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STATE GOVERNMENT RESPONSIVENESS TO URBAN PROBLEMS: AN
ANALYSIS OF STATE AID TO CITIES OVER TIME

The University of Oklahoma

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THE UNIVERSITY OF OKLAHOMA

GRADUATE COLLEGE

STATE GOVERNMENT RESPONSIVENESS TO URBAN PROBLEMS:

AN ANALYSIS OF STATE AID TO CITIES OVER TIME

A DISSERTATION

SUBMITTED TO THE GRADUATE FACULTY

in partial fulfillment of the requirements for the

degree of

DOCTOR OF PHILOSOPHY

By

JOHN PETER PELISSERO

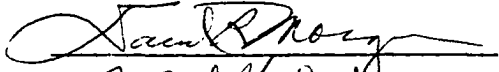
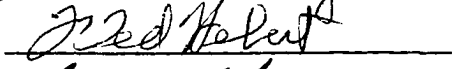
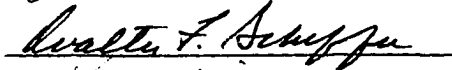
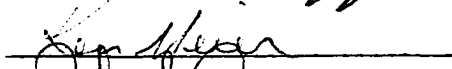
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APPROVED BY

DISSERTATION COMMITTEE

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J.P.P.

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STATE GOVERNMENT RESPONSIVENESS TO URBAN PROBLEMS:
AN ANALYSIS OF STATE AID TO CITIES OVER TIME

CHAPTER I

CITIES IN THE INTERGOVERNMENTAL SYSTEM

America's cities continue to experience problems that are beyond their own means to resolve. A common understanding among policy-makers in the federal system is that large urban areas have been unable to provide a smorgasbord of public services and cope with a variety of city problems without assistance from the federal and state governments. This has led to the assumption of certain government functions by these higher levels of government and to an enlarging intergovernmental aid system. The subject of intergovernmental aid usually brings to mind the massive federal programs that have evolved since the New Deal. Federal aid actually predates the Depression era, but did not attain high levels of spending until the crisis of the Depression dictated federal involvement. Federal fiscal aid has continued since the 1930s with even greater demands for assistance arising from recognition of an "urban crisis" in the late 1960s. The Great Society programs of President Lyndon Johnson highlighted this new federal role in helping cities solve social and economic problems through such programs as

Model Cities, Community Action, and Law Enforcement Assistance. The establishment of cabinet departments of Housing and Urban Development and Transportation further emphasized the federal government's positive response to helping urban areas.

Throughout the last two decades, the urban crisis of social ills, poverty, crime, and inadequate housing and education has given way to a new crisis. Today's fiscal crisis in cities is a conglomeration of deteriorating tax bases, increasing service costs, citizen demands for improvements in the quality of life while taxing less, and a disposition toward austerity on the part of the federal and state governments. While some contend that the urban crisis is over, the fact remains that cities still look beyond their borders for the assistance necessary to cope with a variety of urban needs.

The purpose of this dissertation is to examine the response of state governments to urban needs. The federal government's role has been extensively examined by a number of scholars,¹ but our knowledge of the states' involvement in redressing local problems is lacking. In particular, a need exists to analyze state responses to urban problems over time. The discovery of the urban crisis in the 1960s brought a call for massive forms of aid. There is a need to examine what the states' fiscal assistance was to cities at the start of this crisis and, in turn, how it developed into the next decade.

Before investigating state-city relations, the nature of the continuing urban crisis should be briefly considered. Along with this discussion consideration will be given to the theory of federalism that forms the basis for intergovernmental relations, in general, and

intergovernmental fiscal relationships, in particular. This will be followed by an overview of state-city relationships and a review of the current state of knowledge on state aid to cities.

The Continuing Urban Crisis

The distressed condition of American cities today is caused by political, social, and economic forces that have been mounting for decades and are largely beyond the cities' ability to control. What policy-makers refer to as the urban crisis is, in the words of one policy analyst, " . . . a combination of two distinctly separate components."² The first component has to do with management of city governments. Distress associated with this component includes mismanagement of government programs, inefficiency of government programs, and inadequate political structures--in other words, "problems of the city." The second component is really a mirror of national problems that are "centered in the city," such as poverty, crime, and substandard housing. The first set of problems are within the grasp of the cities to resolve through new management, technologies, and government reorganization. The latter set, however, are not. Problems in the city are shaped as much by national forces as by local conditions.³ And these problems, that have developed over several decades, continue to plague the cities into the 1980s.

Some of the continuing signs of distress include:

- o central cities becoming less dominant parts of the metropolitan areas due to the out-migration to the suburbs;

- o central cities continuing to have lower family incomes than other metropolitan area cities;
- o central cities are increasingly populated by the nonwhite and poor;
- o central cities increasingly being required to tax higher to support higher per capita expenditure ratios compared to other cities.⁴

Such trends are not all products of the urban crisis period though. Grodzins observed in the late 1960s that cities had been confronting inflation-driven price indices along with increasing costs for personnel and public commodities for years before the urban crisis was discovered. Growing demands for new or broader public services came at the very time that cities needed to revitalize their physical plants. And at the same time that these governments were trying to resolve such economic and fiscal problems, modern technology in the private sector was increasing the social costs of government as automation produced greater unemployment and larger welfare problems.⁵ And this situation has worsened in the 1980s rather than improved. The reasons for this lie with the changing orientation of both taxpayers and governments. The property tax revolt initiated with "Proposition 13" in California has spread to many other parts of the country. The effects of these tax rollbacks can be devastating to struggling city governments. Massachusetts' "Propositon 2½" is a glaring example of this.⁶ In addition, the federal government has begun to adopt an austerity program that significantly scales back spending to control the size of government and budget deficits. The impact of such moves--particularly

by the Reagan administration--has led to cutbacks in spending for state and local governments and proposals for a wholesale turnback of grant programs to state governments.

If the federal government displays less sympathy for the urban crisis today, this is not all deliberate. Even at the so-called awakening to the urban crisis in the 1960s, government only seemed to pay attention to the problems because the problems could no longer be ignored.⁷ But since that time, the prolonged war in Vietnam, the environmental movement, the oil shortage and developing energy crisis, as well as the poor national economic state, have all served to push the urban crisis off the front pages. But even if the urban crisis was back on page one, taxpayers want the cities to take care of themselves. And to a large extent, other levels of government have "lost the will to act."⁸

All of this has made it increasingly difficult to justify the expansion or continuance of aid from the other levels of government. Still, the problems of the city could certainly benefit from aid programs of the state or federal governments. And the problems in the city are present across the country and in virtually every state and city. In essence, this urban crisis has an intergovernmental dimension to it--it cuts across all levels of government--and thus necessitates aid from the federal and state governments. For as one writer has noted, " . . . a nation of sick cities is a sick nation."⁹ This very observation reinforces the need for intergovernmental aid programs to help relieve cities of some burdens associated with the urban crisis.

Discussions of urban problems usually raise the issue of responsibility for resolving the problems. The resolution of these problems, according to Campbell and Shalala, is a responsibility of all levels of government and they urged both the national and state governments to be involved.¹⁰ Recognizing that the problems of America's cities and their residents were indicative of a pattern of social ills that engulfed the nation, the federal government began numerous urban aid programs in the mid-1960s. Federal lawmakers and bureaucrats designed urban programs to address, among other things, crime, poverty, unemployment, and substandard housing. Both programmatic and fiscal aid began flowing to cities to support an improved social climate in the cities. But while the federal money was flowing, the state governments were slow to enter the action arena on urban problems.¹¹ Some reasons noted for state inactivity on urban issues in the 1960s include:

- o constitutional restrictions on state power,
- o political/constitutional fiscal restraints,
- o distribution of political power in the state inhibiting state action,
- o federal interference in the state's sphere of action (i.e., direct federal-local relations).¹²

None of these were found to be beyond the ability of the states to correct. In fact, as is later discussed, the states did make significant changes in their capacity to assist urban areas.

But why should the states, or the federal government for that matter, be expected to resolve problems in or of the city? Where lies the basis for intergovernmental problem-solving on the urban crisis?

The answers to these questions lie in the development of intergovernmental relations that led to the establishment of the federal and state aid systems.

The Development of Intergovernmental Relations

The concept of intergovernmental relations is a broad one that is derived from early theories of federalism. When the federal system was established, a pattern of relationships had to be developed that would define the areas of national and state government activities. As Elazar has observed, federalism can be viewed from two perspectives. In the narrower sense, " . . . federalism means national unification through the maintenance of subnational systems."¹³ From a broader viewpoint, though, it " . . . is more than an arrangement of governmental structures; it is a mode of political activity that requires certain kinds of cooperative relationships through the political system it animates."¹⁴ Thus, the states combined with a national government to form a partnership that allowed the states to retain some of their existing powers and position.

The partnership between the national and state governments is dominated by the notion of sharing both power and responsibility to achieve common objectives. Grodzins, in fact, referred to this "pervasiveness of sharing" as the hallmark of American federalism.¹⁵ Over the years since the federal system was founded, the partnership has been through a series of stages that have altered the relationship in divergent ways. The nineteenth century ad hoc system of dual federalism in which the national and state governments acted, for the most part, independently, continued to characterize intergovernmental

practices into the 1940s.¹⁶ But dual federalism began to change as the federal government began to assume a greater role for nationally needed programs in the 1930s. This new system of sharing and cooperation came to be known as marble cake federalism. The cooperative phase gave way in the 1950s and 1960s to "Creative Federalism" and the Great Society programs that were to reach below the states and establish direct national-local relations to aid urban areas and their disadvantaged residents. The Nixon administration implemented a decentralized system of federal-state relationships that sought to take the national government out of the lead role and turn resources and authority back to the states. This program came to be known as Nixon's "New Federalism" and was implemented to alter the character of intergovernmental relations through government reorganization, the consolidation of grants, and the establishment of federal revenue sharing. In the 1980s, these same vehicles have been proposed to achieve additional decentralization of federal government programs for states and communities. Although the most recent changes in intergovernmental relations have been advanced by the Reagan administration, the same "New Federalism" label used during the Nixon administration has been attached to these also.¹⁷

While the preceding paragraph briefly outlined the development of federalism, this concept is not the totality of intergovernmental relations. In fact, federalism is only the beginning of intergovernmental relations. Federalism is really concerned with federal-state relations and perhaps interstate relationships. The partnership and philosophy of sharing and cooperation that characterize federalism's approach to problem-solving paved the way for the broader intergovernmental

theory that encompasses relations with other levels of government.

Intergovernmental relations recognizes, according to Wright, a variety of relationships between governmental units, to include national-local, state-local, national-state-local, and interlocal partnerships.¹⁸

This wider view is built on the federalist foundation of sharing and a cooperative spirit toward achieving common objectives and resolving common problems. The interactions that occur between all levels of government are not occasional either. In fact, the interactions occur continuously on a daily basis as joint ventures are initiated toward common goals.¹⁹

Today, intergovernmental relations dictate a system of intergovernmental cooperation first begun between nation and state. National action has been shown to reinforce activity on the part of the states, and, in some instances, may stimulate state involvement in state-local problems.²⁰ In some ways, cooperation means that the larger governments raise the revenues needed to operate programs while the smaller governments administer these programs.²¹ But such a simple picture of intergovernmental relations cannot do justice to the question of "who does what?" Grodzins has provided some guidance with a two-part explanation:

One is that officials of all 'levels' do everything together. The second is that where one level is preponderant in a given activity, the other makes its influence felt politically (here the voice of the peripheral power units are heard most strongly) or through money (here the central view is most influential)²²

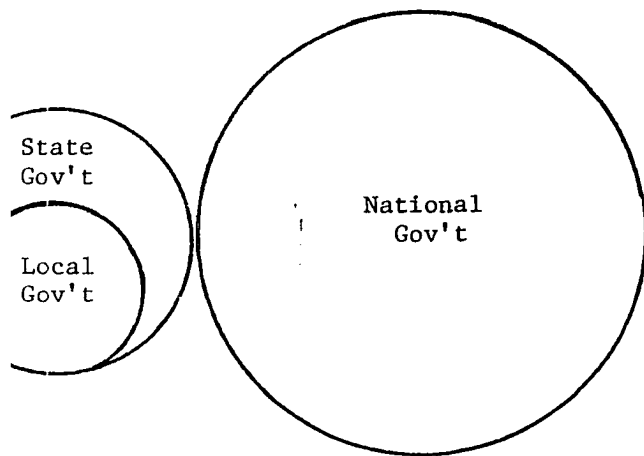
To better understand the relationships between the various levels of government, a discussion of some models of intergovernmental relations is presented below.

Models of Intergovernmental Relations

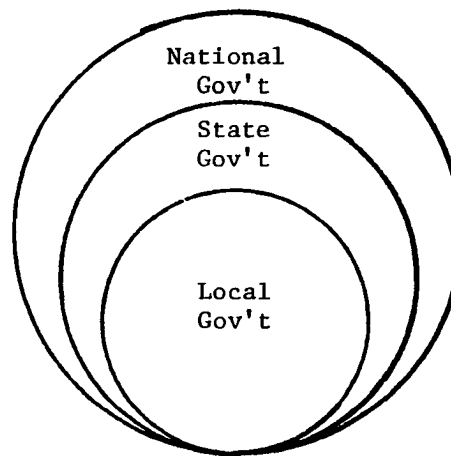
One of the best explanations of intergovernmental relations models is that of Wright's.²³ Figure 1-1 presents a graphic depiction of the various relationships. The first model, the coordinate-authority model, is characterized by very distinct spheres of activity and responsibility between the national government and the states. Local governments are subsumed within the state sphere in this "dual federalism" system. The relationship of local governments and the states is governed by Dillon's Rule which defines local units of government as creatures of the state. (More will be said on this relationship later in this chapter.) The model implies that both states and the national government operate autonomously of one another within defined spheres of authority--even though the national "border" overlaps that of the states. Because of the inherent conflicts that result from dual federalism (resulting in significant activity by the Supreme Court which attempted to define the spheres of authority), the model is generally held to be obsolete today.

The second model depicted is that called the inclusive-authority model. This approach to intergovernmental relations suggests that each higher level of government has a larger sphere of activity and responsibility. It further suggests that power in intergovernmental relations is hierarchically arranged. The local governments have the smallest impact upon public policy and are dependent upon the states. State governments are likewise dependent on the national government which may enlarge its sphere of authority--usually by reducing the scope of state activity. In general, the model suggests that the

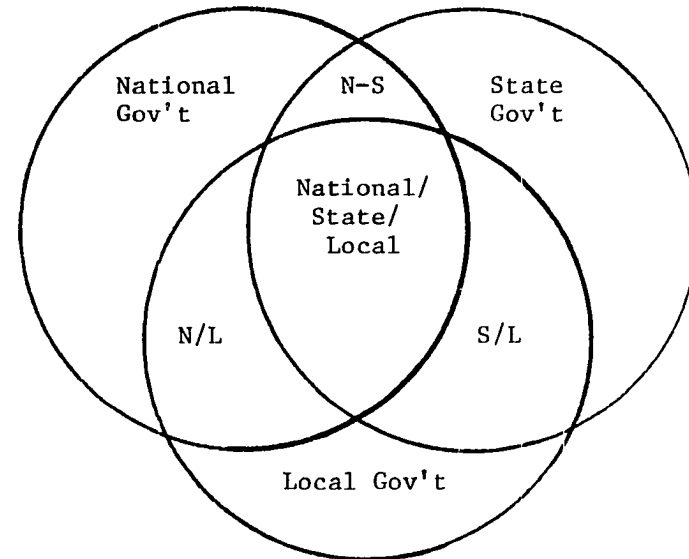
Coordinate-Authority Model



Inclusive-Authority Model



Overlapping-Authority Model



RE 1-1. MODELS OF INTERGOVERNMENTAL RELATIONS IN THE UNITED STATES

DE: Deil S. Wright, Understanding Intergovernmental Relations, 2d 3d. (Monterey, CA: Brooks/Cole Publishing Co., 1982), p. 29.

relationship between governmental levels is analagous to that defined for localities by Dillon's Rule. Wright cogently argues that this model is not representative of the totality of intergovernmental relations today either.

From Wright's perspective, the most appropriate understanding of the governmental relationships is to be gained from an examination of the overlapping-authority model. He has characterized the model as such:

- o Substantial areas of governmental activities involve all three levels simultaneously.
- o The areas of autonomy and independence for any single level of government are small.
- o There is limited power and influence available to any single level of government, causing the authority spheres to evolve from substantial bargaining among the levels.²⁴

This model best describes the interdependent relationships of governments today. The interaction between nation, states, and local governments is conducted through agreements and exchanges that keep the system fluid. And much of the intergovernmental activity involves programmatic and fiscal assistance for joint ventures in problem-solving. In fact, these agreements for assistance have become the implementing tools of the intergovernmental system. A brief overview of the development of fiscal assistance arrangements is presented below.

Intergovernmental Fiscal Assistance

The development of intergovernmental fiscal assistance programs began in the nineteenth century and has led to three broad forms of

aid: grants-in-aid, loans, and revenue sharing. Each of these has been used by both the national and state governments in their relationship to other governmental levels. However the experience at the federal level has tended to influence much of the thinking about assistance programs. Consistent with the overlapping authority model of intergovernmental relations, fiscal interdependence underlies the relationships between the three levels of government today.²⁵ Because of the vastly superior revenue power of the national government, fiscal aid usually flows from the larger governments to the smaller ones. This system underscores the interdependence rather than the independence of the parts of the federal system of government.²⁶ This is clearly seen in the development of grants-in-aid--" . . . the most obvious example of sharing functions."²⁷

Development of Grants-in-Aid. A useful definition of a grant-in-aid is the payment of funds to a lower level of government, for a specified purpose, usually on a matching basis and in accordance with prescribed standards or requirements.²⁸ Most studies of the historical beginning of the grant system start with the Northwest Ordinance of 1787 and the first land grants for schools.²⁹ The first evidence of monetary grants seems to be in 1790, with the national government's assumption of the states' Revolutionary War debts.³⁰ This was followed in the early nineteenth century with federal aid for the construction of railroads and canals.³¹

In the 1830s, the federal government began its first large cash grants to the states. In 1836, Congress made its first division of the "national domain" by agreeing to dispose of the federal surplus by

depositing monies in the state coffers to pay off state debts. When Congress passed the Morrill Act in 1862, it inaugurated the current categorical grant system. The Morrill Act granted land to each state to establish agricultural colleges.³² In some ways the land grant can be viewed as a cash grant based upon the disposable value of the land. By the time of the second Morrill Act in 1890, the cash grant was formalized as an annual grant of up to \$25,000 per state, if the state used such funds for the achievement of national goals.³³ The real precursor of modern cash grants, however, was the 1884 Hatch Act. This piece of legislation provided each state land-grant school with money to establish agricultural experiment stations to foster national purposes.³⁴ The grants that resulted from the Morrill and Hatch Acts also opened up the arena of national-state collaboration in problem-solving.

The twentieth century saw federal grants expand with the adoption of the Sixteenth Amendment which permitted the federal income tax. This new national income source paved the way for the creation of many new grant programs. The grant-in-aid took on some of its present day characteristics in the early years as federal grants developed matching requirements, formula-based distribution plans, and burdensome reporting requirements.³⁵ The requirements of the Depression era demanded new grant initiatives by the federal government. Many of these were to be short-lived emergency aid packages; however, many permanent programs evolved, including grants for housing, airports, planning, and others.³⁶ A general atmosphere of cooperation between the national and state-local governments developed during this time.

Expenditures for grants continued to increase both in constant figures and as a percentage of national and state-level spending from about 1913 to 1939. For example, as a percentage of national spending, grants grew from about one percent in 1915 to over 30 percent in 1935. Also, grant receipts at the state level grew during the same period from slightly more than one percent to over 50 percent of state revenues. This constant growth continued until the economic emergency was less critical and the need for war expenditures became paramount.³⁷ World War II saw the establishment of some temporary grant programs, such as for construction of war facilities and industrial labor training, to mention just two areas. Overall, though, grant expenditures in the federal budget dropped from a 1939 high of \$2.9 billion to just about \$900 million in 1946. But grant-in-aid programs further proliferated in the decades following World War II. By 1952, federal grant spending was again over \$2 billion--the bulk of which went into state-local construction of airports, schools, and hospitals. This pattern continued during the Eisenhower administration with added grant monies for urban problems, highways, and new concerns in the health, education, and welfare domain.³⁸

The cloudburst in federal grants-in-aid began with successive Democratic administrations in the 1960s. The number of grant programs doubled in the early 1960s with new emphases on resolving urban problems of employment, welfare, and urban decay. The Great Society programs of the Johnson administration were begun to attack national social problems that tended to have a locus in the cities. Severe unemployment problems in cities were attacked through the neighborhood

youth corps and new laws on equality of opportunity in the job market. Pollution of the air and waterways, as well as needed renovation of sewage and sanitation systems were concerns that led to grants in the health area in the mid-1960s. And, of course, the entire package of anti-poverty programs begun during the Great Society years constituted a massive federal commitment to alleviating welfare problems during the same period.

All of these programs, designed to aid distressed urban centers, remained in effect until a new shift in intergovernmental grants began with the Nixon administration and "New Federalism." President Nixon's plans for the 1970s included a decentralization of grants from the federal government to the states. Thus, some grant programs were consolidated into block grants or replaced by revenue sharing programs. Today this emphasis upon returning authority and funding to the states and cities continues under the Reagan administration's "New Federalism." New federal grant initiatives have been limited and can be expected to remain so, at least throughout the Reagan administration. (A fuller discussion of New Federalism proposals is presented in later chapters.)

Types of Grants-in-Aid and Their Purposes. Two major types of grants can be distinguished: categorical and block. Categorical grants constitute the largest number and the oldest type of grant, having been in existence for over 90 years.³⁹ Categoricals are designed for specific problems in such areas as education, transportation, and employment, and are the most restrictive of the grants-in-aid. Most have limited purposes for which the money can be used, often require some matching money from the recipient government, and usually

entail significant reporting requirements. Examples of categorical grants would include such programs as urban mass transportation, highway safety, maternal/infant nutrition, and public housing.

Categorical grants are allocated on either a formula, project, or combination basis. Distribution of grants by formula allows for allocation by fixed criteria such as population, area of the country, or economic conditions. These formulas are fixed by statute and assure universal distribution to all states or communities that meet the criteria. Some grants are allocated on a project basis; that is, based upon the merit of the application. Project-type grants are usually for specific, limited-duration purposes and constitute the allocation process for the majority of categorical programs. A small number of categorical grants are awarded through a combination of project and formula methods. These are grants that are allocated in two stages. The first stage is to state areas according to a formula; the second entails grants awarded by the merit of project applications.⁴⁰

Block grants were created by grouping related categorical grants into one broader program and represent the more flexible program of grants-in-aid. Awarded by formula, these grants are targeted at broad purposes in the areas of community development, law enforcement, and manpower and allow for a good deal of flexibility in the use of program monies on the part of the recipient governments. An example of this type of grant is the Community Development Block Grant program that subsumed a number of smaller functional grants into one consolidated package.⁴¹

Revenue sharing. A second type of intergovernmental fiscal assistance is shared revenues. Although this type of aid is not classified as a grant-in-aid, it is now a significant feature of federal intergovernmental assistance, and 49 states have a revenue-sharing program as part of the state aid package.⁴² The federal program, General Revenue Sharing (GRS), was begun in 1972 as a way to decentralize federal programs and to make funds available to state and local governments on a formula basis with as little red tape as possible. This program was a hallmark of Nixon's New Federalism and has been popularly received by local officials due to the wide discretion allowed in the use of monies. An early evaluation of the program suggested that GRS had served to bring the fiscal conditions of rich and poor states more into balance and that it seemed to provide more aid to needy, large cities than to the more economically solvent suburbs.⁴³ GRS was renewed in 1976 and again in 1980 due to heavy lobbying by local officials.⁴⁴

Loans. The third form of fiscal assistance between governments is a loan. A prime and recent example of this type of assistance is the New York Seasonal Financing Act of 1975. This loan from the federal government to the city of New York kept the municipality from going into bankruptcy. Other cities and states have borrowed money from the federal government so the New York instance is not unique. In fact the outstanding direct loans to states or local governments from the federal treasury totalled more than \$3 billion in 1980.⁴⁵ The use of federal loans and loan guarantees has increased in the 1980s. But the levels of this fiscal assistance do not match that available from grants-in-aid.

Summary. The hallmark of federal intergovernmental relations is the intergovernmental fiscal system that assists state and local governments. The development and expansion of intergovernmental relations has been driven by the proliferation of grant programs and the implementation of revenue sharing, which show the federal flag throughout the states. The grant has made it possible to begin necessary services or alleviate chronic problems through federal dollars. And once a program is begun " . . . it becomes a going concern, vested interests are created, the controversial becomes customary, and the opposition vanishes."⁴⁶ Thus, grant programs have expanded as they have gained wider acceptance, and they are seldom eliminated. In the area of urban problems the federal government has created hundreds of categorical grants and some block grants to address problems ranging from school lunches to air pollution to housing construction.

The succeeding sections examine the role that state fiscal assistance has played in the operation of city governments. An overview of the relationships between states and their cities is followed by a review of empirical research on state aid to cities.

State-City Relationships

The policies of state governments can be significantly more consequential to the well-being of America's cities than the actions of the national government. A strong and healthy relationship between state and city is important if intergovernmental relations are to be carried on successfully. In fact, Elazar has argued that "the state-local relationship, which is of vital importance within each state's political system, becomes a crucial variable in the state's ability to

function as a civil society within the national political system."⁴⁷

A bit of political mythology, according to V.O. Key, Jr., once suggested that the states were the compassionate, responsive landlords of the health and needs of cities while Washington adopted a position of uncaring and insensitive neglect.⁴⁸ In fact, much of the experience in the twentieth century has indicated that the national government has been far more concerned about city needs than have the states. A speech by Philip M. Hauser before the National League of Cities meeting in 1969 summarized some of the current feelings about the states' attention to urban areas:

. . . For the first 69 years of this century [state governments] have demonstrated their complete and utter disregard for urban problems . . . By any standards, [the states] are more inept, more subject to special interest pressures, more incompetent to do a job and more corrupt than any other branch of government in the U.S.⁴⁹

Such thoughts about state governments were shared by many even in the late 1960s, including some who suggested that state control over cities should be weakened because of the magnitude of state legislative insensitivity to urban problems.⁵⁰ To see how these feelings about state governments developed and to assess whether they are still valid today, a brief examination of the nature of state-city relationships is warranted.

State Responsibilities for Cities. Cities are creatures of the state. So goes Dillon's Rule, the guiding principle of state-city relations since Iowa Judge John F. Dillon wrote his treatise on this matter in the late nineteenth century.⁵¹ Essentially, this rule allows only those powers to cities that have been expressly given to them by

the state or that may be fairly implied from the expressed powers. This permitted the states to follow a somewhat dominant role in their business with municipalities. The very early pattern of state-city relations, in the view of Anderson, saw widespread abuses of power by state legislatures that had virtually carte blanche authority to manipulate the cities to their liking. These legislative actions were the result of the nonrestrictive nature of the authority granted to state legislatures by state constitutions. The character of tax assessments and state pronouncements on the use of city funds led to demands for greater municipal authority and for some limitations on the state legislatures. Most of these demands came from the developing urban centers that sought "home rule" within their own city limits.⁵²

Municipal home rule was first enacted in the Missouri constitution of 1875. "Home rule is the legal power, either constitutional or statutory, of a unit of local government to frame, adopt, and amend the basic charters of governance and to exercise governing powers on matters of local concern within the limits of the respective state's constitution and general laws."⁵³ Once the home rule charter is enacted it becomes the city's guiding document outlining its political structure and municipal powers. Home rule is normally granted to all cities or only to those having a specified minimum population. Not all states, however, have provided home rule to their cities, as about ten states still cling to a strong tradition of centralization of power at the state level.

Despite home rule, a state's political and constitutional powers and its position in the federal system places it " . . . at the key-stone in the governmental arch."⁵⁴ Thus, the states must be strong, active partners in a federal system in which they have the primary responsibility for city government. States should serve as both a mediator between the national government and the cities and they must be the leader and stimulus of city services and activities. When the states fail to accept the burden of this position then cities establish direct links with Washington and the states are soon by-passed in an altered pattern of intergovernmental relations.⁵⁵ At the same time, the states need strong municipal governments managing their own affairs free of unnecessary state-imposed burdens. When these two conditions exist, then joint state-city efforts can be targeted at mutual concerns--particularly the maintenance of viable urban areas. According to the Advisory Commission on Intergovernmental Relations (ACIR), the pivotal role in our entire federalist system lies with the states because they have the responsibility and resources to handle most urban problems. States have an easier time raising revenue than city governments and they have the means to effectively apply this revenue to program areas that can significantly improve the quality of urban life.⁵⁶

Historically, the states have not eagerly responded to help cities cope with their problems. Roscoe C. Martin explained this condition in his 1965 book, The Cities and the Federal System, in which he described the "state mind." This unsparing account of the states referred to a mixture of "rural orientation, provincial outlook, commitment to a strict moral code, a philosophy of individualism,"

and having only "intermittent and imperfect contact with the realities of the modern world."⁵⁷ All of this added up to poor state legislators, bad state constitutions, and an indifference to urban conditions that did not appear threatening to the pleasures of rural life. The rurally oriented states were most solidly criticized for their inattention to urban needs. But the cities did receive two forms of reprieve from this situation. First, the Supreme Court ordered the reapportionment of state legislatures in two decisions (Baker v. Carr; Reynolds v. Sims) to give cities their fair share of representation, and second, in the absence of state aid for some urban needs, the national government began direct federal-city aid programs.

The prevailing attitude for many years in the state houses was that the cities should take care of themselves. A perfect illustration of this disposition can be found in the remarks of the national Governors' Conferences in 1948 and 1949. The governors argued that (1) overcentralization of municipal activities at the state level would lead to state control of local affairs; (2) reliance upon state funds would lead to state resolution of all local problems; (3) waste and extravagance would lead to cities that no longer worried about raising needed funds; and (4) local management of local activities would produce a better understanding of the difficulty of raising funds and, therefore, a more efficient operation of local services.⁵⁸ But at the same time that the states were saying this, they were denying municipalities the power to tax areas other than the traditional ad valorem tax on property. Thus, the cities were faced with an ultimatum--take care of yourself, but do so with the limited powers

and revenue that we (the state) choose to give you so that we can avoid overcentralization at the state level. These complaints of overcentralization, according to Grodzins, resulted from the states' own embarrassment at having established policies that were "impeding the discretion and resources" of their city governments.⁵⁹ Thus, state legislatures, having recognized that they were hamstringing city governments, opened up the nonproperty tax area to city assessments. Today, cities are allowed to tax everything from paychecks to pets in order to finance municipal services.

Despite the taxing powers granted to cities from state governments, cities have had a continuing need for state assistance. States and cities have a shared responsibility in almost every area of public activity. However, as addressed earlier, the states have had a history of resistance to accepting this responsibility. Many historical accounts of the states have described them as the "weak sisters" or "fallen arches" in the intergovernmental system.⁶⁰ Such a characterization of state governments was probably appropriate until the 1960s. Up to that time period the states were governed "under outdated constitutions, fragmented executive structures, hamstrung governors, poorly equipped and unrepresentative legislatures, and numerous other handicaps. . . "⁶¹ that affected their capacity to act responsibly to help their cities. However, this picture of state governments changed dramatically in the 1960s and is discussed below.

State Capacity. Propelled by the crisis in city governments and by the expanding federal intergovernmental aid system, the states began actions in the 1960s to significantly alter their capacity to

help with urban problems. States have changed themselves into the "supporting arches" and key middlemen of the intergovernmental system. Some writers today have even gone so far as to suggest that in the 1980s "the states increasingly appear to be the strongest tier of the federal arrangement."⁶² While this position is probably lacking a consensus among city governments and scholars of intergovernmental relations, important changes have occurred within the states. Some of the indications of an improved state capacity in the urban area include:⁶³

- o Establishment of state offices for urban affairs in all states
- o Modernization of state constitutions in most states
- o Improvement in powers of the governor to play an active role in urban problem-solving
- o Establishment of legislative commissions and committees on urban government
- o Creation of state-local study commissions in most states
- o Widespread initiation of urban aid programs throughout the states
- o Passage of city financial emergency legislation in many states
- o Overhaul of state revenue systems that make more city aid programs available

Many of these actions required significant reorganization, constitutional amending, and legal change. But in most instances the changes that came about between 1960 and the 1980s seem to indicate that the states have finally, as DeGrove suggested several years ago, "marshal(led) the political will" to act on urban problems.⁶⁴

Impediments still exist to effective state action in all areas of urban problem-solving. Despite what the states have demonstrated they can do, they are limited, according to Warren, by a fiscal capacity that suffers from the economic maladies of the 1980s such as unemployment and recession. Also the taxpayer revolts have limited the revenue-raising capacity of state governments. And some states seem to lack a "broad political coalition" that might support urban aid packages.⁶⁵

The prospects for future expansion of state capacity to aid cities seems to be primarily in the hands of the state governments, themselves. According to Wright, the most "balanced summary view"⁶⁶ may be that offered by the ACIR in 1979:

State governments, for the most part, only now are entering the implementation phase relative to local aid programs. To date, the states' achievements have been modest at best in terms of effecting quantifiable improvements in overall community conditions, but a framework for future endeavors has been established. The true test will come over the next several years, as more and more states attempt to carry out the newly established local aid programs.

There is good reason to expect, however, that the states' progress on the community assistance front will be uneven and incremental, rather than following the comprehensive patterns suggested by the drafters of the Carter urban policy. The states are often beset by political, legal, and financial difficulties which significantly constrain their abilities to implement "comprehensive" local aid strategies.⁶⁷

State Aid to Cities

As discussed in the previous section, the responsibility that the states have for their cities stems from the common goals of both levels of government. Cities have a variety of local services that they must provide to their residents and as these activities have

expanded, so have the financial requirements of the municipalities. In order to meet the increasing city service demands and to continue the city administration of state programs, municipalities seek to acquire state aids to supplement own-source revenues. Without state aid, cities would be forced to increase their reliance upon local taxes and federal aid. Arguments on behalf of state aid programs for cities have included the following justifications. First, state aid can stem the proliferation of overburdening municipal taxes, particularly the property tax. Second, state aid can serve as a means to bring city resources into some semblance of balance with local needs. Third, financial resource capacity differences in metropolitan areas can be balanced by providing aid to "bedroom communities" that lack the commercial trade and industrial property tax bases. Fourth, the inequalities in service levels across localities can be adjusted. Fifth, minimum standards of performance and more equal quality in programs can be assured through state aid. Finally, state aid can assure a strong linkage between the state and its cities in the pursuit of common objectives for their mutual citizens.⁶⁸

Although the Census Bureau reports that states were making inter-governmental payments at the very start of the twentieth century,⁶⁹ the real beginning of state aid grants came after World War I. State aid was relatively small in the post-war decade serving primarily as a way of balancing the burden among localities providing local government services.⁷⁰ The economic emergency of the Depression era marked a sharp turning point in the level of state aid. Cities could not continue many basic services for education, roads, and welfare without

a significant contribution from the parent government. Thus, by the start of World War II, state aid payments to cities had tripled.⁷¹ Following World War II, grants from the states continued to grow on an accelerated scale as more and more states were faced with weak city financial capacities and increased demands for decentralization of state programs. Today, all states provide revenue to their cities with some centralized states providing more than half of municipal revenue, the bulk of it for education.

This aid from the states includes grants-in-aid, revenue sharing, money paid in lieu of taxes, reimbursements for state services provided by the municipality and the direct provision of city services by the state. The availability of these programs, primarily the grants-in-aid and shared revenues, allows cities to tap into the large state tax revenue from income, sales, and excise taxes.⁷² State grants, according to Beck, have normally been designed to achieve one of two objectives in cities. One group of grants has been stimulative in nature--intended to encourage increases in the local government's expenditures for selected services. The second group has equalization of fiscal resources as its purpose and has been used to upgrade the level of selected services. There have also been functional grants that serve both a stimulative and an equalization objective.⁷³ Overall, however, state grants are usually designed for narrower purposes than shared revenues and are normally awarded on a formula basis.

Shared revenues have been eagerly sought by city officials since they usually can be applied to whatever general government activity the officials desire. These revenues are collected by the state through

various taxes and are then returned to municipalities as a transfer of funds. Broadly referred to as revenue sharing, this category of state aid includes state payments from collected liquor and gasoline taxes, payments for exempted property tax bases, and programs to equalize revenue across communities.⁷⁴ ACIR has given four reasons for state-local revenue-sharing programs. First, many states originated revenue sharing to compensate localities for property exempted from taxation. Second, states have a superior revenue-raising capacity which can support local revenue needs. Third, many cities need a reprieve from the over-reliance upon the property tax for local revenue. And fourth, some cities have more serious problems than others but lack the resources needed to combat such.⁷⁵ Revenue sharing seeks to continue the collaborative efforts of both levels of government toward the resolution of shared problems. For example, from 1958 to 1978 state-local revenue sharing grew from \$687 million to \$6.8 billion--an increase of 331 percent. The 49 states with revenue sharing programs gave approximately \$3.5 billion of this aid to municipalities in 1978 alone (the most recent year for which data are available).⁷⁶

Both grants and shared revenues have been significant parts of the foundation for state aid. In all functional areas a combination of these two state aid forms has been applied. As a result, it is now difficult to distinguish between shared revenue and grants as separate features of intergovernmental relations in states.

Federal Influence in State Aid. Two perspectives appear prominent in discussions of federal aid impacts upon state aid programs. On the one hand are those who believe that national aid programs hurt attempts

to increase state responsibility in urban affairs.⁷⁷ The argument here is that as long as the national government is willing to accept responsibility for urban assistance programs, the states will continue to ignore their own responsibility in this area. The other side of the coin is advanced by those who believe that the federal dollar actually increases the state aid program for urban areas.⁷⁸ Here the assumption is that as federal aid monies are increased so are state assistance programs and also state responsibility. This argument is supported by two premises: (1) that states use federal pass-through funds to increase the total "nominal state aid" packages for urban areas, and (2) that the increasing federal programs place a moral and political burden upon states to increase their own actions in urban affairs.

An important federal role in at least helping states to help their local subdivisions cannot be denied. State aid increases have occurred in the last 50 years during the same times that federal aid has been increasing. Federal pass-through funds have in fact played a significant part in this development. The particular way in which the states react to federal pass-through funds actually determines the impact of this aid in urban areas. That is, the states have the opportunity to marshal the federal funds into a stronger state aid program for cities. A recent examination of federal pass-through funds identified four ways that states can effectively use such funds to support state aid efforts. First, the impact of federal aid can be determined by the administrative discretion of states in the control and distribution of the funds across communities. Second, states are able to decide whether they should participate in joint federal-state programs that can benefit urban

residents. Third, federal funds for state-level programs can be utilized to indirectly assist various areas. And fourth, states can decide whether federal funds will be added to or substituted for current state efforts in an aid program.⁷⁹ When states decide to substitute federal funds for state money, then they have decreased state action in a local activity. Thus, the burden for financing urban functions may end up with the national government through state default.

In a previous section of this chapter, it was noted that the federal government created many programs in the last two decades to help distressed cities. National programs were specifically designed to offset needs in urban areas. The remaining section of this chapter examines state actions to relieve urban distress.

State Response to Urban Needs. According to a recent Rand Corporation study, one of the "critical features" of aid distribution programs is the weighing of "need" in the allocation formula.⁸⁰ Some of the traditional state aid formulas have simply appropriated funds to communities without considering the variation in needs by city. The ACIR once observed that some communities can operate successfully without any state aid while others are so laden with need that even massive state aid would not make much difference in their health.⁸¹ But the important point is that states must pay close attention to the differences in city needs if they are to be able to help cities at all. In order to do this, states may have to construct and implement better city need formulas.

The ACIR has reported that two aspects of need are currently recognized. First, need may be the inability to raise sufficient

revenue with which to operate. This problem is one of inadequate tax capacity in municipalities. Cities may have no ability to expand their tax base or they may have significant demographic or economic-base differences from other cities, so that tax capacity is restricted.⁸²

The second aspect of need that should be considered in allocation formulas is the differential service costs and demands that cities may have. Thus, it is important to consider the "need to spend" as well as the revenue capacity of a community.⁸³ Here, state aid formulas would consider the per capita cost to operate a city or a service within a city.

Although most states do consider these two aspects of need when constructing state aid formulas, the definition of need is still a difficult area. There are various dimensions of need that could include social, fiscal, economic,⁸⁴ or physical⁸⁵ problems. Writing in 1970, Bahl suggested that state programs of aid could not present much hope for relieving any of these types of need. The reason for this was that most urban problems were in the area of traditional services where the states had shown little interest in providing assistance.⁸⁶ But recent actions suggest that the states are moving toward a definition of need⁸⁷ that will permit aid to go to the most needy cities. This latter contention is supported by the number of states that now provide shared revenues to their distressed communities. In 1982, for example, 23 states were engaged in revenue sharing with their communities on this basis.⁸⁸

On the whole, insufficient research has been done to date on how urban areas are treated by state aid programs. Empirical research provides few answers to questions of "how responsive are state aid packages?" or "do state allocation formulas discriminate against large cities?" and the like. What we do know about these questions, and others, is summarized in the following paragraphs.

Wisconsin's aid to its local units of governments--in this case counties--was studied by Smith using 1957 data. He found Wisconsin to do a better job than most other states in providing payments that were based on need. In this case study shared revenues provided the more equitable aid to urban areas.⁸⁹ In a comparative analysis of states, Beck also cited Wisconsin as the only exception among a group of states because Wisconsin did consider different financial burdens of central cities and surrounding suburbs when awarding grants.⁹⁰

The Advisory Commission on Intergovernmental Relations echoed this assessment in a 1969 report on state aid to local governments. In addition to citing the majority of states for failing to have anything approaching a state aid "system" the Commission found state aid distribution formulas to be unreflective of different local fiscal capacities.⁹¹ The larger states have been somewhat more responsive to city problems in their distribution of aid, primarily because they are also the more urbanized states and have more progressive legislatures and stronger governors.⁹² All of these variables have interacted to support increased programs of urban aid in large states. Another factor that has been linked to the level of state aid for cities is centralization. The more highly centralized states have a strong tradition of giving less

money to their local governments than do states with a more localistic orientation.⁹³

A study by Campbell and Sacks pointed to an overriding trend in state aid that resulted in more aid going to rural and suburban areas than to large cities. The prevailing philosophy in state capitals, they observed, was to take care of nonmetropolitan areas and allow the federal government to care for the central cities.⁹⁴ A survey of city administrators by Fritschler and Segal in 1972 asked which level of government was most helpful in dealing with city problems. The results showed that the city officials perceived the federal government to be most helpful, but a large proportion (27%) also believed that neither level was very helpful. Among the large cities (over 50,000 population) only 14 percent thought that the states were most helpful.⁹⁵

When the question of need has been specifically examined in the literature, much of the focus has been on the federal government. Johnston, for example, looked at variations in the patterns of grants and expenditures to the states in relation to needs. He found that state needs accounted for a very small proportion of spending variation by the national government. The only departments that did seem to consider need when granting money were Health, Education, and Welfare, and Agriculture.⁹⁶ A study that focused on the needs of communities in light of federal aid allocations was conducted by Cuciti for the House Committee on Banking, Finance, and Urban Affairs in 1978. This study examined the social, economic, and fiscal needs in 45 large cities and compared this to grant allocations for local public works, general revenue sharing, antirecession fiscal assistance, community

development block grants, and comprehensive employment and training. Generally speaking, she found the grants to be responsive to at least one dimension of need in these cities.⁹⁷ An additional study of federal aid to cities by Stein reported that the federal fiscal assistance system is fairly responsive to the needs of cities. He looked at cities of 25,000 or more population in 1967, 1972, and 1977, and found per capita measures of federal aid to be highly related to changes in city needs.⁹⁸

Recent examinations of state aid for city needs have also used specific measures of social and economic need to assess state responsiveness. Dye and Hurley studied both federal and state grants-in-aid in the late 1960s and 1970s. Using per capita measures of aid, they found states to be somewhat more responsive to demographic indicators of need than the federal programs.⁹⁹ The findings of their study have recently been challenged by Ward on both methodological and theoretical grounds. Ward's contention is that a better understanding of the notion of responsiveness to city needs and how to measure such, would have shown the federal government to have been more in tune with city needs than was suggested.¹⁰⁰ (This controversy is treated in more detail in Chapter II.)

A 1979 study by the National Governors' Association looked at both federal and state aid for distressed cities. Emphasizing the importance of funneling all federal aid through the states, the report analyzed four indicators of hardship from other studies. They reported that the responsiveness to city problems is best met by a combination of federal-state aid. They urged the federal government to channel all

aid through the states because the states are closer to the distressed communities and have the potential to construct better urban aid programs with federal pass-through funds.¹⁰¹

In two related studies of state aid to cities, Stein found some evidence that states target urban aid to the needier municipalities. However, an important corollary to this finding is that this is not true of states in the aggregate. Rather only a handful of states are actually targeting aid to needy communities.¹⁰² This finding raised a new issue about the validity of studies that relied upon aggregate state aid analyses. That is, could the better responsiveness of state aid (as compared to federal aid) programs be a biased finding derived from the efforts of only a few states' responsive actions? This issue has not been resolved.

In wrapping up this discussion of state responsiveness, it is clear that the states do provide aid in the form of grants and shared revenue. Many states use these fiscal tools to provide some amount of aid for local areas based upon need. The larger, more urbanized, and more decentralized states have been found to provide more aid to distressed cities. But the small quantity of research undertaken on this subject has not addressed the responsiveness of functional categories of state aid. Nor has the controversy over how to measure state aid and the 50 different systems of state aid been resolved. Also much of what we do know of state aid allocations has been related to local rather than city governments. In general, more research into the impacts of state aid upon city problems is warranted.

Summary

Before the urban crisis was recognized in this country, cities were faced with a host of problems that were beyond their means to correct. Even today many of the problems still exist and the solutions to fiscal, social, economic, and physical distress in urban America are not easily found. Cities have traditionally turned to the federal and state governments for help in meeting the ever increasing service demands of their residents. A spirit of cooperation in intergovernmental relations developed as power and responsibility were shared among federal, state, and local governments. States have the primary responsibility for cities and have established a pattern of fiscal interdependence in their relationship that is reflected in a system of grants-in-aid and shared revenues. Although many direct federal city contacts have been established through federal grant programs designed to help municipalities, the states remain the key actors in the aid picture for cities. Like the federal government states have more abundant resources and more superior revenue-raising power than do city governments. But unlike the national government they have not always been eager to help their needy cities. However, the responsibility for aid and the capacity to provide fiscal or programmatic aid clearly lies with the states and increasingly they seem to have accepted this role.

The role of the federal government in stimulating state action cannot be overlooked. The vast amount of federal dollars that flows through the states can be a significant portion of the city aid package. States have used this federal pass-through money both to

augment the state aid program and as a substitute for additional state aid. The very economic well-being of cities is contingent upon a viable program of state intergovernmental revenue, however. The most important aspect of such state aid distribution is the allocation formula and the inclusion of city need or distress in this. Definitions of need are diverse but normally involve consideration of either inadequate tax capacity or differential service costs that cannot be met in distressed communities.

The continuing debate over which level of government is more responsive to urban needs, which types of state aid are more responsive to needs, and what is the preferred method of measuring need or state aid, suggest that additional research is warranted. This dissertation will explore some of these questions by analyzing state aid allocations to city governments from 1962 to 1976.

FOOTNOTES

¹These studies, which will be more thoroughly discussed later in this chapter and in Chapter II include: Peggy Cuciti, City Need and the Responsiveness of Federal Grant Programs, Report to the U.S. House of Representatives, Committee on Banking, Finance, and Urban Affairs, Subcommittee on the City, 95th Congress, 2nd Session (Washington, D.C.: Government Printing Office, 1978); Thomas R. Dye and Thomas L. Hurley, "The Responsiveness of Federal and State Governments to Urban Problems," Journal of Politics 40 (February 1978): 196-207; National Governors' Association, Bypassing the States: Wrong Turn for Urban Aid (Washington, D.C.: National Governors' Association, 1979); and Robert M. Stein, "The Allocation of Federal Aid Monies: The Synthesis of Demand-Side and Supply-Side Explanations," American Political Science Review 75 (June 1981): 334-343.

²Gary A. Tobin (ed.), The Changing Structure of the City (Beverly Hills, CA: Sage, 1980), p. 10.

³Ibid.

⁴These and other examples are documented in Advisory Commission on Intergovernmental Relations, Central City-Suburban Fiscal Disparity and City Distress, 1977 (Washington, D.C.: Government Printing Office, 1980), pp. 3-20. See also William Gorham and Nathan Glazer (eds.), The Urban Predicament (Washington, D.C.: The Urban Institute, 1976), pp. 1-33.

⁵Morton Grodzins, The American System (Chicago: Rand McNally, 1969), p. 360.

⁶See John M. Greine and Harry P. Hatry, "Coping with Cutbacks: Initial Agency Level Response in 17 Local Governments to Massachusetts' Proposition 2½," a report published by the Urban Institute, 1982.

⁷Tobin, p. 9.

⁸Ibid., p. 12; and Thomas R. Galloway, "State and Regional Policy and the Urban Crisis: A Continuing Question of the Will to Act," pp. 45-76 in Tobin.

⁹Norton E. Long, "Federalism and Perverse Incentives: What Is Needed for a Workable Theory or Reorganization for Cities?" Publius, 8 (Spring 1978): 95.

¹⁰Alan K. Campbell and Donna E. Shalala, "Problems Unsolved, Solutions Untried: The Urban Crisis," in Alan K. Campbell (ed.), The States and the Urban Crisis (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1970), p. 24.

¹¹A full discussion of the state response follows later in the chapter.

¹²Campbell and Shalala, "Problems Unsolved, Solutions Untried," pp. 25-26.

¹³Daniel J. Elazar, American Federalism: A View From the States (New York: Thomas Y. Crowell Co., 1966), p. 2.

¹⁴Ibid.

¹⁵Daniel J. Elazar (ed.), The Politics of American Federalism (Lexington, MA: D.C. Heath and Co., 1969), p. 1.

¹⁶Advisory Commission on Intergovernmental Relations, The Condition of Contemporary Federalism: Conflicting Theories and Collapsing Constraints (Washington, D.C.: Government Printing Office, 1981), p. 3.

¹⁷A good discussion of the development of federalism is found in Morton Grodzins, "The Federal System" in Goals for Americans. The Report of the President's Commission on National Goals (Englewood Cliffs, NJ: Prentice-Hall, 1965), Chapter 12; and James L. Sundquist with David W. Davis, Making Federalism Work: A Study of Program Coordination at the Community Level (Washington, D.C.: The Brookings Institution, 1969); and Deil S. Wright, Understanding Intergovernmental Relations, 2d ed. (Monterey, CA: Brooks/Cole Publishing Co., 1982), pp. 43-82.

¹⁸Deil S. Wright, "Intergovernmental Relations in Large Council-Manager Cities," American Politics Quarterly 1 (April 1973): 152-153.

¹⁹Ibid.

²⁰Elazar, American Federalism, p. 51; and Advisory Commission on Intergovernmental Relations, Federal Grants: Their Effects on State-Local Expenditures, Employment Levels, and Wage Rates (Washington, D.C.: Government Printing Office, 1977).

²¹Elazar, American Federalism, p. 53. See also James C. Charlesworth, "Allocation of Responsibilities and Resources Among the Three Levels of Government," The Annals of the American Academy of Political and Social Sciences 407 (May 1965): 71-80.

²²Grodzins, The American System, p. 8.

²³Wright, Understanding Intergovernmental Relations, 2d ed., pp. 29-30.

²⁴Ibid., p. 38.

²⁵See Advisory Commission on Intergovernmental Relations, Categorical Grants: Their Role and Design (Washington, D.C.: Government Printing Office, 1978).

²⁶Alan K. Campbell, "National-State-Local Systems of Government and Intergovernmental Aid," The Annals of the American Academy of Political and Social Science 407 (May 1965): 95.

²⁷W. Brooke Graves, American Intergovernmental Relations (New York: Scribner, 1964), p. 508.

²⁸Deil S. Wright, Federal Grants-in-Aid: Perspectives and Alternatives (Washington, D.C.: American Enterprise Institute, 1968), p. 4.

²⁹One of the best articles written on the early grant system is Paul H. Douglas, "The Development of a System of Federal Grants-in-Aid," Political Science Quarterly 35 (1920): 225-271, 522-544. See also Grodzins, The American System, pp. 19-20.

³⁰Graves, American Intergovernmental Relations, p. 483.

³¹Ibid.

³²John M. DeGrove, "Help or Hindrance to State Action? The National Government," in Alan K. Campbell (ed.), The States and the Urban Crisis (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1970), p. 142. For a complete review of the development of categorical grants see Advisory Commission on Intergovernmental Relations, Fiscal Balance in the American Federal System, 2 vols. (Washington, D.C.: Government Printing Office, 1967), vol. 1; or Grodzins, The American System, Chap. 2.

³³Grodzins, The American System, p. 34.

³⁴Ibid., p. 193.

³⁵Wright, Federal Grants-in-Aid, p. 5.

³⁶A more extensive discussion of the Roosevelt-era initiatives can be found in Graves, American Intergovernmental Relations, pp. 526-542.

³⁷Grodzins, The American System, pp. 54-55.

³⁸Graves, American Intergovernmental Relations, pp. 541-542.

³⁹David B. Walker, "Categorical Grants: Some Clarifications and Continuing Concerns," Intergovernmental Perspective 3 (Summer 1977): 14.

⁴⁰See Advisory Commission on Intergovernmental Relations, Categorical Grants.

⁴¹See Advisory Commission on Intergovernmental Relations, Block Grants: A Roundtable Discussion (Washington, D.C.: Government Printing Office, 1976); and Block Grants: A Comparative Analysis (Washington, D.C.: Government Printing Office, 1977). See also George E. Hale and Marian L. Palley, The Politics of Federal Grants (Washington, D.C.: Congressional Quarterly Press, 1981).

⁴²Advisory Commission on Intergovernmental Relations, The State of State and Local Revenue Sharing (Washington, D.C.: Government Printing Office, 1980), p. 5.

⁴³Advisory Commission on Intergovernmental Relations, General Revenue Sharing: An ACIR Re-Evaluation (Washington, D.C.: Government Printing Office, 1974), p. 3.

⁴⁴An excellent summary of the process of renewal for GRS in 1976 is found in Wright, Understanding Intergovernmental Relations, 2d ed., pp. 127-129. Examinations of the 1980 extension of GRS are found on pp. 129-130 and in American Enterprise Institute, The Administration's Plan to Reauthorize Revenue Sharing (Washington, D.C.: American Enterprise Institute, 1980).

⁴⁵These data on loans are drawn from Wright, Understanding Intergovernmental Relations, 2d ed., pp. 99-103.

⁴⁶William G. Carleton, "Centralization and the Open Society," Political Science Quarterly (June 1960): 244-259.

⁴⁷Elazar, American Federalism, p. 163.

⁴⁸V.O. Key, Jr., American State Politics: An Introduction (New York: Alfred A. Knopf, 1956), p. 3.

⁴⁹Hauser's speech, "Whither the Urban Society," was cited in Ira Sharkansky, The Malignant States: Policy Accomplishments, Problems and Opportunities, 2d ed. (New York: McGraw-Hill, 1978), p. 123.

⁵⁰James A. Maxwell, Financing State and Local Governments (Washington, D.C.: The Brookings Institution, 1969), p. 78.

⁵¹John F. Dillon, Commentaries on the Law of Municipal Corporations, 5 Vol., 5th ed. (Boston: Little, Brown & Co., 1911).

⁵²See William F. Anderson, Intergovernmental Relations in Review (Minneapolis, MN: University of Minnesota Press, 1960), Chap. 7 on "State-Local Relations."

⁵³Wright, Understanding Intergovernmental Relations, 2d ed., p. 357.

⁵⁴Daniel J. Elazar, "Local Government in Intergovernmental Perspective," in Elazar (ed.), The Politics of American Federalism, p. 100.

⁵⁵*Ibid.*

⁵⁶Advisory Commission on Intergovernmental Relations, Improving Urban America: A Challenge to Federalism (Washington, D.C.: Government Printing Office, 1976), p. 258.

⁵⁷As quoted in Sundquist, Making Federalism Work, p. 262.

⁵⁸The report on the Governors' Conferences appeared in State Government (August 1948): 171-174; (August 1949): 202-203, and was cited in Grodzins, The American System, pp. 360-361.

⁵⁹*Ibid.*, p. 362.

⁶⁰See Luther H. Gulick, "Reorganization of the State," Civil Engineering (August 1933): 420-422; and Commission on Intergovernmental Relations, A Report to the President for Transmittal to the Congress (Washington, D.C.: Government Printing Office, 1955).

⁶¹Advisory Commission on Intergovernmental Relations, In Brief: State and Local Roles in the Federal System (Washington, D.C.: Government Printing Office, 1981), p. 3.

⁶²Parris N. Glendening, "The Public's Perception of State Government and Governors," State Government 53 (Summer 1980): 116.

⁶³These changes in state capacity have been documented in a variety of sources. Those listed here are drawn from: Advisory Commission on Intergovernmental Relations, State-Local Relations Bodies: State ACIRs and Other Approaches (Washington, D.C.: Government Printing Office, 1981); The Future of Federalism in the 1980s (Washington, D.C.: Government Printing Office, 1981), pp. 33-35; "State Efforts to Prevent and Control Local Financial Emergencies," Information Bulletin 81-2 (Washington, D.C.: ACIR, September 1981); Jean Lawson and Carl W. Stenberg, "'Rebalanced Federalism': The States' Role and Response," Intergovernmental Perspective 8 (Winter 1982): 30-41; and Neal M. Cohen, "Community Assistance: The States' Challenge," Intergovernmental Perspective 8 (Summer 1982): 14-21.

⁶⁴DeGrove, "Help or Hindrance to State Action?" p. 148.

⁶⁵Charles R. Warren, "Targeting of State Assistance: Opportunities and Realities," The Urban Interest 3 (Special Issue, 1981): 29-30.

⁶⁶Wright, Understanding Intergovernmental Relations, p. 383.

⁶⁷This quote appeared on p. 384 in Wright's book and is from Advisory Commission on Intergovernmental Relations, State Community Assistance Initiatives: Innovations of the Late 1970s (Washington, D.C.: Government Printing Office, 1979), p. 8.

⁶⁸Arguments for state aid programs are discussed concisely in two sources: Grodzins, The American System, p. 367; and John Knapp and Philip Grossman, Virginia Issues: State Aid to Local Government (Charlottesville, VA: Institute of Government, University of Virginia, 1979), p. 23.

⁶⁹See U.S. Bureau of the Census, Historical Statistics of the United States: Colonial Times to 1957 (Washington, D.C.: Government Printing Office, 1960).

⁷⁰Graves, American Intergovernmental Relations, p. 732.

⁷¹U.S. Bureau of the Census, Historical Statistics of the U.S., p. 728.

⁷²Seymour Sacks and Robert Harris, "The Determinants of State and Local Government Expenditures and Intergovernmental Flows of Funds," National Tax Journal 17 (March 1964): 79.

⁷³Beck, "The Role of State Aid in Local Government Finance," in Tax Institute of America (ed.), Federal-State-Local Fiscal Relationships (Princeton, NJ: T.I.A., 1968), p. 382.

⁷⁴Advisory Commission on Intergovernmental Relations, The State of State-Local Revenue Sharing, p. 2.

⁷⁵Ibid.

⁷⁶These figures are derived from two ACIR reports: The States and Distressed Communities: The 1981 Report (Washington, D.C.: Government Printing Office, 1982), pp. 38-39; and Recent Trends in Federal and State Aid to Local Governments, pp. 54-55.

⁷⁷George C.S. Benson, "Trends in Intergovernmental Relations," The Annals of the American Academy of Political and Social Science 359 (May 1965): 9.

⁷⁸Campbell, "National-State-Local Systems of Government and Intergovernmental Aid," p. 104.

⁷⁹Stephen M. Barro, The Urban Impacts of Federal Policies (Santa Monica, CA: Rand Corporation, 1978), 3: x.

⁸⁰Ibid.

⁸¹Advisory Commission on Intergovernmental Relations, State Aid to Local Government (Washington, D.C.: Government Printing Office, 1969).

⁸²Advisory Commission on Intergovernmental Relations, The State of State-Local Revenue Sharing, p. 8.

⁸³Ibid., p. 9.

⁸⁴These three dimensions of need were discussed by Cuciti, City Need and the Responsiveness of Federal Grants Programs.

⁸⁵A discussion of physical need was included in the Advisory Commission on Intergovernmental Relations report on State-Local Revenue Sharing and is drawn from Paul R. Dommell and Richard E. Nathan, "Measuring Community Distress in the United States," paper delivered to the Copenhagen Workshop on Measuring Local Government Expenditure Needs, November, 1978.

⁸⁶Roy W. Bahl, "State Taxes, Expenditures, and the Fiscal Plight of the Cities," in Campbell (ed), The States and the Urban Crisis, pp. 85-113.

⁸⁷This concern for distributing grants based upon need was addressed by an early theorist of federalism, Jane Perry Clark, The Rise of a New Federalism (New York: Columbia University Press, 1938).

⁸⁸Cohen, "Community Assistance: The States' Challenge," pp. 14-21.

⁸⁹Alan H. Smith, "State Payments to Local Governments in Wisconsin," National Tax Journal 15 (September 1962): 297-307.

⁹⁰Tax Institute of America (ed.), pp. 379-390.

⁹¹Advisory Commission on Intergovernmental Relations, State Aid to Local Government, p. 13.

⁹²Sundquist, Making Federalism Work, p. 264.

⁹³Stephens and Olson, Pass-Through Federal Aid and Interlevel Finance in the American Federal System, 1957 to 1977, A Report to the National Science Foundation (Kansas City: University of Missouri, 1979), p. 59.

⁹⁴Alan K. Campbell and Seymour Sacks, Metropolitan America (New York: The Free Press, 1967), p. 172.

⁹⁵A. Lee Fritschler and Morley Segal, "Intergovernmental Relations and Contemporary Political Science: Developing an Integrated Typology," Publius 1 (Winter 1972): 105.

⁹⁶R.J. Johnston, "The Allocation of Federal Money in the U.S.: Aggregate Analysis by Correlation," Policy and Politics 6 (1978): 285-286.

⁹⁷Cuciti, City Need and the Responsiveness of Federal Grant Programs.

⁹⁸Stein, "The Allocation of Federal Aid Monies," pp. 334-343.

⁹⁹Dye and Hurley, "The Responsiveness of Federal and State Governments to Urban Problems," pp. 196-207.

¹⁰⁰Peter D. Ward, "The Measurement of Federal and State Responsiveness to Urban Problems," Journal of Politics 43 (February 1981): 83-101.

¹⁰¹National Governors' Association, Bypassing the States: Wrong Turn for Urban Aid.

¹⁰²Stein, "The Targeting of State Aid: A Comparison of Grant Delivery Systems," The Urban Interest 3 (Special Issue 1981): 47-59; and "The Allocation of State Aid to Local Governments: An Examination of Interstate Variations," in ACIR, State and Local Roles in the Federal System (Washington, D.C.: Government Printing Office, 1982), pp. 202- 225.

CHAPTER II

RESEARCH DESIGN

In the preceding chapter, a review of the state aid literature suggested a number of questions about state responsiveness to city problems that remain unanswered. This chapter reviews the essential questions that warrant further research and develops a research design that will allow for an analysis of the questions. In addition, the chapter will include an outline of the basic research hypotheses, a conceptualization of "need," a discussion of the operationalization of the need concept, and an explanation of the selected sample, data sources, state aid variables, and methods of analysis. Throughout the chapter the theoretical basis for each component of the research design will be elaborated upon.

Concepts and Hypotheses

The principal research question of this study is: "Are state aid programs responsive to the needs of our cities?" This question establishes the general area of inquiry and spawns several more specific research questions. The additional questions include:

- o How responsive are these state aid programs (if, in fact, an element of responsiveness is confirmed)?

- o What determines the degree to which state aid programs are responsive to city needs?
- o Which need measures are most important in determining the responsiveness of state aid programs?
- o Which state aid programs are more responsive to city needs?

At the heart of this research effort lies the fundamental principle that states are responsible for their political subdivisions. Referring back to the discussion of Wright's intergovernmental relations models in Chapter I, the basis for state responsibility is apparent in three different models. First, the concept of a coordinate-authority relationship between nation and state (or "dual federalism") precludes the notion of a local unit of government separate from a state. This model of relationships, best expressed as Dillon's Rule, establishes state responsibility for cities since local units exist only at the pleasure of the state and with only those powers given them by the state legislatures. Thus, the states have responsibility for that which they have created and which exists as a mere tenant of the will of the state. Second, the model that characterizes intergovernmental relations as an overlapping-authority relationship is premised by the assumption of very limited autonomy for local government amid a highly interdependent sphere of activity that demands a great deal from the parent government. Here, state responsibility is necessary due to the narrow scope of local autonomy and lack of local independence. Finally, the concept of an inclusive-authority model of intergovernmental relations includes the notion of the

dominant role of each higher level government in relationship to the smaller units. Just as the national interest is paramount to that of any individual state, so too can the state interest be thought dominant over that of the localities. This hierarchical set of powers and centralized authority places the local governments at the bottom of the power structure and reinforces the dependency relationship they have with the state governments.¹

With this foundation for state responsibility seemingly well-rooted, consideration is now given to: "responsibility for what?" The issue in this dissertation is responsiveness to need or the responsibility for sharing the burden of city problems. Thus, the basic hypothesis that I address in my analysis can be stated as: Established programs of state aid are responsive to the needs of city governments. This hypothesis follows the logic that if states are responsible for city governments they will also be responsive to city government needs. An understanding of this hypothesis requires some definitions. For example, how is state aid defined? How is city "need" conceptualized? Before discussing the specifics of the research design further, an explanation of the hypothesis is presented.

The concept of need has been looked at from a variety of perspectives. To begin, one might consider need in two very broad senses--needs of people and needs of places.² The needs of people refers to individual problems that afflict a population. This concept may include problems of poverty, minority groups, dependent citizens (e.g., elderly), and so forth. The notion of place need refers to the

condition of an area, such as a city, and its components. The city government may have problems with taxes, resources, or the physical conditions of the buildings. The commercial and industrial community may have problems resulting from a depressed economy or declining retail sales.

This dichotomy of the need concept may also be depicted as shown in Figure 2-1. The notion of people needs may be thought of as representing the social dimension of need since most of the individual problems may also be thought of as social problems or social pathologies. A variety of studies have used only the social dimension to analyze urban needs. For example, Nathan and Adams used a combination of population statistics relevant to social distress to construct two indexes of city hardship.³ Their analysis has been used in other comparative attempts to tap the social dimension of need in large cities.⁴ Place need, on the other hand, can be further defined as consisting of a fiscal dimension and an economic dimension. The fiscal dimension involves the financial health of cities from budget deficits to tax resources. It has been analyzed in a large number of studies⁵ that were stimulated by concerns for the urban fiscal crisis.

The economic dimension of place need pertains to the business/commercial health and the environment for conducting profitable operations. It also includes some aspects of individual need--for example, personal or family income--which are also critical to the economic well-being of an area. This dimension is also the key to the other two dimensions since a healthy economic community affects both the degree of individual or social distress and the availability of fiscal resources and the extent of fiscal stress. This dimension of need was

included in an ACIR study in 1977 which compared central city/suburban economic disparities and also in a 1977 Congressional Budget Office (CBO) report on local economic problems.⁶

The choice of any definition or conceptualization of need is clearly an arbitrary one. For politicians and public officials, the definition of need is a very political decision because it can purposely exclude groups or communities that consider themselves needy. The choice for the researcher is to subjectively define need in a way that permits relatively easy measurement and analysis. One group of scholars suggests that most public policy is developed around the concepts of normative and comparative need. Normative need is a dimension that includes those conditions that are below some accepted standard (e.g., the poverty line) while comparative need is represented by a city's deviation, for example, from some mean level for all comparable cities. Thus, research should include those concepts of need that are relevant to policy-making.

The conceptual use of need in this study follows the notion of three dimensions--social, fiscal, and economic (as shown in Figure 2-1). This approach has been used in other studies of urban need and is used by states in their local aid allocation formulas. Cuciti's study for the House of Representatives Subcommittee on the City in 1978 analyzed need from this perspective. She noted that the determination of which cities had the greatest need was often due to which dimension of need was emphasized. This report stressed the utility of measuring several dimensions of need.⁸ This was also emphasized in the Dye and Hurley study which used multiple dimensions of need to study all central cities in the nation's Standard Metropolitan Statistical Areas.⁹ In addition,

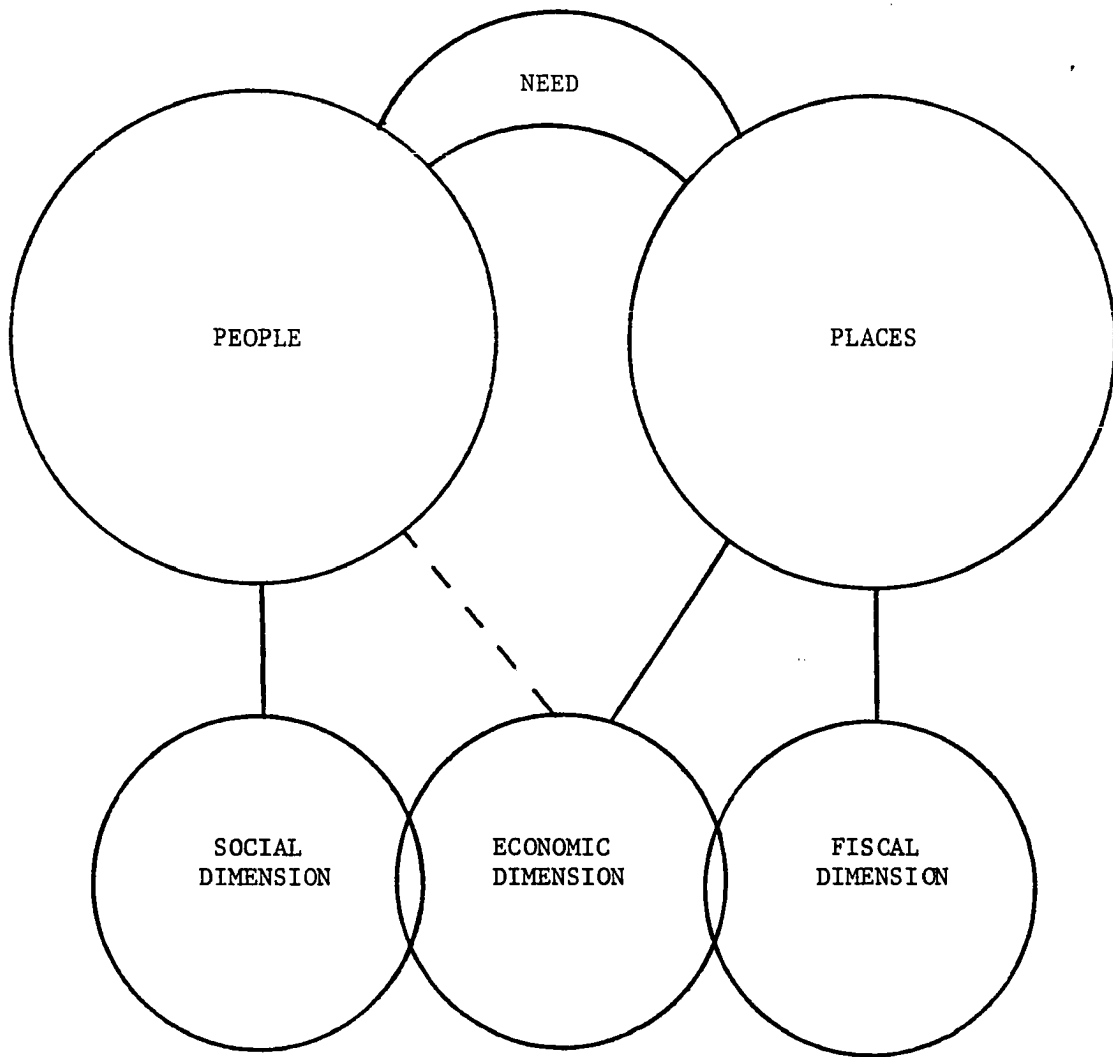


FIGURE 2-1. CONCEPTS OF URBAN NEED

it has been employed in several studies that Stein has completed on both federal and state aid to cities.¹⁰ The Stein works have focused on a social and fiscal stress dimension of need.

In this study, states are not assumed to rely upon such complex, multidimensional models of urban need when constructing state aid distribution systems. They often focus on a simple formula or indicator for assessing need that makes the distribution process easier to manage.¹¹ But because every state's aid system is unique and different from every other state system, examples of each of the three dimensions of need can be found throughout the country. Thus, the definitions of need that will be used in this analysis are comparable to those used in other research as well as to those being used by certain states.

The Sample

This study will examine the responsiveness of state aid programs from the vantage point of the city. Unlike most other studies of this variety, a city-level analysis is employed rather than using the states as the unit of analysis. A comparatively small number of cities is used as the sample--the 47 cities with populations of 300,000 and above in 1972.¹² The selection of this group of cities, while certainly arbitrary, was determined by two factors. First, the largest U.S. cities were selected because of the generally accepted fact that the most serious distress problems plagued these cities during the past two decades. Most of these cities experienced either social, economic, or fiscal distress that came to be associated with the urban crisis.¹³ Their condition seems appropriate to this analysis. The second factor that influenced the selection of this sample lies with the availability of

state aid data. Most of the state-level analyses have focused on total intergovernmental aid to local or city governments. In an effort to move beyond this aggregate to more specific areas of state aid, these cities were chosen because the Census Bureau reports in detail on their finances in the annual report City Government Finances. Thus, these data allow one to analyze not only the total intergovernmental aid from state governments that the 47 cities received but an additional five to seven categories of state aid.

The analysis of the cities takes place in two time periods--1962 and 1976. The first time point, 1962, was chosen because it represents a period before the urban crisis. Although the cities had developing problems in 1962, the importance of these problems to the nation and states had yet to be recognized. The discovery of the urban crisis focused national attention on the condition of cities. The year 1962 was also before the states began to emphasize the importance of a state role in urban affairs. The early 1960s were a period during which states were still considered the "weak sister" in the intergovernmental picture. Thus the choice of 1962 as the first period of analysis is purposely intended to snapshot the condition of state intergovernmental aid to cities at a time when states were not thought to be attuned to urban affairs and the urban crisis had yet to be highlighted. The second time point is 1976--exactly 15 years after the first period. This time period allows for the examination of the state response to the urban crisis. The assumption is that some significant change took place between 1962 and 1976 which can be attributed to the heightened emphasis on an urban crisis. The main concern is for indications of any differences in the

state role from 1962 to 1976. To further analyze the differences, a measure of change is constructed for the 1962-1976 period. The change measure will allow for an analysis of changes in state aid categories in relation to changes that occurred in need indicators.

A list of the cities and their 1960 and 1975 populations is shown in Table 2-1. The 47 cities are from 28 different states. California has the largest number of cities in the sample with six, while Texas and Ohio with five and four cities, respectively, are also represented in larger numbers in the sample. Seven states--Florida, Minnesota, Missouri, New York, Oklahoma, Pennsylvania, and Tennessee--each have two cities among the sample. The remaining cases include only one city per state.

State Aid Variables

As addressed in the previous section, the state aid data are drawn from the Census Bureau reports on City Government Finances¹⁴ and include data for fiscal years 1962 and 1976. This intergovernmental revenue that cities receive from state government, includes state grants-in-aid, state-local revenue sharing, reimbursements, and payments in lieu of taxes. Revenue that is received from the state government for utility services, property sales, or commodities, is excluded. The state aid data include federal pass-through aid but it should not affect the analysis. Most of this pass-through money goes to support local education (although local public welfare and criminal justice programs also receive significant amounts). Few cities included in the sample receive large amounts of federal pass-through funds because school districts or counties are generally the recipients of the school and welfare money, respectively. In addition, some General Revenue Sharing (GRS) money, categorized as "discretionary" pass-through aid, is included in state

TABLE 2-1

CITIES INCLUDED IN THE STUDY AND POPULATION
FOR 1960 AND 1975 (N=47)

City	Population (000)	
	1960	1975
Atlanta	487	436
Baltimore	939	851
Birmingham	341	276
Boston	697	637
Buffalo	533	407
Chicago	3,550	3,099
Cincinnati	503	413
Cleveland	876	639
Columbus	471	536
Dallas	680	813
Denver	494	485
Detroit	1,670	1,335
El Paso	277	386
Ft. Worth	356	358
Honolulu	294	705
Houston	938	1,327
Indianapolis	476	715
Jacksonville	201	562
Kansas City	476	473
Long Beach	344	336
Los Angeles	2,479	2,727
Louisville	391	336
Memphis	498	661
Miami	292	365
Milwaukee	741	666
Minneapolis	483	378
Nashville	171	447
Newark	405	340

TABLE 2-1 CONTINUED

City	Population (000)	
	1960	1975
New Orleans	628	560
New York	7,782	7,482
Norfolk	305	287
Oakland	368	331
Oklahoma City	324	366
Omaha	302	371
Philadelphia	2,003	1,816
Phoenix	439	665
Pittsburgh	604	459
Portland	373	357
St. Louis	750	525
St. Paul	313	280
San Antonio	588	773
San Diego	573	774
San Francisco	740	665
San Jose	204	556
Seattle	557	487
Toledo	318	368
Tulsa	262	332

SOURCE: U.S. Bureau of the Census, County and City Data Book, 1962 (Washington, D.C.: Government Printing Office, 1962); and U.S. Bureau of the Census, City Government Finances in 1975-76 (Washington, D.C.: Government Printing Office, 1977).

monies to local governments. Again, the vast amount of these funds are for local education. Federal pass-through money, where included in state aid to cities, could have a significant impact. Campbell, for example, found that greater federal aid to cities makes it more likely that states will make more aid available to localities.¹⁵

The dependent measure--state aid--as operationalized in this study, includes six different variables. First, total intergovernmental revenue from state government is the aggregate measure as described in the last paragraph. This measure is further divided to allow for an examination of five categories of state intergovernmental aid to cities. Thus, the second revenue variable is general support intergovernmental revenue from state government. Fiscal aid to cities that is fairly unrestricted in function or purposes for which it may be used is included in this category. General support aid is a substantial portion of state aid to cities¹⁶ and is eagerly welcomed by cities due to the broad purposes for which it may be used. Third, "other specific" intergovernmental revenue from state government is used as a dependent variable. This form of aid includes all designated-use monies received from state government that are not part of the broad functional areas of intergovernmental revenue. The fourth dependent variable is intergovernmental aid from state government for education--the functional category that tends to receive the bulk of state aid. Fifth, public welfare aid from state government is examined. In both the education and public welfare aid areas, some cities receive little or no revenue from the state. This is because the education and/or welfare responsibilities rest with state government or a different unit of local government (e.g., school districts).

Because of these inter-city differences derived from state policies, the analysis will control for differences in functional inclusiveness. The final variable to be analyzed is intergovernmental highway aid from state government.

All of the revenue dependent variables will be analyzed on a "total" rather than "per capita" basis. Although a vast amount of policy research on revenue and expenditure policies uses per capita measures, such are not without serious problems. Uslaner raised this issue as a problem involving policy studies that attempt to fit per capita measures to the general linear model. Putting financial data in per capita form involves a nonlinear transformation of the data. This process requires some theoretical justification for its use since it may present methodological problems. By regressing per capita revenue for states in 1970 on per capita expenditures for the same year, he was able to explain only a small amount of variation ($r^2 = .22$) in the dependent variable. However, when regressing total revenues on total expenditures, the statistical association between these theoretically related variables, as expected, is extremely high ($r = .998$). In sum, the use of per capita measures could mistakenly explain little of the variability in the dependent variable when it should be very high.¹⁷ A controversy over the use of per capita measures in studies of aid to cities occurred following publication of the Dye and Hurley study.¹⁸ A subsequent article by Ward suggested that the weak association between city need and intergovernmental aid was due to Dye and Hurley's use of per capita dependent variables and percentage need independent variables. Ward's contention is that the use of the actual aggregate figures would have

produced significantly different results than were found by Dye and Hurley.¹⁹

The use of total figures in this analysis seems appropriate. A city's intergovernmental revenue from state government, examined from the state end, amounts to state expenditures. And, according to Uslaner, "state legislators generally deal in absolute dollar and cent terms when deciding the level of state expenditures. There is no evidence that the expenditures of other states serve as a baseline for any individual state."²⁰ Since this research is directed at a cross-section of cities located in many different states, the use of total revenue from the states makes both theoretical and methodological sense.

Independent Variables

I have chosen multiple variables to represent each of the three dimensions of need that were discussed earlier. In general, each of the indicators was chosen for testing in the analysis to follow due to (1) the overt theoretical relationship to the need dimension and (2) because of its use in previous studies of state or federal aid to cities. The purpose in selecting multiple indicators was to find the best predictor or predictors of each dimension of need. A second purpose was to pursue the possibility of using factor analysis to construct a single theoretically meaningful factor for each of the three dimensions of need. Where this is not possible the best predictor(s) of each dimension will be used to represent that aspect of need.

Recalling that social need is treated in this study as meaning people need, eight indicators of this dimension are examined. Table 2-2 lists the indicators as operationalized for this study. First, the larger the population, the greater the needs of the city. Both the Stein and the Dye and Hurley works found this indicator to be related to aid.²¹ Therefore, size of the population in both 1960 and 1975 is hypothesized to be positively related to state aid response. Perhaps the most blatant indication of a city's social need is the size of the poor population. Poverty in cities is measured as the number (or percentage) of residents whose family income falls below the national poverty line in 1960 and 1969. Patterns of urban social distress can be gauged by many different measures, according to Teitelbaum, Arnold, and Little, but usually include a poverty indicator.²² In fact, nearly all of the related studies of federal or state aid to cities have examined a low income or poverty variable.²³ Most have also used the percentage of the population that is poor; however, this analysis will use the size or total number of families in poverty. This is consistent with federal and state policies that allocate aid monies on the basis of the size of the needy population or the proportion of the national/state population in need in that city. The important factor is the size, not the proportion, of the city population in poverty, as Ward has demonstrated in his article.²⁴ In like fashion I suggest that the size of the poor population will be positively correlated with the responsiveness of state aid.

Dependent populations also require more from government and are able to provide less in return for what they receive. The dependency

TABLE 2-2

INDICATORS OF CITY SOCIAL, ECONOMIC, AND FISCAL NEED

SOCIAL NEED

- o Size (Total population, 1960, 1975)
- o Poverty (Total families below poverty line, 1960, 1969)
- o Elderly (Total population 65 years and older, 1960, 1970)
- o Minority (Total nonwhite population, 1960, 1970)
- o Crime (Total number of serious crimes reported, 1960, 1975)
- o Mobility (Total population moving in previous five years, 1960, 1970)
- o Education (Median school years completed, 1960, 1970)
- o Unemployment (Total unemployment, 1962, 1976)

ECONOMIC NEED

- o Density (Population per square mile, 1960, 1975)
- o Growth Rate (% change in population, 1950-1960, 1970-1975)
- o Income (Median family income, 1960, 1969)
- o Retail Sales Growth (% change in retail sales, 1948-1958, 1958-1972)
- o Manufacturing Employment (% change in manufacturing employment, 1950-1960, 1960-1970)
- o Home Ownership (Total owner occupied housing, 1960, 1970)
- o Inadequate housing (% housing lacking plumbing facilities, 1960, 1970)
- o Overcrowding (% housing with more than 1.01 persons/room, 1960, 1970)
- o Property Value (Median value of owner occupied housing, 1960, 1970)

FISCAL NEED

- o Budget Deficit (General fund deficit spending total, 1962, 1976)
 - o Debt Burden (Total general debt as a proportion of revenue in 1962, 1976)
 - o Fiscal Effort (General revenue/personal income, 1962, 1976)
-

measure of social need used here is the size of the elderly population in 1960 and 1970. Unlike the way it was treated in several other studies,²⁵ the total size rather than the proportion of the population that is 65 years of age or older is employed. Since many of the social needs in cities are commonly associated with the minority residents, an indicator for the size of this population has also been used in aid studies.²⁶ The total non-white population for 1960 and 1970 is used to represent this aspect of social need in this analysis. Less stability in the population is a sign of social need. Cities with highly mobile populations tend to be cities with problems since families with resources move out and those with social and income problems stay behind. Cities lose valuable tax resources when the more well-off migrate out and the poorer remain or increase in numbers. For this reason a measure of mobility is included, comparable to that used by Dye and Hurley.²⁷ The total population moving in the five years previous to 1960 and 1970 is the indicator for mobility and is hypothesized to be positively related to the dependent measures.

The underemployment or unemployment of large numbers in a community adds further distress to the social and economic climate. Cuciti noted that the lack of economic opportunities often combines with other social forces to put strain on the community and its institutions.²⁸ Its importance to the study of social needs is fairly overt, and it has been a factor studied by Nathan and Adams, and Stein in similar research.²⁹ The total size of the unemployed community in 1962 and 1976 is included here with the expectation that it will be positively correlated with aid. One of the reasons for unemployment can be the lack of skills or education. Cities with concentrations of low-skilled, low-educated

populations have social distress, also. For this reason a measure for education is added to the list of social need variables. Although Nathan and Adams used the percentage of the population lacking a high school education and Stein relied on the percentage with such, in this instance, the work by Dye and Hurley is deemed most useful and the median school years completed by the population in 1960 and 1970 is employed.³⁰ This social need variable has conventional use in social research and is a valid measure of the condition that is to be measured. Here I anticipate a negative relationship between increasing education and aid.

The final variable included in the list of social need indicators is total crime. This social pathology measure has been analyzed in several other aid studies. Dye and Hurley found the crime rate to be positively related to federal and state outlays³¹ and Stein confirmed a significant, positive relationship between the crime rate and direct federal aid to cities.³² Expecting to find a comparable relationship, the measure used in this study is total serious crimes reported in 1960 and 1975.

The economic dimension is assessed through several different indicators, also. The more densely populated an area, the greater the degree of social and economic distress experienced by people and businesses. The economic community has been moving to less densely populated areas in the last two decades. As they move out to the suburbs where they have room to expand, the city loses needed tax resources. Thus, the densely populated areas are less attractive to commercial and industrial concerns. Dye and Hurley found a moderately

strong and positive relationship between density and state aid and a weaker, though positive, relationship between federal grants and density.³³ Density, as operationalized here, is the total population per square mile in 1960 and 1975 and is expected to be positively correlated with aid. A related population variable that assesses economic need is the growth rate. Large U.S. cities with declining populations may have a greater need than growing cities due to the loss of needed tax resources. The little research that has been done in this area indicated that federal and state grants were only weakly related to this aspect of need, but cities with declining populations did receive larger amounts of aid.³⁴ The percentage change in city population from 1950 to 1960 and 1970 to 1975 are employed in this analysis and are anticipated to be negatively related to the responsiveness of state aid.

Since the income of individuals is vital to the success of the economic community, an indicator of income was chosen for this analysis. Median family income had a significant relationship to federal outlays in Stein's studies of cities but no relationship to state aid.³⁵ Although per capita income was used by Nathan and Adams as part of their distress measure³⁶ and by Cuciti in comparing the relative disadvantage of cities by region,³⁷ median family income was chosen because of its conventional use in much social research. Higher income levels in cities are hypothesized to be negatively related to state aid.

Long-term trends in retail sales highlight the changing economic conditions of an area quite well. Areas that are losing population or

gaining in the number of low-income residents may also be experiencing a decline in retail sales. This is supported by the growth in retail sales in the expanding suburbs during the last two decades.³⁸ As suburbs increased in retail sales volume the same decreased in cities, adding to their economic distress. For this reason a measure of the change in total retail sales from 1948 to 1958 and 1958 to 1972 is included among the economic dimension indicators. Similarly, the changes taking place in the industrial sector are vitally important to an area's economic health. According to Cuciti, growth in manufacturing employment is a good indicator of economic growth. In her study she found the more expansive manufacturing employment base to be in the suburbs, not the central cities.³⁹ In my research, the percentage change in manufacturing employment from 1950 to 1960 and 1960 to 1970 is employed for analysis.

A final set of economic need variables relate to the housing situation. Home ownership is a measure that taps the economic and fiscal potential of an area. Commercial market surveys include examination of the number of home owners, because people who can afford their own home usually have larger disposable incomes. Both the Dye and Hurley study and the Stein federal aid study showed statistically significant negative relationships between grants or aid and the percentage of the city population owning homes. This study uses the total number of owner occupied dwellings in 1960 and 1970 to represent home ownership, which is expected to be negatively related to state aid. Also, the proportion of housing stock that is inadequate by common standards for homes, the greater the likelihood of economic

distress. Similarly, the amount of crowded housing further suggests problems for the community. Ward found a strong relationship between inadequate housing (defined as houses lacking some plumbing facilities), and federal outlays to cities,⁴⁰ so a similar measure for 1960 and 1970 is employed here. Overcrowded housing, that is housing with more than 1.01 persons per room in 1960 and 1970, is also included. Nathan and Adams included this variable among their distress index variables,⁴¹ and Dye and Hurley noted a significant, though weak, relationship between crowded housing and federal outlays.⁴² Contrary to the latter study, Ward found a very strong association between total federal outlays and crowding.⁴³ The last indicator for economic need is the property value. Although Stein could find virtually no relationship between home value and federal aid,⁴⁴ the Dye and Hurley study surfaced a significant association between this measure of economic need and state grants.⁴⁵ Cities do get a large share of fiscal capacity via the ad valorem property tax. In addition, the value of the housing market is a sign of the economic climate and health of a city. The median value of owner occupied housing in 1960 and 1970 is therefore used in this analysis of economic need and should be negatively related to state aid responsiveness.

The third dimension of need relates to the fiscal capacity and fiscal distress of cities. It is different from the other two dimensions and of equal importance because it assesses the financial health of the city government. Attention has been drawn to the fiscal condition of cities following the near-collapse of New York City and the default of Cleveland on its municipal bonds. The fiscal

problems of cities are quite varied but can be usefully classified into three types according to a Rand Corporation report. The first type of level is referred to as "fiscal disadvantage." This addresses the relative ability of a city to provide resources for services comparable to other cities. A low tax base, broad fiscal responsibilities, and expensive service outlays are among the characteristics of this type of disadvantaged condition. The second type, "fiscal decline," is associated with cities having declining budget alternatives that demand either an increase in taxes or a cutback in services. The final type is "acute fiscal crisis" and is a severe fiscal condition of cities. In this instance, a city may have lost the ability to correct fiscal decline with budget options. The city's revenue and expenditure ratios are so far out of line that the city may be unable to meet financial obligations.⁴⁶

I have chosen three indicators of the fiscal need dimension. Mindful of the preceding discussion of the Rand report, and of the work by Dearborn who assessed financial problems with city budget deficits,⁴⁷ the general fund deficit spending total for 1962 and 1976 was selected for inclusion in this analysis. Cities running budgets in the red were deemed to be in need of financial assistance since they were not able to raise sufficient revenues to cover expenditures.

A second fiscal variable assesses longer-term borrowing needs of cities. The debt burden for each city is measured as the total general debt outstanding in 1962 and 1976 standardized by the annual revenue collection. This standardization is necessary, according to Cuciti, to largely eliminate differences in debt levels that are due

to the differences in functional responsibilities of cities.⁴⁸ The final variable, fiscal effort, is used to assess the fiscal capacity of a city and the willingness or ability of city government to tap this. Stein found a strong and positive relationship between aid allocations and tax burden.⁴⁹ But the effort that a community can make is deemed more appropriate to this analysis. Thus, fiscal effort is measured by the ratio of general revenue to personal income in 1962 and 1976.

In addition to examining the relationship between the three dimensions of need and state aid allocations, a secondary purpose of this study is to examine other variables relevant to state aid allocations. If states do not distribute funds to cities on the basis of need, then what other factors determine the amount of aid received from state government? Here it becomes important to examine several factors addressed in Chapter I such as the capacity, willingness, and requirements to provide money to cities.

The first factor that would reasonably be assumed to have importance in this area is the capacity of a state government to provide aid. Here I am referring to the fiscal and economic position of the state government. States that have more money are in a better position to provide aid to cities than states that are fiscally poor. Overall, states have been found to be good revenue raisers--in fact, better at this than any other level of government, according to Stephens and Olson.⁵⁰ Thus, I have selected several indicators of state revenue capacity to assess in relationship to state aid to cities. In this instance, to control for differences in state population size, I

rely upon per capita indicators of revenue capacity. In terms of general revenue-raising power, two variables have been selected. The first, total state revenue per capita is intended to capture the availability of money for cities. States that are able to harvest more revenue per capita are in a better position to provide aid to local governments. Total other revenue per capita, the second general indicator of revenue-raising, assesses the difference between total revenue and tax revenue. States taking in more in other revenue per capita should also be in a better position to aid cities.

Because it has been argued that states receiving more aid from the federal government are also in a better situation to aid cities,⁵¹ I include several measures of federal aid to states. State intergovernmental aid per capita from the federal government is used as a general measure of capacity. In addition, several functional categories of federal aid to states will be examined when analyzing state aid to these same areas. These include intergovernmental aid per capita received from the federal government for public welfare, education, and highways. All of the state revenue capacity indicators addressed so far will be from Census Bureau reports for 1962 and 1976.

Two additional measures of revenue capacity are to be examined. Both represent the economic resources and environment of the state. Originally created by Sharkansky and Hofferbert,⁵² factor scores have been calculated to represent composite factors for state affluence and industrialization. Sharkansky and Hofferbert factor analyzed 21 socioeconomic variables of states and arrived at two principal dimensions that could be labeled affluence and industrialization. For

this study, data on the same variables were collected for 1960 and 1970. These were also factor analyzed and scored for use as composite measures of state resources.

A second set of state-related variables are concerned with the demographic characteristics of the states. The ACIR has reported evidence that suggests that the more populated states are both more capable and perhaps more disposed toward helping urban areas.⁵³ For this reason, the population size of the state in 1960 and 1977 is included as an independent variable. Also important to the responsiveness of state aid is the makeup of the state population. More urbanized states with larger urban populations would understandably be more sympathetic and sensitive to the problems of cities. The percentage of the state population that is metropolitan in 1960 and 1970 is, therefore, employed as another independent variable. The last demographic indicator is the state growth rate from 1950 to 1960 and 1960 to 1970. States that are losing population are at somewhat of a disadvantage in their ability to help cities. This measure can be expected to be more important among the northern, frostbelt states than in the growing sunbelt states.

Stephens and Olson assert that the degree of state centralization and local decentralization is very important in the determination of state aid. They have shown that the more centralized states tend to give less money to local governments than states with more local decentralization.⁵⁴ This is due to more state responsibility for providing local services in centralized states. Since a measure of state centralization would also represent the structural characteristics

of state government, the state centralization index of Stephens and Olson is employed in this analysis. This index for 1969 and 1977 is a composite of three other indices related to state centralization. The first factor measures financial responsibility or the payment by the local government of the costs of public services relative to that paid by the state. The second index, related to service delivery, measures the extent to which "a common package of state and local services are locally, jointly, or state delivered." The final component, a personnel distribution index measures the relative labor intensity of common state delivered services versus locally provided ones.⁵⁵

A related structural factor measures the functional inclusiveness of local government responsibilities. Since states should be giving more aid to cities that have the local responsibility for education and welfare, this factor may be considered to be among the more important, if not the most important, non-need determinants of state aid.⁵⁶ A measure of functional inclusiveness, similar to that advanced by Liebert,⁵⁷ is added to the list of independent variables. Cities have been coded according to the degree of responsibility that they have in these areas. That is, cities with both welfare and education responsibilities are coded as 2; those with either of the assignments as 1; and cities without either are coded as 0. Thus, an ordinal scale measuring the degree to which cities require state financial aid is used here for both 1962 and 1976. (Responsibility is measured as spending.)

A fourth set of state-related variables is concerned with the political climate and political institutions. There is evidence that

politics does matter in state policy making, but it may not be the most important factor. For example, Hofferbert found the attitudes of political leaders to be important in state spending levels, and Baer and Jaros found voter turnout to be a determinant of state policy.⁵⁸ Several political variables are hypothesized to be influential in determining state aid responsiveness. Policy innovativeness among the states has been used to measure the policy-adoption proneness of state governments. That is, how quickly do states adopt policies that are considered progressive or modernizing? For purposes of this research, the more innovative states are hypothesized to be more prone to assist cities than states that are considered to be laggards. LeMay, for instance, found innovation to be strongly correlated with a composite measure of state pro-urban legislation.⁵⁹ Several policy studies have developed innovation indices for the states. Walker studied the diffusion of innovations over time and Gray focused upon the functional dimensions of state innovations.⁶⁰ I have chosen to use the policy innovation index developed by Savage for the period 1930 to 1970.⁶¹ He calculated an innovative score for each state that accounts for temporal variations across policies during this period and also accounts for variations within states in responding to new policies.⁶² Because the score includes the 1930 to 1970 period, the same score is used in both the 1962 and 1976 analyses.

The effects of interparty competition on state policy making have also been well documented. While some studies have found that political variables such as interparty competition are not as important as economic variables in the determination of policy

outcomes,⁶³ other research continues to suggest that party competition is important. For example, three well-known research efforts by Cnudde and McCrone, Sharkansky and Hofferbert, and Tompkins suggest that party competition is at least important in the determination of welfare policy outputs.⁶⁴ In similar fashion, Carmines reported that interparty competition was related to welfare policies and that this relationship was strongest in states with more professionalized legislatures.⁶⁵ Because interparty competition has been shown to have importance in state policies, and because more competitive states have traditionally been thought to be more stimulating and liberal environments for policy,⁶⁶ a set of competition-turnout factor scores are to be used in this analysis. The scores first calculated in the Sharkansky and Hofferbert study⁶⁷ are used for the first time period since they correspond to 1962. A second measure of interparty competition calculated by Morgan and England for 1970-1976⁶⁸ and comparable to that generated by Ranney⁶⁹ is used for the 1976 analysis.

Another political variable that is hypothesized to have a positive impact upon the responsiveness of state aid is legislative professionalism. Carmines found interparty competition to affect policy most strongly when effective, professional legislatures were present.⁷⁰ In like fashion, an earlier study by Grumm found legislative professionalism to have a significant impact on welfare policy, independent of other influences.⁷¹ The legislative professionalism index developed by Grumm is employed in this analysis. The measure is calculated by factor analyzing four variables:⁷² (1) state expenditures for the legislative branch in 1962 (and 1976); (2) state

compensation of legislators in the 1962-63 biennium (and the 1965-76 biennium); (3) total length (days) of the legislative session during 1962-63 (and 1975-76); and (4) the number of bills introduced in the 1962-63 biennium (and the 1975-76 biennium). The result is a separate professionalism index for the 1962-63 and the 1975-76 bienniums.

A final political variable hypothesized to have an impact on state aid responsiveness is legislative apportionment. The expected relationship would be for the more malapportioned states that normally underrepresented the urban-area populations to be less responsive to the need for state aid. Although this variable has not always been found to be important, one comprehensive examination of state policy outcomes suggests differently. The study by Cho and Frederickson examined a variety of political measures and found several legislative apportionment indicators to have increased in importance over time (1962 to 1969).⁷³ To see if degrees of malapportionment can make a difference in state aid, a measure of such is included in this analysis. States were ranked on their apportionment methods using the Dauer-Kelsay Index of Representativeness⁷⁴ for 1962. A related technique was used for a reapportionment measure for the 1970s.⁷⁵ A residualized measure of change for the differences was also calculated.

A final predictive variable that cuts across the range of political, economic, and demographic variables is regionalism. Because it represents broad geographic areas and not specific states or cities, region may be able to give us some insight into the character of the states located within it. Region can also capture cultural influences that significantly affect policy.⁷⁶ If for no

other reason than that studies of city need have shown important regional differences in both distress and aid,⁷⁷ it is appropriately included as an independent variable here. The regional assignments developed by Luttbeg⁷⁸ have been used to construct a dummy variable for region.

Methods of Analysis

The analysis to follow proceeds through several different stages. The initial analysis of the association between measures of need and the responsiveness of state aid includes simple correlational analysis to determine the strength of the bivariate relationships. The need variables will also be factor analyzed to determine if a meaningful composite measure for each of the three dimensions--social, economic, and fiscal--can be achieved. Those need indicators that are correlated with state aid and are correlated with another indicator in the same dimension will be used in the factor analytic procedure.

Because I have hypothesized that several other state-related factors can be important determinants of state aid, a multivariate analysis will follow. Again, only those indicators among the four blocks that are strongest will be included in the multivariate analysis. That is, not all of the political factor indicators will be kept in the final analysis, for example.

Separate analyses will be performed on each of the various functional areas of state aid that were mentioned above. Also, separate analyses will be performed for 1962, 1976, and for the change measures from 1962-76. Thus both a cross-sectional analysis of the cities and an analysis of the time points are performed in this study. Differences in functional inclusiveness will be taken

into account when assessing education and public welfare aid responsiveness.

A point of contention in this study might be the use of state-level variables in a city-level analysis. While it is true that the data on state revenue capacity, demographics, political climate, and centralization are not city-level variables, such as the need indicators are, they nonetheless are hypothesized to have a significant impact upon the responsiveness of state financial aid. But because the sample is relatively small with 47 cities, not all states are represented in this study. Twenty-eight states have cities represented in the sample. Several states have larger than normal numbers of largely populated cities (California-4, Texas-5, Ohio-4) and they are then, in a sense, overrepresented in the study. Seven additional states each have a pair of large cities included. The potential problem that can arise in the analysis is that the explanatory power of the state-related indicators will be erroneously diminished in comparison to the city-level variables. This will be caused by the diminished variability in these state-related independent variables caused by the repetition of the same state data for the several cities that are from the same state. To see if this was a problem, the overrepresented states were removed somewhat from the analysis. Only two cities each from California, Texas, and Ohio were used. This still left some duplication in the analysis but it did not seriously affect the results. This reduced the number of cases on some state-related variables to 39 cities from the maximum of 47. The results of this subset analysis were so comparable to the complete sample that all cities were kept in the analysis that follows.

The analysis is divided into three chapters. Chapter III analyzes the response of total state aid to cities. Chapter IV is an examination of the responsiveness of general support and other specific purpose aid from state government. And Chapter V examines highway, education, and public welfare aid to local governments.

FOOTNOTES

¹See Deil S. Wright, Understanding Intergovernmental Relations, 2d ed. (Monterey, CA: Brooks/Cole Publishing Co., 1982), pp. 29-40.

²This conceptualization is used by both Matt Edel, "'People' Versus 'Places' in Urban Analysis," in N.J. Glickman (ed.), The Urban Impacts of Federal Policies (Baltimore, MD: Johns Hopkins University Press, 1980), pp. 175-191; and John P. Ross and James Greenfield, "Measuring the Health of Cities," in Charles H. Levine and Irene Rubin (eds.), Fiscal Stress and Public Policy (Beverly Hills: Sage, 1980), pp. 89-110.

³Richard P. Nathan and Charles Adams, "Understanding Central City Harship," Political Science Quarterly 91 (Spring 1976): 47-62.

⁴See Peggy Cuciti, City Need and the Responsiveness of Federal Grant Programs, Report to the U.S. House of Representatives, Committee on Banking, Finance, and Urban Affairs, Subcommittee on the City, 95th Congress, 2nd Session (Washington, D.C.: Government Printing Office, 1978); and Ross and Greenfield, pp. 102-105.

⁵A most useful summary of fiscal needs studies is provided by Ross and Greenfield, pp. 98-102.

⁶Advisory Commission on Intergovernmental Relations, Trends in Metropolitan America (Washington, D.C.: Government Printing Office, 1977); and Congressional Budget Office, Troubled Local Economics and the Distribution of Federal Dollars (Washington, D.C.: Government Printing Office, 1977).

⁷Fred Teitelbaum, David D. Arnold, and Dorrett Lyttle, "State Assistance to Distressed Cities," The Urban Interest 3 (Special Issue, 1981): 60.

⁸Cuciti, p. 39.

⁹Thomas R. Dye and Thomas L. Hurley, "The Responsiveness of Federal and State Governments to Urban Problems," Journal of Politics 40 (February 1978): 196-207.

¹⁰Robert M. Stein's work on federal and state aid includes: "The Allocation of Federal Aid Monies: The Synthesis of Demand-Side and Supply-Side Explanations," American Political Science Review 75 (June 1981): 334-343; "The Targeting of State Aid: A Comparison of Grant Delivery Systems," The Urban Interest 3 (Special Issue, 1981): 60-72; and "The Allocation of State Aid to Local Governments: An Examination of Interstate Variations," in Advisory Commission on Intergovernmental Relations, State and Local Roles in the Federal System (Washington, D.C.: Government Printing Office, 1982), pp. 202-216.

¹¹Advisory Commission on Intergovernmental Relations, The State of State-Local Revenue Sharing (Washington, D.C.: Government Printing Office, 1980), pp. 11-14.

¹²Washington, D.C. is excluded because it receives no state intergovernmental revenue.

¹³See Nathan and Adams, pp. 50-53; and Cuciti, pp. 15-39.

¹⁴U.S. Bureau of the Census, City Government Finances in 1962 and City Government Finances in 1975-76 (Washington, D.C.: Government Printing Office, 1963 and 1977).

¹⁵Alan K. Campbell, "National-State-Local Systems of Government and Intergovernmental Aid," The Annals of the American Academy of Political and Social Science (May 1965): 104. See also G. Ross Stephens and Gerald W. Olson, Pass Through Federal Aid and Interlevel Finance in the American Federal System, 1957 to 1977, A Report to the National Science Foundation (Kansas City: University of Missouri, August 1, 1979); and Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments (Washington, D.C.: Government Printing Office, 1980), pp. 77, 86.

¹⁶See Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments (Washington, D.C.: Government Printing Office, 1980); and Stein, "The Allocation of State Aid to Local Governments," p. 205.

¹⁷Eric M. Uslaner, "The Pitfalls of Per Capita," American Journal of Political Science 20 (February 1976): 125-133.

¹⁸Dye and Hurley, "The Responsiveness of Federal and State Governments to Urban Problems."

¹⁹Peter D. Ward, "The Measurement of Federal and State Responsiveness to Urban Problems," Journal of Politics 43 (February 1981): 83-101.

²⁰Uslaner, p. 131.

²¹Stein, "The Allocation of Federal Aid Monies," p. 339; and Dye and Hurley, p. 205.

²²Teitelbaum, Arnold, and Lyttle, pp. 61-62.

²³Nathan and Adams, p. 49; Cuciti, pp. 3-4; Dye and Hurley, p. 199; and the three Stein articles.

²⁴Ward, pp. 86-89.

²⁵Percentage figures for the elderly population were used by Nathan and Adams; Dye and Hurley; and Stein (all works).

²⁶Dye and Hurley, p. 199. See also Teitelbaum, Arnold, and Lyttle, p. 62.

²⁷The difference is that Dye and Hurley used the percentage moving; see p. 199.

²⁸Cuciti, p. 4.

²⁹Nathan and Adams, p. 49; Stein, "The Allocation of Federal Aid Monies," p. 337.

³⁰Dye and Hurley, p. 199.

³¹Ibid., p. 205.

³²Stein, "The Allocation of Federal Aid Monies," p. 339.

³³Dye and Hurley, p. 205.

³⁴Ibid.

³⁵Stein, "The Allocation of Federal Aid Monies," p. 339; and "The Allocation of State Aid to Local Governments," p. 207.

³⁶Nathan and Adams, p. 49.

³⁷Cuciti, pp. 15-17.

³⁸Ibid., p. 26.

³⁹Ibid.

⁴⁰Ward, p. 87.

⁴¹Nathan and Adams, p. 49.

⁴²Dye and Hurley, p. 200.

⁴³Ward, p. 87.

⁴⁴Stein, "The Allocation of Federal Aid Monies," p. 339.

⁴⁵Dye and Hurley, p. 205.

⁴⁶Stephen M. Barro, The Urban Impacts of Federal Policies, Vol. 3, Fiscal Conditions (Santa Monica, CA: Rand Corporation, April 1978), pp. v-vi.

⁴⁷Philip M. Dearborn, Elements of Municipal Financial Analysis, Part II: Budget Performance (First Boston Corporation, 1977), as cited in Cuciti, pp. 28-29.

⁴⁸Cuciti, p. 30.

⁴⁹Stein, "The Allocation of Federal Aid Monies," p. 339; and "The Targeting of State Aid," p. 53.

⁵⁰G. Ross Stephens and Gerald W. Olson, Pass Through Federal Aid and Interlevel Finance in the American Federal System, 1957 to 1977. A Report to the National Science Foundation (Kansas City: University of Missouri, August 1, 1979), 1: 17.

⁵¹National Governors' Association, Bypassing the States: Wrong Turn for Urban Aid (Washington, D.C.: National Governors' Association, 1979).

⁵²Ira Sharkansky and Richard I. Hofferbert, "Dimensions of State Politics, Economics, and Public Policy," American Political Science Review 63 (September 1969): 867-879.

⁵³ Advisory Commission on Intergovernmental Relations, State Aid to Local Government (Washington, D.C.: Government Printing Office, April, 1969).

⁵⁴ Stephens and Olson, p. 59.

⁵⁵ Ibid., pp. 59-60.

⁵⁶ See Roland J. Liebert, "Municipal Functions, Structure, and Expenditures: A Reanalysis of Recent Research," Social Science Quarterly 54 (March 1974): 765-783.

⁵⁷ Ibid., p. 771.

⁵⁸ Richard Hofferbert, "Socioeconomic Dimensions of the American States, 1890-1960," Midwest Journal of Political Science 2 (August 1968): 401-418; and Michael A. Baer and Dean Jones, "Participation as Instrument and Expression: Some Evidence From the States," American Journal of Political Science 18 (May 1974): 365-383.

⁵⁹ Michael LeMay, "Expenditure and Nonexpenditure Measures of State Urban Policy Output: A Research Note," American Politics Quarterly 1 (October 1973): 511-528.

⁶⁰ Jack L. Walker, "The Diffusion of Innovations Among the American States," American Political Science Review 63 (September 1969): 880-899; and Virginia Gray, "Innovation in the States: A Diffusion Study," American Political Science Review 67 (December 1973): 1174-1185.

⁶¹ Robert L. Savage, "Policy Innovativeness as a Trait of American States," Journal of Politics 40 (February 1978): 212-224.

⁶² Ibid., p. 215.

⁶³ Richard E. Dawson and James A. Robinson, "Inter-Party Competition, Economic Variables, and Welfare Policies in the American States," Journal of Politics 25 (May 1963): 265-289; and Thomas R. Dye, Politics, Economics, and the Public (Chicago: Rand McNally, 1966).

⁶⁴ Charles F. Cnudde and Donald J. McCrone, "Party Competition and Welfare Policies in the American States," American Political Science Review 63 (September 1969): 858-866; Sharkansky and Hofferbert, p. 877; and Gary L. Tompkins, "A Causal Model of State Welfare Expenditures," Journal of Politics 37 (May 1975): 392-416.

⁶⁵ Edward Carmines, "The Mediating Influence of State Legislatures on the Linkage Between Interparty Competition and Welfare Policies," American Political Science Review 68 (September 1974): 1118-1124.

⁶⁶ See, for example, V.O. Key, Jr., American State Politics (New York: Knopf, 1956).

⁶⁷ Sharkansky and Hofferbert, p. 876.

⁶⁸ Used in David R. Morgan and Robert E. England, "State Aid to Cities: A Causal Inquiry," paper presented at the Midwest Political Science Association Annual Meeting, April 1981.

⁶⁹ Austin Ranney, "Parties in State Politics," in Herbert Jacob and Kenneth Vines (eds.), Politics in the American States, 3d ed. (Boston: Little, Brown, 1976), pp. 51-92.

⁷⁰ Carmines, pp. 1118-1124.

⁷¹ John G. Grumm, "The Effects of Legislative Structure on Legislative Performance," pp. 298-322 in Richard I. Hofferbert and Ira Sharkansky (eds.), State and Urban Politics (Boston: Little, Brown & Co., 1971).

⁷² Grumm's original index actually included a fifth variable--a "legislative services" score, which is omitted from this analysis. See Grumm, pp. 315-317.

⁷³ Yong H. Cho and H. George Frederickson, Determinants of Public Policy in the American States: A Model for Synthesis (Beverly Hills: Sage Professional Paper, Administrative and Policy Studies Series, 1973).

⁷⁴ Paul David and Ralph Eisenberg, "The Dauer-Kelsay Measures of Representativeness," in Glendon Schubert (ed.), Reapportionment (New York: Charles Scribner's Sons, 1965), pp. 77-78.

⁷⁵ The measure for the 1970s was taken from the year of the most recent legislative apportionment--between 1971 and 1976. To calculate the ranking the range or deviation in actual versus average population per seat was averaged for the two separate houses to achieve a single score for each state. The data were derived from: Council of State Governments, American State Legislatures: Their Structures and Procedures (Lexington, KY: Council of State Governments, 1977, revised), pp. 4-5.

⁷⁶ Brett W. Hawkins, Politics and Urban Policies (Indianapolis: Bobbs-Merrill Co., Inc., 1971), p. 41.

⁶⁵Edward Carmines, "The Mediating Influence of State Legislatures on the Linkage Between Interparty Competition and Welfare Policies," American Political Science Review 68 (September 1974): 1118-1124.

⁶⁶See, for example, V.O. Key, Jr., American State Politics (New York: Knopf, 1956).

⁶⁷Sharkansky and Hofferbert, p. 876.

⁶⁸Used in David R. Morgan and Robert E. England, "State Aid to Cities: A Causal Inquiry," unpublished paper.

⁶⁹Austin Ranney, "Parties in State Politics," in Herbert Jacob and Kenneth Vines (eds.), Politics in the American States, 3d ed. (Boston: Little, Brown, 1976), pp. 51-92.

⁷⁰Carmines, pp. 1118-1124.

⁷¹John G. Grumm, "The Effects of Legislative Structure on Legislative Performance," in Richard I. Hofferbert and Ira Sharkansky (eds.), State and Urban Politics (Boston: Little, Brown & Co., 1971).

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⁷⁴Paul David and Ralph Eisenberg, "The Daver-Kelsay Measures of Representativeness," in Glendon Schubert (ed.), Reapportionment (New York: Charles Scribner's Sons, 1965), pp. 77-78.

⁷⁵The measure for the 1970s was taken from the year of the most recent legislative apportionment--between 1971 and 1976. To calculate the ranking the range or deviation in actual versus average population per seat was averaged for the two separate houses to achieve a single score for each state. The data were derived from: Council of State Governments, American State Legislatures: Their Structures and Procedures (Lexington, KY: Council of State Governments, 1977, revised), pp. 4-5.

⁷⁶Brett W. Hawkins, Politics and Urban Policies (Indianapolis: Bobbs-Merrill Co., Inc., 1971), p. 41.

⁷⁷Cuciti, pp. 15-41.

⁷⁸Norman R. Luttbeg, "Classifying the American States: An Empirical Attempt to Identify Internal Variations," Midwest Journal of Political Science 15 (November 1971): 703-721.

CHAPTER III

CITIES AND INTERGOVERNMENTAL REVENUE FROM STATE GOVERNMENT

This chapter presents a descriptive and multivariate analysis of state intergovernmental aid to the 47 largest cities in the U.S. The initial section reviews some descriptive data on patterns in state aid to all types of local governments as well as the financial picture for the 47 cities in 1962 and 1976. Later sections of the chapter examine the relationship of state aid to city needs and to other non-need factors. Both bivariate and multivariate methods of analysis are employed throughout the chapter.

Trends in State Aid to Local Governments

States provide aid to five different classes of local governments: counties, municipalities, school districts, townships, and special districts. The receiving governments apply this money to both common purposes and to many uses that are unique to the type of receiving government. But regardless of the designated application of intergovernmental revenue from the state, each of these types of governments is in need of state funds.

Table 3-1 presents some recent trends in state aid to local governments. In 1962, total state aid to local governments in the United States

TABLE 3-1

STATE AID TO LOCAL GOVERNMENTS BY TYPE OF RECEIVING GOVERNMENT,
SELECTED YEARS (\$ MILLIONS) ^a

Type of Local Government Receiving State Aid	Year								1962-1977 % Change
	1962		1967		1972		1977		
	\$	%	\$	%	\$	%	\$	%	
Total Aid to Local Governments	10,906	100	19,056	100	35,143	100	60,277	100	+452.7
Municipalities	2,039	18.7	4,059	21.3	8,434	24.0	14,093	23.4	+591.2
Counties	3,065	28.1	4,745	24.9	9,252	26.3	14,347	23.8	+368.1
School Districts	5,398	49.5	9,566	50.2	16,471	46.9	29,659	49.2	+449.4
Townships	360	3.3	591	3.1	781	2.2	1,335	2.2	+270.8
Special Districts	44	0.4	95	0.5	205	0.6	842	1.4	+1,813.6

SOURCE: U.S. Bureau of the Census, Census of Governments, 1977, State Payments to Local Governments (Washington, D.C.: Government Printing Office, 1979); Census of Governments, 1972, Compendium of Government Finances (Washington, D.C.: Government Printing Office, 1974); and Census of Governments, 1977, Compendium of Government Finances (Washington, D.C.: Government Printing Office, 1979).

^aThis includes federal pass-through aid as well.

was \$10.9 billion. This amount grew slowly to \$19 billion in 1967 but began to increase in more significant amounts in the 1970s. By 1977, state aid to local governments totaled more than \$60 billion representing an increase over the 16-year period of almost 453 percent. School districts consistently received the largest portion of state aid--usually about 49 percent of the total state aid distributed among local governments. State aid to school districts increased from 1962 to 1977 by nearly \$25 billion or 449 percent. During this period the second largest share of the state aid pie went to counties--the local extension of state governments. Counties received over \$3 billion in 1962 which was 28.1 percent of state aid and the largest proportion across four time points shown in Table 3-1. Although the period from 1962 to 1977 reflected a 368 percent increase in aid to counties, the 1977 total of over \$14 billion was only 23.8 percent of the state aid pie--down 4.3 percentage points from 1962. Township governments experienced a similar decrease in their proportional share of state aid. Although the total figure increased from 1962 to 1977 by 271 percent, this was the smallest increase among the five types of local governments and reflects a proportional allocation drop of 1.1 percentage points during the 16 years.

The big winners in the slicing of the state aid pie were municipalities and special district governments. City governments received only a little more than \$2 billion (about 19%) of the state aid distributed in 1962. By 1967 this had nearly doubled to over \$4 billion, and the proportion of the state aid package share had increased from 18.7 percent to 21.3 percent. This amount more than doubled again in the next five years and increased to 24 percent of state aid to local

governments. In 1977, state aid to cities stood at \$14.1 billion and represented 23.4 percent of state aid--virtually the same proportion as that going to county governments. The change in dollars going to municipalities over this 16-year time frame reflects a 591 percent increase in state aid to cities. Aside from the large increase in aid to special districts (1,813%) which still amounts to only \$842 million in 1977, the increase in state aid to cities is the largest among the four remaining types of local governments. This increase in municipal receipts from the state seems to reflect both the changing responsibilities of city governments that required more outside aid and the enhanced awareness of municipal needs on the part of state legislatures that took place during the last two decades.

To provide a more descriptive picture of the role of state aid in the budget of the sample cities, Table 3-2 presents the 1962 and 1976 financial statistics for the 47 largest cities. In the aggregate, these cities raised revenues that kept pace with expenditures during both periods. Total general revenue exceeded total general expenditures by over \$4.5 million in 1962. The revenue-expenditure surplus in 1976 was in excess of \$1 billion. The larger surplus is due in part to the differential increases in spending and revenue raising. While revenues increased 329 percent from 1962-1976, general expenditures increased by only 313 percent.

A significant portion of the revenue category was made up of monies received from other levels of government. In 1962, \$1.6 billion (or about 24.6%) of general revenue came from intergovernmental sources. This reliance upon intergovernmental money increased dramatically by

TABLE 3-2

FINANCIAL STATISTICS FOR SELECTED LARGE CITIES
IN 1962 AND 1976 (N=47)
(THOUSANDS OF DOLLARS)

Item	<u>Year</u>		1962-76 % Change
	1962 ^a	1976	
Total General Expenditure	6,559,023	27,098,912	+313.2
Total General Revenue	6,563,606	28,167,926	+329.2
Intergovernmental Revenue	1,621,877	12,611,673	+677.6
o From Federal Government	150,124 ^b	3,488,362	+2,223.6
- as a percent of general revenue	2.3%	12.4%	--
- as a percent of inter-governmental revenue	9.3%	27.7%	--
o From State Government ^c	1,225,514 ^d	8,767,098	+615.4
- as a percent of general revenue	18.7%	31.1%	--
- as a percent of inter-governmental revenue	75.6%	69.5%	--

SOURCE: U.S. Bureau of the Census, City Government Finances in 1962 (Washington, D.C.: Government Printing Office, 1963); City Government Finances in 1965-76 (Washington, D.C.: Government Printing Office, 1977).

^aSome 1962 data was supplied by individual city governments because the source document did not report such.

^bEstimates were used for El Paso, Jacksonville, Miami, Nashville, San Jose, and Tulsa.

^cThis category includes federal pass-through funds also.

^dEstimates were used for El Paso, Miami, and San Jose.

1976. Forty-five percent (or \$12.6 billion) of all general revenue raised by this group of cities came from other levels of government. This represents an increase in the intergovernmental revenue area of 678 percent from 1962-1976. In 1962, the state governments provided much larger amounts of intergovernmental funds to cities than did the federal government. Of the \$1.6 billion in intergovernmental funds, \$1.2 billion (75.6%) came from state governments while only \$150 million (9.3%) was directly from the federal government. By 1976, despite large increases in state aid, the federal portion of intergovernmental revenue had increased to nearly 28 percent while the proportion that was state-source had declined to 69.5 percent. This can be better understood by examining the total dollar increase in each category. State aid grew from \$1.2 billion to \$8.7 billion for an increase of 615 percent in 15 years. During the same period federal aid to cities grew from a small \$150 million to nearly \$3.5 billion--a dramatic increase of 2,223.6 percent.

This descriptive look at the sample cities indicates two major patterns. The first is that these cities do rely heavily upon state aid as the larger component of intergovernmental revenue. Part of this aid does originate in the federal government, however, and is passed on to the cities through the state governments. The second pattern suggests that over the 15-year period, the federal government took the lead in dramatically increasing aid to cities. Since the bulk of aid has been derived from the state government, the analysis now proceeds to an examination of the relationship of this state aid to indicators of city need.

State Aid and City Needs

In examining the relationship between intergovernmental aid from state sources and measures of city need, this study initially employed correlational analysis. A number of common indicators of need were identified and grouped along one of the three dimensions of need--social, economic, or fiscal. Table 3-3 presents the bivariate correlations between these measures of need and total intergovernmental aid in 1962, 1976, and in the change period.

Examining the social need variables, in Table 3-3, one can readily see that several variables are significantly correlated with state intergovernmental revenue. As expected, population is very strongly correlated in both 1962 (.90) and 1976 (.88). A moderately strong association (.48) is also found between population change and the change taking place in state aid during this 15-year period. Several other population-related measures of social need also showed strong association with state aid. The size of the elderly population and the total poor population each had strong correlations with state aid in 1962 and 1976 that were near or equal to .90. The change in the elderly population was positively correlated with the change in state aid but this association (.29) was not as strong as those for the 1962 and 1976 analyses. The size of the minority population, as hypothesized, was strongly correlated with state aid in both 1962 (.74) and 1976 (.76). There was no significant association for the change period, however. A similar finding surfaces with the relationship between mobility in 1962 (.83) and 1976 (.82) with a positive, though insignificant, correlation in the change period. The last social need variable to

TABLE 3-3

BIVARIATE CORRELATIONS BETWEEN INTERGOVERNMENTAL AID FROM
STATE GOVERNMENT AND CITY NEED INDICATORS (N=47)

Indicators of Need	<u>Year</u>		Change 1962-76
	1962	1976	
<u>Social Need</u>			
Total Population	.90***	.88***	.48***
Total Elderly Population	.90***	.91***	.29*
Total Nonwhite Population	.74***	.76***	-.02
Mobility	.83***	.82***	.20
Total Poor Population	.90***	.89***	-.16
Median School Years Completed	-.13	-.06	.12
Total Crime Reported	.90***	.73***	-.05
Total Unemployment ^a	--	.09	--
<u>Economic Need</u>			
Population Density	.61***	.63***	-.05
Growth Rate	-.09	-.06	--
Median Family Income	.09	-.01	.13
Change in Retail Sales	-.02	-.04	.03
Change in Manufact. Employ.	-.05	-.05	-.05
Total Home Ownership	.46***	.69***	.20
Inadequate Housing	-.06	-.05	-.23
Room Crowding	-.02	-.01	-.06
Median Value of Housing	.21	.25*	--
<u>Fiscal Need</u>			
Budget Deficit	-.04	-.13	.02
Debt Burden	-.20	-.20	.04
Fiscal Effort	.31*	.58***	-.22

***p < .001

**p < .01

*p < .05

^aReliable estimates for unemployment in these cities were not available for 1962.

correlate highly with state aid was total crime reported. The association was strong and positive in both 1962 (.90) and 1976 (.73).

The remaining social need indicators failed to surface with any significant correlations to state aid. Median school years completed had the expected negative relationship to state aid but the associations were too weak to be statistically significant. Unemployment in 1976 evidenced only a weak, insignificant association with the dependent variable.

Since the significant social need variables were all somewhat related to population, four of these were factor analyzed to produce a social need or dependency index. This index was constructed from the correlations of elderly population, nonwhite population, mobility, and poor population.¹ The correlations between this index and state aid to cities was also very strong--.87 in 1962 and .89 in 1976. The 1962-76 change index proved to be unusable due to a poor fit of the variables.

Among the indicators of economic need in cities, only three variables showed any real association with state aid. In both 1962 and 1976, moderately strong (.61 and .63, respectively) and significant correlations were found between population density and state aid. This, too, was expected since the more densely populated cities confront greater needs. There was virtually no association, however, between change in density among the sample cities and changes in state aid. Total home ownership was positively correlated with state aid in 1962. This relationship strengthened by 1976 with the correlation value increasing from .46 to .69. Although a positive correlation (.20) emerged again during the change period, it was not strong enough to be significant. The only other economic need variable that was correlated

with state aid was housing value in 1976. This correlation of .25 is a significant, positive relationship between housing value and state aid. The direction of the relationship, however, was reversed from the expected result.

The remaining economic need variables were either uncorrelated or only weakly correlated with intergovernmental aid from the state. Such commonly employed measures of economic need as the growth rate, median family income, changes in retail sales or manufacturing employment, and inadequate or crowded housing did not correlate significantly with state aid during either year. And, none of the economic variables for these cities showed changes that had a significant relationship to changes in state aid over the 15-year period.

The last set of need variables is labeled fiscal need and includes three measures of the financial health of city governments in 1962 and 1976. These variables include the budget deficit for both years, the relationship of the city's debt to revenue collected, and the relationship between revenue collected and personal income (fiscal effort). Only fiscal effort displayed any significant relationship to state aid. This measure and state aid were moderately correlated at .31 in 1962. This correlation strengthened to .58 by 1976. The change taking place over 15 years in fiscal effort was negatively related (-.22) to change in state aid, but the relationship was not statistically significant. The positive association shown for 1962 and 1976 was in the hypothesized direction. That is, cities with better fiscal effort also received higher amounts of state aid.

The other fiscal need variables were only weakly associated with state aid, and these correlations were not in the hypothesized direction. That is, both debt burden and budget deficit increased more slowly than state aid among these cities.

In summary, the population-related variables were the most frequently correlated with state aid in both years. The social need factor including population, elderly, nonwhite, poor, and mobility had the largest number of significant variables in both 1962 and 1976. Population density and home ownership among the economic need variables and fiscal effort as an indicator of fiscal need were also significantly associated with state aid in both time periods. Median home value was also significant, but only in 1976. With the exception of population change and elderly population change, none of the variables had changes over the 15-year period that significantly correlated with changes in intergovernmental aid from state government during the same period.

State Aid and Non-Need Factors

As addressed in Chapter II, a portion of state aid to cities is hypothesized to be related to variables other than measures of city need. This includes a group of factors that represent state characteristics, revenues, politics, and structural variables. Before conducting any multivariate analysis of these cities' state aid, the non-need influences of state aid are examined through bivariate correlational analysis. The results of the analysis are shown in Table 3-4.

None of the state revenue capacity variables were highly correlated with state aid in 1962. The strongest relationship appears between state aid and state intergovernmental revenue from the federal government

TABLE 3-4

BIVARIATE CORRELATIONS BETWEEN INTERGOVERNMENTAL AID FROM
STATE GOVERNMENT AND PREDICTORS OF STATE AID (N=47)

Independent Variables	<u>Year</u>		Change 1962-76
	1962	1976	
<u>State Revenue Capacity</u>			
State Revenue Per Capita	.02	.26*	-.10
State IGR from Federal Government Per Capita	-.24	.22	-.04
State Miscellaneous Revenue, Per Capita	-.21	.28*	-.06
Affluence Index	-.02	-.06	-.86**
Industrialization Index	-.02	.22	.04
<u>State Demographic Characteristics</u>			
Region	.21	.17	--
Population Size	.30*	.20	.39**
Growth Rate	-.06	-.12	--
Metropolitan Population	.23	.18	.29*
<u>State Political Climate</u>			
Innovation Index	--	-.01	--
Interparty Competition	-.03	-.10	--
Legislative Professional Index	--	-.09	.10
Apportionment	-.16	-.03	-.25*
<u>Legal and Structural Characteristics</u>			
State Centralization	-.16	-.21	-.21
City Functional Inclusiveness	.48***	.49***	-.09

***p < .001

**p < .01

*p < .05

(-.24). This correlation suggests that among the sample cities state aid was higher where larger amounts of direct federal-state or federal pass-through aid to states existed. On the other hand, a weak, positive relationship was found between state aid and state miscellaneous revenue. Neither of the two revenue capacity variables, however, was correlated highly enough with state aid to cities to be statistically significant.

One of the state demographic character variables, on the other hand, was significantly correlated with aid to cities in 1962. State population and aid correlated significantly at .30. State metropolitan population and aid to cities had a correlation coefficient of .23 but it was not significant. Both of these variables were positively related with state aid to cities as had been hypothesized. Region, a dummy variable, also correlated positively with aid but it, too, was not statistically significant. Little association was found between any of the political variables and state aid to cities during this year. In fact, as Table 3-4 clearly indicates, several of the political variables had no association with the dependent measure, and the strongest correlation was between legislative apportionment and state aid although it was still very weak (-.16).

The bivariate relationship that was found to be the strongest for 1962 was that between state aid and the functional inclusiveness of city government responsibilities for education and welfare. A fairly strong and significant correlation of .48 revealed that when cities' functional areas of responsibility were larger, so too was the amount of state aid. That is, cities with education and/or welfare assignments received more state aid than cities without such responsibilities. This

association supports the hypothesized relationship discussed in the previous chapter.

In sum, the statistically important variables to state aid in 1962 were functional inclusiveness and state population. The other theoretically relevant variables bore either no or only a small and insignificant relationship to intergovernmental aid from state government among the sample cities.

The correlational analysis for the same variables 15 years later is only slightly different. In this year, state revenue and state miscellaneous revenue were significantly correlated with state aid at .26 and .28, respectively. Two additional revenue capacity variables, intergovernmental revenue from the federal government and the index of industrialization each had positive correlations (.22) but these were not statistically significant. None of the demographic or political variables correlated very highly and none significantly in 1976. In fact, the strength of the relationships was weaker in several instances in 1976 than they were in 1962.

The importance of the legal and structural character factor, however, improved slightly by 1976. The correlation coefficient was higher between centralization and state aid (-.21) and, although not significant, it was nonetheless a negative relationship as had been expected. And the importance of the functional inclusiveness variable remained apparent in this year with a correlation of .49. Thus again in 1976 the city functional inclusiveness indicator was the most important zero-order correlation among the non-need variables. Only two other variables, state revenue and miscellaneous revenue per capita, were found to be statistically significant and related to state aid.

The largest number of significant associations were among the change period coefficients. Change in state affluence correlated very highly with state aid ($-.86$). Both changes in state population and state metropolitan population were significantly correlated with state aid changes also. In both cases, the increases in population were related to increases in aid to cities--an expected result. And, for the first time, a political variable proved to be important. Changes in legislative apportionment were found to be negatively related ($-.25$) to change in state aid. This suggests that among these cities, increases in aid were related to decreasing levels of legislative malapportionment.

In summarizing this section on non-need predictors of state aid, it is clear that only a few variables matter very much in any of the years. Politics seems to matter the least, with the possible exception of changes in legislative apportionment. State revenue capacity, represented by revenue per capita and miscellaneous revenue per capita, was somewhat significant for state aid--but only in 1976. By far the strongest association was that between an additional revenue capacity variable--an index of state affluence change--and change in state aid from 1962 to 1976. The size of the state was positively related to state aid in 1962, and growth in state population also correlated with changes in state aid. And changes in metropolitan population were associated with aid change. The one structural variable to be consistently important was functional inclusiveness, and in both 1962 and 1976 it was the predictor with the strongest correlation coefficient.

Residual Analysis

Before proceeding to multiple regression analysis with the significantly correlated independent variables, the intercorrelations among predictors were examined. The most significant problem that became apparent through this process was the multicollinearity among the social need predictors and the high intercorrelations of the need predictors and population. The construction of the social need index through factor analysis overcame much of the multicollinearity problem. However, this index, like the majority of significant predictors, was still highly correlated ($r \geq .95$) with population in all three periods. Table 3-5 shows the bivariate correlations between population and the other important independent variables. The social need variables are almost perfect correlations of population in 1960 and 1970. Two of the economic variables, population density and home ownership, are correlated with population at .60 or higher. Only the coefficients for housing value in 1970 and fiscal effort for both 1960 and 1970 are in a reasonable range for use in a multivariate analysis.

Several alternatives were considered to allow for the multivariate analysis to proceed. One was to use only one of the highly inter-correlated social need variables in conjunction with other predictors in multiple regression. The selection of this single variable, be it elderly, nonwhite, poverty, or mobility, would be quite arbitrary and the exclusion of the others would seemingly be without any sound theoretical justification. Each of the variables would appear to offer some explanatory power to any analysis of state aid.

TABLE 3-5

BIVARIATE CORRELATIONS BETWEEN POPULATION AND SIGNIFICANT
 NEED PREDICTORS OF TOTAL INTERGOVERNMENTAL REVENUE
 IN 1962, 1976, AND A CHANGE PERIOD (N=47)

Predictors ^a	Total City Population		Change
	1960	1970	
Elderly Population	.99	.99	.80
Nonwhite Population	.92	.93	--
Mobile Population	.99	.99	--
Poor Population	.99	.98	--
Total Crime Reported	.98	.99	--
Population Density	.64	.64	--
Total Home Ownership	.60	.94	--
Median Value of Housing	--	.39	--
Fiscal Effort	.16	.41	--

^aAll predictor correlations are shown for the appropriate year with city population.

The second alternative was to use only total population with the other economic or fiscal need predictors. However, all multiple regressions with population included arrived at the same result. That was, population explains the majority of variance in state aid. In 1962, for example, population accounted for 80 percent and in 1976, 77 percent of the variability in state aid. Such a finding is important, but perhaps it is also to be expected. What the finding points out is that state legislatures appropriate aid to cities largely on the basis of the population of that municipality or on a fair share basis.² Other factors account for only 20 percent of 1962 state aid money and 23 percent of the same in 1976. But since that small percentage could amount to millions of dollars for each city, it is that portion of state aid which seems most appropriate for further analysis. This realization led to the third alternative which is pursued in the balance of this chapter.

Alternative three focuses upon that portion of aid that is not due to city population. To isolate this portion of state aid received by the sample cities, each city's aid from state government was regressed on that city's population for 1962, 1976, and the change period. This procedure produced a variable representing residual intergovernmental aid from state government for each city in all three time periods. The new dependent variables are measures of state aid that is not determined by city population. A similar process was used to isolate the unique effects of several social need variables from their population commonality. Six variables were regressed on city population for the appropriate years--mobility, nonwhite, poor, elderly, unemployment, and crime. These regressions, along with one for the composite social need index,

resulted in coefficients that represent the unique effects of the original variables but which are not tied to population. The same process reduces the level of collinearity between the independent variables to allow for more meaningful multiple regression analysis.

With this determination of the residuals for the population-related measures completed, the variables were again analyzed in bivariate fashion to determine which were most appropriate to regression analysis. The sections to follow present the bivariate and multivariate analyses for state aid to cities by time period.

State Aid to Cities in 1962

A correlation matrix of the 1962 variables is presented in Table 3-6. The matrix contains two dependent variables--the original total state aid measure and the residual state aid variable for 1962. Independent variables included in the table are those that were correlated with either dependent variable at or above a .10 coefficient. The original dependent variable has been included primarily for comparison purposes. In most cases the predictor variables are correlated more strongly with the residualized dependent variable. For this reason and because I am focusing on that portion of state aid that is not based upon city population, the regression analysis is for the residual state aid variable only.

Table 3-6 shows that, of the social need variables, mobility and nonwhite are most strongly associated with residual state aid. Elderly, poverty, and crime are correlated positively but none of the coefficients reached statistical significance. And the residual social need index, combining mobility, poverty, nonwhite, and elderly predictors, also is

TABLE 3-6

CORRELATION MATRIX FOR 1962 VARIABLES (N=47)

	V ₁	V ₂	V ₃	V ₄	V ₅	V ₆	V ₇	V ₈	V ₉	V ₁₀	V ₁₁	V ₁₂	V ₁₃
V ₁ , Residual IGR From State, 1962	1.00												
V ₂ , Total IGR From State, 1962	.44*	1.00											
V ₃ , Nonwhite Residual, 1960	-.50*	-.22	1.00										
V ₄ , Elderly Residual, 1960	.24	.11	-.16	1.00									
V ₅ , Poverty Residual, 1960	.23	.10	.08	-.38*	1.00								
V ₆ , Mobility Residual, 1960	-.72*	-.31*	.20	-.24	-.42*	1.00							
V ₇ , Crime Residual, 1960	.24	.08	-.39*	.08	-.17	.09	1.00						
V ₈ , Density, 1960	.07	.61*	.12	.21	-.01	-.22	-.27	1.00					
V ₉ , Home Ownership, 1960	-.18	.46*	.04	-.11	-.06	.19	-.19	.28*	1.00				
V ₁₀ , Fiscal Effort, 1962	.37*	.31*	-.02	.08	.01	-.17	-.04	.27*	.58*	1.00			
V ₁₁ , Residual Social Need Index, 1960	-.64*	-.29*	.48*	-.21	.23	.69*	-.08	-.16	.12	-.14	1.00		
V ₁₂ , State Population, 1960	-.18	.30*	-.12*	-.01	-.01	.18	-.16	.39*	.18	-.12	.13	1.00	
V ₁₃ , Functional Inclusiveness, 1962	.54*	.48*	-.04	.22	.03	-.27*	.03	.45*	.02	.53*	-.24	-.01	1.00

*
p ≤ .05

strongly ($-.64$) correlated with residual state aid. Neither of the economic need measures, density or home ownership, were significantly associated with residual state aid but fiscal effort was positively related and to a significant degree. The two non-need predictors of state aid that were important enough to include in this matrix were state population size and city functional inclusiveness. Only the latter variable had a very strong relationship to residual state aid. Thus, the regression analysis to follow examines the multiple effects of several combinations of the significant variables just addressed.

The first multivariate analysis is displayed in Table 3-7. In this table the regression results from predicting residual state aid for 1962 using three need variables are depicted. Residual social need index is used initially to test its explanatory power for later comparison to combinations of separate social need variables. The three need variables shown in Table 3-7 have a very strong multiple correlation ($.78$) with residual state aid and account for 61 percent of the variability in the dependent measure. Since the variables represent the three dimensions of need, the results confirm the hypothesis that state aid is largely determined by city need (when the effects of population are excluded). To assess the additional impact of the non-need factors, city functional inclusiveness is added to the equation. As is shown in Table 3-8, the added effect of functional inclusiveness increases the multiple correlation coefficient to $.80$ and raises the explanatory power of the variables to 64 percent. However, when this variable is added the importance of fiscal effort diminishes greatly in the equation. This is due to the greater importance of functional inclusiveness in the determination of state aid and, to a lesser degree,

TABLE 3-7

MULTIPLE REGRESSION ANALYSIS OF CITY RESIDUAL INTERGOVERNMENTAL
REVENUE FROM STATE GOVERNMENT BY NEED VARIABLES, AND
RESIDUAL SOCIAL NEED INDEX, 1962

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Residual Social Need Index	-.494	-.511	23.32
Fiscal Effort	11.210	.411	15.29
Home Ownership	-.000	-.282	7.22
CONSTANT	-.469		
R =	.78		
R ² =	.61		
F =	19.54		

^aUnstandardized regression coefficient

^bStandardized regression coefficient (beta weight)

TABLE 3-8

MULTIPLE REGRESSION ANALYSIS OF CITY RESIDUAL INTERGOVERNMENTAL
REVENUE FROM STATE GOVERNMENT BY NEED VARIABLES, RESIDUAL
SOCIAL NEED INDEX, AND FUNCTIONAL INCLUSIVENESS, 1962

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Residual Social Need Index	-.468	-.486	22.20
Home Ownership	-.000	-.273	7.20
Functional Inclusiveness	.612	.410	3.76
Fiscal Effort	1.410	.052	.06
CONSTANT	-.061		
R =	.80		
R ² =	.64		
F =	16.66		

^aUnstandardized regression coefficient

^bStandardized regression coefficient (beta weight)

the result of the fairly high intercorrelation (.53) between the two predictors.

A further multiple regression analysis was conducted adding single measures of social need to the equation instead of the residual social need index. The most important social need variables were residual measures for mobility and nonwhite. When added to an equation with fiscal effort and home ownership, the result was a higher multiple correlation coefficient than was found with the need index. Table 3-9 shows significant regression coefficients for all four variables leading to an $R = .89$ accounting for 79 percent of the variability in the dependent variable. Thus, again, the social need factors determine a large portion of the residual state aid to cities.

Adding a non-need variable to the equation--functional inclusiveness--led to the same finding as in Table 3-8. That is, functional inclusiveness offsets the original effect of fiscal effort and also reduces the importance of home ownership. And although the multiple correlation coefficient increased slightly, the collinearity between functional inclusiveness and fiscal effort biases the result. For these reasons, the final solution includes only three variables--mobility residual, nonwhite residual, and functional inclusiveness. As shown in Table 3-10, the additive effects of these variables provided the best multiple regression result. The three predictors provide for comparable changes in residual state aid, and all have high confidence levels (f-values). The net effect is an $R = .88$ indicating that need plus functional responsibilities accounts for 78 percent of the variability in residual state aid to cities. And although more of the need

TABLE 3-9

MULTIPLE REGRESSION ANALYSIS OF CITY RESIDUAL
INTERGOVERNMENTAL REVENUE FROM STATE
GOVERNMENT BY NEED VARIABLES, 1962

Predictors	B ^a	<u>Coefficients</u>	f-value
		Beta ^b	
Mobility Residual	-.482	-.484	33.33
Nonwhite Residual	-.418	-.404	26.60
Fiscal Effort	9.797	.359	19.54
Home Ownership	-.000	-.183	5.35
CONSTANT	-.493		
R =	.89		
R ² =	.79		
F =	35.41		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 3-10

MULTIPLE REGRESSION ANALYSIS OF CITY RESIDUAL INTERGOVERNMENTAL
REVENUE FROM STATE GOVERNMENT BY SOCIAL NEED RESIDUALS
AND FUNCTIONAL INCLUSIVENESS, 1962

Predictors	B ^a	Coefficients	
		Beta ^b	f-value
Mobility Residual	-.543	-.544	47.51
Nonwhite Residual	-.373	-.374	24.17
Functional Inclusiveness	.551	.373	23.23
CONSTANT	-.209		
R =	.88		
R ² =	.78		
F =	46.74		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

variables may have been thought to be of equal importance, the results do support the hypotheses about need and functional inclusiveness being largely responsible for state aid.

State Aid to Cities in 1976

A somewhat larger number of variables were initially found to be correlated with either residual state aid to cities or total state aid in 1976. These correlations are shown in Table 3-11. Most of the need variables correlated well with residual state aid in this year. Residual predictors for elderly, nonwhite, poverty, mobility, and unemployment, as well as fiscal effort and homeownership, all were significantly related to residual state aid. Weaker, positive coefficients were also found between residual state aid and two other need variables--crime and density. Among the non-need predictors, positive relationships were found between the dependent variable and state revenue per capita, state miscellaneous revenue per capita, and functional inclusiveness. Only the latter variable was found to be significantly correlated with residual state aid, however.

A series of multiple regressions for residual state aid were run with various combinations of the independent variables in Table 3-11. The final regression results are shown in the following two tables. Five need variables are shown in a simultaneous regression in Table 3-12. These variables, mobility, nonwhite, crime, density, and fiscal effort account for 90 percent of the variability in residual state aid to cities. The strongest standardized regression coefficient is that of mobility residual (-.705) while fiscal effort ranks next in importance (.564). This equation indicates that city need, as

TABLE 3-11

CORRELATION MATRIX FOR 1976 VARIABLES (N=47)

	V ₂₁	V ₂₂	V ₂₃	V ₂₄	V ₂₅	V ₂₆	V ₂₇	V ₂₈	V ₂₉	V ₃₀	V ₃₁	V ₃₂	V ₃₃	V ₃₄	V ₃₅	V ₃₆
V ₂₁ , Residual IGR From State, 1976	1.00															
V ₂₂ , Total IGR From State, 1976	.47*	1.00														
V ₂₃ , Nonwhite Residual, 1970	-.33*	-.14	1.00													
V ₂₄ , Elderly Residual, 1970	.56*	.28*	-.05	1.00												
V ₂₅ , Poverty Residual, 1970	.33*	.16	.13	.04	1.00											
V ₂₆ , Mobility Residual, 1970	-.68*	-.33*	-.14	-.64*	-.39*	1.00										
V ₂₇ , Crime Residual, 1975	.10	.00	-.20	-.16	.63*	.10	1.00									
V ₂₈ , Unemployment Residual, 1976	-.32*	-.14	.07	.02	-.23	.25*	-.06	1.00								
V ₂₉ , Density, 1975	.12	.63*	.24	.39*	.15	-.30*	.01	.04	1.00							
V ₃₀ , Home Ownership, 1970	-.28*	.69*	.16	-.07	-.16	.11	-.09	.08	.56*	1.00						
V ₃₁ , Fiscal Effort, 1976	.45*	.58*	.22	.34*	.25*	-.39*	-.06	-.19	.71*	.25*	1.00					
V ₃₂ , Median Value of Home, 1970	-.08	.25*	-.36*	-.06	.09	.36*	.55*	.17	.34*	.21	-.07	1.00				
V ₃₃ , Social Need Residual Index, 1970	.25*	.12	.40*	.47*	.77*	-.41*	.40*	-.03	.34*	-.10	.39*	.05	1.00			
V ₃₄ , State Revenue Per Cap., 1976	.11	.26*	-.26*	.30*	-.24*	-.03	-.02	.33*	.39*	.26*	.22	.53*	-.05	1.00		
V ₃₅ , State Misc. Rev. Per Cap., 1976	.23	.28*	-.24	.00	-.07	-.10	.03	.16	.27*	.19	.23	.40*	.03	.88*	1.00	
V ₃₆ , Functional Inclusiveness, 1976	.43*	.49*	.27*	.19	.17	-.23	.01	-.23	.48*	.17	.80*	.09	.16	.18	.22	1.00

*
p ≤ .05

TABLE 3-12

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL
INTERGOVERNMENTAL REVENUE FROM STATE
GOVERNMENT BY NEED VARIABLES, 1976

Predictors	B ^a	Coefficients	
		Beta ^b	f-value
Mobility Residual	-.711	-.705	140.21
Nonwhite Residual	-.484	-.462	71.40
Crime Residual	1.042	.257	21.55
Density	-.000	-.400	26.33
Fiscal Effort	7.035	.564	49.52
CONSTANT	-.123		
R =	.95		
R ² =	.90		
F =	63.80		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

represented by the five variables, is responsible for all but 5 percent of the residual state aid to cities.

In Table 3-13 a single non-need predictor is added to the equation. Functional inclusiveness makes little difference to this residual state aid, however. The multiple correlation coefficient of .95 is the same as in the previous equation. And the regression coefficients for functional inclusiveness are not significant in 1976 residual state aid. Thus, in this year the determination of the non-population determined state aid is largely based upon city need as had been hypothesized.

Change in State Aid to Cities, 1962-1976

The final portion of this multivariate analysis examines the impact that changes in needs and other variables had on the change in residual intergovernmental aid from the states. The correlation matrix for the dependent and independent variables is shown in Table 3-14. Fewer predictors were found to be correlated with changes in aid than had been the case in the cross-sectional analyses of 1962 and 1976. But there was some consistency found in the types of important predictors. Among the need variables, only social factors displayed any correlation with residual change in state aid to cities. This list of social variables includes residual change in poverty, mobility, crime, and elderly. Mobility change had a significant positive correlation with residual change in aid while the three remaining social variables had significant negative correlations with the dependent variable. The latter finding suggests that, contrary to the hypothesis stated in Chapter II, increases in state aid to cities were not tied to increases in the poverty, crime, or elderly measures.

TABLE 3-13

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL INTERGOVERNMENTAL
REVENUE FROM STATE GOVERNMENT BY NEED VARIABLES
AND FUNCTIONAL INCLUSIVENESS, 1976

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Mobility Residual	-.713	-.707	134.62
Nonwhite Residual	-.479	-.458	63.62
Crime Residual	1.050	.258	21.08
Density	-.000	-.395	23.90
Fiscal Effort	6.695	.537	17.97
Functional Inclusiveness	.044	.028	0.08
CONSTANT	-.104		
R =	.95		
R ² =	.90		
F =	51.23		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 3-14

CORRELATION MATRIX FOR CHANGE PERIOD, 1962-1976 (N=47)

	V ₄₁	V ₄₂	V ₄₃	V ₄₄	V ₄₅	V ₄₆	V ₄₇	V ₄₈	V ₄₉	V ₅₀
V ₄₁ , IGR From State Residual Change	1.00									
V ₄₂ , Change in Total IGR From State	.99	1.00								
V ₄₃ , Poverty Residual Change	-.35*	-.34*	1.00							
V ₄₄ , Mobility Residual Change	.24*	.23	.03	1.00						
V ₄₅ , Crime Residual Change	-.41*	-.40	.89*	.07	1.00					
V ₄₆ , Elderly Residual Change	-.30*	-.31*	.38*	.08	.59*	1.00				
V ₄₇ , State Population Change	.39*	.39*	-.18	.09	-.19	.12	1.00			
V ₄₈ , State Metro Population Change	.29*	.29*	-.33*	.10	-.27*	.04	.89*	1.00		
V ₄₉ , State Affluence Change	-.86*	-.86*	.34*	-.22	.39*	.31*	-.42*	-.39*	1.00	
V ₅₀ , State Apportionment Change	-.24	-.25*	.20	-.13	.21	.02	-.02	.09	.14	1.00

*
p ≤ .05

Several non-need factors were also found to be significantly correlated with changes in state aid from 1962 to 1976. Increases in total state and state metropolitan populations were associated with increases in aid to cities. And change to a less malapportioned state legislature was also correlated with increases in state aid to cities as had been expected. The only state-level variable to be correlated in the opposite direction from that anticipated was state affluence. In this case a very strong relationship was found to indicate that growth in state aid to cities was actually related to a decrease in the affluence measure for the state. This coefficient ($-.86$) between affluence change and residual change in state aid was the strongest bivariate relationship among the correlations of aid and the need and non-need predictor list.

The last stage was to examine these change variables multivariately. Because of the large intercorrelations between crime and poverty ($.89$) and between crime and elderly ($.59$), the list of need variables to be included in the multiple regression was reduced to two. Table 3-15 displays the regression of residual change in state aid on crime residual change and mobility residual change. The two variables produce a multiple correlation coefficient of $.68$ with residual change in state aid. And while this pair of predictors explains 46 percent of the variability in the dependent measure, the regression coefficient for mobility is not statistically significant. Thus, only the crime residual change is a confident predictor in this analysis. The impact of the non-need factors were assessed in a later series of regressions. The final result shown in Table 3-16 indicates that only the change in

TABLE 3-15

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL CHANGE IN
INTERGOVERNMENTAL REVENUE FROM STATE GOVERNMENT BY
RESIDUAL CHANGE IN NEED, 1962-1976

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Crime Residual Change	-12.840	-.621	27.13
Mobility Residual Change	2.883	.190	2.49
CONSTANT	-.244		
R =	.68		
R ² =	.46		
F =	16.76		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 3-16

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL CHANGE IN
INTERGOVERNMENTAL REVENUE FROM STATE GOVERNMENT BY
RESIDUAL CHANGE IN NEED AND STATE
REVENUE CAPACITY, 1962-1976

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Crime Residual Change	-3.945	-.191	3.74
State Affluence Change	-9.511	-.744	56.91
CONSTANT	1.66		
R =	.88		
R ² =	.77		
F =	64.32		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

state affluence was an important influence on aid changes. Thus, the best multivariate result combines the effects of state affluence change with that of crime residual change to result in an $R = .88$. This finding, that changes in crime and state affluence account for 77 percent of the variability in residual state aid change, is important for it indicates that one of the hypotheses was wrong. Decreases in crime and affluence, rather than increases, seem to support increases in state aid to cities.

Summary

This analysis of state aid to city governments, both total and residual aid, has led to several important findings. First of all the analysis is quite different from previously published studies of state (or federal) aid to cities. Focusing upon residual state aid and isolating need from population through regression has offered a new perspective to this area of study. And second, the analysis generally supported the hypothesis that states do consider need in allocating some portion of state aid.

State aid to cities increased by 591 percent from 1962 to 1977. This was a faster rate of growth than that experienced by any other level of local government, except special (not school) districts, during the same period. And while among the 47 sample cities, state aid grew every year during the 15-year period, federal aid to cities grew at more than three times that rate in the same time frame.

Total intergovernmental aid from state governments was found to be strongly and positively associated with city population as well as other social need indicators such as nonwhite, mobile, poor, and elderly population, and the total crime rate in both 1962 and 1976. Population

density and total home ownership, representing the economic need factor, and fiscal effort were also shown to be related to state aid during these two time periods. And changes in city population size and in that of the elderly population, were found to be related to changes in state aid from 1962 to 1976. These strong relationships support the contention of Ward ³ that state legislatures' decisions on state aid are tied not necessarily to the percentage of the city population but rather to the size of the need in a community. But while support is found here for Ward's thesis, the net result of this analysis is that the vast amount of state aid to cities is appropriated on the basis of population or fair share of the state's largesse. Specifically, the initial regression analysis showed that city population explained more than 75 percent of the variance in state aid. Thus, the analysis shifted to a focus on the 20-25 percent of state aid to cities that was not determined by city population.

The residual state aid to cities was regressed in three analyses of time periods upon need indicators that included several predictors that were residuals of population regressions also. In the 1962 multivariate analyses, residual state aid was found to be largely based upon need. Residual measures of mobility and nonwhite factors along with functional inclusiveness of city responsibilities in the education and welfare fields accounted for 78 percent of state aid. In 1976, need alone explained 90 percent of state aid without any significant contribution from the functional inclusiveness measure. Only in the 1962 to 1976 analysis of change did the importance of need diminish. Although the residual change in crime rates was an important need

determinant of changes in residual state aid, its importance was overshadowed by a non-need predictor--affluence. In this case the increase in residual state aid was largely explained by the diminishing affluence character of the states.

In closing this chapter, there is difficulty in attempting to put these findings in the context of related studies of state aid. While Ward's study⁴ found a strong relationship between total state aid and the size of the need across cities, and support for the same is found here, he does not examine the residual portion of state aid. This is the first study to focus on a residual analysis of aid and needs. In general, needs have been shown to largely determine residual aid from the states. And while non-need factors, as defined in this study, were important to a lesser degree, only functional inclusiveness was shown to be an additional determinant of state aid. Thus the overall analysis supports the hypothesis that the distribution of residual state aid to cities is based upon need.

To provide additional understanding of which aspects of state aid are most closely tied to need, the succeeding two chapters examine specific types of state aid.

FOOTNOTES

¹The factor loadings of the social need variables on the appropriate social need index is shown below, by year. (This is a summary of three separate and distinct factor analyses, one for each year.)

<u>Variable</u>	<u>Loadings</u>		<u>Change</u>
	<u>1962</u>	<u>1976</u>	<u>1962-76*</u>
Nonwhite	.93	.93	-.15
Elderly	.98	.99	.72
Mobile	.99	.98	-.03
Poor	.98	.98	.42

*This factor proved to be unusable.

²Fair share is defined here as the receipt of state aid on a population basis. Cities with larger populations receive more state aid, cities with fewer residents receive proportionately less.

³Peter D. Ward, "The Measurement of Federal and State Responsiveness to Urban Problems," Journal of Politics 43 (February 1981): 83-101.

⁴Ibid.

CHAPTER IV

STATE AID TO CITIES FOR GENERAL SUPPORT AND OTHER SPECIFIC PURPOSES

State intergovernmental aid to cities can be broken down into several specific categories of aid. Much of this money is given for broad functional responsibilities of municipalities such as public welfare, education, or highways. These functions account for well over 50 percent of state aid provided to cities across the country. Two additional categories of state aid--general support and other specific purposes aid--include amounts of money that are for quite different uses than that of the aforementioned functional aid. Municipalities receive general support revenue which is virtually unrestricted aid for use in any purpose the city desires. The Census Bureau includes state-city revenue sharing in this category. Cities receive this type of aid on a formula basis and literally apply it to all activities of government.¹ State aid for other specific purposes is much more restrictive in nature than general support aid. This revenue category includes money for smaller city service areas (e.g., libraries, sewage), public buildings, administrative costs (e.g., election administration), or fiscal bailouts, to cite just a few examples. The money is largely provided on a project basis,

and cities are not allowed to divert the revenue to any other functional or general support activity. Compared to the other broad categories of state aid (e.g., education, welfare, highways, general support), other specific purposes aid has usually been the smallest category of intergovernmental revenue.

State aid for general support and other specific purposes from 1962 to 1976 is discussed in this chapter. Initially the trends for all cities are discussed in addition to the descriptive statistics for the 47 sample cities. This is followed by correlational analysis of state general support and other specific purposes aid by need and non-need variables. The latter sections of the chapter focus on multivariate residual analysis of these categories of state aid.

Trends in General Support and Other Specific Purpose Aid

In 1962, the states were providing \$2,039 million to cities in the form of grants, shared revenues, and reimbursements. Of this total, \$446 million or 22 percent was allocated for general municipal government support.² This amount was somewhat less than what was allocated for education or welfare aid to cities in 1962 but it was higher than that being given for highways or health and hospitals.³ By 1977, state aid had grown to be nearly six times as large as it had been in 1962. In this year states allocated more than \$14 billion to cities, with \$3.5 billion or 25 percent of state aid going to general support in cities.⁴ This represents an increase in general support aid over the 16-year period of 682 percent. Aid for other specific purposes also increased during this period. Other specific purposes aid accounted for 8.5 percent of total state aid to cities in 1962. This \$173 million grew

dramatically in the next 15 years to total \$1.98 billion in 1977.

These specific purpose grants received 14 percent of total state aid in this latter year, emerging with a larger share of the state aid pie than highways or health and hospitals.⁵ The change in other specific purposes aid from state government amounted to a 1,044 percent increase during this period. This finding highlights the growth in project grants from the early 1960s into the middle 1970s that were in areas other than the traditional functions of municipal government. It should be noted here that both the general support and other specific purposes aid amounts include federal pass-through monies. Thus, the increases in these categories may reflect both the federal and state governments' concerns for improving aid to cities.

The growth of general support and other specific purposes aid among the sample cities was also found to be substantial. The aggregate general support aid for the 47 cities grew from \$192 million in 1962 to more than \$1.3 billion by 1976. Other purposes aid increased from \$134 to \$968 million over this time period.⁶ Comparing these growth patterns to that of total intergovernmental aid from the states for the sample cities, one finds very similar patterns. Total state aid to cities grew by 615 percent from 1962 to 1976 while growth for general support and other specific purposes aid reflected a 610 percent and 619 percent increase, respectively. Thus, both categories kept pace with the general growth in total state aid and both grew at a faster rate than all other categories of state aid except public welfare.⁷

Recognizing the growth that has taken place during this 15-year period, the question that now surfaces is: What caused this growth in

state general support and other specific purposes aid? More directly, the concern of this research effort is with the degree to which city need or changes in need caused the change in these classes of state aid. The succeeding sections of this chapter examine the relationship between need and state aid for general support and other specific purposes.

Correlations With City Need

General Support Aid

The bivariate relationships between total general support aid from state government and three categories of need variables are displayed in Table 4-1. The strongest relationships appear between general support aid and various social need variables. In 1962, all of the social need variables had moderately strong correlations with general support aid. All of the population variables had significant, positive associations with the dependent variable including total (.38), elderly (.40), non-white (.26), mobility (.33), and poor (.39). Total crime rate was also positively correlated with the dependent variable (.37) while only median school years completed had an inverse relationship to general support aid. All of the bivariate associations were in the hypothesized direction. That is, higher numbers of the population in need and a higher crime total were related to higher general support revenue from the state. On the other hand, lower education levels among these cities was associated with higher general support aid also.

In 1962, only one of the economic need predictors correlated significantly with general support aid. Population density had a strong, positive relationship (.50) with the dependent measure. As

TABLE 4-1

BIVARIATE CORRELATIONS BETWEEN GENERAL SUPPORT AID FROM
STATE GOVERNMENT AND CITY NEED INDICATORS (N=47)

Indicators of Need	Year		Change 1962-76
	1962	1976	
<u>Social Need</u>			
Total Population	.38**	.90***	-.06
Total Elderly Population	.40**	.93**	-.04
Total Nonwhite Population	.26*	.77***	-.05
Mobility	.33*	.86***	-.04
Total Poor Population	.39**	.90***	-.01
Median School Years Completed	-.28*	-.04	-.13
Total Crime Reported	.37**	.75***	-.06
Total Unemployment ^a	--	.14	--
<u>Economic Need</u>			
Population Density	.50***	.61***	-.05
Growth Rate	-.18	-.06	--
Median Family Income	-.03	.01	-.10
Change in Retail Sales	-.08	-.04	-.05
Change in Manufac. Employ.	.01	-.03	-.02
Total Home Ownership	.12	.73*	-.02
Inadequate Housing	.14	-.06	.10
Room Crowding	-.02	-.01	-.04
Median Value of Housing	.08	.31*	.07
<u>Fiscal Need</u>			
Budget Deficit	.30*	-.16	.03
Debt Burden	-.23	-.22	.03
Fiscal Effort	.18	.52***	.01

***p < .0001

**p < .01

*p < .05

^aReliable estimates for unemployment in these cities were not available for 1962.

expected, more general support aid was found to be correlated with higher levels of density among these cities. None of the remaining measures of economic conditions proved to bear any significant relationship to general support aid. Budget deficit in 1962 was the only fiscal need variable to have a significant association with the dependent variable. As had been hypothesized, larger deficits in 1962 were found to be positively related to general support aid (.30) for the same period. Neither debt burden nor fiscal effort had strong relationships to general support aid.

The pattern for 1976 was somewhat different than the results found for 1962. Nearly all of the same social need variables were correlated with the dependent variable, but in this year the correlations were much stronger. For example, the population-related social need predictors correlated with general support aid in 1976 with coefficients more than twice as strong as those for 1962. Total elderly population had the strongest correlation (.93), followed by total population and poor population (both .90), mobility (.86), and nonwhite population (.77). Total crime reported was also positively correlated (.75) with general support aid. Each of these relationships was in the hypothesized direction. No significant associations were found for median school years completed or unemployment in 1976.

Three economic measures were found to be significantly correlated with general support aid--population density (.61), home ownership (.73), and median housing value (.31). Only the positive relationship between general support aid and density was in the hypothesized direction. Larger numbers of home owners and higher median housing values had been

expected to be inversely related to state aid. However, the pattern of relationships for 1976 parallels that found for total intergovernmental aid from the state governments and discussed in Chapter III. Fiscal effort proved to be the only fiscal need indicator to correlate significantly with the dependent measure. This strong, positive correlation (.52) supports the thesis that state aid, including general support aid, would be positively associated with stronger fiscal effort among the sample cities.

Although there were many large changes among the coefficients from 1962 to 1976, the change in the level of need does not bear any strong or significant relationship to changes in general support aid to cities from 1962 to 1976. An examination of the change period coefficients in Table 4-1 clearly indicates that little or no relationship exists between changes in the need measures and changes in the dependent variable. Thus, in general, the allocation of state general support aid to cities is strongly tied to measures of social need in both 1962 and again in 1976. In the earlier period, density, an economic need indicator, was the one variable most strongly associated with the dependent measure. By 1976, though, the social need indicators have stronger correlations than any of the three economic need variables. The fiscal need dimension also appears to be important in both years as budget deficit and fiscal effort correlate significantly in 1962 and 1976, respectively. In sum, need does bear a moderate to strong relationship to general support aid in both 1962 and 1976. And, it seems safe to conclude that need was a far more important determinant of state aid for general support in 1976 than it was in 1962.

Other Specific Purposes Aid

Table 4-2 contains the correlation coefficients of the need variables and other specific purposes aid from the states. In 1962, the largest number of significant correlations were found among the social need measures. The population-related variables were all strongly and positively associated with this category of state aid, as had been expected. The strongest relationship was found between the dependent variable and elderly population (.71) followed by total population (.70), mobility and poor population (.69), and nonwhite population (.52). And, as had also been anticipated, total reported crime correlated positively with total other aid. The two economic need variables that were significantly correlated with other aid were density (.46) and home ownership (.49). No other economic need measure achieved a significant correlation with this dependent variable. One measure of fiscal need--the debt burden--was found to be significantly related to other aid. The correlation coefficient (-.26) indicates that contrary to what had been expected, the sample cities' debt burdens were inversely related to other specific purpose revenue.

Nearly all of the same need predictors were found to be important in 1976 also. Population-related indicators of social need were even more strongly related to other specific purposes aid than were the comparable measures for 1962. The same was found to be true among the economic need predictors where both density and home ownership were again related to the dependent variable. The most noticeable difference in 1976 was the apparent increased importance of fiscal effort (.61). This strong, positive relationship suggests that sample

TABLE 4-2

BIVARIATE CORRELATIONS BETWEEN OTHER SPECIFIC PURPOSES AID
FROM STATE GOVERNMENT AND CITY NEED INDICATORS (N=47)

Indicators of Need	Year		Change 1962-76
	1962	1976	
<u>Social Need</u>			
Total Population	.70***	.87***	-.03
Total Elderly Population	.71***	.90***	-.10
Total Nonwhite Population	.52***	.77***	-.03
Mobility	.69***	.80***	.30*
Total Poor Population	.69***	.89**	.01
Median School Years Completed	-.04	-.08	--
Total Crime Reported	.69***	.71***	-.05
Total Unemployment ^a	--	.07	--
<u>Economic Need</u>			
Population Density	.46***	.66***	-.04
Growth Rate	-.02	-.08	--
Median Family Income	.15	-.02	-.06
Change in Retail Sales	.05	-.04	-.05
Change in Manufac. Employ.	-.08	-.06	-.06
Total Home Ownership	.49***	.70***	-.21
Inadequate Housing	--	-.06	-.18
Room Crowding	-.03	-.01	.01
Median Value of Housing	.21	.21	.05
<u>Fiscal Need</u>			
Budget Deficit	-.07	-.12	-.17
Debt Burden	-.26*	-.21	-.06
Fiscal Effort	.18	.61***	.29*

***p < .001

**p < .01

*p < .05

^aReliable estimates for unemployment in these cities were not available for 1962.

cities with stronger fiscal efforts are also in receipt of larger amounts of this specific purpose aid in 1976. Such a relationship had been hypothesized.

Changes in need conditions are generally not correlated with changes taking place in other specific purposes aid from 1962 to 1976. This is clear from a look at Table 4-2 which shows only two significant relationships. Changes in this category of state aid were found to be positively correlated with an indicator of changing social need--mobility (.30) and also with change in fiscal effort (.29). Both positive relationships had been expected but the strength of the relationships had been expected to be stronger. In general, the patterns of relationships between other specific purposes aid and the need variables was similar to that found for general support aid--social need, primarily population-related indicators, are very important in both years, while to a lesser degree, a few economic and fiscal need indicators are also related to this type of state aid. Change in other specific purposes revenue was related to only a small number of variables representing change in need conditions.

Correlations With Non-Need Factors

A fair number of need variables were significantly correlated with the two categories of state aid being examined in this chapter. An additional purpose of this research is to look for other factors that may influence state aid allocations. These non-need factors represent state revenue capacity, demographic characteristics, and legal/structural conditions affecting the state-city relationships.⁸ Tables 4-3 and 4-4 present the bivariate correlations of these factors

with general support and other specific purposes aid. The correlation coefficients for general support aid shown in Table 4-3 include only a few significant coefficients for each of the time periods. Among the indicators of state revenue capacity, state intergovernmental revenue from the federal government per capita and miscellaneous revenue per capita were shown to have had significant correlations in 1962. Both of the correlations were negative also, suggesting that an inverse relationship existed between larger city general support aid from the states and the states' revenue receipts from these sources. That is, less state selected revenue per capita was found to be correlated with larger general support aid to cities. In 1976, these same two revenue capacity indicators and state revenue per capita were significantly related to the dependent variable. However, the direction of the relationship was reversed from that in 1962. The three measures of state revenue per capita were found to be positively correlated with 1976 general support aid. This suggests that a turnaround occurred during the 15-year period resulting in larger per capita revenues (i.e., better revenue capacity) being associated with larger city general support aid from the states. An additional revenue capacity variable was also found to be significantly correlated with the dependent variable. The positive coefficient for the industrialization index (.25) indicates that more industrialization was, as expected, related to higher levels of general support aid. As Table 4-3 shows, none of the change period correlations were significant.

State demographic indicators were largely unimportant in determining general support aid. In 1962, small, but significant correlations

TABLE 4-3

BIVARIATE CORRELATIONS BETWEEN GENERAL SUPPORT AID FROM
STATE GOVERNMENT AND PREDICTORS OF STATE AID (N=47)

Independent Variables	Year		Change 1962-76
	1962	1976	
<u>State Revenue Capacity</u>			
State Revenue Per Capita	-.10	.30*	-.15
State IGR from Federal Govt. Per Capita	-.38**	.24*	-.12
State Misc. Revenue Per Capita	-.28*	.30*	-.03
Affluence Index	.04	-.03	-.03
Industrialization Index	.03	.25*	.02
<u>State Demographic Characteristics</u>			
Region	.29*	.20	-.07
Population Size	.18	.23	.27*
Growth Rate	-.17	-.09	--
Metropolitan Population	.25*	.19	.28*
<u>Legal and Structural Characteristics</u>			
State Centralization	.01	-.24*	-.20
City Functional Inclusiveness	.26*	.42**	.10

**p $\leq$.01

*p $\leq$.05

were found between the dependent variable and region (.29) and state metropolitan population (.25).⁹ No significant correlations were found for 1976. In the change period there were two significant relationships. Change in general support aid from 1962-76 was positively correlated with changes in state population size (.27) and state metropolitan population (.28). All of these relationships were in the hypothesized direction (i.e., positive changes in population size and metropolitan population size were related to change in general support aid).

Legal/structural characteristics were important in both 1962 and 1976, also. In the first year, functional inclusiveness was, as expected, positively related to general support aid (.26). This relationship was also present in 1976 with an even stronger correlation (.42) between the two measures. This indicates that cities with the additional responsibilities for welfare and education were apparently in receipt of more general support aid from the states. The amount of state centralization in 1976 was also an important correlate of general support aid (-.24). As expected, less centralization was found to be associated with more general support aid to cities.

Table 4-4 contains the bivariate correlations of the same non-need factors with the other specific purposes aid dependent variable. In this case state revenue capacity appears to have less impact than it did with general support aid. None of the revenue capacity indicators was found to be significant in 1962. Correlations for state revenue per capita (.26) and miscellaneous revenue per capita (.28) with the dependent variable were significant for 1976. In both cases, the positive relationship had been expected. That is, more state aid for

TABLE 4-4

BIVARIATE CORRELATIONS BETWEEN OTHER SPECIFIC PURPOSES AID
FROM STATE GOVERNMENT AND PREDICTORS OF STATE AID (N=47)

Independent Variables	Year		Change 1962-76
	1962	1976	
<u>State Revenue Capacity</u>			
State Revenue Per Capita	.08	.26*	.20
State IGR from Fed. Govt. Per Capita	-.16	.22	.16
State Misc. Revenue Per Capita	-.18	.28*	-.04
Affluence Index	-.05	-.05	.24*
Industrialization Index	-.05	.22	.08
<u>State Demographic Characteristics</u>			
Region	.29*	.19	.02
Population Size	.45**	.20	-.08
Growth Rate	.08	-.14	--
Metropolitan Population	.34*	.18	-.04
<u>Legal and Structural Characteristics</u>			
State Centralization	-.08	-.19	.48***
City Functional Inclusiveness	.19	.49***	.10

***p $\leq$.001**p $\leq$.01*p $\leq$.05

other specific purposes was found to be related to higher per capita amounts of state revenue. During the change period the one significant correlation was that between the dependent variable and change in the affluence index (.24). This relationship indicates that the growth in other specific purposes aid was associated with an increase in affluence among these states, as expected.

Among the state demographic characteristics, three significant correlations were found for 1962. Correlating positively with the dependent variable were region (.29), state population size (.45), and state metropolitan population (.34). As expected, larger, more metropolitan states were found to provide more specific purposes aid to these cities. There were no significant relationships found among the demographic indicators for 1976 or for the change period. The legal/structural factor was found to be important in 1976 as city functional inclusiveness was strongly correlated (.49) with other specific purposes aid. And, change in state centralization was shown to be strongly related (.48) to change in the dependent measure also. This latter finding indicates that a change to more centralization in the states was related to growth in other general purposes aid to these cities. Such a finding is contrary to what had been expected since, traditionally, more centralized states have given less money to cities than decentralized states.¹⁰

In summary, the non-need factors appear to have some importance in determining general support and other specific purposes aid. In most instances the non-need indicators are not as strongly correlated with the dependent variable as are the need measures. The

impact of functional inclusiveness was quite strong, however, and may have as much importance as the need indicators, particularly in 1976.

Residual Analysis of General Support Aid

The multivariate analysis that follows parallels that done in Chapter III. General support (and later in the chapter, other specific purposes) aid is examined after the population-determined aspects of the aid figures have been removed. To achieve this, general support aid was regressed on city population for 1962, 1976, and the change period. The result is a measure of residual general support aid or that portion of this aid that is determined by factors other than population. In addition, several of the social need population indicators have also been residualized to produce measures of need rather than population. Thus, elderly, nonwhite, mobile, and poor populations will be used in the forthcoming analysis in their residual form.

A correlation matrix that includes residual general support aid and both need and non-need variables for 1962 is presented in Table 4-5. An examination of the correlations with residual general support aid shows that several social need indicators remain significantly correlated with the dependent variable: nonwhite (-.26), mobility (-.36), social need index (-.32), and median school years completed (-.24). Other need indicators that were found to be important to residual aid here were density (.28) and budget deficit (.34). The only non-need variable to correlate significantly with residual general support revenue was state intergovernmental revenue from the federal government per capita $\overline{(-.30)}$.

TABLE 4-5

CORRELATION MATRIX FOR GENERAL SUPPORT AND OTHER SPECIFIC PURPOSES AID
TO CITIES AND INDEPENDENT VARIABLES FOR 1962 (N=47)

	V ₁	V ₂	V ₃	V ₄	V ₅	V ₆	V ₇	V ₈	V ₉	V ₁₀	V ₁₁	V ₁₂	V ₁₃	V ₁₄
V ₁ , Residual General Support Aid	1.00													
V ₂ , Residual Specific Purposes Aid	.67*	1.00												
V ₃ , Total General Support Aid	.92*	.62*	1.00											
V ₄ , Total Other Specific Purposes Aid	.48*	.72*	.71*	1.00										
V ₅ , Nonwhite Residual	-.26*	-.42*	-.24	-.30*	1.00									
V ₆ , Elderly Residual	.15	.19	.14	.14	-.16	1.00								
V ₇ , Poverty Residual	.11	.02	.10	.01	.08	-.38*	1.00							
V ₈ , Mobility Residual	-.36*	.02	-.33*	.02	.20	-.24	-.42	1.00						
V ₉ , Density	.28*	.01	.50*	.45*	.12	.21	-.01	-.23	1.00					
V ₁₀ , Budget Deficit	.34*	-.04	.29*	-.07	.11	-.04	.02	-.05	.28*	1.00				
V ₁₁ , Median School Years Completed	-.24	.09	-.28*	-.04	-.39*	-.05	-.40*	.25*	-.46*	-.27*	1.00			
V ₁₂ , Residual Social Need Index	-.32*	.01	-.30*	-.00	.48*	-.21	.23	.69*	-.16	-.01	-.15	1.00		
V ₁₃ , State IGR ^a from Fed. Gov., p.c.	-.30*	.04	-.38*	-.16	-.07	.03	-.18	.22	-.46*	-.22	.64*	.10	1.00	
V ₁₄ , State Population Size	.02	.22	.18	.45	-.14	-.04	-.05	.18	.32	-.03	.01	.07	-.15	1.00

* p ≤ .05

^aIGR = intergovernmental revenue.

These variables were subsequently employed in a series of multiple regression analyses. Various combinations of need variables were tried to find the best combination of predictors for residual general support aid. Table 4-6 presents the results of a multiple regression using only need predictors. In this case two social need predictors--mobility and nonwhite--are used with budget deficit, a measure of fiscal need. Together these predictors explain 29 percent of the variability in residual general support aid from state governments. Budget deficit is the most important predictor ($\text{Beta} = .353$) in this determination of residual aid. Less important are changes in the social conditions, as indicated by mobility and nonwhite residuals ($\text{Beta} = -.288$ and $-.238$, respectively).

Taking this analysis one step further, a non-need measure is entered into the equation to see if its impact is less important than that of need as had been hypothesized. Table 4-7 displays the results of this analysis. State intergovernmental revenue from the federal government per capita is added to the equation with the three need predictors. As expected, the impact of this state revenue capacity variable is less than any of the need predictors ($\text{Beta} = -.176$). Although the multiple correlation coefficient increases slightly to .56 and the explained variance is raised to 31 percent, the beta for the non-need predictor is not significant. In fact the addition of this variable only serves to diminish the importance of the need variables in the equation. Thus, for 1962, the determination of residual general support aid is

TABLE 4-6

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL GENERAL SUPPORT
AID FROM STATE GOVERNMENT BY NEED VARIABLES, 1962

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Mobility Residual	-.288	-.288	4.20
Nonwhite Residual	-.238	-.238	2.86
Budget Deficit	.237	.353	6.55
CONSTANT	-.294		
R =	.54		
R ² =	.29		
F =	5.07		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 4-7

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL GENERAL SUPPORT
AID FROM STATE GOVERNMENT BY NEED VARIABLES AND STATE
INTERGOVERNMENTAL REVENUE PER CAPITA FROM THE
FEDERAL GOVERNMENT, 1962

Predictors	B ^a	<u>Coefficients</u>	f-value
		Beta ^b	
Mobility Residual	-.246	-.246	2.93
Nonwhite Residual	-.250	-.250	3.16
Budget Deficit	.210	.313	4.91
State IGR from Fed. Govt.	-.015	-.176	1.48
CONSTANT	.355		
R =	.56		
R ² =	.31		
F =	4.22		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

due in part to city needs. But more than 70 percent of the variability in this state aid category is due to factors not included in this analysis.

A comparable analysis is performed on residual general support aid for 1976. A matrix of correlation coefficients that includes residual general support aid and a number of independent variables is displayed in Table 4-8. Several measures of social need and one fiscal need indicator were found to have correlated fairly strongly with residual general support aid in this year. This includes nonwhite (-.41), elderly (.58), poverty (.24), mobility (-.58), and unemployment (-.23) residuals, and fiscal effort (.34). Due to some multicollinearity among these variables, not all of them can be used in the multiple regression analysis. Mobility is highly correlated with both poverty and elderly. The decision was made to drop mobility and keep poverty and elderly for the multivariate analysis because of their additive effects. The regression results from this analysis are presented in Table 4-9. This table is the best equation from trying various combinations of need predictors. Nonwhite is the most important need predictor (Beta = -.546) in the equation. The additional need variables, elderly and poverty, also have significant regression coefficients (Beta = .421 and .443, respectively). These three variables explain 63 percent of the variability in residual general support aid for 1976. This is a substantial portion of the aid figure, but some additional predictors were added to these three to see if the R^2 could be significantly increased. Because the intercorrelation of fiscal effort and functional inclusiveness in Table 4-8 is quite high (.81), they could not be included in the same regression. But adding each predictor to separate regressions along with the three need

TABLE 4-8

CORRELATION MATRIX FOR GENERAL SUPPORT AND OTHER SPECIFIC PURPOSES AID
TO CITIES AND INDEPENDENT VARIABLES FOR 1976 (N=47)

	V ₂₁	V ₂₂	V ₂₃	V ₂₄	V ₂₅	V ₂₆	V ₂₇	V ₂₈	V ₂₉	V ₃₀	V ₃₁	V ₃₂
V ₂₁ , Residual General Support Aid	1.00											
V ₂₂ , Residual Specific Purposes Aid	.88*	1.00										
V ₂₃ , Total General Support Aid	.42*	.37*	1.00									
V ₂₄ , Total Other Specific Purposes Aid	.42*	.48*	.97*	1.00								
V ₂₅ , Nonwhite Residual	-.41	-.25	-.16	-.11	1.00							
V ₂₆ , Elderly Residual	.58*	.56*	.26*	.29*	-.05	1.00						
V ₂₇ , Poverty Residual	.24*	.35*	.11	.17	.13	.04	1.00					
V ₂₈ , Mobility Residual	-.58*	-.74*	-.25*	-.36*	-.14	-.64*	-.39*	1.00				
V ₂₉ , Unemployment Residual	-.23	-.34*	-.09	-.15	.07	.02	-.23	.25*	1.00			
V ₃₀ , Fiscal Effort	.34*	.51*	.51*	.61*	.22	.35*	.25*	-.38*	-.19	1.00		
V ₃₁ , Functional Inclusiveness	.30*	.43*	.42*	.49*	.02	.20	.09	-.23	-.22	.81*	1.00	
V ₃₂ , Home Ownership	-.25*	-.25*	.73*	.70*	.16	-.07	-.16	.11	.08	.51*	.18	1.00

*
p ≤ .05

TABLE 4-9

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL GENERAL SUPPORT
AID FROM STATE GOVERNMENT BY NEED VARIABLES, 1976

Predictors	B ^a	<u>Coefficients</u>	f-value
		Beta ^b	
Elderly Residual	.403	.421	18.48
Nonwhite Residual	-.548	-.546	28.77
Poverty Residual	.558	.443	18.07
CONSTANT	.091		
R =	.80		
R ² =	.63		
F =	24.28		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

predictors from Table 4-9, made little difference in the determination of residual general support aid. Neither variable added any significant amount to the variation explained by elderly, nonwhite, and poverty. Thus, the results shown in Table 4-9 were the best for residual general support aid from the states in 1976.

A final series of regressions were performed regressing residual change in general support aid on changes in need and non-need measures. There were no significant need predictors of this dependent variable. One non-need factor was moderately important--state metropolitan population ($r = .29$). The simple regression of residual change in aid and change in metropolitan population indicated that about 8 percent of the variance could be explained. But more than 90 percent of the variability in residual change in general support aid remains unexplained.

In summary, the determination of residual state aid to cities for general support is primarily due to need factors. The 1962 analysis indicated that fiscal need, as represented by budget deficits, and to a lesser degree, social need (i.e., mobility and nonwhite residuals) explains nearly one-third of this residual aid. The contribution of any of the non-need factors considered here is virtually negligible. For 1976, the social need predictors are more important than all others in explaining the variance in residual aid. In this year, the simultaneous impact of elderly, nonwhite, and poverty accounts for 63 percent of residual state general support aid to cities. Only during the change period was need found to be unimportant in explaining changes in residual general support aid. The net result is that city need increased in importance as a determinant of state general support allocations from 1962 to 1976, a finding that had been expected.

Residual Analysis of Specific Purpose Aid

As was done for residual general support aid, a group of independent variables are now employed in a multivariate analysis of residual specific purpose aid.¹¹ This dependent variable was also regressed on population for 1962, 1976, and the change in population, as appropriate. The result is a measure of aid--an amount of specific purpose money--that is free from population determination. Table 4-5 includes a matrix of correlation coefficients for this new dependent variable and the need and non-need predictors. Only one need indicator, nonwhite residual, had a significant correlation (-.42) with residual specific purpose aid in 1962. None of the non-need predictors were significantly related to this dependent variable, but state population was found to have a positive correlation with aid (.22).

A multiple regression analysis was performed (Table 4-10) using these two predictors. Although the nonwhite indicator was important in the determination of residual specific purpose aid (Beta = -.399), the state population variable was not significant in the equation (Beta = .165) and caused no change in the dependent variable (B = .000). The two variables account for 20 percent of the variability in the dependent measure but nonwhite alone explains that much. Thus, the single determinant of residual specific purpose aid in 1962 was the nonwhite need indicator.

In 1976, several need variables are significantly correlated with residual specific purpose aid (Table 4-8). This list of significant predictors includes mainly social need variables: nonwhite (-.25), elderly (.56), poverty (.35), mobility (-.74), and unemployment (-.34).

TABLE 4-10

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL SPECIFIC PURPOSE
AID FROM STATE GOVERNMENT BY NONWHITE AND STATE POPULATION, 1962

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Nonwhite Residual	-.399	-.399	7.67
State Population Size	.000	.165	1.32
CONSTANT	-.237		
R =	.45		
R ² =	.20		
F =	5.00		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

One measure of economic need, home ownership, had a significant negative relationship (-.25) with the dependent variable, and fiscal effort was also positively correlated with the dependent variable (.51). The functional inclusiveness measure was the single non-need variable to be significantly related (.43) to this residual aid in 1976. After examining a series of multiple regressions with various combinations of the independent measures, the best result was found to be that shown in Table 4-11. Mobility had the most importance in this equation (Beta = -.601) with the other social need indicator, nonwhite, of somewhat less importance (Beta = -.404). Both variables were responsible for decreases in the dependent measure. The second most significant factor in this equation was fiscal effort with a Beta of .425. This positive relationship between larger amounts of residual specific purpose aid and higher fiscal efforts was expected. The least important, but still significant, determinant in Table 4-11, was home ownership (Beta = -.230). As had been hypothesized, cities with fewer home owners received larger amounts of residual state aid for specific purposes. The multiple effect of the four need variables produced an $R = .91$. This indicates that 83 percent of the variability in residual specific purpose aid in 1976 was due to city need. This was the strongest association found between need and residual aid in this chapter.

Finally, a multiple regression analysis was performed for residualized change in the specific purpose aid and change in the determinants of aid. In this case, only two variables were found to have significant bivariate correlations with the dependent variable. Residual change in mobility was the only need variable to correlate

TABLE 4-11

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL SPECIFIC PURPOSE
AID FROM STATE GOVERNMENT BY NEED VARIABLES, 1976

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Mobility Residual	-.597	-.601	68.31
Nonwhite Residual	-.405	-.404	36.26
Fiscal Effort	5.186	.425	32.21
Home Ownership	-.000	-.230	10.94
CONSTANT	-.326		
R =	.91		
R ² =	.83		
F =	48.79		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

highly while state centralization change had the highest coefficient among the possible predictors. These variables were analyzed in the multiple regression shown in Table 4-12. Change in centralization was the most important determinant of this dependent variable (Beta = .502). This indicates that, contrary to what had been expected, growth in residual state specific purpose aid was found to be associated with an increase in centralization among these states. To a lesser degree, mobility changes were positive determinants of this category of state aid (Beta = .323). This positive relationship supports the hypothesis that an increase in aid was related to an increase in need. Together these variables explained 34 percent of the variability in change in residual state specific purpose aid from 1962 to 1976. Although this finding is important, nearly two-thirds of the change in residual aid remains unexplained.

Summary

This chapter has examined the impact of need and non-need factors on the determination of state aid to cities for general support and other specific purposes. In general, the analysis confirmed the importance of city needs as had been expected. Although some of the relationships were not in the hypothesized direction, on the whole, the expectations addressed in Chapter II were borne out by the data.

In the area of total general support aid, social need indicators were shown to be moderately important correlates of such in 1962. Of somewhat greater importance were density (an economic need indicator), and budget deficit (a fiscal need measure). In 1976, social need measures were strongly correlated with the dependent variable,

TABLE 4-12

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL CHANGE IN
SPECIFIC PURPOSE AID FROM STATE GOVERNMENT AND
MOBILITY RESIDUAL CHANGE AND STATE
CENTRALIZATION CHANGE, 1962-1976

Predictors	B ^a	<u>Coefficients</u>	f-value
		Beta ^b	
State Centralization Change	.153	.502	16.80
Mobility Residual Change	.241	.323	6.96
CONSTANT	-.419		
R =	.58		
R ² =	.34		
F =	11.39		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

followed by several economic need measures, and fiscal effort. A fewer number of non-need factors displayed any importance in the general support area. Revenue capacity, state metropolitan population, and functional inclusiveness were significant correlates in 1962. Revenue capacity was also important in 1976 along with decentralized state systems, and functional inclusiveness. And state population growth and metropolitan population growth were related to growth in general support aid from 1962 to 1976.

Because of the large impact that population has in the determination of state aid, residual measures of general support aid were generated for the three time periods. The residual analysis for 1962 showed need measures to be somewhat important to determining residual aid. Budget deficit, mobility, and nonwhite were the key determinants of residual general support aid from this study. A similar pattern was found for 1976 also. In this case nonwhite, elderly, and poverty--all social need measures--accounted for a major portion of variance in residual aid. During the change period, no variables could be found that explained the change in aid. Thus, for general support aid, city needs were found to be very important to the determination of this class of state aid.

The second type of state aid examined in this chapter was other specific purposes aid. It too was closely related to measures of city need. In 1962, total specific purposes aid was positively related to most measures of social need and to density and home ownership as economic need indicators. Debt burden was significantly related to this dependent variable to a somewhat lesser degree. All three dimensions of city need were important correlates of 1976 other specific purposes

aid. And changes in fiscal effort and mobility were found to be related to changes in this aid category from 1962 to 1976. There were also several non-need factors that proved to be significantly related to other specific purposes aid. State population size and metropolitan population were both positively related to specific purposes aid in 1962. Revenue capacity and functional inclusiveness were the significant non-need correlates in 1976. And during the period 1962 to 1976, growth in other specific purposes aid was found to be related to an increase in state affluence and an increase in centralization in the state. The latter finding was contrary to what had been expected about state centralization.

The residual analysis of specific purpose aid basically reinforced what had been expected concerning the impact of city needs. Nonwhite was the only real determinant of residual specific purpose aid in 1962. However, it explained a mere 20 percent of the variability in this aid category. In 1976, mobility, nonwhite, fiscal effort, and home ownership--all need measures--accounted for 83 percent of the variability in residual specific purpose revenue. During the change period, need (mobility) was found to be a significant determinant of the dependent variable, but a non-need factor was more important in this case. An increase in state centralization was the most important determinant of growth in residual aid during this period.

Overall, city need was clearly among the most important determinants of residual general support and specific purposes aid. And need increased in importance, as hypothesized, from 1962 to 1976. This confirms the expectation that state aid to cities, including specific categories of state aid, is distributed on the basis of need, as well as population.

FOOTNOTES

¹Robert M. Stein, "The Allocation of State Aid to Local Governments: An Examination of Interstate Variations," p. 205 in Advisory Commission on Intergovernmental Relations, State and Local Roles in the Federal System (Washington, D.C.: Government Printing Office, 1982).

²Advisory Commission on Intergovernmental Relations, State Aid to Local Government (Washington, D.C.: Government Printing Office, 1969), p. 10.

³See Chapter V for a full discussion of highway, public welfare, and education aid.

⁴Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments (Washington, D.C.: Government Printing Office, 1980), p. 38.

⁵Ibid.; and Advisory Commission on Intergovernmental Relations, State Aid to Local Government, p. 10.

⁶U.S. Bureau of the Census, City Government Finances in 1962 (Washington, D.C.: Government Printing Office, 1963); and City Government Finances in 1975-76 (Washington, D.C.: Government Printing Office, 1977).

⁷See Chapter V for a full discussion of growth in other categories of state aid.

⁸State political climate was dropped from this analysis due to the absence of any significant correlations among the variables.

⁹Region is a dummy variable coded as 0-other region; 1-northern region.

¹⁰See G. Ross Stephens and Gerald W. Olson, Pass Through Federal Aid and Interlevel Finance in the American Federal System, 1957 to 1977. A Report to the National Science Foundation (Kansas City: University of Missouri, August 1, 1979), 1: 59.

¹¹The label of this category has been shortened to residual specific purpose aid.

CHAPTER V

STATE AID TO CITIES FOR HIGHWAYS, EDUCATION, AND PUBLIC WELFARE

Functional area aid constitutes the bulk of intergovernmental aid to cities from state governments. In fact, more than half of all state aid to municipalities in this country is allocated to such broad functional purposes as education, public welfare, highways, health and hospitals, and the like. This chapter examines just three of these areas from 1962 to 1976--highway aid (which most cities receive) and education and public welfare aid (both of which are often the responsibility of some other level of government). Each of the functions is examined in separate sections of the chapter and the emphasis is, again, on the relationship between municipal need and the various categories of state aid over time.

State Aid for Highways

State aid to cities for highways has been the third largest functional category of aid for some time. Ranking behind education and welfare spending, highway revenue is given to cities for the maintenance, construction, and operation of roads and highways within the municipalities' boundaries. The proportion of state spending on highways, in general, has consistently declined in the past two decades. (For example,

state highway spending was 25.5% of total state spending in 1962 and declined to 11.8% in 1976.) State highway spending for local roads is almost exclusively from own source funds, too, since federal highway pass-through revenue is small. Only California, Maryland, and Oregon have had any large pass-through monies.¹ And as states have become more urbanized, the per capita level of spending on highways was decreased. That is, rural states tend to spend more per capita on highways than urban states.² For example, Alaska and Wyoming, both sparsely populated, rural states, spend more than \$400 per capita on highways in their states. New York and California, on the other hand, spend less than \$80 per capita on their state roads.³

Highways are a politically significant policy area in the states. Rural interests had dominated this sector until urban governments became better organized and began clamoring for more transportation aid for metropolitan highway needs. But while municipal intergovernmental revenue from state government for highways has increased in the past two decades, it has grown at a slower rate than most other areas of state aid. And the proportional share of the state aid pie going to highways has also decreased. In 1962, the states gave \$424 million in aid to municipalities for use in highway programs. This was the third largest functional area (behind welfare and education aid), and accounted for 21 percent of total state aid in that year.⁴ This amount more than tripled by 1977 when states allocated \$1.3 billion to highway aid for city governments. But the proportional share of total state aid to cities was down to only 9.3 percent. This was caused by a larger increase in spending for welfare, general support, and other specific purposes aid.⁵ This decline in proportional allocations to highway aid is in contrast to most other categories of state aid.

In fact, total state aid grew by 591 percent during this 16-year period, and all other state aid classes grew at more than 500 percent also. But highway aid to cities increased by only 208 percent.

Similar trends were found among the sample cities. Highway aid from the state governments to these cities totaled \$194 million in 1962. By 1976, this figure had grown to \$496 million for a 15-year increase of 155 percent.⁶ This level of growth is in contrast to the total state aid growth of 615 percent during the same period. In general, a shift in spending priorities occurred within the states that resulted in less spending emphasis on highways and, consequently, less growth in state highway aid to cities. The succeeding sections examine the impact of need and non-need factors on state highway aid from 1962 to 1976.

Highway Aid and City Needs

As was done in previous chapters, total highway aid has been correlated with a set of indicators of social, fiscal, and economic need. Once again it is expected that aid and needs will be related to one another, that the relationship will be stronger in 1976 than in 1962, and that needs will be more important than any non-need predictors of state aid. Table 5-1 displays the bivariate correlations between the indicators of city need and state highway aid to cities. Consistent with earlier findings, population-based measures of social need are important in both 1962 and 1976. The strongest relationship in 1962 is that between mobility and highway aid (.63). Other positive, significant correlations were found between aid and nonwhite population (.55), total population (.53), elderly population (.51), and poor population (.48) in 1962. The findings for 1976 are very similar to

TABLE 5-1

BIVARIATE CORRELATIONS BETWEEN HIGHWAY AID FROM STATE
GOVERNMENT AND CITY NEED INDICATORS (N=47)

Indicators of Need	<u>Year</u>		Change 1962-76
	1962	1976	
<u>Social Need</u>			
Total Population	.53***	.42**	-.15
Total Elderly Population	.51***	.41**	-.07
Total Nonwhite Population	.55***	.52***	.05
Mobility	.63***	.42**	-.23
Total Poor Population	.48***	.40**	-.08
<u>Economic Need</u>			
Population Density	.22	.38**	-.04
Growth Rate	-.02	-.09	--
Median Family Income	.30*	-.02	-.05
Total Home Ownership	.47***	.45***	.09
Mediar Value of Housing	.28*	-.03	-.02
<u>Fiscal Need</u>			
Budget Deficit	-.06	-.11	-.04
Debt Burden	-.24	-.31*	-.05
Fiscal Effort	.03	.40**	.24

***p $\leq$.001**p $\leq$.01*p $\leq$.05

1962 as all of the same social need variables correlate positively and significantly with state aid for highways. But contrary to what had been expected, all of the 1976 social need correlations were weaker than had been found in 1962. Thus, while social needs were important in both time periods, they apparently were more important before the urban crisis was discovered than they were in the mid-1970s. And as is shown in Table 5-1, none of the changes in needs were significantly related to the moderate increase in highway aid that took place from 1962 to 1976.

Among the economic need indicators in 1962, only median family income, home ownership, and median housing value were significantly associated with highway aid. The positive correlations for each suggest that unlike what had been anticipated, larger numbers of home owners and higher housing values and family income were related to state highway aid in 1962. Thus, aid was negatively related to economic need in this year. The pattern for home ownership continued in 1976 with population density being the only economic need predictor to be associated with highway aid in the expected direction. In this case, more densely populated areas were found to receive larger allocations of this state aid.

The fiscal need indicators were not found to be significant correlates of state highway aid in 1962. But stronger, significant relationships did surface in 1976. In the latter period the significant fiscal need correlates of the dependent measure were debt burden ($-.31$) and fiscal effort ($.40$). Both variables were more strongly related to the need variable in this year than they were in 1962. The relationships suggest that smaller debt burdens and stronger fiscal efforts were associated with larger amounts of highway aid in 1976.

As was true with the social need variables, none of the changes in economic or fiscal need indicators were significantly related to change in the level of state highway aid. Thus, while needs were strongly related in many instances to intergovernmental highway revenue from the states, in both 1962 and 1976, the change taking place in highway aid was basically unrelated to changing city needs over the 15-year period.

In Table 5-2, the zero-order correlations for highway aid and three sets of non-need variables are displayed. State revenue capacity variables were generally found to be unrelated to the dependent variable. State demographic characteristics appeared moderately important in 1962, much less so in 1976, and had only one significant change relationship. The state characteristics that displayed statistical significance in 1962 were state population size (.31), growth rate (.27), and metropolitan population (.30). These relationships suggest that larger, growing, and more metropolitan states gave more highway aid to cities-- a finding that was expected. But the significance of this is only apparent in 1962 and not in 1976 when stronger associations between these predictors and highway aid would have been expected. Region is also significantly correlated with highway revenue from the state in both 1962 and 1976. And the only state variable to be an important correlate of growth in state highway aid from 1962 to 1976 was change in metropolitan population (-.26). In this case, as states became more metropolitan, the level of aid grew at a slower rate than as would have been anticipated. The only additional variable found to be related to state highway aid was functional inclusiveness. In 1962, virtually no association was found, but in 1976 this variable correlated

TABLE 5-2

BIVARIATE CORRELATIONS BETWEEN HIGHWAY AID FROM STATE
GOVERNMENT AND NON-NEED PREDICTORS OF STATE AID (N=47)

Independent Variables	<u>Year</u>		Change 1962-76
	1962	1976	
<u>State Revenue Capacity</u>			
State Revenue Per Capita	.08	.14	.07
State Highway IGR from Federal Government, Per Capita	-.02	.05	-.03
Affluence Index	-.06	-.05	-.03
Industrialization Index	-.06	.07	-.06
<u>State Demographic Characteristics</u>			
Region	.28*	.26*	-.20
Population Size	.31*	.02	-.19
Growth Rate	.27*	.12	--
Metropolitan Population	.30*	.19	-.26*
<u>Legal and Structural Characteristics</u>			
State Centralization	-.18	-.10	.10
City Functional Inclusiveness	.04	.47**	-.13

**p $\leq$.001

*p $\leq$.05

strongly (.47) with highway aid. This finding indicates that cities with more education/welfare responsibilities received more highway aid in 1976--something that should be expected. Such cities require more intergovernmental revenue to support functional policy areas, like highways, that could be slighted due to the heavy revenue demands of education and welfare responsibilities.

In general, the non-need variables were not as strongly correlated with state aid for highways in these cities as were the indicators of city needs. Since the variables that are most strongly related to highway aid are population-related measures, the succeeding analysis follows the pattern taken in earlier chapters and focuses upon residual highway aid--that portion of aid not determined by population.

Residual Analysis of State Highway Aid

A simple correlation matrix for 1962 residual highway aid and the significant predictors to be used in the multiple regression analysis is shown in Table 5-3. Both the original highway aid variable and the residual form of the same are included in this table. The three social need predictors--poverty, mobility, and the social need index--are all in residual form. That is, each variable was regressed on 1960 population to remove the population element from the indicator and provide a purer predictor of the social need measured.

Residual highway aid in 1962 was significantly correlated with three need indicators and one non-need predictor. The need measure most strongly related to the dependent variable was mobility (.81), followed by the residual social need index (.63), and poverty (-.34). The important non-need predictor was state growth rate (.34). This

TABLE 5-3

CORRELATION MATRIX FOR STATE HIGHWAY AID TO CITIES
AND INDEPENDENT VARIABLES, 1962 (N=47)

	V ₁	V ₂	V ₃	V ₄	V ₅	V ₆	V ₇
V ₁ , Residual Highway Aid from State	1.00						
V ₂ , Total Highway Aid from State	.85*	1.00					
V ₃ , Poverty Residual	-.34*	-.29*	1.00				
V ₄ , Mobility Residual	.81*	.69*	-.42*	1.00			
V ₅ , Residual Social Need Index	.63*	.53*	.23	.69*	1.00		
V ₆ , State Growth Rate	.34*	.27*	.00	.24*	.20	1.00	
V ₇ , State Highway IGR from Federal Government	.13	-.02	-.04	.22	.11	-.01	1.00

*p ≤ .05

measure was more important than all other non-need indicators which were examined, including state per capita intergovernmental highway aid from the federal government (shown in Table 5-3), which was reasonably expected to correlate with residual state highway aid to cities. Before proceeding to a multivariate analysis of these variables, the matrix was examined further for evidence of collinearity between predictors.

While both mobility and poverty were significant correlates of the highway aid measure, their intercorrelation ($-.42$) was deemed too high for inclusion of both variables in the equation. And since a similar problem was found between the social need index and mobility ($r = .69$), and since mobility was a stronger correlate, this latter variable was the sole need measure included in the multivariate analysis.

Mobility, alone, accounts for a substantial portion of residual state highway aid in 1962. In fact, 65 percent of the variability in the intergovernmental aid measure is due to this indicator of need. In Table 5-4, state growth rate, a significant correlate of highway aid, is added to mobility to see if it would marginally increase the explained variance. As is shown in this table, growth rate mattered very little ($B = .003$) and was not a significant contributor to the multiple coefficient of determination which remains at 65 percent. Thus, in 1962, a single need predictor, mobility residual, explained all but 35 percent of the variability in residual highway aid. This remaining amount could not be accounted for by variables in this study.

In 1976, the number of significant correlates of residual highway aid were reduced somewhat from that of 1962 (see Table 5-5). One measure of social need--nonwhite residual--is positively correlated ($.40$)

TABLE 5-4

MULTIPLE REGRESSION ANALYSIS OF RESIDUAL STATE HIGHWAY AID
TO CITIES BY MOBILITY AND STATE GROWTH RATE, 1962 (N=47)

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Mobility Residual	.791	.792	61.82
State Growth Rate	.003	.040	0.15
CONSTANT	-.053		
R =	.91		
R ² =	.65		
F =	37.42		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 5-5

CORRELATION MATRIX FOR STATE HIGHWAY AID TO CITIES
AND INDEPENDENT VARIABLES, 1976 (N=47)

	V ₁₁	V ₁₂	V ₁₃	V ₁₄	V ₁₅
V ₁₁ , Residual Highway Aid from State	1.00				
V ₁₂ , Total Highway Aid from State	.91*	1.00			
V ₁₃ , Nonwhite Residual	.40*	.37*	1.00		
V ₁₄ , Fiscal Effort	.26*	.40*	.22	1.00	
V ₁₅ , State Highway IGR from Federal Government	.16	.04	.37*	.40*	1.00

*p ≤ .05

with this variable, while one measure of fiscal need--fiscal effort--is a somewhat weaker correlate (.26). None of the non-need predictors were found to be important in this case. And among this group was state per capita intergovernmental highway aid from the federal government which weakly correlated (.16) with the dependent variable. The three variables were employed in a multivariate analysis of residual highway aid. In Table 5-6 the most important variable in the additive equation was non-white (Beta = .348). Judging from a comparison of betas, the other two variables were of almost equal importance in the equation. Fiscal effort was only slightly more important (Beta = .306) than intergovernmental highway aid that states received from the federal government (Beta = .290). All three measures were significant predictors of residual highway aid and yielded a $R = .51$. This represents an explained variance of 26 percent in 1976--less than half of what had been found in 1962. And, needs were not stronger correlates of highway aid in 1976; rather, needs appeared to be more important to highway aid determination in the period before the urban crisis.

The growth in state highway aid to these municipalities that took place between 1962 and 1976 was found to be related to only one need variable. The change in mobility residual was negatively related (-.34) to growth in highway aid. This inverse relationship with residual change in mobility explained only 12 percent of the variability in the dependent variable. No other variables were found to be related to change in state highway aid to cities.

In summarizing this section on state aid for highways, the importance of social need variables, both in total and residual form,

TABLE 5-6

MULTIPLE REGRESSION ANALYSIS OF RESIDUAL STATE HIGHWAY AID TO
CITIES BY NEED VARIABLES AND STATE INTERGOVERNMENTAL
HIGHWAY AID FROM THE FEDERAL GOVERNMENT, 1976 (N=47)

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Nonwhite Residual	.347	.348	6.11
Fiscal Effort	3.802	.306	3.88
State Highway IGR ^c from Federal Government	.024	.290	3.60
CONSTANT	-1.140		
R =	.51		
R ² =	.26		
F =	4.50		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

^cIGR = intergovernmental revenue.

must again be emphasized. In both 1962 and 1976, social need variables were generally more important than other need or non-need influences of highway aid. Residual highway aid during the period before the urban crisis was found to be largely dependent on one need measure--mobility. Fifteen years later, the importance of need indicators was once again apparent as nonwhite and fiscal effort measures were significantly associated with residual highway aid. These two indicators were joined by a measure of state revenue capacity--intergovernmental highway aid from the federal government--to explain about 26 percent of the variability in residual highway aid in 1976. The interesting finding here is that needs were more strongly related to residual highway aid in the period before the urban crisis than they were in 1976. Overall, though, residual highway aid in 1962, 1976, and during the change period, was related to city needs.

State Aid for Education

States spend more on public education than on any other functional activity of government. Yet most of the costs of local schools have been shouldered by local governments--either cities (with dependent schools) or independent school districts. While nearly two-thirds of state education spending involves grants to local school districts,⁷ the states' contribution to local schools has varied over the years "with its resources, traditions, and values"⁸ There are significant differences in the level of support for education in the states, as measured by the per pupil expenditure ratio, with some states spending more than twice as much as others per pupil. For example, New York spends more than double the amount spent in Alabama per pupil.

Substantial gaps in education finances also exist between cities within the same state since local property taxes have traditionally been the cornerstone of school finance. Some states seem to have greater disparities across school districts in their states as their industrialized areas have a stronger tax base than rural areas for the support of local schools.⁹ A good example of this disparity is the contrast in Michigan between the industrial-based suburban school districts in metropolitan Detroit and the sparsely populated and non-industrialized school districts of the state's Upper Peninsula.

There are differences caused by federal pass-through funds, also. Although nominal state education aid to cities is, primarily, state own-source revenue, a large federal contribution is present in every state. For example, in 1976-77, the federal pass-through component of state education aid ranged from \$6 million in Alaska to \$444 million in New York State. Thus, part of the state contribution may be stimulated by the federal pass-through revenue in most states.¹⁰

State aid to cities with dependent schools, with or without the federal pass-through funds, has been substantial. Since 1960, the states have devoted one-quarter of all city aid to education. During the period under study here, education aid to cities grew by 539 percent. In 1962, \$511 million of state aid to cities went toward education, primarily common schools.¹¹ This was 25.1 percent of total state aid in that year. By 1977, this amount had grown to \$3.3 billion--an amount more than five times larger than the pre-urban crisis period. However, the education share of the state aid pie had dropped slightly to 23.2 percent (just behind the public welfare share of 26.2%).¹²

The trend in education aid in the sample cities is quite similar to that of the nation at large. In the case of this functional area, only a small number of cities actually operate their own schools. Most city schools are actually operated by independent school districts; thus, the state education aid will go to the school districts rather than to the cities. (The data that are reported below are for all 47 cities, but only 12 to 15 cities received any state education aid during these years.) Among the sample cities, a total of \$309.5 million was received in state education aid in 1962. By 1976, this amount had grown to \$1.9 billion--an increase of 503 percent during the 15 years.¹³ These amounts placed education aid second in importance in these cities in both 1962 and 1976. Public welfare aid from state government was the functional category receiving the largest share of state aid in the sample cities.

Education Aid and City Needs

Table 5-7 displays the bivariate correlations between total and residual education aid and three groups of city need indicators for 1962 and 1976. The sample includes 12 of the 47 cities for each year (i.e., only those cities actually receiving state education aid because of their dependent schools).¹⁴ As has been found with other categories of state aid, the number of significant correlations is large for total aid and population-related measures of need in both 1962 and 1976. In the first period, all of the population-based measures of social need were virtually perfect correlations of total education aid. This includes population (.99), elderly (.99), nonwhite (.97), and poor (.99). Only median school years completed, which was expected to be negatively

TABLE 5-7

BIVARIATE CORRELATIONS BETWEEN TOTAL AND RESIDUAL EDUCATION
AID FROM STATE GOVERNMENT AND CITY NEED
INDICATORS, 1962 AND 1976 (N=12)

Indicators of Need	Year			
	1962		1976	
	Total ^a	Residual ^b	Total ^a	Residual ^b
<u>Social Need</u>				
Total Population	.99*	--	.99*	--
Total Elderly Population	.99*	--	.99*	--
Elderly Residual	.06	.29	.63*	-.17
Total Nonwhite Population	.97*	--	.99*	--
Nonwhite Residual	-.57*	-.16	-.38	.52*
Total Poor Population	.99*	--	.99*	--
Poverty Residual	.22	-.42	.59*	.57*
Median School Years Comp.	-.00	-.38	-.12	-.81*
<u>Economic Need</u>				
Population Density	.73*	.05	.74*	.26
Median Family Income	.27	-.08	.15	-.74*
Total Home Ownership	.99*	-.00	.98*	-.06
Median Value of Housing	.53*	-.40	.48	-.38
<u>Fiscal Need</u>				
Budget Deficit	-.11	.16	-.06	.58*
Debt Burden	-.24	.34	-.27	-.40
Fiscal Effort	.44	-.08	.64*	.61*

*p ≤ .05

^aTotal educational aid from state government.

^bResidual educational aid from state government.

correlated with the dependent measure, was unrelated in 1962. All of the same population-based social need measures were correlated (.99) with education aid in 1976. And while the correlation between education aid and median school years increased slightly (-.12), it was not a significant correlate.

Economic need indicators, such as population density, home ownership, and median housing value, were strong, significant correlates of the dependent measure in both 1962 and 1976. Contrary to what had been hypothesized, however, two of the measures--home ownership and median housing value--were positively associated with education aid during both time periods. The smallest number of statistically important relationships were found to be among the fiscal need indicators in both years. The strongest relationships were those between fiscal effort and the dependent variables in both 1962 and 1976. In the latter period, the correlation with fiscal effort (.64) was statistically significant.

Overall, total education aid was strongly related to measures of social and economic need in both 1962 and 1976. Fiscal need measures were relatively unimportant in 1962 but did become more important in 1976. The statistical relationship of need and state education aid was about the same in both time periods. In other words, needs were not more strongly related to education aid in the latter period.

The residual education aid is included in Table 5-7 due to the strong correlation, again, between population and total education aid. And the population-tied social need measures have been regressed on population to produce residual indicators of need, also. An examination of this table for 1962 reveals that while correlations were apparent

between residual aid and need, none were significant relationships. The stronger associations are those between the residual dependent variable and poverty residual (-.42), median housing value (-.40), and median school years completed (-.38). The pattern for 1976 is somewhat different and suggests that needs were more important determinants in this later period. Three of the social need variables were significantly correlated with residual aid--nonwhite (.52), poverty (.57), and median school years completed (-.81). All of these relationships were in the hypothesized direction also. Median family income correlated strongly with residual aid (-.74), and it, too, was in the expected direction. And two fiscal need measures--budget deficit (.58) and fiscal effort (.61)--were strong correlates in 1976. In general, then, the expected relationships appeared with need measures being more strongly correlated with residual state education aid in 1976 than in the earlier period.

Non-need predictors of education aid must also be considered. In Table 5-8, three non-need factors and their related indicators are displayed along with their correlations with total and residual state education aid. A review of this table reveals that only a small number of these variables showed any relationship to the dependent measures. Only one variable was significantly correlated with total education aid in 1962--state population size (.63). This relationship suggests that larger states gave more to these cities in 1962. In 1976, state revenue per capita was strongly correlated with total aid (.54). This variable was joined by one other non-need measure, functional inclusiveness, that was significantly related to the dependent variable.

TABLE 5-8

BIVARIATE CORRELATIONS BETWEEN TOTAL AND RESIDUAL EDUCATION
AID FROM STATE GOVERNMENT AND NON-NEED
PREDICTORS OF STATE AID, 1962 AND 1976 (N=12)

Independent Variables	Year			
	Total ^a	Residual ^b	Total ^a	Residual ^b
<u>State Revenue Capacity</u>				
State Revenue Per Capita	.09	-.52	.54*	.02
State Education IGR ^c from Federal Govt., p.c.	-.28	.27	-.12	-.66*
Affluence Index	.34	.12	-.05	-.02
Industrialization Index	-.24	-.09	.29	.10
<u>State Demographic Characteristics</u>				
Region	.27	.07	.34	.42
Population Size	.63*	.26	.41	-.18
Metropolitan Population	.28	.30	.29	.41
<u>Legal and Structural Characteristics</u>				
State Centralization	-.28	-.38	-.48	.02
City Functional Inclusive- ness	.48	.11	.49*	.40

*p ≤ .05

^aTotal educational aid from state government.

^bResidual educational aid from state government.

^cIGR = intergovernmental revenue.

Functional inclusiveness was correlated almost comparably in both 1962 (.48) and 1976 (.49) with total state education aid. But only the latter period correlation was statistically significant.

The importance of the non-need factors was further analyzed in relation to residual education aid. In 1962, state revenue per capita was a strong, but insignificant correlate (-.52) of the dependent variable. Another state revenue capacity variable--intergovernmental education revenue from the federal government--was significantly correlated with residual aid in 1976. In this case the strong, negative coefficient (-.66) suggests that higher per capita amounts of education revenue from the federal government to the states were associated with less education aid to these sample cities. None of the other variables were significantly associated with residual aid in either year. This includes functional inclusiveness which was thought to be quite important in both periods. In fact, this independent variable showed little relationship in 1962 but did increase in importance to residual aid in 1976 (.40). Yet the coefficient was not significant. In general, need measures were more important correlates of state education aid than these non-need indicators during both 1962 and 1976.

Multivariate Analysis of Residual Education Aid

Although the number of cases is small and there were few significant correlations for 1962, a multiple regression analysis of residual state education aid was done for both years. In 1962, the impact of two need measures on residual aid was explored. Among the three variables that were most strongly related to aid in this year, only poverty and median school years completed were chosen for this analysis.¹⁵ The economic

need indicator, median value of housing, did have a stronger correlation (Table 5-7), but the intercorrelation between this measure and school years completed was .58. For this reason and because of the stronger theoretical link between education and residual education aid, the housing measure was dropped. The multiple regression of residual education aid for 1962 is shown in Table 5-9. The two predictors--poverty and median school years completed--have negative regression coefficients in the equation. Poverty is the more important predictor (Beta = $-.501$) while school years is only a moderately strong predictor (Beta = $-.351$). Together these need variables result in a multiple correlation coefficient with residual education aid of .65. And although they account for 42 percent of the variability in the residual dependent measure, the small sample size precludes the equation from being significant ($F = 3.39$).

A stronger situation was present for 1976, however. In Table 5-10, the multiple regression for residual education aid with median school years completed and budget deficit is shown.¹⁶ Median school years completed was clearly the strongest predictor of residual education aid in 1976 (Beta = $-.724$). This social need variable, along with the fiscal need indicator, budget deficit (Beta = $.438$), combined to produce a significantly high multiple correlation (.92). This indicates that these two social need variables explained 84 percent of the variability in residual education aid in 1976. Because the correlation between residual aid in this year and per capita state intergovernmental education revenue from the federal government was so high, this non-need measure was added to an additional multivariate analysis. As can be seen in Table 5-11 this non-need measure was the weakest among the

TABLE 5-9

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL EDUCATION
AID FROM STATE GOVERNMENT BY NEED VARIABLES, 1962 (N=12)

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Poverty Residual	-.434	-.501	4.16
Median School Years Completed	-.372	-.351	3.14
CONSTANT	-3.764		
R =	.65		
R ² =	.42		
F =	3.39		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

TABLE 5-10

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL EDUCATION
AID FROM STATE GOVERNMENT BY NEED VARIABLES, 1976 (N=12)

Predictors	B ^a	<u>Coefficients</u>	f-value
		Beta ^b	
Median School Years Completed	-.798	-.724	27.94
Budget Deficit	5.831	.438	10.24
CONSTANT	3.564		
R =	.92		
R ² =	.84		
F =	23.20		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

the three predictors (Beta = $-.270$) and had a very small impact upon change in residual aid determination ($B = .05$). And while the explained variance does rise slightly to 89 percent, the slope coefficient for this state intergovernmental revenue measure was not statistically significant.¹⁷ Thus, the only significant predictors for 1976 were city need measures.

This analysis of state education aid to cities is limited due to the small number of sample cities receiving such aid. But it does give some insight into the importance of city needs in the determination of education aid. As was the case with other categories of state aid, education aid was also largely determined by city population, or roughly on the basis of fair share. Thus, the analysis focused on the residual portion of education aid that was due to factors other than population. In 1962, the only significant correlate was the non-need measure, per capita state revenue. Need measures, although not significant, were able to explain almost half of the variability in residual education aid. The picture was far different in 1976 when need measures were very strongly associated with residual aid. In this case, median school years completed and budget deficit largely determined the non-population-tied portion of education aid. Overall, needs were important but the level of importance was much higher and stronger in the latter period of analysis. This confirms the hypothesis that needs would be more important determinants in 1976 than in the period before the urban crisis. States did seem to consider needs in education aid allocations, particularly in 1976.

TABLE 5-11

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL EDUCATION AID
FROM STATE GOVERNMENT BY NEED VARIABLES AND STATE
REVENUE CAPACITY, 1976 (N=12)

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Median School Years Completed	-.688	-.606	21.04
Budget Deficit	5.181	.390	10.38
State Education IGR from Federal Government ^c	-.050	-.270	4.04
CONSTANT	4.361		
R =	.94		
R ² =	.89		
F =	22.05		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

^cState education intergovernmental revenue from the federal government per capita.

State Aid for Public Welfare

The second largest functional activity of state governments is the public welfare domain. Spending for welfare ranks second only to education spending in most states. From the state welfare budgets, approximately one-third will go to local governments in the form of intergovernmental grants-in-aid. In 1962, 70 percent of state public welfare aid to local governments went to counties.¹⁸ This was because most local welfare programs were, and still are, administered by county rather than city governments. In the same year, the cities received \$450 million in public welfare aid from the states, or about 25 percent of the public welfare allocation to local governments. This represented 22 percent of total state aid to cities in that year.¹⁹ By 1977, the county share of state welfare aid had dropped to 60 percent while the municipal share of this intergovernmental aid had increased to 39.9 percent. The cities were then receiving \$3.7 billion in welfare aid from the states--an increase of 720 percent from 1962 to 1977. This was the largest growth rate among all functional categories of state aid during the 16-year period.²⁰

There were only about 15 states that supplied substantial amounts of state welfare aid to any type of local government in either 1962 or 1976. Most states manage and fund their welfare programs at the state level. The local governments receiving state welfare aid also received substantial federal welfare pass-through funds. In most localities, more than half of the nominal state welfare aid provided was really federal pass-through revenue. States receiving more federal pass-through aid for welfare tended to give more nominal welfare aid to localities than states

receiving less.²¹ Thus, the federal pass-through component of state welfare aid must be kept in mind throughout this analysis.

The trends in state welfare aid for the sample cities were similar to that for the nation at large. There were 13 or 14 cities that received welfare aid in this time period. In other words, the number of cities with local welfare responsibilities was quite small in this study and the actual cities changed on this responsibility from 1962 to 1976. In 1962, the states gave \$394.8 million to the sample cities for welfare programs. By 1976, this amount had grown to \$3.7 billion for a comparable number of cities.²² Welfare aid in these cities grew by 846 percent in this period and constituted the largest portion of state aid in both years.²³ The following sections examine the impact of city needs on the allocation of state welfare aid to municipalities from 1962 to 1976.

Public Welfare Aid and City Needs

Social, economic, and fiscal need indicators were correlated with total and residual state welfare aid in both 1962 and 1976.²⁴ As is shown in Table 5-12, the social need indicators were strong correlates of total welfare aid in both years. In 1962, total welfare aid correlated highly with population (.96), elderly (.96), nonwhite (.82), and poor (.94). These same four social need indicators were related to aid in 1976 but the strength of the relationship, as shown, was slightly less: population (.89), elderly (.91), nonwhite (.78), and poor (.91). Two measures that were expected to correlate strongly with the dependent variable, unemployment and median family income, evidenced only weak, insignificant coefficients. Fiscal need variables were also relatively

TABLE 5-12

BIVARIATE CORRELATIONS BETWEEN TOTAL AND RESIDUAL PUBLIC WELFARE
AID FROM STATE GOVERNMENT AND CITY NEED INDICATORS,
1962 (N=13) AND 1976 (N=14)

Indicators of Need	Year			
	1962		1976	
	Total ^a	Residual ^b	Total ^a	Residual ^b
<u>Social Need</u>				
Total Population	.96*	--	.89*	--
Total Elderly Population	.96*	--	.91*	--
Elderly Residual	.41	.30	.54*	.57*
Total Nonwhite Population	.82*	--	.78*	--
Nonwhite Residual	-.51*	-.63*	-.34	-.70*
Total Poor Population	.94*	--	.91*	--
Poverty Residual	.18	-.43	.28	.44
Total Unemployment	--	--	.22	--
Unemployment Residual	--	--	-.30	-.87*
<u>Economic Need</u>				
Median Family Income	.10	.15	.12	-.27
<u>Fiscal Need</u>				
Budget Deficit	-.11	.02	-.21	-.26
Debt Burden	-.39	-.17	-.37	.08
Fiscal Effort	.14	.28	.70*	.51*

*p ≤ .05

^aTotal public welfare aid from state government.

^bResidual public welfare aid from state government.

unimportant in either year. Only in 1976 did a fiscal need measure--fiscal effort--correlate strongly (.70) with welfare aid. Thus, once again, social need measures were very strong correlates of an aid category in both years. Economic and fiscal need measures were not strong correlates, with the exception of fiscal effort in 1976.

Due to the strong tie that welfare aid had to population and related variables, residual measures of welfare aid were constructed using the same procedures as employed in previous analyses. In addition, the population-tied social need measures were regressed on population to produce measures of need that were free from population. In Table 5-12, only one variable correlated significantly with residual welfare aid in 1962. Nonwhite was strongly correlated (-.63) with residual aid, while poverty (-.43) and elderly (.30) had moderate coefficients that did not achieve statistical significance. A larger number of indicators were found to be important in 1976. Four social need measures, three of them significant, correlated with 1976 residual aid--elderly (.57), nonwhite (-.70), poverty (.44), and unemployment (-.87). These were joined by one significant fiscal need measure--fiscal effort (.51)--that was also significantly related to residual aid. In general, needs were found to be important to residual welfare aid, and this relationship was, as expected, much stronger in 1976.

In addition to measures of city need, the impact of non-need variables is considered in this analysis. As is clear from the results displayed in Table 5-13, few variables correlated significantly with either total or residual state welfare aid. In 1962, state population size was strongly related to total aid (.63), but the association was

TABLE 5-13

BIVARIATE CORRELATIONS BETWEEN TOTAL AND RESIDUAL PUBLIC WELFARE
AID FROM STATE GOVERNMENT AND NON-NEED PREDICTORS
OF STATE AID, 1962 (N=13) AND 1976 (N=14)

Independent Variables	Year			
	1962		1976	
	Total ^a	Residual ^b	Total ^a	Residual ^b
<u>State Revenue Capacity</u>				
State Revenue Per Capita	-.10	.12	.61*	.19
State Welfare IGR from Federal Govt., p.c.	-.06	.10	.78*	.13
Affluence Index	-.13	.05	.06	.17
Industrialization Index	-.13	.05	.41	.01
<u>State Demographic Characteristics</u>				
Region	.30	-.12	.36	-.25
Population Size	.63*	-.12	.41	-.06
Metropolitan Population	.36	.19	.33	.05
<u>Legal and Structural Characteristics</u>				
State Centralization	-.36	-.18	-.55*	-.46*
City Functional Inclusive- ness	.47*	.68*	.52*	.60*

*p ≤ .05

^aTotal public welfare aid from state government.

^bResidual public welfare aid from state government.

weaker and insignificant by 1976. The only other important variable in 1962 was city functional inclusiveness which correlated significantly (.47) with total aid. This same variable was a stronger correlate in 1976 (.52) as was an additional legal/structural variable--state centralization (-.55). These variables were joined in 1976 by two revenue capacity variables--state revenue per capita (.61) and, quite importantly, per capita state intergovernmental welfare aid from the federal government (.78). All of the significant 1976 coefficients were in the expected direction. This indicates that non-need factors were more important in 1976 than in 1962 and may account for the weaker impact of some social needs in the latter period.

Examining the impact that these non-need variables had on residual welfare aid in Table 5-13, only functional inclusiveness (.68) was a significant correlate in 1962. This same variable was important in 1976 residual aid also (.60). The one additional measure to be strongly associated with residual welfare aid in the later year was state centralization (-.46). State revenue capacity measures and state demographics were found to be only weakly related to residual aid in either year. Therefore, only the legal/structural measures are considered, along with need indicators, in the next phase of this analysis.

Multivariate Analysis of Residual Welfare Aid

Those indicators found to be stronger or significant correlates of residual aid were employed in a multivariate analysis using regression. The analysis for 1962 residual aid, shown in Table 5-14, employs two measures of need and one non-need measure in multiple regression.²⁵ Functional inclusiveness, the non-need measure, was the most important

TABLE 5-14

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL PUBLIC WELFARE
AID FROM STATE GOVERNMENT BY NEED VARIABLES
AND FUNCTIONAL INCLUSIVENESS, 1962 (N=13)

Predictors	B ^a	Coefficients	f-value
		Beta ^b	
Nonwhite Residual	-.340	-.470	5.92
Poverty Residual	-.218	-.214	1.20
Functional Inclusiveness	.754	.679	9.43
CONSTANT	-.696		
R =	.84		
R ² =	.70		
F =	7.06		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

determinant of residual welfare aid ($\text{Beta} = .679$). As expected, cities with more education-welfare responsibilities were associated with larger welfare aid amounts. The two need measures--nonwhite and poverty--were of somewhat less importance than the functional inclusiveness measure in this year. But, together, these variables resulted in a very high multiple correlation coefficient of .84. This indicates that the three predictors explained 70 percent of the variation in residual welfare aid in 1962--a very significant portion.

The 1976 analysis resulted in similarly strong findings. In this year, shown in Table 5-15, unemployment was the most significant predictor of residual welfare aid ($\text{Beta} = -.756$). The second measure in level of importance was functional inclusiveness, with a standardized regression coefficient of .303. The net result of this additive equation was a multiple correlation coefficient of .92.²⁶ In this case, need plus responsibility for welfare/education at the city level, explained 84 percent of the variability in the dependent measure for 1976.

Overall, residual state welfare aid to cities was determined by a combination of functional responsibility for welfare/education and by some measure(s) of urban need. Needs were less important to this determination in 1962 when functional responsibility was a very strong predictor of residual welfare aid. But in 1976, need, as measured by unemployment, was the stronger predictor of aid. This variable was joined by functional inclusiveness, again, to account for a substantial portion of the variability in residual aid. In this functional area, as with all others, needs played a significant role in aid determinations. And the impact of needs appeared to be stronger in 1976 than it was in the pre-urban crisis period.

TABLE 5-15

MULTIPLE REGRESSION ANALYSIS FOR CITY RESIDUAL PUBLIC WELFARE
AID FROM STATE GOVERNMENT BY NEED VARIABLES
AND FUNCTIONAL INCLUSIVENESS, 1976 (N=14)

Predictors	B ^a	<u>Coefficients</u>	
		Beta ^b	f-value
Unemployment Residual	-1.111	-.756	33.68
Functional Inclusiveness	.378	.303	5.43
CONSTANT	-.603		
R =	.92		
R ² =	.84		
F =	29.18		

^aUnstandardized regression coefficient.

^bStandardized regression coefficient (beta weight).

Summary

This chapter has analyzed the impact that city needs had on the allocation of three types of state aid--highways, education, and public welfare. These are the three largest functional responsibilities of state government and constitute the bulk of state aid to cities. All three functional categories experienced significant growth in U.S. cities from 1962 to 1976. The growth in welfare aid to cities was the largest--more than 700 percent. Education aid grew by over 530 percent and highways experienced the least growth--just over 200 percent. Among the sample cities, similar growth patterns were found with welfare aid, again, receiving the largest increase. Part of the growth in these categories was a function of inflation, and part was also due to increases in city populations during this 15-year period. In addition, although federal pass-through aid was not a factor for highway aid, it did constitute large amounts in the nominal state aid allocated to cities for education and welfare. Since federal pass-through funds could not be separated from the state aid in this chapter, they must be considered as a possible stimulator of state welfare and education aid to cities.

In the area of highway aid, the residual analysis demonstrated that social need variables were generally more important than other measures in the determination of aid in both 1962 and 1976. Mobility accounted for more than 60 percent of the variation in 1962 residual highway aid. In the later period, needs were again important, but were not quite as significant as 15 years earlier. Nonwhite and fiscal effort were the key predictors of residual highway aid in 1976. And

the one non-need measure to evidence some importance was the level of federal aid given to states for highways.

The analysis of education aid, though somewhat limited by the small sample size, did confirm the importance of city needs. Poverty and median school years completed were important predictors of state education aid in 1962. Fifteen years later, median school years completed and budget deficit largely determined education aid. Federal education aid to the states was the one non-need variable to also figure prominently in 1976. Thus, the importance of needs seemed to increase from 1962 to 1976, as had been hypothesized.

The pattern for state public welfare aid was similar to the other two functional categories. Once again, needs were key determinants of state aid. But the assignment of functional responsibility for education and welfare was very important also. In fact, the importance of functional inclusiveness was primary to state welfare aid in 1962. Along with two social need measures--nonwhite and poverty--the analysis produced an accounting for 70 percent of the variation in welfare aid. A social need variable was more important than functional responsibility in 1976, however. Unemployment was found to be the key predictor in this later year, but the impact of functional inclusiveness was also apparent. In general, a combination of needs and responsibilities explained welfare aid in both years.

In sum, needs were important determinants of state aid to cities for highways, education, and welfare. In these areas, it appears that states did take needs into account when allocating the residual portion of state functional aid.

NOTES

- ¹ Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments (Washington, D.C.: Government Printing Office, 1980), pp. 32-39, 66-67.
- ² Thomas R. Dye, Politics in States and Communities, 4th ed. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1981), p. 431.
- ³ Ibid., p. 432.
- ⁴ Advisory Commission on Intergovernmental Relations, State Aid to Local Government (Washington, D.C.: Government Printing Office, 1969), p. 10.
- ⁵ Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Government, p. 38.
- ⁶ U.S. Bureau of the Census, City Government Finances in 1962 (Washington, D.C.: Government Printing Office, 1963), p. 78; and City Government Finances in 1975-76 (Washington, D.C.: Government Printing Office, 1977), p. 98.
- ⁷ Kenneth T. Palmer, State Politics in the United States, 2d ed. (New York: St. Martin's Press, 1977), p. 122.
- ⁸ Frederick M. Wirt, "Education Politics and Policies," in Herbert Jacob and Kenneth N. Vines (eds.), Politics in the American States, 3d ed. (Boston: Little, Brown and Co., 1976), p. 326.
- ⁹ See Thomas R. Dye, Politics, Economics, and the Public (Chicago: Rand-McNally, 1966); or Politics in State and Communities, p. 405.
- ¹⁰ Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments, pp. 62-63.
- ¹¹ Advisory Commission on Intergovernmental Relations, State Aid to Local Government, p. 10.

¹²Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments, p. 38.

¹³U.S. Bureau of the Census, City Government Finances in 1962, p. 78; and City Government Finances in 1975-76, p. 98.

¹⁴No change period measures are included in this section because of the small number of cases and the fact that the same 12 cities did not receive aid in both years.

¹⁵The zero-order correlation for poverty residual and median school years completed was $-.24$ for the 1962 analysis.

¹⁶The zero-order correlation for budget deficit and median school years completed was $-.19$ for the 1976 analysis.

¹⁷One factor that may be responsible for the low coefficient was the zero-order correlations between this variable and median school years completed which was $.47$ and that for this same measure and budget deficit was $-.26$.

¹⁸Advisory Commission on Intergovernmental Relations, State Aid to Local Government, p. 10.

¹⁹Ibid.

²⁰Advisory Commission on Intergovernmental Relations, Recent Trends in Federal and State Aid to Local Governments, pp. 38-39.

²¹Ibid., pp. 64-65.

²²In 1962, 13 cities administered welfare programs; by 1976, the number included 14 cities but there were some differences from the list of cities in 1962.

²³U.S. Bureau of the Census, City Government Finances in 1962, p. 78; and City Government Finances in 1975-76, p. 98.

²⁴No change period measures are included in this section because of the small number of cases and the fact that the number and list of cities receiving such aid changed from 1962 to 1976.

²⁵The zero-order correlations for this regression were: nonwhite residual and poor residual = $-.26$; nonwhite residual and functional inclusiveness = $-.30$; poor residual and functional inclusiveness = $-.14$.

²⁶The zero-order correlation between unemployment residual and functional inclusiveness = $-.39$. State centralization was not kept in this equation because although its inclusion raised R^2 to $.87$, the Betas a F-values for the other predictors dropped below significant levels, suggesting a spurious result had been achieved.

CHAPTER VI

CONCLUSIONS ON STATE RESPONSIVENESS

The primary purpose of this research has been to assess the role that city needs play in the determination of state aid to cities. The stimulus for this study was the shortage of empirical research published on the subject of state aid responsiveness to city needs. A number of writers have looked at the relationship between federal aid and city needs.¹ Some of this research also explored the question of state responsiveness to local or urban needs.² But the little research that has been conducted in the state aid area has only recently begun to examine the issue of responsiveness to needs.³

The basic hypothesis of this study was that established programs of state aid were responsive to the needs of city governments. This hypothesis was tested in a sample that included the 47 largest cities in the U.S.⁴ These cities were selected because of the generally accepted premise that the more serious distress problems of the past two decades would be found in these cities. And since problems and needs change over time, the cities were looked at in 1962 and, again, in 1976. The first period was chosen as a pre-urban crisis time when needs were not as serious. The latter period's selection was intended to capture a picture of cities 15 years later--a time after the public

awareness and response to the urban crisis had begun to ebb. The programs of aid included both 1962 and 1976 measures of total state intergovernmental aid to cities and five program aid areas. These included state aid for general government support, specific purpose aid, and state aid for the functions of education, public welfare, and highways.

City problems were conceived to be related to three basic dimensions of need. The social need dimension included indicators of people need. This measured such problems as poverty, dependency, crime, and mobility. A second dimension represented the economic needs of places. This factor included indicators of the economic health of a city such as income, property value, home ownership, and the like. The third factor--fiscal need--tapped indicators of the financial health of city governments. The cities' revenue/expenditure ratio (fiscal effort), debt burden, and budget deficit were measured for inclusion in this dimension. In addition, a portion of city intergovernmental aid from state government was thought to be unrelated to any dimension of need. Therefore, four sets of non-need factors were examined to determine their relationship to state aid allocations. This included measures of state revenue capacity, state demographic characteristics, state political climate, and legal and structural characteristics of state-city relationships. In all, more than 25 variables representing either the need dimension or non-need factors were explored during this analysis. The major findings of this research are detailed in the section below.

Summary of Findings

From 1962 to 1977, state aid to cities grew by 591 per cent. This was the fastest growth among all types of receiving governments

except special districts. Among the 47 sample cities, state aid grew by 615 percent in the 15 years from 1962 to 1976. Federal aid to these cities grew at a much faster rate during the same period--2,224 percent. However, despite the steeper growth in federal aid to these cities, state aid was still the dominant source of intergovernmental revenue. State aid in 1976 was 70 percent of total city intergovernmental revenue, while direct federal money made up 28 percent of the total. State aid did include a portion that was federal pass-through money though.

As the focus of this study was on the responsiveness of state aid to city needs, total state aid was analyzed, initially, on a bivariate level with the three categories of city need. Contrary to other studies of federal or state aid that relied upon per capita measures, this analysis followed the arguments of Uslaner on the problems of per capita, and that of Ward on the use of such in state aid studies,⁵ and analyzed the total aid figures. The initial examination of correlations between state aid and measures of city need revealed a very close linkage between the two sets of variables. The strongest bivariate associations were generally found between aid variables and indicators of social need. In 1962, population-based indicators of social need were strong, positive correlates of total state aid, state aid for highways, education, public welfare, and other specific purposes aid. State general support aid for cities was also positively correlated with these indicators of social need, but the strength of the relationships was much weaker. The social need indicators that evidenced the strongest relationships to state aid were population, elderly, nonwhite, poor, and mobility. Thus, there was a strong link between social need

and various types of state aid in 1962. Fifteen years later, this relationship was still apparent, and in most cases, the relationship was even stronger. Social need measures were more strongly correlated in 1976 with general support, education, and other specific purposes aid. Relatively comparable relationships to that found for 1962 were apparent for total state aid and public welfare aid in 1976. The one aid area that evidenced a weaker relationship to social need measures in 1976 was state highway aid. But even in this case the relationships were still significant. Thus, again, social needs were apparently important to state aid allocations in 1976.

Economic and fiscal need variables were also shown to be related to state aid in both years. Fairly consistent relationships were found between various categories of state aid and three economic need indicators. These variables included density, home ownership, and median value of housing. In most cases these variables were much stronger predictors of aid in 1976 than they were in 1962. This was true for total state aid, general support aid, and aid for other specific purposes in cities. As to highway aid, the significant economic need correlates, median family income, home ownership, and housing value, were more important in 1962 than they were in 1976. Only density correlated more strongly in the latter period than it did in 1962. Education aid was found to be related to density, home ownership, and housing value to a comparable degree, in both years. Public welfare aid was shown to evidence little association to measures of economic need in either year. The importance of fiscal need measures appeared to vary quite a bit across years and aid categories. For example, total state aid correlated significantly only

with one indicator--fiscal effort--in both 1962 and 1976. The importance of this relationship was enhanced in 1976. Highway aid was virtually unrelated to fiscal need in 1962. However in 1976, significant associations were shown with both debt burden and fiscal effort. Similar results were found for both education and public welfare aid in 1962. The one variable that did increase in importance to both aid areas by 1976, however, was fiscal effort. This same indicator of fiscal need was shown to be positively related to general support and other specific purposes aid in 1976. In both cases, this was the sole significant fiscal need correlate in that year and it was in the expected direction. Overall, economic and fiscal need measures were correlated with total state aid to cities, both in the aggregate and by category. And the one indicator to increase in importance from 1962 to 1976, as well as to be a significant correlate in every aid category for 1976, was fiscal effort.

Another finding about needs that tended to be true across the board was the absence of many significant change period relationships. That is, on the whole, changes (i.e., growth) in aid to cities from 1962 to 1976 were unrelated to changing needs during the same period. There were two aid categories where a significant set of relationships did appear. In the case of total state aid, growth in this category was found to be significantly related to change in city population and elderly population. The second aid category where changes were shown to be important was other specific purposes aid. Here, changes in fiscal effort and mobility were positively related to the increase in state aid.

In addition to city needs, the impact of non-need measures was also examined for all categories of state aid. On the whole, these

measures were of far less importance than were the need variables. Functional inclusiveness of city responsibilities for education and welfare programs was the most consistently important non-need measure. In 1962, it was significantly correlated with total state aid and general support aid. In 1976, it was uniformly correlated with every category of state aid. With rare exception, functional inclusiveness was the most important correlate of state aid among the non-need factors, and the strength of this positive relationship was increased in the latter period.

The multivariate analysis of the data was preceded by a few changes to some variables. To begin with, a very strong correlation was found between state aid and city population. That is, the amount of state aid received by a city was, to a great extent, a function of the size of the cities' populations. These cities, then, were receiving total aid primarily on a fair share basis, and not actually due to need. But since a portion of the aid was being appropriated on some basis other than population, the multivariate analysis was focused upon this part of state aid. To analyze such, state aid was regressed on city population for each year. This produced the residual measure of state aid, or that portion of state aid that was not determined by population. Then, those measures of social need that were tied to population were also regressed on city population to yield population-free measures of need.

The multiple regression analysis of state aid revealed that needs were still important, in fact, very important, to most categories of residual state aid. And in most instances, the indicators of need were better predictors of state aid in 1976 than in 1962. The analysis of residual state aid (in the aggregate) highlights this finding. In 1962, two need

measures, mobility and nonwhite, along with functional inclusiveness, largely determined residual state aid. Fifteen years later, needs alone, determined all but 10 percent of the variance in residual aid. In that year, nonwhite, mobility, crime, density, and fiscal effort were the key predictors. Only change was shown to be weakly determined by need. State affluence change was the key determinant of the growth in residual state aid from 1962 to 1976. But the residual crime change was a lesser contributor during this period, also. The analysis of the five categories of residual state aid produced results that were similar to the above.

In the area of general support aid, needs, measured by budget deficit, mobility, and nonwhite, were shown to be somewhat important to the determination of residual aid in 1962. By 1976, however, a different combination of need measures--elderly, nonwhite, and poverty, were shown to have largely determined residual general support aid. A significantly large share of residual specific purpose aid was also found to be tied closely to city needs in 1976. In this case, a small relationship to need in 1962 had changed greatly by 1976 when mobility, nonwhite, fiscal effort, and home ownership accounted for 82 percent of the variance. And the change in residual specific purpose aid was somewhat due to changing need. The more important predictor of this change, however, was the change in state centralization.

The first instance of needs being less important in later years was shown in the analysis of residual highway aid. Here, mobility accounted for a substantial portion (65%) of the variance in 1962. But in 1976, nonwhite and fiscal effort, along with federal highway aid to

the states, were shown to explain only about one-fourth of the variability in residual highway aid. Needs did seem to take on more importance in the education aid area from 1962 to 1976. A combination of poverty and median school years completed explained 42 percent of residual education aid in 1962; however, the results were not significant due to the small sample size. By 1976, however, the years of school variable and budget deficit determined a significantly large portion of residual education aid. Once again, needs evidenced greater importance in the later period. Finally, in the public welfare aid analysis, functional inclusiveness was shown to be the strongest predictor of residual aid in 1962. Along with need measures this variable explained 70 percent of the variance in the dependent measure. Functional inclusiveness was again important in 1976. In this case, however, a measure of need--unemployment--was shown to be the key determinant of residual welfare aid. Thus, in the determination of residual welfare aid, a combination of need and functional responsibility was found to be the key.

The Significance of the Findings

The findings summarized above have captured a picture of state responsiveness to city needs at two points in time. The picture reveals that city needs are considered in the allocation of state aid. In all six categories of aid examined, and at both points in time, some element of need was shown to be important to the residual aid that had been allocated. Thus, the first important result of this analysis has been the finding that states were responsive to city needs in both 1962 and 1976. This finding lends support to the works of Dye and Hurley, and Stein that found state governments to be responsive to the needs

of cities.⁶ However, both sets of research were based upon per capita measures of state grants-in-aid, and the analysis led to smaller amounts of explained variance than have generally been found here. The use of residual variables in this study also removed population, but in a more statistically exact fashion.

In addition to assessing how responsive state aid was to city needs, I wanted to determine if needs were more important in 1976, after the urban crisis had set in, than in 1962. In general, needs were more important in the later year. Although highway aid was a noticeable exception, needs were stronger determinants of state aid in 1976 than they were in 1962. A likely explanation for this finding lies in the changed state role in urban affairs that occurred during the early 1970s. States had created government bureaus to assist urban areas, states had more urban representation in the legislatures, and more state aid was made available for cities. In general, a defined state role in urban affairs had come about from 1962 to 1976.

A third significant finding concerns the change taking place in aid across time. Although all aid categories grew (in the aggregate) from 1962 to 1976, the change in aid amounts was usually not attributable to changing city needs. There is difficulty in searching for a plausible explanation for this result. While changes in needs did not prove important to the change in aid, I might speculate that some key state variables not included in this research design were more influential than needs. For example, the changing state role in urban affairs was not measured in a direct fashion in this study. In addition, state political variables used here were not significant.

Yet, intuitively, one would expect some political factors to be important in the state legislative process of allocating residual state aid. Thus, the answers to what accounts for change in aid may lie with variables not measured in this study--variables more important practically and statistically than changes in city needs.

The role of federal pass-through aid must also be addressed in concluding this research. Total state aid, as well as education and welfare aid from the states, has a significant portion that is federal in origin. Since this could not be separated from the city revenue data, one might suggest that the real impetus for state responsiveness lies with the federal money which they channel to the cities. However, this argument can be dismissed based upon the analysis conducted here. There is virtually no federal pass-through money contained in state aid for highways, general support, and other purposes aid. Had aid in these three categories been found to be unrelated to city needs while total, education, and welfare aid were found to be related, then the argument may have had some validity. But since aid in these three areas that receive little or no pass-through money was also strongly related to city needs, it seems safe to conclude that the federal role was minimal in all areas. That is, despite the federal contribution to nominal state aid in some areas, states would still be responsive to city needs, if the federal pass-through funds were removed.

The question of federal money raises another issue that deals with the state response to President Ronald Reagan's New Federalism initiatives. First proposed by this administration in early 1981, the plan seeks to consolidate federal categorical grant programs into

block grants, significantly reduce federal funding for these grants, and turn program responsibilities, and, for a while, program monies, over to the states.⁷ The stimulus for this plan comes from the Reagan administration's stated objective to reduce the size of the federal government. The generally accepted view holds that aid programs, like government, are run best when they are closer to the people. In addition, the proposals to turn responsibility for grant programs over to the states is backed up by a wealth of research that has reported on the enhanced capability of state governments to manage and fund grant programs for their citizens and local governments.⁸ The prime concern of critics of the New Federalism proposals is that local problems, which received massive federal attention and money, will soon become ignored by state governments due to indifference, lack of revenue capacity, or mismanagement on the part of the states. However, the evidence of recent research into the state response, as well as the findings of this study, and others like it, would seem to hold some promise that distressed cities will be reasonably well cared for by their own parent government.

The enhanced capability of the states, as addressed in Chapter I, is the first sign that states can take care of their political subdivisions. Second, recent reports have indicated that states have taken the initiative to devise strategies for implementing the new block grants.⁹ They have accepted their new role in the block grant process as the "primary recipient and decision-maker," and appear to be marshalling the resources to make that role work to the benefit of both the state and the local governments.¹⁰ Some have even suggested that the New Federalism proposals will add an element of rationality

to the intergovernmental grant system due to the decentralization of programs to the state level.¹¹

Just as important, though, are the implications derived from the findings in this research. Twenty years ago, the states were providing intergovernmental grants to their cities for a host of reasons. This state aid was largely appropriated on the basis of population, but that portion that was unrelated to population was found to be significantly related to city need in 47 major cities. This was a time before the crisis atmosphere of urban distress began to play a focal role in policy-making at either the federal or state levels. Fifteen years later, in 1976, municipal needs were even more dominant in the determination of residual state aid in these cities. These trends of the immediate past must certainly offer hope for those who would question the states' commitment to distressed communities. Allowing for changes in state revenue resources, the state commitment to providing aid in line with both city population and city need should be expected to continue.

In conclusion, the hypothesis that state aid programs were responsive to city needs was tested in a select sample of 47 large cities. The findings indicate that municipal needs played a significant role in the determination of residual state aid in these cities. This responsiveness was present in the state aid allocations of the early 1960s, and the same responsiveness was even more pronounced in 1976. In some categories of state aid, an additional factor--functional responsibility for education/welfare programs--was of nearly equal import to that of city needs. And although the limited sample makes it difficult to generalize these findings to large populations,

these 47 cities did experience the major distress problems during the past two decades. This analysis leads me to conclude that the states recognized significant problems in these cities in both 1962 and 1976, and tailored a portion of state aid to respond to social, economic, and fiscal needs.

NOTES

¹See Peggy Cuciti, City Need and the Responsiveness of Federal Grant Programs, Report to the U.S. House of Representatives, Committee on Banking, Finance, and Urban Affairs, Subcommittee on the City, 95th Congress, 2nd Session (Washington, D.C.: Government Printing Office, 1978); Thomas R. Dye and Thomas L. Hurley, "The Responsiveness of Federal and State Governments to Urban Problems," Journal of Politics 40 (February 1978): 196-207; National Governors' Association, Bypassing the States: Wrong Turn for Urban Aid (Washington, D.C.: National Governors' Association, 1979); and Robert M. Stein, "The Allocation of Federal Aid Monies: The Synthesis of Demand-Side and Supply-Side Explanations," American Political Science Review 75 (June 1981): 334-343.

²See Dye and Hurley, pp. 196-207.

³Robert M. Stein, "The Targeting of State Aid: A Comparison of Grant Delivery Systems," The Urban Interest 3 (Special Issue): 47-59; "The Allocation of State Aid to Local Governments: An Examination of Interstate Variations," in Advisory Commission on Intergovernmental Relations, State and Local Roles in the Federal System (Washington, D.C.: Government Printing Office, 1982), pp. 202-216; and Fred Teitelbaum, David D. Arnold, and Dorrett Lyttle, "State Assistance to Distressed Cities," The Urban Interest 3 (Special Issue): 60-72.

⁴This number excludes Washington, D.C.

⁵See Eric M. Uslaner, "The Pitfalls of Per Capita," American Journal of Political Science 20 (February 1976): 125-133; and Peter D. Ward, "The Measurement of Federal and State Responsiveness to Urban Problems," Journal of Politics 43 (February 1981): 83-101.

⁶Dye and Hurley, p. 204; and Stein, "The Allocation of State Aid to Local Governments," p. 207; and "The Targeting of State Aid," pp. 52-55.

⁷See Advisory Commission on Intergovernmental Relations, "Federal Block Grants: The States' Early Responses," Information Bulletin, no. 81-3 (September 1981): 1-20; and David B. Walker, Albert J. Richter, and Cynthia Cates Colella, "The First Ten Months: Grants-in-Aid, Regulatory, and Other Changes," Intergovernmental Perspective 8 (Winter 1982): 5-22.

⁸For example, see President's Commission for a National Agenda for the Eighties, Urban America in the Eighties: Perspectives and Prospects (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1981), pp. 65-70; Claude E. Barfield, Rethinking Federalism (Washington, D.C.: American Enterprise Institute, 1981).

⁹See Advisory Commission on Intergovernmental Relations, "Federal Block Grants," pp. 1-20; "Staff Briefing Report on New Federalism Initiatives," paper prepared by the Taxation and Finance Staff, assisted by the Government Structures and Functions Section for the ACIR, March 24, 1982, pp. 29-32; and Jean Lawson and Carol W. Stenberg, "'Rebalanced Federalism': The States' Role and Response," Intergovernmental Perspective 8 (Winter 1982): 30-41.

¹⁰Advisory Commission on Intergovernmental Relations, "Federal Block Grants," pp. 1-4.

¹¹Susannah Calkins and John Shannon, "The New Formula for Fiscal Federalism: Austerity Equals Decentralization," Intergovernmental Perspective 8 (Winter 1982): 26.

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