quate—assistance program. In the State mentioned above, the 10 poorest counties, as a group, spent 4½ times as much for old-age assistance per $100 of assessed valuation as was spent by the 10 richest counties. Yet in spite of their greater fiscal effort, the poorest counties made relatively low payments. In another State where each county meets one-fifth of its old-age assistance costs, per capita assessed valuations are less than $1,200 in about half the counties. Three-fourths of these counties levy 4 cents or more per $100 of assessed valuation to meet their share of old-age assistance. Among the counties with higher per capita assessed valuations, however, only one levies as much as 4 cents. Thus fiscal ability tends to be low where need is great, and the poorer localities often bear a disproportionately large financial burden in paying their required share of assistance.

If public assistance is to be adequate in the poorer localities without a further drain on their overtaxed resources, some way must be devised to equalize the fiscal burden among counties. In financing education, the principle of granting more State aid to poorer localities is well established. At least 39 States have had experience with equalization plans for financing local public schools. Application of this principle in financing public assistance would represent merely an extension of an accepted practice in State-local fiscal relations.

In summary, our present grant-in-aid system does not ensure that assistance can be reasonably adequate in each State and locality. Modification of the financial arrangements to permit more Federal funds to flow to the low-income States and more Federal and State funds to flow into poor localities within the States will bring this goal nearer. Of equal importance is the need for improvement in other aspects of public assistance administration. Needy individuals can be assured equitable treatment only if all State public assistance agencies adopt adequate standards of assistance and assume greater responsibility—both administrative and financial—for the State-wide application of such standards.

Intrastate Equalization In Financing Public Assistance

By Byron L. Johnson*

In its *Ninth Annual Report*, the Social Security Board expressed its belief that, just as the Federal share of public assistance costs should vary with economic capacity of the States, so Federal and State funds should be distributed to localities in relation to their public assistance needs and, where the localities participate in financing, also in relation to their financial ability. A similar view has been expressed by the U. S. Treasury's Committee on Intergovernmental Fiscal Relations.[1]

This article is concerned with the financial techniques necessary and the alternatives available in putting a system of intrastate equalization into operation under State public assistance programs. It assumes acceptance of the objective, on which there is increasing general agreement, that needy individuals in similar circumstances throughout a State shall, within each category of assistance, be assured equitable treatment—that is, that the same relationship exists between the consideration of need and the resources to meet that need in each and every local administrative subdivision. This is intrastate equalization from the viewpoint of the recipient.

From the viewpoint of State-local relations, intrastate equalization means that the States should so allocate Federal and State funds among localities that their public assistance needs, determined according to State standards, can be met uniformly. If localities do not participate in financing the program, differences in local fiscal ability will not affect the amount available for expenditure and the State should be able to allocate its own and Federal funds so as to meet uniformly the total amount of need in each locality. When a State requires local financial participation, however, variations in local fiscal ability must also be considered. Then intrastate equalization requires distribution of Federal and State funds among localities in relation to local fiscal ability as well as to local need—that is, equalizing the financial burden among localities while maintaining comparable program levels.

At present, the common practice of requiring a locality to raise a fixed percentage of the public assistance expenditures within its borders is a major financial impediment to equitable treatment of needy individuals, because localities differ widely in their ability to provide funds for public assistance (or for any other major public service). Complete removal of the impediments to equitable treatment of individuals arising out of local financial participation can be accomplished only by dispensing with local financial participation entirely. Many States did abandon local financial participation at the time that their assistance programs were placed under the Social Security Act.

Intrastate equalization of public assistance may thus consist of three principal elements. The first and fundamental element is a uniform measurement of the need, in the locality, for assistance. The second necessary element, if the State plan calls for local financial participation, is uniform measurement of local fiscal ability. The third is a method of determining local contributions and of allocating Federal and State funds so as to give proper recognition to differences in local needs and fiscal abilities.

Measurement of Need

If equity in assistance is to be attained, methods of measuring the requirements and resources of needy individuals must be uniform in all localities in the State. Mandatory uni-

*Bureau of Research and Statistics, Division of Finance and Economic Studies. The preceding article in this issue, by the Chairman of the Board, discusses use of variable Federal grants and the necessity of equalizing the financial burden on localities of supporting the same level of welfare services. See also other *Bulletin* articles: "Formulas for Variable Federal Grants-in-Aid," June 1940, and "The Financial Participation of the Federal Government in State Welfare Programs," January 1940, both by Daniel S. Gerig, Jr.; and "Distribution of Public-Assistance Funds Within States," December 1939, by Joel Gordon and Olivia J. Israeli.

[1] *Federal, State, and Local Government Fiscal Relations* (S. Doc. 69, 78th Cong., 1st sess.), a report of the Treasury Committee on Intergovernmental Fiscal Relations, especially pp. 171 and 551.

form State standards, adjusted only for known differences in costs of living among localities within the State, will be necessary.

It has occasionally been suggested that social and economic data from sources other than the assistance programs be used to measure relative need for assistance within each locality. Various indexes of this sort have been tested, but all present two major difficulties. In the first place, no method has been discovered for testing independently the validity of any measure that may appear theoretically sound, for there is no acceptable base with which to compare it. Second, the variation in the coverage of insurance and public works programs from locality to locality within a State complicates the use of such broad measures of economic need in an assistance program which meets a variable part of the need. Also, the number of series containing social and economic data for minor civil divisions is severely limited.

The only measure of need which is thoroughly defensible, therefore, is one which actually represents the total of individual need in each locality. Such data must come directly out of uniform administration of the assistance program, using uniform State standards. In effect, therefore, the index of need used in the equalization plan should be the approved budgets for public assistance in each county. The administrative problems of achieving uniform application of State-wide standards in determining need are outside the scope of the present article, which assumes that satisfactory methods have been developed for this purpose. The illustrative materials below use hypothetical budgets as reflecting total need at the specified State standard in each locality.

Measurement of Local Fiscal Ability

While local financial participation in public assistance is commonly required, measurement of local fiscal ability for the purposes of equalizing the burden of that participation is rare. Of the 146 State plans approved as of May 1945 for public assistance under the Social Security Act, 64 plans in 28 States required local financial participation; in 46 of the 48 States general assistance programs also called for local financial participation. Of the 64 plans, all but 2 (both for aid to dependent children) are on a fixed uniform-matching basis—that is, the State requires each locality to contribute, say, 20 percent of the total amount expended for the program in that locality. The local contribution therefore is not adjusted for differences in local fiscal ability, despite the common recognition that there are large and persistent differences among localities.

As a result, the total amount of Federal, State, and local funds available to localities under these 62 plans is, with few exceptions, greatly influenced by differences in local ability to support the programs. Exceptions are found in a few States where the State welfare department makes expenditures through district offices and then bills the local units for their fixed percentage share; under this procedure, therefore, payments to recipients are not directly conditioned by the availability of local funds.

In about a half-dozen other States, there are procedures for State review of local budgets or State-established quotas which control, to some extent, the distribution of Federal and State funds among localities. Several States also can provide loans or grants to a few counties which are adjudged "distressed" on the basis of certain criteria; while this practice is useful in relieving the most extreme situations, it is applicable only to a few localities in acute financial circumstances and is in no sense an equalization plan.

If the States which now require local participation in financing the assistance programs are to equalize the local fiscal burden, they will need usable measures of local fiscal ability.

Components of fiscal ability.—The ability of a local unit of government to obtain revenue depends not only on its economy but also on the State constitution and laws, and in many cases on State fiscal administration. Whatever fiscal powers a locality has are granted to it by the State. Most commonly, such powers include a property tax, certain fines and fees, and occasionally the power to tax certain sales. Many States also share with their local units the proceeds of certain State taxes and make grants to local units for general or specific purposes.

Because State fiscal systems differ, no single measure of fiscal ability would be applicable in all States. The action of the State, as author of local powers, determines the appropriate measures. A State can alter the fiscal positions of its local governments by developing new tax bases for their use, by increasing the use of shared taxes, or by changing allocations of general aids and shared taxes. Any change in the components of local fiscal ability should be reflected in changes in the measurement of fiscal ability. For the most part, however, local governments must depend for the major part of local revenues on a tax base that cannot move to escape taxation. The largest part of the local tax burden, therefore, will continue to fall on real property.[3]

Because the use of State income payments as a measure of ability has been proposed in recommendations for special Federal aid to low-income States, it occasionally has been suggested that income payments in each local unit be used as a measure of local fiscal ability. The Department of Commerce series on State income payments generally has been accepted as valid for measurement of the relative fiscal ability of States. No similar index of income payments, however, has ever been developed for counties. If the coverage of income taxation and of social insurance is extended, it may be possible to develop such an index from the income data collected under such systems.

Though local fiscal patterns are diverse, all include the property tax. In 1942, that tax provided more than 50 percent of total local governmental revenues in all but 11 States, and 62 percent in all States combined. Of local governmental revenues not specifically earmarked, however, it may constitute almost 90 percent. In every State it is a factor to be considered in measuring local fiscal capacity; in most States, it may deserve a major place.

Nearly all the 39 State plans now in effect for intrastate equalization in financing education make some use of the property tax in measuring fiscal capacity. Under these plans the States commonly measure local fiscal ability by combining the estimated proceeds of an assumed uniform property-tax levy with certain other tax

[3] This viewpoint was held by the Treasury Committee on Intergovernmental Fiscal Relations, which suggested as a possible improvement in these circumstances a local tax on current income from real estate; op. cit., pp. 409–410.

receipts and grants for education. Equalization aids for education, however, are usually but a small part of total expenditures for education; in only 9 States does such aid furnish more than 15 percent.

Revenues other than the property tax account for the remaining 38 percent of local revenues. These are classified by the Bureau of the Census as grants-in-aid, other nontax revenues, and other taxes. Grants-in-aid constitute about 25 percent of local revenues. About one-fourth of these grants are for public assistance and about two-thirds are earmarked for other special purposes, mostly schools and roads; only 11 percent are for unspecified purposes. Nontax revenues other than State aid account for about 8 percent of local revenues. These comprise mostly charges for current services and special assessments but include fines, penalties, and interest. Other taxes, mostly licenses and fees, account for about 5 percent of local revenues.

Because many of these non-property-tax revenues are dedicated to other purposes and public assistance is only one of the claimants for the remainder, a State setting up an equalization plan must decide what part of these revenues should be considered as part of local ability to finance public assistance. On the average, probably not more than 20 or 25 percent of these revenues is potentially available to support public assistance.

The property-tax component.—In most States, as noted above, the property tax probably represents almost 90 percent of local fiscal ability to support public assistance. Thus the base of that tax—property assessments—will be crucial in most measures of local fiscal ability. Since the intrastate distribution of millions of dollars may depend on property-assessment data, the validity of these data as a measure of local fiscal ability, their limitations, methods of improving them, and the use of alternative measures of fiscal ability should have careful consideration.

Five major factors have been cited as impairing the comparability of property-assessment data:[3] (1) the complete escape of some property from the tax rolls; (2) rigidity, that is, failure to adjust assessments to changes in actual values; (3) inequalities among assessment ratios for various types of property: rural-urban interdistrict, interclass, land and improvements, resident and nonresident ownership; (4) regressivity, that is, the tendency to assess less valuable property at higher ratios to true value; and (5) inequality among individual properties.

Property assessments are generally made by locally elected officials, many of whom have no special training for the task. A few States require that assessments be at some fixed proportion of full value or at different proportions for different classes of property. But most State laws specify that assessments shall be at "full value," "market value," and so on. In actual practice, assessed values vary widely from such norms.

In about three-fourths of the States some State agency, such as the State Tax Commission, has the right to review the level of assessment in each subdivision and to equalize assessment totals for all local units. That is, the State agency may adjust the total assessment figure for each subdivision upward or downward, so that the totals of all localities will bear a uniform relationship to "full value." Assessment equalization is especially important when the State levies a property tax, since local assessors may then compete in undervaluing property in their districts in order to lighten as much as possible the burden on their districts of the State tax. The existence of such competition and the inability to cope with it adequately by State equalization of assessment have stimulated the movement to reduce or abandon State general property taxes. More than a dozen States have no provisions for State equalization of assessment; seven of these now require local participation in some or all programs for public assistance. Even when State provisions for equalization of assessments exist, it is difficult for State authorities to make satisfactory adjustment of inequalities in assessments. In about half the States requiring local participation in financing public assistance, the actual extent of State supervision and control over local assessment has been appraised as "negligible" or "slight."

When assessed values are not equalized or such equalization is inadequate, heavy reliance on these assessments without further improvement for measurement of local fiscal ability as part of a plan of intrastate equalization of assistance financing may both jeopardize the end objective sought and give rise to as many inequalities as it was meant to remedy.

Improving the validity of the measurement of fiscal ability.—When existing data on property assessments do not seem adequate as an index of fiscal ability, several alternatives are open:

1. The State could adopt a program of equalizing property assessments, if it has none, or could improve its program, profiting from the experience of the States which have had favorable experience with central supervision, control, and equalization of assessment. Major reliance on property-assessment data for intrastate equalization in financing public assistance may focus so much attention on assessments that the State may be forced to improve the accuracy of this measuring rod.

2. The State might take a drastic step, often recommended by authorities on property assessment, of central assessment by the State, abolishing the institution of local assessment entirely.

3. As what has been called a short-cut equalization of assessment, the State could use some independent measure of local ability, not influenced by the judgment of local assessors, that will be as valid as true-value assessment; various indexes have been tested for this purpose, and one is used in Alabama in equalizing educational aid.

Fiscal capacity measures independent of local assessors.—Alabama's plan for intrastate financial equalization in education has found favor among commentators on school finance.[4] In 1939, that State adopted a weighted index of county fiscal ability based on six factors: sales tax paid (weighted 6 points); auto licenses paid (5 points); public utility valuation (3 points); and income tax paid, farm income, and value added by manufacture (1 point each).

In a particular State, construction of a valid economic index of local fiscal ability may require omission of

[3] Silverherz, Joseph D., *The Assessment of Real Property in the United States* (Special Report No. 10), the New York Tax Commission, Albany, 1936, pp. 209–213.

[4] See Cornell, Francis G., and Johns, Roe L., "Alabama's New Index of Local Ability To Pay for Education," *The School Executive*, June 1941.

some of these factors and inclusion of others. Such an independent measure, its proponents claim, can closely approximate the relative fiscal ability of the counties as measured by an index of equalized assessed valuations. These measures deserve consideration when inadequate local assessment figures cannot be improved. They also may deserve attention as a method of testing other measures of fiscal ability, if shown to be as valid as the proponents claim. Finally, some authorities support the use of such an index because it gives weight to the economic ability underlying fiscal ability, holding that it is just as valid, if not more so, to relate fiscal effort to economic ability as to relate it to fiscal ability—the taxable segment of economic ability.

Relating Measures of Need and Fiscal Ability

The measures of need and ability just discussed can be used in various ways to equalize the fiscal burden of local contributions, though the basic measurements will be made uniformly. Since conditions vary widely from State to State, and since there has been little actual experience with public assistance equalization formulas, various alternative formulas or procedures for combining need and fiscal-ability indexes will be discussed. All such formulas envisage that the amount of the contribution by each locality will bear a uniform relationship to its fiscal ability and that there will be uniform standards of administration in practice.

Full attainment of the objective of equitable treatment should mean not only that a State plan will achieve a high degree of equalization throughout the State in meeting the need of recipients but, further, that under the formula and procedures used the burden of raising local funds will fall equitably in relation to the fiscal ability of each locality. As long as the amount of funds to be provided by individual localities is expressed in terms of a fixed uniform percentage of the total expenditure in each locality, it is all but impossible to achieve the objective stated above.

Two general types of financial procedures can be used in place of the present uniform-matching-percentage method. In the first, States would abandon the percentage basis of expressing local financial responsibility

Table 1.—*Illustration of operation of intrastate equalization plan 1 in a hypothetical State*

[Amounts in thousands]

County	Population	Approved annual public assistance budget	Equalized property assessments	Fiscal-ability index (col. 4 as percent of State total)	Local contribution	
					Amount [1]	Percent of county assistance budget
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Total	3,000	$10,000	$3,000,000	100.00	$1,500	15.0
Madison	498	1,160	578,000	19.27	289	24.9
Lafayette	318	1,110	306,000	10.20	153	13.8
Park	267	1,190	260,000	8.67	130	10.9
Boone	258	600	500,000	16.67	250	41.7
Washington	207	590	210,000	7.00	105	17.8
Franklin	204	480	166,000	5.53	83	17.3
Adams	174	590	154,000	5.13	77	13.1
Houston	141	290	96,000	3.20	48	16.6
Clay	117	300	132,000	4.40	66	22.0
Lincoln	114	620	78,000	2.60	39	6.3
Green	111	590	60,000	2.00	30	5.1
Monroe	105	490	102,000	3.40	51	10.4
Jackson	102	530	54,000	1.80	27	5.1
Grant	78	340	36,000	1.20	18	5.3
Stone	75	320	64,000	2.13	32	10.0
Jefferson	66	160	32,000	1.07	16	10.0
Union	51	190	54,000	1.80	27	14.2
Lake	42	200	54,000	1.80	27	13.5
Winnebago	39	150	46,000	1.53	23	15.3
Canyon	33	100	18,000	.60	9	9.0

[1] Each local contribution is derived by multiplying assumed aggregate local contributions ($1.5 million) by percent of fiscal ability in each locality (col. 5).

and substitute periodic determination of the aggregate dollar amount to be raised by each locality; the first two plans discussed below embody this type of procedure. The second type, outlined in the third plan, retains the percentage basis but varies the percentage from locality to locality in accordance with local differences in need and in fiscal ability. The three plans outlined also differ somewhat in administrative procedures.

These plans are intended to illustrate various financial and administrative procedures which could be adapted for use in actual intrastate equalization plans. To illustrate these procedures, it has been necessary in each case to make some assumptions about matters which in practice probably would be decided by State legislatures. For example, assumptions have been made concerning the general scale of local contributions and their upper limits, and as to indexes of local fiscal ability. It is not intended, however, to imply that the specific assumptions used represent in any way ideal provisions.

Plan 1—Local contributions commingled with Federal and State funds in State treasury.—Under this plan the State would determine periodically the dollar amount of local funds to be provided by each locality, on the basis of the total amount of public assistance costs to be carried by all localities and the percent of fiscal ability in each locality. These amounts would then be paid by the localities into the State treasury and would be added to Federal and State funds. The sum of Federal, State, and local funds would then be allocated among localities according to need. The inability of any locality to remit its entire contribution to the State treasury would not directly affect the amount of funds available for assistance in that locality, although the total amount distributed among all localities would be affected to the full extent of that local failure unless the State made up the deficiency. Thus, the effect of tax delinquency or other factors which prevented a locality from raising its full contribution would be spread uniformly across the State. Achieving equitable treatment of needy individuals may be easier under this procedure than under the other two plans.

Under plan 1, the upper limit to the total of local contributions throughout the State is that it is less than the total amount of non-Federal funds, since there must be some State financial participation. Under this plan, however, there is no direct limit to the relationship between any locality's contribution and its assistance budget.

It is conceivable that there may be localities which are so wealthy, in relation to the amount of their assistance needs, that this plan could operate to assess from them local contributions greater than their assistance budgets.

The determination of the amount of local funds assessed from each locality would involve the following specific steps: (1) The State would construct an index of the fiscal ability of its localities, using such data as are pertinent in light of the State's fiscal structure. If equalized property assessments were considered an adequate measure of local fiscal ability, these alone would be used; if not, other measures might be included. (2) The State would convert the basic data in the ability index so that the index number for each locality would be the percentage which its own fiscal ability is of total local fiscal ability in the State. (3) The State would then compute the dollar amount of local funds for public assistance assessed from each locality by applying the fiscal-ability percentage computed in step 2 to the aggregate amount of local funds to be raised for public assistance throughout the State as a whole.

Table 1 illustrates how this plan would work out in a hypothetical State by using idealized adaptations of actual data for actual counties. The hypothetical State is assumed to have a population of 3 million persons, an annual public assistance budget of $10 million, and property which, when its valuation is fully equalized, is assessed at $3 billion.

The assumed property-assessment figures (column 4) are a simple representation of the index which the State might develop as the first step in the application of the formula. The second step requires determination of the percentage of total local fiscal ability possessed by each individual county (column 5). In carrying through the third step, it is assumed that the legislature has decided that the State would provide $3.5 million toward the $5 million of the public assistance budget not covered by Federal grants, and that the amount to be raised from local funds is $1.5 million. The amount for each locality (column 6) is then determined by multiplying $1.5 million by the percentages shown in the fifth column.

Under this first plan, therefore, the State would call the locally raised funds into the State treasury, add $3.5 million of its own and $5 million of Federal funds, and then allocate the $10 million total among all of the counties in accordance with the amount of their approved budgets for public assistance. Column 7 shows the percent of its approved assistance budget which would be raised by each locality.

Plan 2—Each local contribution retains its identity and is supplemented by Federal and State funds in amounts required to meet need.—Under this second type of equalization plan, as under the first, the State would periodically determine and specify for each locality the dollar amount of local funds it must raise for public assistance. Unlike plan 1, however, the locally raised funds in each case would remain to the credit of the locality instead of being pooled, though the moneys actually would be sent to the State if assistance checks are centrally issued. The total amount of funds available for expenditure in each locality would consist of the local funds initially raised plus Federal and State funds, which would be equivalent to the difference between the total approved public assistance budget in each locality and the amount to be provided locally.

In determining the amount of local contributions under this plan, two factors would operate to set a maximum. In the first place, the contribution of any locality would normally be less than half the amount estimated to be needed for public assistance in that locality; it could never exceed the total amount. This limitation also applies to plan 3, below, but not to plan 1 because under that plan contributions of all localities are commingled in the State treasury with State and Federal funds before being allocated for meeting assistance costs. In the second place, since full equalization under State-local sharing of public assistance costs requires that the relative fiscal burden for any locality be no heavier than that for any other locality, the burden on each locality is limited by the burden imposed on the wealthiest locality. In effect, the State's determination of the proportion the wealthiest locality is to finance of its total assistance budget thus sets a limit to the total amount of local contributions.

Two methods of computing the local contributions under plan 2 are illustrated in tables 2–A and 2–B. Table 2–A is based on the assumption that

Table 2–A.—*Illustration of operation of intrastate equalization plan 2 in a hypothetical State, assuming that property assessments are the sole measure of local fiscal ability*

[Amounts in thousands]

County	Approved annual public assistance budget	Equalized property assessments	Ratio of assistance budgets to property assessments [1]	Local contribution	
				Amount [2]	Percent of county assistance budget
(1)	(2)	(3)	(4)	(5)	(6)
Total	$10,000	$3,000,000		$720	7.2
Madison	1,160	578,000	0.002007	139	12.0
Lafayette	1,110	306,000	.003627	74	6.7
Park	1,190	260,000	.004577	62	5.2
Boone	600	500,000	[1] .001200	120	20.0
Washington	590	210,000	.002810	50	8.5
Franklin	480	166,000	.002892	40	8.3
Adams	590	154,000	.003831	37	6.3
Houston	290	96,000	.003021	23	7.9
Clay	300	132,000	.002273	32	10.7
Lincoln	620	78,000	.007949	19	3.1
Green	590	60,000	.009833	14	2.4
Monroe	490	102,000	.004804	24	4.9
Jackson	530	54,000	.009815	13	2.5
Grant	340	36,000	.009444	9	2.6
Stone	320	64,000	.005000	15	4.7
Jefferson	160	32,000	.005000	8	5.0
Union	190	54,000	.003519	13	6.8
Lake	200	54,000	.003704	13	6.5
Winnebago	150	46,000	.003261	11	7.3
Canyon	100	18,000	.005556	4	4.0

[1] Boone County has lowest ratio.
[2] Each local contribution is determined by multiplying its assessed valuation by the uniform tax rate of $0.24 per $1,000, or .24 mills per $1; this rate is derived by multiplying the ratio for Boone County (0.001200) in col. 3 by 20 percent, the share assumed to be raised locally in the wealthiest county.

equalized assessments of property are used as an index of local fiscal ability. Under this assumption, the following are the successive steps which might be applied in computing the local contribution for each locality.

(1) The State would use the total dollar amount of equalized property assessments in each locality as an index representing in dollar terms the total fiscal ability of each locality (column 3).

(2) The ratio of the total approved assistance budget for each locality to its index of total fiscal ability would be computed in order to determine the locality having the lowest ratio—i. e., the "wealthiest" locality in relation to need. The ratios shown in column 4 indicate that Boone County is the "wealthiest" county.

(3) A decision must be made as to the proportion of public assistance costs to be borne by the wealthiest locality. Application of this proportion to the ratio computed in step 2 for that locality would indicate the uniform tax rate which could then be imposed on the property rolls of each locality. The table assumes that it has been decided that the wealthiest county shall provide from its own funds 20 percent of the total approved budget. Accordingly, the uniform rate is determined by multiplying the ratio for Boone County (.0012) by 20 percent; this yields the rate of .00024, equivalent to .24 mills per dollar, or $0.24 per $1,000 of property.

(4) The amount of local funds to be provided by each locality would be determined by applying the uniform rate to its assessment figures (column 5). In column 6 the local contribution is shown as a percentage of the county's assistance budget. The total amount of local funds to be provided by all localities is determined by applying the uniform rate (.00024) to the State total of the assessment figures.

(5) The sum of State and Federal funds allocated to each locality would represent the difference between the local contribution and the locality's approved public assistance budget.

The total amount of funds available for public assistance in any locality and the amount of Federal funds available for distribution within the State would be directly reduced under this plan to the extent that a locality failed to provide the full amount of its local contribution — unless the State made up the deficiency.

The procedures outlined above resemble those generally used in intrastate equalization of education. It should be noted that, if these procedures result in an average level of local contribution for the State as a whole which is considered to be too low, the only way to raise the level under this plan would be to permit the wealthiest county—or perhaps several of the wealthiest counties—to devote a smaller proportion of their total fiscal capacity to financing public assistance than would be permitted in all other counties. To the extent such steps are taken, full equalization will be impaired.

Table 2–B illustrates use of factors in addition to assessed valuations in an index of fiscal ability under plan 2. It is assumed that property taxes furnish 80 percent of unearmarked local revenues in the State and that shared taxes—taxes collected by the State and returned to the locality—account for 20 percent of such revenues. The successive steps which might then be applied in computing the local contribution for each locality are as follows:

(1) The State would construct a composite index of fiscal ability as a percent of the State total, giving appropriate weights to the various factors included. In computing the composite index (column 7), four times as much weight was given to the assessment series in column 5 as to the shared-tax series in column 6.

(2) The ratio of the composite index of fiscal ability to the assistance budget for each locality would be computed in order to determine the locality having the highest ratio—i. e., the wealthiest county in relation to need. Column 8 shows the ratios obtained by dividing column 7 by column 2 and discloses that Boone County is again the "wealthiest."

(3) Again, a decision must be made as to the proportion of public assistance costs to be borne by the wealthiest locality. Application of this proportion to the approved budget of that county indicates the dollar amount of local funds it must raise. It is assumed in this table that the wealthiest county is to provide from its own funds 20 percent of its public assistance costs. Boone County thus needs to raise $120,000.

Table 2–B.—*Illustration of operation of intrastate equalization plan 2 in a hypothetical State, assuming that fiscal-ability index includes property assessments and shared taxes*

[Amounts in thousands]

County	Approved annual public assistance budget	Equalized property assessments	Shared taxes	Index of ability: Equalized assessments as percent of total	Index of ability: Shared taxes as percent of total	Index of ability: Composite ability index[1] (in percent)	Ratio of ability index to assistance budget[2]	Local contribution: Amount	Local contribution: Percent of county assistance budget
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Total	$10,000	$3,000,000	$20,000	100.00	100.00	100.00	----------	[3] $890	8.9
Madison	1,160	578,000	768	19.27	3.84	16.18	0.000014	144	12.4
Lafayette	1,110	306,000	950	10.20	4.75	9.11	.000008	81	7.3
Park	1,190	260,000	940	8.67	4.70	7.88	.000007	70	5.9
Boone	600	500,000	144	16.67	.72	13.48	[2] .000022	[3] 120	20.0
Washington	590	210,000	902	7.00	4.51	6.50	.000011	58	9.8
Franklin	480	166,000	1,000	5.53	5.00	5.42	.000011	48	10.0
Adams	590	154,000	1,022	5.13	5.11	5.13	.000009	46	7.8
Houston	290	96,000	1,206	3.20	6.03	3.77	.000013	34	11.7
Clay	300	132,000	798	4.40	3.99	4.32	.000014	38	12.7
Lincoln	620	78,000	1,204	2.60	6.02	3.29	.000005	29	4.7
Green	590	60,000	1,336	2.00	6.68	2.94	.000005	26	4.4
Monroe	490	102,000	942	3.40	4.71	3.66	.000007	33	6.7
Jackson	530	54,000	1,346	1.80	6.73	2.70	.000005	25	4.7
Grant	340	36,000	1,408	1.20	7.04	2.37	.000007	21	6.2
Stone	320	64,000	1,050	2.13	5.25	2.75	.000009	24	7.5
Jefferson	160	32,000	1,388	1.07	6.94	2.24	.000014	20	12.5
Union	190	54,000	860	1.80	4.30	2.30	.000012	20	10.5
Lake	200	54,000	654	1.80	3.27	2.09	.000010	19	9.5
Winnebago	150	46,000	750	1.53	3.75	1.97	.000013	18	12.0
Canyon	100	18,000	1,332	.60	6.66	1.81	.000018	16	16.0

[1] Weighted average of cols. 5 and 6; assessments weighted 4, shared taxes, 1.

[2] Ratio indicates that Boone County is the "wealthiest" county.

[3] Boone County is assumed to raise 20 percent of its total budget, or $120,000. Dividing this amount by Boone's percent of fiscal ability (13.48), total local contributions would be $890,000. Applying percentages in col. 7 to this figure gives amount of contribution for each locality. In determining proportion of budget of wealthiest county to be financed by county itself, account should be taken of total local contributions for whole State resulting from such proportion.

(4) The total amount to be provided by all localities in the State is now determined by dividing the dollar amount to be raised by the wealthiest county, as determined in step 3, by the percent of total local fiscal ability found in that county, as indicated by column 7. The dollar contribution of each of the other localities is then determined by multiplying the total amount of local contributions in the State as a whole by the percentage index of fiscal ability for each county. Dividing the $120,000 local contribution, fixed for Boone County under step 3, by its percent of fiscal ability yields a total local contribution figure for all localities combined of $890,000. Column 9 shows the amount each locality would contribute, obtained by multiplying $890,000 by the percentages in column 7. Column 10 shows each locality's contribution as a percentage of its assistance budget.

(5) State and Federal funds allocated to each locality would amount to the difference between its local contribution and its public assistance budget.

Plan 3—Each local contribution retains its identity and is matched with Federal and State funds at a ratio varying from locality to locality.—Under this procedure the State would require each locality to raise a specified percentage share of its approved assistance budget; the percentage would vary from locality to locality to take account of differences in need and fiscal ability. Federal and State funds would be available, on a matching basis, to meet the remainder. This plan differs from present State plans in that the percentage of local financial participation varies from locality to locality instead of being uniform throughout a State. The plan is similar to some proposals for a system of variable Federal grants to States.

Because the percentage basis would tie the amount of State and Federal funds received to the amount raised by the locality, this plan might be open to some of the same objections raised against present uniform-matching plans, even though it does adjust for unequal fiscal capacity. It is assumed, however, that administrative measures would assure that the payments made under approved budgets of each locality would support uniform State standards of assistance. Moreover, matching each local dollar with a given amount of Federal and State dollars may provide a stronger financial stimulus to maintenance of local fiscal effort at the desired level than plans 1 and 2, in which the amount of Federal and State funds allocated to a locality is independent of the amount raised locally. The smaller the percentage any locality is to contribute, the greater the number of State and Federal dollars each local dollar will attract, and the greater the stimulus matching may provide.

Various types of formulas might be used for determining the specific matching percentages applicable to each local unit. The linear-interpolation,[5] the bracket,[6] and the ratio-to-average[7] formulas are all conceivably adaptable to intrastate equalization if special adjustments are made to assure full equalization year in and year out.

A self-adjusting full-equalization formula, similar to the ratio-to-average formula, has been used in table 3, which illustrates the operation of plan 3 when applied to the data for the hypothetical State discussed above. Briefly, this formula provides that each locality's percentage contribution shall bear the same ratio to the average local percentage contribution as the given locality's percentage of total local fiscal ability bears to that locality's percentage of total approved assistance budgets in the State.[8] The nonlocal matching percentage for a county is the difference between 100 percent and the percentage resulting from the formula. It can be demonstrated that, if each county makes the same fiscal effort (i. e., devotes the same proportion of its fiscal ability to public assistance) under this formula, the matching percentages will result in total Federal, State, and local funds which will represent a uniform percentage of total assistance needs in each county; therefore, this can properly be termed a self-adjusting full-equalization formula.

The successive steps which might be applied in computing local contributions under this formula (table 3) are as follows:

(1) The State would construct an index of fiscal ability which would show each locality's ability as a percent of the State total. Appropriate weights would be given to each factor entering into the index. In columns 3 and 5 it has been assumed for sake of simplicity that assessed valuations are the only series used in the index.

(2) The State would construct an index of need, also expressed in percent-of-total terms. The approved public assistance budget of each county (column 2) is converted to a percent-of-total basis (column 4).

(3) Using the formula given above, the State would compute the ratio of the index of ability to the index of need for each county. Column 6 shows the ratios resulting from dividing column 5 by column 4. The ratio derived for each county is then multiplied by the average percentage of total costs which the State desires to raise by means of local contributions throughout the State.[9] This

[5] Under the linear-interpolation formula, the percentage contribution by each locality would be fixed by the difference between the combined index of need and ability of each locality and the extreme items in the array of indexes, with use of predetermined values for the extremes and straight-line interpolation to find intermediate values.

[6] Under the bracket formula, the percentage contribution for each locality would be fixed by the bracket into which the locality's combined index of need and ability falls, with predetermined values for each bracket.

[7] Under the ratio-to-average formula, the percentage contribution for each locality would be fixed by the ratio which the locality's combined index of need and ability bears to the average index of all localities, with use of a predetermined value for the average index. Upper and lower limits might be placed on the percentage contributions computed under this method.

[8] In mathematical terms, if L_i equals the percentage contribution for each county, if L_a equals the percent of total assistance costs which the State desires to raise throughout the whole State by means of local financial contributions, if P_a equals the percent of total local fiscal ability in each county, and if P_n equals the percent of total approved public assistance budgets in each county, then the formula can be stated as follows:

$$L_i = L_a \times \frac{P_a}{P_n}; \text{ or } \frac{L_i}{L_a} = \frac{P_a}{P_n}$$

[9] The maximum limits to local contributions, discussed with respect to plan 2, would also operate under this plan—i. e., a locality would not normally contribute more than 50 percent and never more than 100 percent of its assistance budget. If the State-wide average percentage under plan 3 were set too high, however, the percentage for some localities obtained under the formula might exceed the upper limit. The State would then have to reduce the State-wide average local contribution or provide arbitrarily that no locality would contribute more than a specified maximum percent-

Table 3.—*Illustration of operation of intrastate equalization plan 3 in a hypothetical State, with local-matching percentages averaging 9 percent* [1]

[Amounts in thousands]

County	Approved annual public assistance budget	Equalized property assessments	Assistance budget as percent of total (P_n)	Property assessments as percent of total (P_a)	Ratio of ability percentage to need percentage ($P_a \div P_n$)	Local contribution: Local-matching percentage $\left(9 \times \frac{\% \text{ ability}}{\% \text{ need}}\right)$ (L_a=9%)	Local contribution: Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Total	$10,000	$3,000,000	100.0	100.00	....	9.00	$900
Madison	1,160	578,000	11.6	19.27	1.6612	14.95	173
Lafayette	1,110	306,000	11.1	10.20	.9189	8.27	92
Park	1,190	260,000	11.9	8.67	.7286	6.56	78
Boone	600	500,000	6.0	16.67	2.7783	25.00	150
Washington	590	210,000	5.9	7.00	1.1864	10.68	63
Franklin	480	166,000	4.8	5.53	1.1521	10.37	50
Adams	590	154,000	5.9	5.13	.8695	7.83	46
Houston	290	96,000	2.9	3.20	1.1034	9.93	29
Clay	300	132,000	3.0	4.40	1.4667	13.20	40
Lincoln	620	78,000	6.2	2.60	.4194	3.77	23
Green	590	60,000	5.9	2.00	.3390	3.05	18
Monroe	490	102,000	4.9	3.40	.6939	6.25	31
Jackson	530	54,000	5.3	1.80	.3396	3.06	10
Grant	340	36,000	3.4	1.20	.3529	3.18	11
Stone	320	64,000	3.2	2.13	.6656	5.99	19
Jefferson	160	32,000	1.6	1.07	.6688	6.02	10
Union	190	54,000	1.9	1.80	.9474	8.53	16
Lake	200	54,000	2.0	1.80	.9000	8.10	16
Winnebago	150	46,000	1.5	1.53	1.0200	9.18	14
Canyon	100	18,000	1.0	.60	.6000	5.40	5

[1] The formula used here can be adjusted to obtain any average level of local contribution desired, within limits discussed in text. To alter the level of local contributions, the value of the constant (L_a), which in this illustration is 9 percent, must be changed. If changed upward, it may be necessary to place a limit (usually something less than 50 percent) on the percentage which will be required of any county.

computation gives the percentage of its total costs which each locality will have to contribute. The illustrative computations (column 7) assume that the State has decided to raise a State-wide average of 9 percent of total costs through local contributions.

(4) The dollar amount which each locality is to provide (column 8) is then determined by multiplying its approved assistance budget by the local matching percentage assigned to it (column 7). The total amount to be provided by all localities should ordinarily equal the product of the desired average rate of local contribution (9 percent) and the sum of local assistance budgets.

age, such as 40 percent; if the percentages for a few localities were reduced by the latter provision below those derived under the formula, total local contributions would cover a somewhat smaller percentage of total costs than contemplated in the initial choice of the State-wide average local rate.

(5) Federal and State funds would be allocated to each county on the basis of the nonlocal matching percentages multiplied by the total amounts actually expended locally.

Administration of the State Equalization Plan

The calculations of fiscal ability should be made on an annual or biennial basis, whichever is more appropriate; important shifts in relative ability are infrequent. The estimated amount of total need in each locality will probably require some revision as economic conditions change, and these changes must be reflected in the allocations. Frequent readjustments may be less urgent if only the three special types of public assistance are included in the equalization plan than if general assistance is also covered. Failure to adjust the allotments quickly to changes in the need for general assistance might prove a serious weakness.

The plan should be so devised that, in any given quarter, the State agency can spend more or less than one-eighth of its biennial appropriation. This element of flexibility, as well as use of deficiency appropriations when necessary, should be standard provisions in State plans.

The three general approaches outlined above differ in form, but in practice, if the same measures of need and ability were used—and also the same general scale and limits of local participation—each approach might produce about the same total amounts of public assistance funds in each locality. Actual achievement of such uniform results, however, would require full State-local cooperation.

In some cases it may be desirable for departments or agencies within the State other than the public assistance agency to provide some of the information needed in measuring fiscal ability. A State legislature might require, for example, that the State departments already collecting relevant information should certify it periodically to the State public assistance agency for use in applying the equalization formula adopted. Considerably more research and investigation of problems associated with intrastate equalization would be helpful. Persons working in the education and public finance fields have been studying the general problem for some time. Case studies undertaken now might prove of broad interest and might lead to positive action in some States. To correlate the work of the various groups concerned with intrastate equalization, an interdepartmental committee on intrastate equalization might well be created in each State. Such a committee might include representatives not only of the State Welfare Department, but also of the Budget Office, Treasury, Office of Equalization and Review, Revenue Department, Auditor's Office, Department of Education, Planning Board, Attorney General's Office, and appropriate divisions of State colleges and universities. Various nongovernmental agencies may also have a valuable contribution to make.