g., utility services, tuition payments, research and development for Federal purposes conducted under contracts, grants, or agreements by such agencies as the National Institutes of Health, the National Science Foundation, the Energy Research and Development Administration, the National Aeronautics and Space Administration, and the Department of Defense.

(e) Federal grants to cover administrative expenses for regional bodies and other funds not redistributed to the States or their subordinate jurisdictions; e.g., the administrative expenses of the Appalachian Regional Commission.

This report does not provide the total Federal expenditure impact on the States. There is a publication entitled "Federal Outlays"—a volume for each State and a Summary—which provides total Federal outlays by State, county, and city of over 25,000 population. It is compiled by the Community Services Administration (formerly Office of Economic Opportunity), and is available from the National Technical Information Service, Springfield, Va. 22151 (phone 703-321-8543).

APPENDIX II	POPULATION 1969–75 % CHANGE	POPULATION DENSITY 1975	PERCENT URBAN POPULATION 1970	PER CAPITA PERSONAL INCOME 1975	PER CAPITA PERSONAL INCOME 1969-75 % CHANGE	PERCENT UNEMPLOYMENT 1975	PERCENT UNEMPLOYMENT 1970	PERCENT OF FAMILIES BELOW U.S. POVERTY LEVEL 1969	PERCENT OF POPULATION BELOW U.S. POVERTY LEVEL 1969	PERCENT OF POPULATION RECEIVING AFDC 1975	PERCENT OF POPULATION RECEIVING AFDC 1969-75 % CHANGE	PERCENT OF STATE AND LOCAL BUDGETS SPENT ON WELFARE 1975	MEDICAID REIMBURSEMENT RATE 1975	PER CAPITA FEDERAL AID: PUBLIC ASSISTANCE 1975	PUBLIC ASSISTANCE 1969-75 % CHANGE	REVENUE SHARING 1975	HIGHWAY TRUST FUND 1975	HIGHWAY TRUST FUND 1969-75 % CHANGE	COMPREHENSIVE MANPOWER 1975	ELEMENTARY AND SECONDARY EDUCATION 1975	ELEMENTARY AND SECONDARY EDUCATION 1969-75 % CHANGE	TOTAL 1975	TOTAL 1969 75 % CHANGE	NET AID 1975	NET AID 1969	AID/SUPPORT RATIO 1975	AID/SUPPORT RATIO 1969	FEDE I 1975
UNITED STATES - TOTAL	6	60	73	$5902	60	8.49	5.0	11	14	5.1	71	12	60%	$66	133	$29	$21	6	$12	$10	53	$228	132	$	$-	1.00	1.00	$ 600
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ENGLAND	4	194	76	6098	53	10.36	4.9	6	9	5.4	101	15	60	77	151	31	17	23	11	9	81	246	146	8	17	1.03	0.85	626
Maine	7	34	51	4788	69	9.37	5.7	10	14	7.6	199	15	71	88	245	36	21	13	11	10	19	276	190	112	23	1.68	1.32	432
New Hampshire	13	91	56	5313	55	6.49	3.3	7	9	3.2	241	12	60	48	278	24	30	9	6	6	[illegible]	209	151	1	6	1.01	0.94	548
Vermont	8	51	32	4960	52	9.62	4.9	9	12	4.3	76	13	70	89	134	37	53	-33	12	15	[illegible]	327	90	156	95	1.91	2.23	451
Massachusetts	3	743	85	6113	52	11.15	4.6	6	9	6.0	107	18	50	85	129	33	12	-35	11	9	98	250	146	19	13	1.08	0.89	609
Rhode Island	1	884	87	5839	5	13.94	5.2	9	11	5.5	58	17	57	87	171	29	18	18	15	9	99	269	139	57	17	1.27	1.18	556
Connecticut	3	637	77	6974	52	9.15	5.6	5	7	4.0	66	11	50	60	161	25	16	21	9	8	58	217	148	84	69	0.72	0.56	793
MIDDLE ATLANTIC	1	371	82	6398	53	9.29	4.5	8	10	6.1	65	14	52	98	166	32	14	-9	10	12	160	265	177	16	-21	1.07	0.82	655
New York	0	379	86	6564	46	9.52	4.5	9	11	6.6	26	14	50	131	135	38	12	-12	9	14	236	314	177	66	-11	1.27	0.92	650
New Jersey	3	973	89	6722	57	10.24	4.6	6	8	6.0	152	13	50	65	437	26	13	-22	11	9	113	205	190	80	54	0.72	0.57	750
Pennsylvania	1	263	72	5943	62	8.32	4.5	8	11	5.4	90	14	55	68	202	28	20	2	12	11	97	228	171	2	16	0.99	0.84	604
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	623
EAST NORTH CENTRAL	3	168	75	6121	56	8.97	5.1	8	10	5.5	146	13	54	63	232	26	16	19	10	9	78	192	156	53	36	0.78	0.68	643
Ohio	2	263	75	5810	53	9.10	5.4	8	10	4.9	115	11	54	40	155	23	18	-19	9	7	52	166	124	69	33	0.71	0.69	619
Indiana	3	147	65	5653	54	8.60	5.0	7	10	3.0	177	8	57	31	346	24	12	-58	14	7	53	152	144	73	34	0.67	0.65	592
Illinois	1	200	83	6789	58	7.10	4.1	8	10	6.8	139	13	50	72	238	25	18	-15	7	9	101	200	146	87	46	0.70	0.64	754
Michigan	4	161	74	6173	55	12.49	6.7	7	9	7.0	206	15	50	86	267	29	19	7	12	12	117	231	201	4	36	0.98	0.68	619
Wisconsin	5	85	66	5668	61	6.95	3.9	7	10	3.4	97	14	60	84	228	34	10	2	9	6	22	200	178	4	17	0.98	0.81	535
WEST NORTH CENTRAL	4	33	64	5785	66	5.83	3.8	10	13	3.6	77	10	58	49	103	28	29	27	10	10	26	212	125	7	10	0.97	1.12	576
Minnesota	4	50	66	5807	62	5.95	4.2	8	11	3.2	87	13	57	78	200	31	21	17	11	9	13	229	135	15	11	1.07	1.13	563
Iowa	2	51	57	6077	73	5.44	3.7	9	12	2.9	48	9	57	42	128	30	30	62	6	10	28	194	143	35	7	0.85	0.89	601
Missouri	5	69	70	5510	59	6.86	3.3	12	15	5.4	109	9	59	35	16	24	25	38	10	8	9	191	95	20	5	0.91	1.05	553
North Dakota	3	9	44	5733	92	4.97	4.6	12	16	2.1	32	7	58	48	90	35	48	42	15	11	45	268	120	45	65	1.20	2.14	587
South Dakota	2	9	45	4927	65	4.67	3.3	15	19	3.6	71	9	67	49	102	38	52	5	15	15	36	312	125	111	84	1.82	2.51	451
Nebraska	5	20	62	6086	72	6.06	3.1	10	13	2.5	43	9	56	45	129	27	37	82	9	12	77	219	159	9	3	0.96	1.03	600
Kansas	1	28	66	6023	66	4.46	4.8	10	13	2.9	48	9	54	44	108	25	29	33	7	10	42	196	138	41	1	0.82	1.01	631
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	529
SOUTH ATLANTIC	11	126	63	5510	67	8.46	4.1	14	18	4.4	75	9	61	49	168	27	25	46	11	11	24	222	141	13	7	1.06	1.08	550
Delaware	7	292	72	6750	64	8.59	4.8	8	11	5.5	69	9	50	43	156	32	21	19	12	12	30	208	167	62	47	0.77	0.62	709
Maryland	6	414	77	6475	63	6.89	3.3	8	10	5.2	76	9	50	52	145	29	27	111	8	6	18	236	225	48	49	0.82	0.69	745
District of Columbia	-6	11,783	100	7742	57	7.62	3.1	13	17	14.4	268	17	50	152	535	38	17	58	106	44	[illegible]	1009	206	713	222	3.41	3.05	778
Virginia	8	125	63	5785	73	6.41	3.4	12	16	3.5	149	9	58	47	570	24	33	28	8	11	14	202	152	32	0	0.80	0.80	616
West Virginia	3	75	39	4918	81	7.00	6.1	18	22	3.8	-24	8	72	43	76	34	80	81	16	13	[illegible]	206	102	111	83	1.60	2.10	504
North Carolina	8	112	45	4952	66	8.64	4.3	16	20	3.0	41	8	68	42	147	29	15	44	9	13	6	193	120	27	20	1.16	1.29	435
South Carolina	10	93	48	4618	69	8.72	5.0	19	24	4.8	239	7	74	41	200	30	16	16	11	11	18	204	129	51	31	1.33	1.52	402
Georgia	8	85	60	5086	62	8.63	4.1	17	21	7.1	129	11	66	68	108	26	22	35	7	12	27	239	122	64	31	[illegible]	1.49	460
Florida	26	154	81	5638	67	10.66	4.4	13	16	3.1	20	6	57	39	149	23	20	82	9	7	[illegible]	158	146	60	26	[illegible]	0.71	573
EAST SOUTH CENTRAL	7	76	54	4676	72	7.72	4.8	21	25	5.2	54	10	74	53	91	31	24	-1	12	16	[illegible]	237	90	21	63	1.43	2.02	437
Kentucky	6	86	52	4871	69	7.32	5.0	19	23	4.7	28	12	71	64	76	29	20	38	18	15	29	247	72	60	77	1.39	2.15	466
Tennessee	8	101	59	4895	71	8.33	4.8	18	22	4.8	72	8	70	44	123	29	26	14	9	15	[illegible]	217	115	[illegible]	29	1.19	1.11	479
Alabama	6	71	58	4643	75	7.71	4.7	21	25	4.4	49	10	74	52	68	29	25	19	9	13	1	227	84	64	63	1.40	2.03	428
Mississippi	6	50	45	4051	72	7.14	4.8	29	35	7.9	71	9	78	52	128	42	24	22	12	25	14	272	88	140	103	2.16	3.49	331
WEST SOUTH CENTRAL	9	49	72	5346	71	6.34	4.8	17	21	3.9	67	9	70	49	46	27	21	2	12	11	19	206	94	[illegible]	29	0.92	1.33	555
Arkansas	11	41	50	4620	78	8.27	5.0	23	28	4.7	126	11	75	58	75	30	23	5	13	17	2	242	89	90	71	1.70	2.37	375
Louisiana	5	84	66	4904	71	7.35	6.6	22	26	6.2	38	9	72	43	-7	37	29	1	12	14	29	233	78	49	69	1.27	1.58	483
Oklahoma	7	39	68	5250	70	7.19	4.4	15	19	3.6	2	13	67	64	12	26	20	2	15	11	21	263	77	72	76	[illegible]	2.04	503
Texas	11	47	80	5631	71	5.57	4.4	15	19	3.2	119	9	64	46	89	24	18	1	12	9	16	180	110	56	1	0.76	1.00	620
[illegible]	16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	39	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	627
MOUNTAIN	18	11	73	5495	68	7.42	5.1	11	14	3.4	33	7	63	40	86	29	43	-3	16	9	3	256	87	49	57	1.21	1.71	544
Montana	8	5	53	5420	73	7.65	5.5	10	14	3.0	99	8	63	51	209	33	58	19	22	11	4	308	87	113	93	1.58	2.28	513
Idaho	16	10	54	5159	72	6.96	5.8	11	13	2.3	35	8	68	47	159	29	49	23	12	9	[illegible]	258	113	77	59	1.42	1.93	476
Wyoming	14	4	60	6134	88	4.13	4.5	9	12	1.8	35	4	61	22	88	29	85	31	12	8	36	384	88	83	174	1.51	3.12	712
Colorado	17	24	79	5986	71	6.30	4.0	9	12	3.8	50	10	55	55	100	26	30	1	8	11	[illegible]	238	109	6	26	0.98	1.30	639
New Mexico	14	9	70	4774	68	7.24	5.9	19	23	5.3	23	8	73	54	51	34	50	9	25	9	[illegible]	348	86	183	125	2.30	3.00	436
Arizona	28	20	80	5354	63	9.41	4.4	12	15	3.2	27	4	60	13	-5	28	39	25	16	10	17	208	72	17	35	1.09	1.45	502
Utah	15	15	80	4923	65	6.92	6.1	9	11	2.8	2	7	70	44	119	30	43	9	23	4	1	244	90	74	64	1.44	1.97	446
Nevada	23	5	81	6647	57	9.29	5.9	7	9	2.4	37	6	50	29	84	23	43	22	17	4	22	235	84	43	16	0.85	0.89	730
PACIFIC	8	32	86	6520	58	9.78	7.3	8	11	5.9	46	13	53	78	91	30	24	23	16	9	[illegible]	243	113	7	7	0.97	1.07	656
Washington	6	53	73	6247	60	9.53	9.1	8	10	4.1	84	10	54	57	155	25	31	28	16	9	66	225	132	11	8	0.85	0.92	699
Oregon	11	24	67	5770	64	10.58	6.2	9	12	4.4	95	9	59	59	273	27	40	65	14	10	73	262	129	13	24	1.20	1.26	577
California	7	135	91	6593	56	9.86	7.2	8	11	6.4	39	15	50	84	77	31	16	5	16	8	51	233	107	12	4	0.95	1.05	645
Alaska	19	1	48	9443	122	8.06	8.7	9	13	3.3	55	5	50	40	269	23	225	70	33	22	168	740	106	226	244	1.44	3.10	1350
Hawaii	14	133	83	6660	63	7.20	4.7	8	9	5.8	99	10	50	63	263	31	50	29	18	8	63	290	135	39	17	1.16	1.62	659

APPENDIX II

	PER CAPITA PERSONAL INCOME 1975	PER CAPITA PERSONAL INCOME 1969-75 % CHANGE	PERCENT UNEMPLOYMENT 1975	PERCENT UNEMPLOYMENT 1970	PERCENT OF FAMILIES BELOW U.S. POVERTY LEVEL 1969	PERCENT OF POPULATION BELOW U.S. POVERTY LEVEL 1969	PERCENT OF POPULATION RECEIVING AFDC 1975	PERCENT OF POPULATION RECEIVING AFDC 1969-75 % CHANGE	PERCENT OF STATE AND LOCAL BUDGETS SPENT ON WELFARE 1975	MEDICAID REIMBURSEMENT RATE 1975
UNITED STATES - TOTAL	$5902	60	8.49	5.0	11	14	5.1	71	12	60%
[illegible]	6342	53	8.88	4.6	8	8	[illegible]	[illegible]	[illegible]	[illegible]
NEW ENGLAND	6098	53	10.36	4.9	6	9	5.4	101	15	60
Maine	4788	59	9.37	5.7	10	14	7.6	199	15	71
New Hampshire	5313	55	6.49	3.3		9	3.2	241	12	60
Vermont	4960	52	9.62	4.9	9	12	4.3	76	13	70
Massachusetts	6113	52	11.15	4.6	6	[illegible]	6.0	107	18	50
Rhode Island	5839	5	13.94	5.2	9		5.5	59	17	57
Connecticut	6974	52	9.15	5.6	5		4.0	66	11	50
MIDDLE ATLANTIC	6398	53	9.29	4.5	8	10	6.1	55	14	52
New York	6564	46	9.52	4.5	9	11	6.6	26	14	50
New Jersey	6722	57	10.24	4.6	6	8	6.0	152	13	50
Pennsylvania	5943	62	8.32	4.5	8	11	5.4	90	14	55
[illegible]	6024	58	8.06	4.7	8	11	[illegible]	[illegible]	[illegible]	[illegible]
EAST NORTH CENTRAL	6121	56	8.97	5.1	8	10	5.5	[illegible]	13	54
Ohio	5810	53	9.10	5.4	8	10	4.9	115	11	54
Indiana	5653	54	8.60	5.0	7	10	3.0	177	8	57
Illinois	6789	58	7.10	4.1	8	10	6.8	139	13	50
Michigan	6173	55	12.49	6.7	7	9	7.0	206	15	50
Wisconsin	5668	61	6.95	3.9	7	10	3.4	97	14	60
WEST NORTH CENTRAL	5785	66	5.83	3.8	10	13	3.6	77	10	58
Minnesota	5807	62	5.95	4.2	8	11	3.2	87	13	57
Iowa	6077	73	5.44	3.7	9	12	2.9	48	9	57
Missouri	5510	59	6.86	3.3	12	15	5.4	109	9	59
North Dakota	5733	92	4.97	4.6	12	16	2.1	32	7	58
South Dakota	4927	65	4.67	3.3	15	19	3.6	71	9	67
Nebraska	6086	72	6.06	3.1	10	13	2.5	43	9	56
Kansas	6023	66	4.48	4.8	10	13	2.9	48	9	54
[illegible]	5294	69	7.70	4.4	16	20	4.4	[illegible]	[illegible]	[illegible]
SOUTH ATLANTIC	5510	67	8.46	4.1	14	18	4.4	75	9	61
Delaware	6750	64	8.59	4.8	8	11	5.5	69	9	50
Maryland	6475	63	6.89	3.3	8	10	5.2	76	9	50
District of Columbia	7742	57	7.62	3.1	13	17	14.4	268	17	50
Virginia	5785	73	6.41	3.4	12	16	3.5	149	9	58
West Virginia	4918	81	7.00	6.1	18	22	3.8	-24	8	72
North Carolina	4952	66	8.64	4.3	16	20	3.0	41	8	68
South Carolina	4618	69	8.72	5.0	19	24	4.8	239	7	74
Georgia	5086	62	8.63	4.1	17	21	7.1	129	11	66
Florida	5638	67	10.66	4.4	13	16	3.1	20	6	57
EAST SOUTH CENTRAL	4676	72	7.72	4.8	21	25	5.2	54	10	74
Kentucky	4871	69	7.32	5.0	19	23	4.7	28	12	71
Tennessee	4895	71	8.33	4.8	18	22	4.8	72	8	70
Alabama	4643	75	7.71	4.7	21	25	4.4	49	10	74
Mississippi	4051	72	7.14	4.8	29	35	7.9	71	9	78
WEST SOUTH CENTRAL	5346	71	6.34	4.8	17	21	3.9	67	9	70
Arkansas	4620	78	8.27	5.0	23	28	4.7	126	11	75
Louisiana	4904	71	7.35	6.6	22	26	6.2	38	9	72
Oklahoma	5250	70	7.19	4.4	15	19	3.6	2	13	67
Texas	5631	71	5.57	4.4	15	19	3.2	119	9	64
[illegible]	6259	60	9.20	8.8	9	12	[illegible]	[illegible]	[illegible]	[illegible]
MOUNTAIN	5495	68	7.42	5.1	11	14	3.4	33	7	63
Montana	5420	73	7.65	5.5	10	14	3.0	99	8	63
Idaho	5159	72	6.96	5.8	11	13	2.3	35	8	68
Wyoming	6134	88	4.13	4.5	9	12	1.8	35	4	61
Colorado	5986	71	6.30	4.0	9	12	3.8	50	10	55
New Mexico	4774	68	7.24	5.9	19	23	5.3	23	8	73
Arizona	5354	63	9.41	4.4	12	15	3.2	27	4	60
Utah	4923	65	6.92	6.1	9	11	2.8	2	7	70
Nevada	6647	57	9.29	5.9	7	9	2.4	37	6	50
PACIFIC	6520	58	9.78	7.3	8	11	5.9	46	13	53
Washington	6247	60	9.53	9.1	8	10	4.1	84	10	54
Oregon	5770	64	10.58	6.2	9	12	4.4	95	9	59
California	6593	56	9.86	7.2	8	11	6.4	39	15	50
Alaska	9443	122	8.06	8.7	9	13	3.3	55	5	50
Hawaii	6660	63	7.20	4.7	8	9	5.6	99	10	50

PER CAPITA FEDERAL AID

	PUBLIC ASSISTANCE 1975	PUBLIC ASSISTANCE 1969-75 % CHANGE	REVENUE SHARING 1975	HIGHWAY TRUST FUND 1975	HIGHWAY TRUST FUND 1969-75 % CHANGE	COMPREHENSIVE MANPOWER 1975	ELEMENTARY AND SECONDARY EDUCATION 1975	ELEMENTARY AND SECONDARY EDUCATION 1969-75 % CHANGE	TOTAL 1975	TOTAL 1969 75 % CHANGE
UNITED STATES - TOTAL	$66	133	$29	$21	6	$12	$10	53	$228	132
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ENGLAND	77	151	31	17	-23	11	9	81	246	146
Maine	88	245	36	21	13	11	10	19	276	190
New Hampshire	48	278	24	30	9	6	6	132	209	151
Vermont	89	[illegible]	37	53	33	12	15	201	327	90
Massachusetts	85	[illegible]	33	12	-35	11	9	98	250	146
Rhode Island	87	17	29	18	-18	15	9	99	269	139
Connecticut	60	161	25	16	-21	9	8	58	217	148
MIDDLE ATLANTIC	98	166	32	14	9	10	12	160	265	177
New York	131	135	38	12	-12	9	14	236	314	177
New Jersey	65	437	26	13	-22	11	9	113	205	190
Pennsylvania	68	202	28	20	2	12	11	97	228	171
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EAST NORTH CENTRAL	63	232	26	16	19	10	9	78	192	156
Ohio	40	155	23	18	19	9	7	52	166	124
Indiana	31	346	24	12	-58	14	7	53	152	144
Illinois	72	238	25	18	15	7	9	101	200	146
Michigan	86	267	29	19	7	12	12	117	231	201
Wisconsin	84	228	34	10	2	9	6	22	200	178
WEST NORTH CENTRAL	49	105	28	29	27	10	10	26	212	125
Minnesota	78	200	31	21	-17	11	9	-13	229	135
Iowa	42	128	30	30	62	6	10	28	194	143
Missouri	35	16	24	25	38	10	8	9	191	95
North Dakota	48	90	35	48	42	15	11	45	268	120
South Dakota	49	102	38	52	5	15	15	36	312	125
Nebraska	45	129	27	37	82	9	12	77	219	159
Kansas	44	108	25	29	33	7	10	42	196	138
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SOUTH ATLANTIC	49	168	27	25	46	11	11	24	222	141
Delaware	43	156	32	21	19	12	12	89	208	167
Maryland	52	145	25	27	111	8	6	18	236	225
District of Columbia	152	535	38	17	58	106	44	383	1009	206
Virginia	47	570	24	33	28	8	11	44	202	152
West Virginia	43	76	34	80	81	16	13	-3	306	102
North Carolina	42	147	29	15	44	9	13	6	193	120
South Carolina	41	200	30	16	16	11	11	18	204	129
Georgia	68	108	26	22	35	7	12	27	239	122
Florida	39	149	23	20	82	9	7	23	158	140
EAST SOUTH CENTRAL	53	91	31	24	1	12	16	22	227	90
Kentucky	64	76	29	20	38	18	15	29	247	72
Tennessee	44	123	29	26	14	9	15	52	217	115
Alabama	52	68	29	25	19	9	13	1	227	84
Mississippi	52	128	42	24	22	12	25	14	272	88
WEST SOUTH CENTRAL	49	46	27	21	2	12	11	19	206	94
Arkansas	58	75	30	23	5	13	17	2	242	89
Louisiana	43	7	37	29	1	12	14	39	233	78
Oklahoma	64	12	26	20	2	15	11	21	263	77
Texas	46	89	24	18	1	12	9	16	180	110
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MOUNTAIN	40	86	29	43	3	16	9	3	256	87
Montana	51	209	33	58	19	22	11	4	308	87
Idaho	47	159	29	49	23	12	9	33	258	113
Wyoming	22	88	29	85	31	12	8	36	354	38
Colorado	55	100	26	30	1	8	11	59	238	109
New Mexico	54	51	34	50	9	25	9	41	348	86
Arizona	[illegible]	5	28	39	25	16	10	12	208	77
Utah	44	119	30	43	9	23	4	4	244	90
Nevada	29	84	23	43	22	17	4	27	235	84
PACIFIC	78	91	30	24	23	16	9	57	243	113
Washington	57	155	25	31	28	16	9	66	225	132
Oregon	59	273	27	40	65	14	10	73	262	129
California	84	77	31	16	5	16	8	51	233	107
Alaska	40	269	23	225	70	33	22	168	740	106
Hawaii	63	263	31	50	29	18	8	63	290	135

	NET AID 1975	NET AID 1969	AID/SUPPORT RATIO 1975	AID/SUPPORT RATIO 1969	PER CAPITA FEDERAL PERSONAL INCOME TAX 1975	PER CAPITA FEDERAL PERSONAL INCOME TAX 1969-75 % CHANGE	PERCENT OF PERSONAL INCOME PAID IN STATE AND LOCAL TAXES 1975
UNITED STATES - TOTAL	$	$-	1.00	1.00	$ 600	40	11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ENGLAND	8	17	1.03	0.35	626	22	12
Maine	112	23	1.68	1.32	432	37	12
New Hampshire	1	-6	1.01	0.94	548	41	10
Vermont	156	95	1.91	2.23	451	33	14
Massachusetts	19	-13	1.08	0.89	609	22	13
Rhode Island	57	17	1.27	1.18	556	34	11
Connecticut	84	69	0.72	0.56	793	16	10
MIDDLE ATLANTIC	16	-21	1.07	0.82	655	29	13
New York	66	11	1.27	0.92	650	20	16
New Jersey	-80	-54	0.72	0.57	750	37	11
Pennsylvania	-2	-16	0.99	0.84	604	37	11
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EAST NORTH CENTRAL	53	36	0.78	0.68	643	33	11
Ohio	-69	-33	0.71	0.69	619	32	9
Indiana	73	34	0.67	0.65	592	40	10
Illinois	-87	-45	0.70	0.64	754	36	11
Michigan	-4	36	0.98	0.68	619	25	11
Wisconsin	4	17	0.98	0.81	535	38	13
WEST NORTH CENTRAL	7	10	0.97	1.12	576	57	11
Minnesota	15	11	1.07	1.13	563	49	13
Iowa	35	7	0.85	0.99	601	71	10
Missouri	20	5	0.91	1.05	553	37	9
North Dakota	45	65	1.20	2.14	587	135	11
South Dakota	141	84	1.82	2.51	451	86	11
Nebraska	9	3	0.96	1.03	600	68	10
Kansas	44	1	0.82	1.01	631	77	10
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SOUTH ATLANTIC	13	7	1.06	1.08	550	47	10
Delaware	62	47	0.77	0.62	709	30	11
Maryland	48	49	0.83	0.69	745	40	11
District of Columbia	[illegible]	222	3.41	3.05	778	64	10
Virginia	32	9	0.86	0.90	616	58	10
West Virginia	114	83	1.60	2.19	504	66	11
North Carolina	27	20	1.16	1.29	435	46	10
South Carolina	51	31	1.33	1.52	402	58	10
Georgia	64	31	1.37	1.40	460	36	10
Florida	60	26	0.73	0.71	573	44	9
EAST SOUTH CENTRAL	71	63	1.43	2.02	437	61	10
Kentucky	69	77	1.39	2.15	466	61	10
Tennessee	35	29	1.19	1.41	479	53	9
Alabama	64	63	1.40	2.03	428	61	9
Mississippi	146	103	2.16	3.49	331	82	11
WEST SOUTH CENTRAL	4	30	0.98	1.38	555	65	10
Arkansas	99	74	1.70	2.37	375	59	9
Louisiana	49	65	1.27	1.98	483	67	12
Oklahoma	72	76	1.38	2.04	503	58	9
Texas	56	1	0.76	1.00	620	65	9
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MOUNTAIN	49	57	1.24	1.71	544	55	11
Montana	113	93	1.58	2.28	513	62	11
Idaho	77	59	1.42	1.93	476	74	10
Wyoming	83	174	1.31	3.12	712	99	11
Colorado	6	26	0.98	1.30	639	67	11
New Mexico	183	125	2.10	3.00	436	60	11
Arizona	17	35	1.09	1.43	502	40	12
Utah	74	63	1.44	1.97	446	56	10
Nevada	13	16	0.85	0.89	730	16	12
PACIFIC	7	7	0.97	1.07	656	41	13
Washington	41	8	0.85	1.02	699	52	11
Oregon	43	24	1.20	1.26	577	45	11
California	12	4	0.95	1.04	645	36	13
Alaska	226	244	1.44	3.10	1350	166	9
Hawaii	39	17	1.16	1.62	659	42	13

AGENCY COMMENTS

Comments on this report were received directly from the Advisory Commission on Intergovernmental Relations, the Department of the Treasury, and the Office of Management and Budget. OMB also agreed to collect comments from the Departments of Labor, Transportation, and Health, Education, and Welfare. Labor's and Transportation's comments were summarized by OMB in its comments. HEW's comments were transmitted to OMB and forwarded to us.

Some statements in the comments which follow relate to matters in a draft report which have been revised. The page numbers mentioned also refer to the draft and do not correspond to page numbers in this report.

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

AUG 19 1977

Dear Mr. Lowe:

Secretary Blumenthal has asked me to respond to your request for comments on your report titled, "Changing Patterns of Federal Aid to State and Local Governments: 1969 - 1975."

My staff has thoroughly examined the report and I have reviewed its contents. Based on these examinations, I commend you and your staff for producing a thorough and accurate report. I am impressed with the thoroughness of your examination and the high quality of your analysis.

I also commend you for avoiding many of the pitfalls inherent in the type of analysis you have undertaken. Your reluctance to include corporate tax data, procurement expenditures and other data which generally are not accurate is indicative of the careful thought that is incorporated in your study.

I would, however, like to express one concern. I am fully aware of the interest in studies which compare taxes paid by specific areas and Federal expenditures within those areas. Nevertheless, I believe that any such analysis should be accompanied by a strong caveat concerning its implications. The goal of Federal tax and expenditure policies should not be to return funds to each State in proportion to its tax contribution, but rather to insure that Federal tax policies affect individuals equitably and that Federal expenditures are made in response to the need for these expenditures. A comparison of taxes paid and expenditures is, in effect, only a residual of these decisions. I believe it would be useful if you could make such a point in the introduction to your study.

Thanks for providing Treasury with an opportunity to comment on your study.

Sincerely,

Roger C. Altman

Mr. Victor L. Lowe
Director, General Government Division
United States General Accounting Office
Washington, D. C. 20548

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

JUL 19 1977

Mr. Victor Lowe
Director, General Government
Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Lowe:

I am responding to a draft GAO report entitled, "Changing Patterns of Federal Aid to State and Local Governments: 1969-75".

We have made inquiries of the executive agencies through the Under Secretaries, the Federal Regional Councils, and staff within OMB. From these reviews and our own analysis, general and specific comments follow.

General Comments

In general, given its approach and methodology, we find the draft report a useful contribution to the growing literature on the distribution of Federal aids to States and regions. The GAO report does not come up with any recommendations. Our review, then, deals primarily with an assessment of the draft report's methodology. Furthermore, we do not offer comments on the report's conclusions concerning the regional distribution of Federal monies inasmuch as conclusions on the subject will differ, depending upon the methodology employed.

At the outset the GAO report indicates that it excludes outlays for Federal employment, direct income security payments, and procurement. It only includes Federal grants-in-aid to State and local governments. In this respect the GAO report approach is different from other reports and analyses. The GAO report when arrayed with other reports and analyses on this subject should help to provide reasoned intelligence for the continuing debate on Federal fund distribution.

However, given the diverse approaches to analysis of the subject, the methodology employed in the report should be stated explicitly. For example, either in the digest or early in the main body of the report, a table might be included to show which Federal dollars are included and which dollars are excluded. Also, in the digest or early in the report, it should be made very explicit that nine U.S. Census Bureau regions are used for analysis purposes. Further, it might also be useful to include in this suggested table or an accompanying table the differing methodologies of the GAO and other reports.

A very salient feature of the GAO report is that it looks at trends over time: 1969-75. We would hope that this type of analysis will be continued in future years. Furthermore, we would hope that, eventually, such time series data would be applied to all Federal expenditures (grants, procurement, military expenditures, and the like) impacting State and local governments on a regional basis. While we are by no means suggesting that the GAO report is deficient in this regard, it would be helpful if the final GAO report suggested further directions needed for looking at time series data in regard to all Federal expenditures.

The GAO draft report uses nine regions from which data is most readily available from the U.S. Census Bureau. As is correctly pointed out in the report, the use of such regional data can be misleading if not employed with care. The report, for example, indicates that California data tend to skew per capita income taxes paid and Federal per capita aid for other States in the Pacific region. Numerous other potential regional pitfalls could be mentioned. Therefore, in a subject matter as complex as this one, care should be taken in future analysis not to "lock in" exclusively on these particular regions. The 10 standard Federal regions, aggregates of the 9 regions used in the GAO draft report, or a comparative analysis among the 10-12 most populous States provide illustrative alternative or complementary geographic areas for analyzing Federal aid data.

The draft report excludes corporate taxes paid and it does not go into depth for cost of living differentials. We agree that these subjects are highly complex and firm data to permit analysis is elusive. Nevertheless, we believe that, as the Federal distribution debate evolves and becomes more sophisticated, both of these particular subjects should be dealt with in future analysis, be it by the GAO or some other organization. In FY 76, for example, corporate tax receipts constituted 10.5 percent of Federal receipts. Certainly, portions of such receipts make up an important part of Federal grant-in-aid dollars delivered to State and local governments.

Specific Comments

Pages 1 of Digest -- Second to last line reads, "payments, direct procurement (military spending) and interest." Should not it read: "payments, direct procurement (military spending and others) and interest"? *

Page 1 of Digest -- Under "Scope and Methodology" the second sentence reads "The definition excludes Federal employment income security payments ..." In FY 1975, almost 19 percent or $9.3 billion of grants-in-aid were in the income security function including public assistance. Both the executive and the Congress define these programs as being income security. Perhaps the report should say that Federal aid direct payments to individuals are excluded. Page 1 of the digest and page 8 of the main report may need clarification to make this totally consistent. *

Page 2 of Digest -- Page 4 of Main Report -- General revenue sharing was passed in FY 73 (calendar year 72) and payments for January 1 - June 30, 1972, were made in December of 1972. The draft report is not consistent between page 2 of the digest and page 4 of the report in this regard.*

Page 3 -- The report states that it will avoid value judgements. Yet, it sets up aid/support ratios in figure 7 and elsewhere which can lead the reader to draw conclusions about disparities. This may be misleading since only individual income taxes as are used in the recipients analysis and only grants-in-aid are used as outlays. Accordingly, we believe that such aid/support ratios should be used as only one of several possible indicators. Great care must be taken in future reports to avoid the use of such ratios as sole normative targets in developing future formulas for grants. To rely solely on such norms would, for example, assume that needs are constant among sectors of the population and regions of the Country.

Figure 4 -- Should not the year 1975 be added to the title of this figure?

Figures 5 and 7 -- These figures identify regions by number; yet there is no way of knowing how the regions are numbered unless we assume that they are numbered in order as they appear in Appendix I. It would be helpful to the reader if this was stated more explicitly.

*[See introduction to this appendix.]

<u>DOT and Labor Comments</u> -- We have learned through conversations with GAO that they are particularly interested in comments from program agencies concerned with public assistance, revenue sharing, the highway trust fund, comprehensive manpower programs, and the elementary and secondary education funds. DOT and Labor responded and their comments are noted below. HEW is now preparing comments on the report at OMB's request and we will forward these comments as soon as we receive them.

The Department of Transportation indicates that they have difficulties in viewing Federal-aid highways in the context of general Federal revenue collections and expenditures inasmuch as the Federal Highway Program is financed largely from user charges. Specifically, they state:

> "It should be noted in the discussion, for example, that the Federal-aid Highway Program is financed in large part from user revenues rather than personal income taxes. Therefore, including the Federal-aid Highway Program in a comparison of Federal-aid to States versus the income tax receipts from the States is somewhat misleading. By the same token, it also seems inappropriate to compare per capita expenditures from user financed programs, such as the Federal-aid Highway Program with expenditures from programs which are financed solely from general revenue funds."

The Department also takes exception to the suggestion made in the report that largely sparsely populated States receive high percentages of Federal highway funds. They note that for major highway programs the apportionment formula involves mileage and population in addition to land area.

The Department of Labor's comments centered around two issues. First, they had problems with the rationale for selecting the program activities covered in the study and questioned the validity of excluding the impact of procurement, corporate taxes, and direct payment. They raised the issue that if corporate taxes are excluded because their sources is difficult to trace, then the same should be done with personal income taxes inasmuch as their source is also difficult to trace.

Second, they question the use of average per capita income, particularly as it applies to public assistance. In regard to public assistance, for example, they raise the point that it might be better to construct "a measure of aid per capita poor" rather than average per capita differences?

In summary, we find the GAO draft report, given its methodological approach, to be a useful contribution to the growing analysis and literature on Federal aids distribution. If we can be of further assistance, please contact me.

Sincerely,

Jim McIntyre

James T. McIntyre
Deputy Director

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20201

JUL 18 1977

Mr. Vincent Puritano
Deputy Associate Director for
Intergovernmental Relations
and Regional Operations
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. Puritano:

The Secretary asked that I respond to your letter of June 17 requesting the Department's views on the General Accounting Office draft report, "Changing Patterns of Federal Aid to State and Local Governments, 1969-1975." I am enclosing comments developed by the Deputy Under Secretary for Intergovernmental Affairs and the Deputy Assistant Secretary for Program Systems.

Thank you for sending this report for our review and comment.

Sincerely yours,

(S) Tom Morris

Thomas D. Morris
Inspector General

Enclosure

THE UNDER SECRETARY OF HEALTH, EDUCATION, AND WELFARE
WASHINGTON, D.C. 20201

July 6, 1977

MEMORANDUM TO BASIL HENDERSON

SUBJECT: Comments on Draft GAO Report "Changing Patterns of Federal Aid to State and Local Governments 1969-1975"

These comments have to do with interpretation of the information reported. I have made no effort to (a) check the accuracy of the data reported or (b) look at the same issues with different measures than those used.

There is a continuing line of confusion in the Draft between the effects of Federal matching programs (AFDC, Medicaid, etc.), state and local tax effort and per capita Federal aid.

Simply put: State A (or region B) can spend a lot for public assistance from local taxes (for whatever reason); receive a lot because of dollar for dollar matching provisions in the public assistance programs and therefore rank high as a per capita Federal aid state (or region).

The Draft makes all three points in various places but does not tie them together.

Specifically, I find the "who contributed-who benefitted" argument on revenue sharing on page 2 seriously misleading since there is no effort to control for state variations in public assistance case loads; benefit levels and the like. Federal spending in isolation tells very little.

Page 9--the influence of state and local policies toward welfare and State income levels is clearly stated--it needs to be tied in with the other major themes of the paper, however.

Page 15--the Draft slips again into treating the per capita Federal aid issue as important by itself. Other factors have to be controlled--welfare case load; benefits levels, etc.

Page 16 makes the excellent point re: state revenues influencing Federal aid, i.e., the rich get richer!

Page 17 describes the "predicament" of the East North Central States growing out of the region's reluctance to pay higher state taxes and therefore it's not benefitting from Federal assistance via matching programs as it could. This is a conclusion that should be reached only after much more careful research. The Northeast states may, with hindsight, conclude that they made a mistake providing relatively high public assistance benefits; leading to high Federal aid--but very costly programs to sustain. East North Central state legislators on the other hand may view their Federal aid "disadvantage" as the result of wise state policy. Put another way, some States are concluding they cannot afford to receive categorial Federal aid as it is presently distributed.*

Page 37 makes several important points with respect to the relationship of Federal aid, state tax effort and income levels. However, these conclusions need to be made much earlier in the paper in order for the last Chapter to be credible.

Eugene Eidenberg
Deputy Under Secretary
for Intergovernmental Affairs

*[See introduction to this appendix.]

MEMORANDUM

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF THE SECRETARY

TO : Felix J. Majka
HEW Audit Agency

DATE JUN 2 2 1977

FROM : Deputy Assistant Secretary for Program Systems

SUBJECT: GAO Draft Report, "Changing Patterns of Federal Aid to State and Local Governments"

OVERVIEW

We consider that one of the major conclusions of the subject GAO report is based on erroneous analysis, and that GAO should redo portions of it with the help of our office or others in the government.

Briefly, the principal conclusions of the report are that, in the years 1969-1975, the Northeast began to receive more federal aid than it paid in federal personal income taxes, and that federal aid is distributed in a fashion that is responsive to declining economic conditions.

The conclusions in the report are based on consideration of federal aid distributed in a variety of different ways: grants, matching grants, loans, loan guarantees, and materials. The largest piece of federal aid considered (29% of total) is money for public assistance (AFDC and Medicaid) that is distributed as a matching grant on the basis of a formula. The effect of the distribution pattern of federal aid for public assistance dominates the distribution of the other aid.

The conclusions about the way in which aid for public assistance is distributed, however, tend to ignore the fact that the states themselves determine the amount of federal money they get by the benefits and benefit levels they set. The influence of state policy is discussed, but in a separate section from the principal conclusions.

On the basis of the substantial amount of federal funds that the Northeast states get, the bulk of which is attributable to welfare, the study concludes that the distribution of federal aid is responsive to declining economic conditions.

More can be said regarding what is unfair about the Medicaid formula from the perspective of the Northeast, e.g., per capita income includes transfer payments. None of the points that would be raised are treated by the report.

COMMENTS ON SPECIFIC PAGES:

Second page under FINDINGS AND CONCLUSIONS: There is no way to check numbers because specific public assistance (P.A.) programs considered are not identified. Presumably the per capita figures are calculated by state by adding up the amounts of money in the different programs and dividing by the state population. Since the amount going to states depends, in part, on the number of people receiving aid, the per capita figure will seem low in states in which only a small fraction of the population gets aid.

Use of the word "favor" in the second to last line is inappropriate. With respect to the next sentence, it could reasonably be said that the greater proportion of P.A. funds provided by the Federal Government to low-income states "favors" them. *

Page 9: Distribution of P.A. funds also depends on the numbers of people eligible for and receiving P.A. in each state.

Page 13: Under "ELEMENTARY AND SECONDARY EDUCATION," 2nd paragraph, 6th line insert "payments that exceeded their respective poverty thresholds," between "AFDC" and "or." *

Page 41: New York and California, for starters, have large numbers of poor people ("high poverty levels") and generous welfare programs.

Page 42: Same objection to the use of the word "favor." *

Page 43: Implication of statement that "States which can and will support generous welfare programs receive more dollars from public assistance than states with low welfare spending" is that low-benefit states cannot afford to do more. This is not borne out by our work which shows that they could do a lot more, given their tax capacity. The word "generous" is value-laden. Do they mean "relatively generous?" With respect to next sentence, it is no surprise that pattern of federal aid follows pattern of P.A.; see overview remarks above.

If you have questions concerning these comments, please call me or Ms. Ann Sobol of our Office of Income Security Policy (245-6141).

Jerry Britten

*[See introduction to this appendix.]

 APPENDIX III

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

April 28, 1977

Mr. Victor L. Lowe
Director
General Government Division
United States General Accounting
  Office
Washington, DC 20548

Dear Mr. Lowe:

Members of the Commission staff have reviewed the draft report, "Changing Patterns of Federal Aid to State and Local Governments: 1969-1975." The report analyzes major trends in the per capita allocation of Federal assistance in five major functional areas among the regions and states and seeks to explain interstate differences in these grant allocations. The study avoids value judgments and makes no specific recommendations beyond identifying areas in which further research is warranted.

In our view, the report is a pioneering and valuable effort. It seeks to present objective information concerning grant allocations, a topic of considerable intergovernmental and current political concern. We commend this effort and believe that the general findings and back-up information will generate widespread interest.

Yet, the report could be made still more valuable if the analysis supportir [illegible]e of the specific findings were presented in greater detail. [illegible]e extensive data collected (as is indicated by Appendix Table I) could be the basis for many additional statistical tabulations which would be of considerable interest, particularly in regard to the discussion of the "factors which influence the flow of aid" in Chapter V. For example, while the report indicates that such variables as income, poverty level, population size and density, unemployment, and the size of public lands influence the amount of aid allocations of various kinds (p. 41), little data is presented to substantiate this conclusion or to demonstrate the differing influence of these variables on the several kinds of aid studied. Income is singled out for special treatment (pp. 41-44), but is considered only in relation to public assistance programs and, in a few sentences, to total per capita aid (p. 43).

Similarly, the report's digest indicates that "State and local tax effort is closely associated with the changing flow of Federal aid. Those and other state and local policies and decisions were found to be a major determining factors (sic) in the changing level of Federal aid received." The main body of the report, however, deals with this question in only a cursory manner, and does not indicate differences in the correlation of tax effort with grant receipts for aid of particular kinds.

These (and other) points would benefit from more detailed presentation. Such analyses might be of even greater significance than the regional differences and trends which are presented on pp. 17-35. As the report correctly points out, regional definitions are somewhat arbitrary, and there are important differences within as well as between the regions on many key indicators of aid allocation and socio-economic conditions. While the regional analysis does address a subject of current political interest, the other variables also are important, in part because they enter into many grant formulas and might be added to (or removed from) others.

In addition to these substantive points, the following minor comments might be noted:

-- p. 4. The report refers to GRS as having been added in 197<u>3</u>, but the digest places the year as 197<u>2</u>. *

-- p. 5. The first paragraph might indicate that some grants are allocated by formulas and others on a project basis.

-- p. 9. Close second parenthesis after AFDC.*

-- p. 10. The fungibility of GRS does not arise from the fact that no matching is required, as line 12 suggests.*

*[See introduction to this appendix.]

-- pp. 15-16. Both of these pages were missing from the copies of the report we received. Hence, we cannot comment on their contents.

-- p. 17. Since tax levels are high in several of the East North Central states, and are also rising in several, there would appear to be little basis suggesting that they have shown "a reluctance to pay greater state and local taxes." (As indicated above, however, we did not receive the pages upon which this observation apparently is based).*

-- p. 18. Factory closings in New England began well before the early sixties.*

-- p. 22. Portions of the regional analysis present a series of facts with little in the way of a theme to tie them together. The fourth paragraph on this page is an example. Perhaps a more orderly way of presenting this information could be devised.

-- p. 25-26. No information is presented concerning the economic difficulties of St. Louis or the extent to which that city is responsible for the difficulties of the state.

-- p. 28. The uniqueness of the District of Columbia is noted. It would be useful to indicate the extent to which it skews the data reported for the South Atlantic region.

-- p. 38. The alternative techniques discussed beginning on p. 38 are confusing and unnecessary, since the relative positions of the states are unchanged regardless of the specific technique employed.

-- p. 41. Evidence of many of the relationships mentioned would be useful, as suggested above.

-- p. 42. Figure 10 does not rank the states in the order of state and local welfare spending, since the data are in percentage terms and the magnitude of expenditures for other state services varies.

*[See introduction to this appendix.]

-- p. 44. The reason that Vermont has high tax effort is not necessarily because it has a small tax base as implied by the sentence.

-- p. 44. It is not necessarily true that high tax effort means a state has more funds available for matching. Some of our own staff analysis has made just the opposite case, pointing out that a low tax effort state has a much greater potential for raising additional matching dollars.

-- Appendix I. If possible, it would be useful to be provided with the rankings of the states on these aid receipt and other variables, in addition to their actual scores.

We hope these comments prove useful as you consider revisions in the draft report.

Sincerely yours,

Wayne F. Anderson
Executive Director