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Mr. Chairman, I wish to thank you for providing this opportunity to discuss with the subcommittee the ways we might better ascertain the impact of the federal budget on the nation's cities. This issue is a difficult one; but it is timely and important and an effort must be made to improve our understanding of the budget's impacts.

Concern for the nation's cities has grown as a number of the largest ones have entered an era of economic decline that some analysts assert may be irreversible. There is concern that federal policies may have inadvertently contributed to this development. It is time, therefore, for a comprehensive review of federal activities and their impacts on the cities. If we can understand the impacts of past actions on cities, we stand a better chance of being able to prescribe the types of policies that might be beneficial in the future.

Since the budget is the single most important indicator of federal actions, it offers a useful starting point for such a review. The formulation of a budget involves two types of decisions. First, overall spending and revenue levels must be determined so that an effective fiscal policy can be implemented. Second, specific allocations must be made to various programs; this process, in turn, establishes national priorities. Cities are affected by both types of decisions.

Urban residents, like all Americans, are interested in an effective fiscal policy--one that will create jobs without generating inflationary pressures. However, the fiscal policy stakes may be higher for the residents of our larger and older cities than for others since the evidence suggests that recessions are not experienced evenly by all areas of the country. When there is a slackening in national demand, the older and less efficient plants are usually the first to curtail operations. When the recovery begins, these plants are often the last to resume production; some never come back to life at all. Such plants are most often found in the older cities of the Northeast and Midwest.

Recession-related unemployment not only causes hardship for individuals but also creates budgetary difficulties for state and local governments, which face increased demands for certain services and decreased revenue collections. Cities, however, have an added interest in those budget decisions that make up the nation's fiscal policy, for increasingly they have been asked to administer the programs created to fight recessions. The local public works, public service employment and countercyclical revenue sharing programs are key components of the current stimulus effort.

The inflationary pressures that can result from fiscal policy are also of concern to cities. Generally, the costs of city services are forced up by inflation at a faster pace than revenues. One reason for this is that cities do not rely as heavily as do states or the federal government on revenue sources--such as sales and income taxes--that adjust automatically to inflation.

While cities are vitally affected by the fiscal policy decisions inherent in the federal budget, it would be fair to say that we have not progressed very far in our ability to quantify these impacts for all cities, much less for individual jurisdictions or for groups of cities suffering from a common set of problems.

Cities are also interested in the budget as an expression of national priorities. Some federal activities are more important to urban governments and residents than others. In order to understand the implications for cities of the numerous choices that make up the budget, it is necessary to ask three questions. How much money will be spent in cities as opposed to other areas? Will spending efforts be focused on cities with greatest need? And are the programs that currently channel money to cities effective policy instruments for solving urban problems? None of these questions is easily answered. I will focus my remarks on some of the difficulties encountered in trying to answer the first two of these questions.

First, one must decide which programs in the federal budget should be examined with respect to their distribution and effectiveness.

1. One possibility is to look at the whole budget. After all, a wide variety of federal programs may direct dollars into urban economies. The federal government is a major purchaser of goods and services. It directly employs urban workers to administer federal programs. The federal government is also an indirect source of city employment to the extent that it purchases and services goods produced in urban workplaces.

2. A somewhat more restricted view of the relevant portion of the budget is the part that supports services or provides benefits directly to city residents. Grant-in-aid programs would obviously be included but other programs should be considered as well since the federal government is directly responsible for the provision of some important services. For example, the federally administered Supplemental Security Income program is no less important to urban residents than were the grant programs it replaced.
3. Another possibility is to look at grant programs through which the federal government provides financial support for state and local government services. In other words, the programs included in OMB's Special Analysis of Federal Aid to State and Local Governments would make up the relevant universe, and the task would be to isolate those dollars which support services provided to city residents.
4. A final possibility is to restrict the review to grant programs that provide funds to city governments. If the goal is to provide a comprehensive understanding of the federal budget's impact on cities as places, this option is least likely to yield a satisfactory result because very few grant programs provide city governments directly with federal funds.

Once the relevant set of programs has been identified, spending for these programs must be traced to determine the share going to cities. Because much of federal spending is subject to administrative discretion and competition among potential recipients, it is often not feasible to determine the share going to cities when the budget is being formulated. Even for those programs that distribute funds on a formula basis, it may be difficult to specify the distribution in advance because some formula elements are not fully predictable at the time when the budget is prepared.

Even a retrospective analysis may be difficult. For past years, we are not able to determine with any degree of certainty the total amount spent by the federal government in cities or even the grant-in-aids spent on behalf of city residents. To some extent this inability is caused by the diversity and complexity of government structure in our

federal system. Because states differ in the way they structure local governments and in the way they assign responsibility for the performance of specific functions, reporting difficulties are encountered when one attempts to trace federal dollars to specific governmental areas. A service that is the responsibility of a state government in one state may be the responsibility of a county government in another, a city government in a third, and a special district government in a fourth.

The problem is complicated at the local level because there may be a number of local governments serving city residents. In some areas, in addition to the municipal government, services may be provided by the county government, a school district, a township government, and various special district governments responsible for such services as sewers, water, parks and fire protection. The boundaries of these various governments often are not coterminous.

In a few city areas, all federal grant awards will appear in the municipal budget. In most areas, however, such grants will appear in a number of government budgets. It is, therefore, misleading to compare the grants received by the city government alone. For example, if one compared the grant awards to New York City with those of Detroit, one might conclude that Detroit's residents were shortchanged. However, much of the difference would be attributable to the fact that New York City is responsible for the administration of welfare and education programs, while the welfare programs in Detroit are the responsibility of the Michigan State Government, and education programs are administered by

a separate school district. Thus much of the federal aid that appears in the New York City budget would be found for the Detroit area in the state and school district budgets.

In order then to get an accurate picture of the level of federal effort in a particular city it is therefore necessary to examine the grants received by all of the governments providing services in the area. Yet adding up the grant awards is not easy because some of the jurisdictions serving city residents are larger than the city while others are smaller. In cases where the jurisdiction is larger, a judgment must be made as to the portion of the grant award used to assist city residents, a task that requires a large number of people or heroic assumptions.

Despite all of these difficulties, the Bureau of the Census and the Community Services Administration have made a commendable effort to trace federal spending. Unfortunately this information becomes available between one and two years after the budget year is completed and thus offers only a belated look at the level and distribution of past federal budgets.

The Bureau of the Census annually surveys the budgets of a sample of state and local governments. At the local level, these surveys provide information on those federal programs that channel funds directly to local governments. Grant programs which provide indirect aid, by way of a state government pass through, are counted as state aid. Thus funds received under the CETA, general revenue sharing, and community development block grant programs would appear as federal aid, but

LEAA funds, HUD planning grants and medicaid dollars cannot be distinguished from the state's own aid programs.

The Bureau of the Census groups the data for all local governments serving the same county area. Thus for those grant programs that entail direct federal/local relations--accounting for 23 percent of all grants in fiscal year 1975--the share going to governments serving residents of central counties of SMSA's can be determined. While central counties are larger than central cities, these data offer a good first approximation of the relative distribution of federal aid in big city areas.

The Community Services Administration (CSA) is a second source of information related to the budget's impact in city areas. While the number of programs covered by CSA is greater than that of the Census surveys, the data are necessarily less reliable. All federal agencies are required to allocate their total budgets among geographic areas. These agency allocations are combined and reported for all counties, for all states, and for all cities with populations larger than 25,000. The city data are the least reliable. Because agency accounting systems often cannot be used to trace expenditures to their point of impact, statistical estimating techniques must be used for certain programs. In some cases, these techniques provide a close approximation to actual spending patterns. In other instances, however, they are not very reliable. Even information derived from agency accounting systems may be misleading. For example, in the case of certain pass-through grants, such as most vocational and handicapped education aid, the total amount provided to all localities in a state is credited to the state capital

because that was where the federal agency sent the check. If sufficient care is exercised, this data base allows some analysis of the impact of significant parts of the budget on cities. Its great virtue is that it allows one to examine the impact of federally administered programs as well as grants in aid.

While a useful contribution in itself, a description of the distribution of federal monies is only one step in a comprehensive review of the impacts of the budget on cities. Clearly not all cities are alike--some have more problems than others and some have greater need for federal financial assistance. Houston and Detroit are central cities of comparable size, but in other respects they are very different. Ideally, standards reflecting important social, economic, and political differences among cities could be developed to aid in the evaluation of the existing distribution of federal funds. Unfortunately, most of the data needed to do this for local areas is available only from the decennial census and therefore quickly becomes dated.

While some agreement might be reached on appropriate indicators of social and economic problems, the proper level of financial assistance to specific government units is not easy to determine. The same diversity of governmental structure that hampers the reporting of data also makes it hard to determine the relative ability of governments to cope with their problems by drawing on their own resources. The fiscal strains or tax efforts of cities in different states are difficult to compare when their expenditure and revenue responsibilities differ.

Further it is unclear what the federal role should be when the resources necessary for the solution of central city problems exist within the metropolitan area or within the state but are not made available.

Clearly, the information that I have outlined falls far short of what one would like to have to measure the budget's impact on cities with an eye to changing the current situation. There are, of course, ways around these problems but some entail significant costs and others require changes that may not be within the power of the federal government. For example, the structure of local governments could be simplified and standardized across the states. This might make it easier to administer a rational program of federal assistance since the relative needs of various units could be assessed more clearly but it may not be better suited to local needs and citizen preferences.

Another possibility would be to impose additional reporting requirements on recipients. For example, local area unemployment estimates will be improved as states, through a voluntary-cooperative program, begin to collect the place of residence (as opposed to the place of work) of each claimant. However, added reporting requirements impose costs and burdens on those who must comply.

A third approach to improving the information base would be for the federal government to provide states with incentives to standardize those programs from which needed data could be collected. For example, local area unemployment statistics would be more reliable if states instituted standard eligibility requirements for unemployment insurance.

There is a trade-off, however, since the existing variation presumably reflects the differing needs and tastes of the various states. Another example of where state action might help is the implementation of uniform accounting and reporting procedures for all local governments. This would allow better assessment across states of the current fiscal situation facing local governments. However, this would impose significant costs on the localities that were forced to change their accounting procedures.

The impact of the federal budget on cities is not limited to questions of dollars and cents. The process of federal budgeting itself has an important impact on the planning and operation of programs by states and cities. The Congressional Budget Office recently had the opportunity to review this issue as part of a broader study that dealt with the feasibility and advisability of advancing the date at which budget decisions are made. The study's basic conclusion was that:

While there are both advantages and disadvantages in making spending decisions at least 12 months in advance, the planning needs of state and local legislative bodies and program administrators argue for early Congressional decision on funding levels for federal grants to state and local governments.

This conclusion was based on the results of a special inquiry that focused on the impact of the timing of federal funding decisions on program execution at the state and local level. A large number of state and local elected officials and program administrators were involved in this effort.

The study pointed out that the hallmark of most federal programs for funding state and local activity is the uncertainty they impose on state and local legislative bodies and program managers, with a consequent sacrifice of program effectiveness. The uncertainty stems in part from the fact that at every level the actors are on different cycles. The actors also participate sequentially, and so even when the cycle variances are overcome, delays along the line bear most heavily on the participants at the end--the program operators and the people they serve.

The dilemma is that the longer the Congress waits for the most complete information on which to base its decisions, and the longer the federal administrators take to draft regulations and instructions to applicants, the less time the state or local administrator has to design his program, obtain community views, prepare applications, secure all necessary approvals, hire his employees, locate the people he is supposed to serve, and actually begin to serve them. Before the cycle is over the uncertainty starts again.

While in particular instances a delay may seem inexcusable, for the most part the participants at every level are acting in accordance with the imperatives bearing on them. But in a sequential process with a clear calendar deadline for the last actor, and with no deadlines or only blurred ones for those whose actions must precede his, a squeeze at the end is inevitable.

Since city governments are often at the end of the line, they have a direct interest in any changes that will hasten the process by which they receive commitments and thus reduce uncertainty.

There is no guaranteed cure for delay, but the Congress may wish to consider the following actions all of which would help make possible more effective program execution of federally funded state and local programs:

- Make certain that the procedural requirements imposed on state and local officials by federal legislation are consistent with the schedule by which the federal funds are appropriated and allocated.
- Impose more explicit target deadlines on itself for completing action on expiring authorization statutes and on federal administrators for the issuance of regulations and for acting on applications or plans filed by states and localities.
- Make appropriations for additional grant programs twelve months in advance.

The Congressional Budget Act contains procedural deadlines for completing action on vital parts of the budget process. The Congress has shown it can meet those deadlines. It should explore the feasibility--there is no doubt about the advisability--of fashioning a rule that prescribes not only a deadline for reporting a reauthorization bill, but for passing (or rejecting) it as well. The states, counties, and cities will normally wish to have reauthorization uncertainties resolved a year ahead of time, so that they can know the federal situation before entering their own new budget cycles. It seems reasonable to try to make their preferred timetable the standard, with departures from it the exception rather than what they are now--the rule.

Even if the Congress completes its authorizing and appropriating work on time, there remains the federal executive branch administrative task of preparing regulations and instructions and passing on applications and submitted plans. The states and localities must get their

papers in by given deadlines; it follows that the federal agencies should deal with those papers within given deadlines as well. The calendar for decision-making in federal/state/local grant programs contemplates that all parties in the sequential process will have enough, but usually no more than enough, time to perform their parts responsibly. If the federal agencies--the middlemen between the Congress and the states and localities--take too long in their work, the administrators, the programs they run, and the people they serve will suffer.

The Congress has begun to impose strong deadlines for federal agency action on state and local applications. For example, the Housing and Community Development Act of 1974 provided for automatic approval if the administering federal agency has an application for 75 days without acting on it. The various authorizing committees of the Congress might well consider whether to recommend imposing a similar rule on other grant programs.

There remains the question of deciding which of the federal/state/local partnership programs now funded currently should be funded a year (or more) earlier. The state and local officials interviewed in the course of the CBO study, and those who served on CBO's advisory panel, generally agreed on four criteria helpful in determining when advance funding should be the chosen method:

- There are no alternatives to the program (i.e., the program provides a service or a capital investment that cannot be easily foregone or readily substituted).
- The program is large.

- Significant complications exist in program implementation, including
 - the need for close coordination of the program with other ongoing programs;
 - the necessity of a substantial startup effort such as client outreach and screening and securing facilities and staff;
 - the accompanying requirement for a complex delivery and decision-making structure with multiple levels of government and/or outside agency and private sector involvement; and
 - the large number of public employees that are involved in the program.
- Direct financial requirements are placed on state and local governments in the form of hard cash matching requirements, maintenance of effort requirements, or federal funding phaseouts.

According to the state and local officials, the more of these characteristics existing in a program, the higher its priority for advance funding. In addition, characteristics from the top of the list carry relatively greater weight than do those at the bottom.

In conclusion I would raise a word of caution. While it is terribly important to gain a better understanding of the impact of the federal budget on cities, there are other areas of federal policy that should not be overlooked. These include regulatory and tax policies, which also have a profound, but little understood, impact on the development of the nation's largest cities.

Thank you.

