I am really grateful to the previous speakers for their presentations highlighting the complexities of formula based grants and the policy issues related to their inadequacies. This enables me to get right to the task of illustrating the effects of selected formula elements upon New York City. I will try to avoid being unnecessarily redundant.

From all formula funded programs, New York City receives hundreds of millions of dollars annually. It is however, frustrating to discover that there are no precise statistics on the total amount, much less a breakdown of how much money is received based on formulas which incorporate total population estimates alone and those which rely on population and housing characteristics, as opposed to other demographic and non-demographic formula elements. This compounds the problem of trying to describe in dollar terms the effects of altering the elements in the formulæ. At best, this paper can present only the most fragmentary view and treatment of the subject.

Before the available data are discussed, it seems both useful and relevant to expose the problems encountered in preparing this paper.

An earlier version of this paper was given in another forum. Plans were to introduce a considerable amount of new material into a revision. To this end, interviews were conducted with staff of City agencies who are responsible for monitoring of Federal formula funds in their particular subject area. The results of this interview process are as interesting as the data itself.

Most of the people we talked to - all professionals in either budgetary areas or with policy and administrative responsibilities in City agencies - had only the vaguest notion as to the mathematics of the formula which applied to their allocation. This is not to say that they did not know what the data elements were; indeed, some were involved in providing administrative statistics which fed into those formulæ. However, the actual computations were performed either by the Federal agency or the State agency involved in the allocation or the pass-through activity and the results were simply accepted by the local officials as accurate. In addition to local area data elements, some formulæ require the knowledge of national and state totals which are not readily available to the local official who wishes to check or replicate the computations. When presented with the question on whether the data elements were appropriate or whether they worked fairly within the formulæ given their specific weights, there were few answers forthcoming from the interviewees.

With some exception, most were not able to respond to the impact of a hypothetical change in the level of the data elements. Rarely are those data elements independent of each other. If one introduces the possibility of, say, a higher population in a formulæ, it is generally necessary to also know the characteristics of the incremental population, such as whether its members would fall above or below the poverty level or whether they are likely to be employed or unemployed. Then, having established some economic characteristics of the theoretical additional population groups, it is necessary to know their effect upon such variables as per capita income. Also, it is generally useful to estimate their sex and age distribution. These are just too many estimates to juggle all at once and come up with any satisfactory answers.

Despite the fact that in the last few years there have been major alterations in formulæ utilized in several important funded programs, we uncovered a considerable degree of underlying skepticism that this trend would continue and if so, whether the process would really improve formulæ. Change in existing formulæ was perceived as good only if the adjustments in the data elements would reflect situations peculiar to the local area such as cost-of-living indices and a count of undocumented aliens.

In the limited time for this discussion, we have selected materials mainly on major programs in which Federal monies flow directly to the City. However, it should be noted that in many programs the allocations to the States set the parameters of local government assistance. A very large proportion of Federal assistance is distributed in this way - fully 42 percent of all formula grants according to the OMB study of population based grants. These programs provide the largest amount of Federal funds reflected in the New York City budget, creating the largest matching expenditures as well. To the degree that these costs are mandated by Federal and State law, the City has a large stake in the manner of their distribution.

Revenue Sharing

The largest dollar amount of direct aid received from the General Revenue Sharing program. In official documents, the City has utilized a $20 million figure representing the estimate of the increase to its entitlement which would result from the inclusion of 750,000 additional persons in the current population estimate. This additional three quarters of a million persons is the estimate of undocumented aliens living in the City over and above any official Federal or State population estimates. This amount has been added as a constant to any estimate produced by the Bureau of the Census for General Revenue Sharing entitlement. Those who developed the $20 million estimate conceived a model which increased the national population by eight million persons, the State population by one million persons and the City population by 750,000. Higher City figures on undocumented
aliens have been treated with some skepticism by City officials. For example, the Regional Immigration and Naturalization Service Director has repeatedly used a figure as high as one million undocumented aliens for New York City. However, half that amount, 500,000 persons, was cited recently by the National IRS Commissioner. In truth, nobody knows just how many undocumented aliens there are either nationally or locally. The 750,000 local figure is illustrative rather than definitive. It is in proportion to similar national estimates and is reasonably related to the census counts of foreign-stock and aliens in the City's population base.

In the model, the entitlement per capita income statistic issued by the Bureau of the Census was adjusted to account for a higher population, but based on constant total money income. We are aware that the per capita estimates are not computed in this way at the Bureau. No attempt was made to adjust for any differential characteristics of the incremental population. When income flows are held constant, per capita income declines with an addition of previously uncounted population. In the model, resulting per capita income for the nation, State and City decline proportionately to the relative size of the uncounted undocumented population. The revised population and per capita income were applied to an annualized Period 7 entitlement distribution at both state and substate levels.

The distribution of Revenue Sharing funds among states yielded an additional $36 million to the New York State government of which $26 million was added to local governments. Thus, just over an additional $20 million was estimated for New York City.

The provision of law establishing a per capita aid ceiling for localities is as important in the determination of entitlement as the formula itself for large cities such as New York and Philadelphia. Current population estimates which are understated can therefore have impact at two stages in the General Revenue Sharing formula process. The per capita aid limit is a direct function of population and can be important for the final outcome. Such formula ceilings have impacted the City of New York in the case of Community Development and Title I ESEA as well.

It should be stressed that the key element in the Revenue Sharing formula below the State level is per capita income, not population per se. It is essential that the per capita aid ceiling reflect population undercounts and underestimates. However, another adjustment approach should receive greater attention. The income flows, particularly wage and salary income, should be adjusted for cost-of-living differentials on a fine grained geographic basis. This is one of the technical data challenges of the next decade -- the development of a suitable and widely acceptable technique for adjusting income data elements based on differentials of the local economy and population.

The $20 million figure cited above does not refer to the current entitlement period. The City allocation was constrained by the rule which reduces it to 145 percent of per capita entitlement. The relative impact of the population estimate is reduced as compared with the influence of the other two formula elements: tax effort and per capita income.

The City's Office of Management and Budget points out that our tax effort is being steadily reduced as a result of both an eroding tax base and progressively larger tax cuts. It is a Catch-22 situation. While we attempt these cuts to enhance our economic viability, we simultaneously reduce our ability to qualify for revenue sharing funds. This year the City suffered a severe setback when the Office of Revenue Sharing disallowed $450 million in stock transfer taxes as tax effort. Even if the City were able to convince the Office of Revenue Sharing to include the stock transfer tax, it is slated to be phased out over the next few years as part of the City's tax cut plan.

This raises the per capita income element to prime importance in the formula. We suspect that much of the income earned by persons classified as undocumented aliens is not included in the income flows that contribute to the per capita income computations. Compared to the total population, the earnings of this group is believed to be low. There is, however, very little hard data on this subject. Until the Federal government seriously attempts to assess the socioeconomic characteristics of the undocumented aliens, the best we can do without some proof is to contend that the net effect of excluding both the undocumented aliens and their income is to exaggerate the increases in per capita income in the communities in which they reside.

**Countercyclical Aid**

At this time, the countercyclical aid program is at the crossroads. The program which just recently lapsed had two elements. One of these was related to the amount of aid the locality receives in the General Revenue Sharing Program. Using the same logic which applied to the computation of the theoretical loss of $20 million in General Revenue Sharing funds and with all other factors remaining constant, it has been estimated that the countercyclical aid program in the City ran short by about $9 million.

Assuming that the undocumented aliens are not fully represented in the second data element, the official unemployment rates which are computed from Current Population Survey data, it is believed that their inclusion would result in a rise in the unemployment rates. This is based on the further assumption that some of the undocumented aliens who are primary householders are probably enumerated and also probably employed. However, other members of the household, who include a high proportion of more recently arrived unattached males, are probably not included in the CPS estimate. Such persons are likely to have a higher unemployment rate.
A new supplementary fiscal assistance bill is currently being considered as a substitute program. The eligibility requirements of the proposal provide for a choice. The local government is eligible if (A) its unemployment rate for a 12 month period averages over 4.5 percent or (B) its rates of growth in two out of three indicators are lower than the average rates of growth for all SMSA areas. The three indicators are: (1) employment; (2) per capita income and (3) population. Since there is an evaluation of the proposed alternative formula underway and active discussions among the City's fiscal experts and legislators prior to the enactment of the legislation, it would not be appropriate to discuss the advantages or disadvantages of the alternative provisions at this time.

However, the proposed formula do have data elements common to those of several other funded programs, such as CETA. There is particular concern about how the monthly estimates of the population 16 years of age and over used in the CETA program are generated. These figures appear to fluctuate widely from one month to another and do not seem to be related to any other total population estimate, such as that used for General Revenue Sharing. It is not clear whether a revision of the population estimates for the age group 16 and over would alter either the number of unemployed or the unemployment rate. We plan to explore this issue with local BLS staff very soon.

**Community Development Basic Grant Formula**

For the first two years of the Community Development program, New York City received approximately $102 million dollars under the hold-harmless and phase-in provisions. Had the basic grant formula been applied without the hold-harmless, the City would have received an estimated $127 million and $144 million in 1975 and 1976 respectively - $67 million more over a two year period.

It is therefore inappropriate to discuss, for this earlier time period, the inequities of the CD formula as contrasted to inequities resulting from the application of other program regulations namely "hold-harmless." The third year's allocation was based on the formula but with the 1973 Administrative Record population estimate substituted for the 1970 Census figures. Although this increased the total amount of money, the City actually received $3 million less than if the Decennial Census figure had been used. Furthermore, there was no compensating adjustment for the considerable increase since 1970 in the proportion of the population in the City that could be classified as falling below the poverty threshold, a factor which holds double weight in the original CD formula.

The alternative formula now applied to the City under the provisions of the revised Community Development Act also benefits other areas of the country that have experienced population decline accompanied by urban blight and decay. Weight is also given to a variable that is more sensitive than overcrowding, namely, the number of housing units built before 1939. In the step-down formula, this adds to the proportion of total funds available to metropolitan areas, and within that category, to central cities. It is ironic, however, that the other new formula element, the relative population growth, compared with natural trends, favors those areas that had the greatest population loss. In New York, we annually put forth the argument that for Revenue Sharing, the population figures are too low. If the Federal government decided to raise the population estimate for Revenue Sharing, we could suffer a decline in the Community Development Block Grant funds under the alternative formula. This points to the local government's dilemma when faced with often contradictory interests in regard to local formula aid generally.

Under the new formula the City has received an additional $75 million in CD IV. However, we have not been able to calculate the proportion of the increased amount that is attributable to the application of the new formula as opposed to the additional receipt resulting from the expanded pool of funds available from the phased-out hold-harmless provisions.

**Poverty Thresholds**

In connection with the Community Development formula as well as the Title I ESEA formula, which utilizes a subset related to the poverty level, recent discussions focus on the impact of a change in the definition of poverty or upon a possible update of the count of persons, families and household members in poverty. A change in the definition of poverty is mainly thought of in terms of an across-the-board raising of the poverty threshold. But as long as the poverty level is used as a relative measure in distributing funds, the resulting redistribution would merely add relative weight to those areas of the country with large numbers of "near poor" who are not receiving social service benefits. On the other hand, we would welcome the use of updated poverty counts provided these are also accompanied by cost-of-living adjustment.

**Cost-of-Living Adjustment to the Poverty Thresholds**

Although none of the government agencies seem to have come up with a precise and satisfactory solution to the problem of adjusting the poverty matrix for the differential cost-of-living in parts of the country and as among urban versus non-urban areas, a number of agencies have expressed their belief that such adjustment is both necessary and feasible. Everyone knows that it cost more to live in the larger cities than in the smaller ones and this is reflected in the construction of the urban family budget levels produced by BLS. In the Spring of 1969, the low family budget level for New York City was pegged at 2.1 percent higher than that of the U.S. as a whole. By Autumn of 1973, New York City was higher by 5.9 percent. The differentials for the medium and high family budgets were even more pronounced. We are not prepared to suggest the basis for the adjustment
to the poverty index. It is probable that an adjustment may not be possible for all the geographic areas covered by the various formulas. It has been pointed out that an adjustment would be biased in favor of the larger Northeastern SMSA's and their central cities. However, we contend that a no-adjustment policy contains its own inherent biases against these very communities.

Title I

The Title I formula was changed back in 1974. As best as we have been able to determine, the early formula was heavily weighted by children in families with AFDC payments of $2,000. The shift in criteria to "two thirds of the children in families receiving AFDC payments which exceed the poverty line" resulted in a loss for that year of $25 million for the City. If the poverty threshold were to be raised, either uniformly or by a cost-of-living adjustment, the formula should be changed to include all of the children in families receiving AFDC payments.

This isn't very much hard data to show for our part time efforts. We believe that there should be staff assigned within our local OMB working full time on these issues and relating them to legislative proposals. Some work along these lines has been started.

In our earlier paper, we included a section on an evaluation of the Bureau of the Census' "Administrative Records Method" which determines the population estimates used in the General Revenue Sharing program. It appears that these population estimates will be used for still other formula funded programs as well. Because of continued interest in the subject, we have not attempted at this time to update the examples cited. This section is appended for the reader.

APPENDIX A

Administrative Records Method

A complete review of the key element in the Administrative Records Method, the matched income tax records, has been proposed several times. Understandably, the Bureau of the Census has defended the procedure. It appears to work for most areas in the country where the majority of residents are made up of nuclear family units. However, in the larger urban centers, particularly areas with high proportions of mobile, young, unrelated individuals, the match rate is likely to be distorted. Besides the so-called "first filers" there are other segments of the population who are not necessarily represented in both or either filing period involved in the match. These include persons who have recently entered the country as non-immigrant aliens and who are among the increasing number of undocumented persons who remain here. It is often forgotten, however, that the unmatched are large and growing numbers of persons living here on long term visas - businessmen and their families, students and their families, who would be counted as residents in a Decennial Census. Such persons are concentrated in cities such as New York and Washington.

The picture is further clouded by the probability that the IRS returns do not reflect the large numbers of mobile poor throughout the country who do not file returns at all. In 1970, only 90 percent of the population of New York City was accounted for by exemptions reported in 1969 income tax returns. This coverage ratio was 94 percent for New York State as a whole, and represented 97 percent for all areas of the State outside New York City. The last percentage, I would guess, holds for the country as a whole. However, within New York City, Bronx and Kings Counties had 1970 coverage ratios as low as 81 and 87 percent respectively. These two counties have been the major recipients of migration from Puerto Rico and from South and Central America including the West Indies. Therefore, it is probable that the 1972 and 1974 coverage ratios, if they could be computed, are far lower than those of 1970. While taxes are withheld from the paychecks of undocumented aliens it is believed that most do not file income tax returns, even when entitled to refunds.

Similar disparities were noted when the number of 1972 exemptions were matched against 1969. The percentage of unmatched exemptions for New York State as a whole was 12.2 and for the residual of the State except for the City 9.4 percent; but, for New York City the percentage rose to 16.5 percent. New York County (Manhattan) which has one of the highest mobility rates in the country had 18.7 percent of the 1972 returns unmatched against 1969, with Bronx and Brooklyn Counties trailing only slightly with 18.0 and 17.8 percent respectively.

Thus in the Administrative Records Method for the City as a whole less than three quarters of the population (73.5%) is even being evaluated with regard to migration; while for counties such as the Bronx, only 63 percent of the population impacts upon the computations. Yet it is the missing third to a quarter of the population that is most likely to be mobile. For New York City that population is in-migrant population.

The population that is being measured by the migration rate we speak of as the "measurable" population. We admit to an out-migration of the "measurable" population. But nowhere in the method is there a compensating allowance for the usual migration flows that are peculiar to only a few of the nation's cities.