STATE OF NEW JERSEY

New Jersey. MUNICIPAL AID ADMINISTRATION,

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DIRECTOR

STATE AID FOR RELIEF

JANUARY 1941   TRENTON

STATE OF NEW JERSEY
MUNICIPAL AID ADMINISTRATION
150 EAST STATE STREET
TRENTON, N. J.

RLES R. ERDMAN, JR.
DIRECTOR

January 10, 1941

T⊙ Members of the Legislature and
the Municipal Officials of the State of New Jersey:

I am submitting herewith a brief summary of the methods
used in other states for the apportionment of State grants-in-aid
for relief together with an outline of the basic principles involved
in the determination of a formula for the State of New Jersey.

This is a controversial subject. It is my belief that
a wider understanding of the difficulties involved in the adoption
of a formula will lead to greater cooperation between the municipal
officials and the members of the Legislature.

Respectfully submitted,

Charles R. Erdman, Jr.

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MUNICIPAL AID ADMINISTRATION

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I

STATE AND LOCAL RESPONSIBILITY FOR RELIEF FINANCING

General relief is the only public assistance program in the United States which currently is being administered and financed entirely by state and local governments.

In the year 1939 general or direct relief expenditures in the 48 states totalled $481,500,000., but there was no uniform allocation of responsibility for providing this money. In 3 states all the costs were paid out of the state treasury, while in 12 states local governments bore the entire cost. There is no apparent reason for these opposed policies.

When state and local governments each pay a share of the costs, information gathered by the Municipal Aid Administration indicates that the proportions usually are determined by nothing more than some arbitrarily arrived at percentage. The exception which proves the rule is New Jersey, where a real attempt has been made to assess this responsibility scientifically.

It is recognized that no perfect formula exists for dividing relief costs between state and local governments, but under the 1940 law each municipality in New Jersey was entitled to receive state funds on the sound basis of local need and ability to pay. This is also true of the proposed new act; New Jersey has considered not only the relationship between the "relief load" and ratables, but the effect of the local share on tax rates. This is not a perfect yard stick perhaps, but the 1940 law (Chapter 151, P.L. 1940) has worked well in actual practice and the proposed new legislation (Senate Bill #361) is an adaptation which has been refined and improved in the light of experience.

Among other states, New York reimburses local welfare units 40 per cent of actual expenditures, but "there is no record of any survey or scientific method of determining this percentage". The existence of a sales tax in New York City, enacted to provide relief funds, is evidence that such an arbitrary division of financial responsibility may work severe individual hardship.

The Illinois law requires each governmental unit desiring to qualify for state funds to levy a poor relief tax of 30 cents per $100. on all ratables. This is far more drastic than the provisions of the New Jersey law.

Maryland grants 50 per cent of relief costs, but the percentage "was worked out without any really sound basis", and the Maryland director pays a compliment to New Jersey when he writes that "in the light of our experience...we would prefer to have participation on a fixed mill basis".

Michigan pays 50 per cent of the local relief cost "no matter how little the need or how great the financial ability". In a number of states (e.g. Rhode Island, Minnesota, etc.) the amount of payments to local governments is left to the discretion of the administering agency; and in North Dakota reimbursements to counties range from 20 to 80 per cent of costs. Such an arrangement would not be legal in New Jersey.

Local governments in Massachusetts, in 1939, paid 80 per cent of relief costs; in Connecticut their share was 75.9 per cent. In Delaware the state and local governments each pay half.

New Jersey's plan for assessing financial responsibility contrasts most favorably with the hit or miss practices of the majority of states. No New Jersey municipality is asked to contribute more than it can afford, and the individual contribution is determined by actual need. Moreover, it would seem as if the New Jersey method makes for careful administration, for this state has a lower cost per case than California, Connecticut, Illinois, Massachusetts, New York and Pennsylvania where conditions are comparable.

II

PRINCIPLES INVOLVED IN DEVISING A FORMULA FOR THE

DISTRIBUTION OF STATE AID

In the determination of a policy for the distribution of State aid for relief, certain basic principles must be considered and decided upon before a formula can be adopted. These principles are:

1.

Uniform Percentage Grants

First: Shall every municipality receive the same percentage of State aid regardless of its ability to finance the remaining percentage?

This principle of uniform grants to municipalities is followed in many states as already indicated. In New York the state makes a 40% grant to each local unit of the total cost of direct relief which includes the cost of local administration. The remaining 60% is the responsibility of the local governments and the revenue must come from local taxation.

Adoption of this principle in New Jersey would mean that two municipalities, each with relief costs of $20,000., would receive $8,000. in State aid and supply the remaining $12,000. from local funds. For example, Winslow Township, Camden County, with costs of $20,000. and ratables of $2,000,000. and Weehawken Township, Hudson County, with the same costs but $32,000,000. in ratables would share equally in the State fund. The remaining $12,000. in the case of Winslow Township would represent 60 points in the local tax, however, while in Weehawken it would represent only 4 points.

2.

Graded Percentage Grants

Second: The above example shows clearly how grants, which at first sight seem to treat two municipalities alike, may actually work a hardship on one

and leave the other relatively unaffected. So it is that a formula which attempts to equalize relief costs in terms of tax rates has proved itself more equitable than an arbitrary distribution of uniform sums of money, regardless of need or ability to pay.

If, however, municipalities are not to receive uniform percentage grants, what principle is to be adopted for classifying them and making a reasonable differentiation between them for the purpose of grading the percentage of the grants?

It is essential that the method of classification and differentiation be as simple as possible. If it be complex, it will be difficult to explain to municipal officials and be widely misunderstood.

Furthermore, this differentiation must be made by the legislature. The Court of Errors and Appeals has held that an administrative official cannot apportion State funds except under a legislative formula. This decision in the Gross Receipts and Franchise Tax Case (Hoboken vs Martin 123, N.J.L. 442, 1939) rules out administrative formulae or devices providing that the Director of Municipal Aid or a State Commission shall determine the relative need of different municipalities and make grants in accordance with that need.

Many methods of classification are possible. Municipalities may be classified according to the relative cost of relief as expressed by:

a. Per capita cost, using population as the basic factor.

b. Percentage of total local budget operating expenditures, using expenditures for current services as the basic factor.

c. Percentage of total local budget expenditures, using total local expenditures including debt service as the basic factor.

d. Percentage of total tax rate for all purposes, using the total tax load as the basic factor.

e. Relief millage or relief cost expressed in tax rates,

using taxable property or ratables as the basic factor

in determining the relative ability of municipalities

to meet the cost of relief.

This latter method was used in 1940 and the same principle has been incorporated in the formula of Senate No. 361 (1940) for 1941. Under this procedure a municipality with a heavy relief load but relatively little ability to finance this burden because of low ratables, receives a greater percentage of State aid than a wealthier municipality with the same or a lighter relief burden.

This principle has the defect that property assessments, despite the law, are not uniform throughout the State. However, there are still more serious defects in the other suggested systems for classifying and differentiating between municipalities.

If per capita costs are used, the same inequality will appear as in the case of uniform percentage grants, since, the financial ability of a municipality to carry the remaining percentage is not considered. A wide divergence exists between per capita relief costs and the per capita wealth of the various municipalities. Taxes are not raised on a per capita basis. Since the distribution of State aid is a financial problem, only those factors affecting the financial structure of the municipalities should be considered.

3.

Outright Grant or Percentage Reimbursement

Having selected one of the principles outlined above; namely, a uniform or a graded percentage to be used in the distribution of State aid, it becomes necessary to determine whether this percentage is to be applied to the cost of relief for the year just closed or to that for the current year.

If the figure for the year immediately preceding is used, State aid becomes an outright grant-in-aid. This method was used in 1940.

If the cost of the current year is used, the grant is made on a reimbursement basis as under the FAC formula.

If the first or outright grant is adopted, the State knows in advance the exact amount of State revenue that must be made available to meet the requirements of the formula. Furthermore, this method establishes an incentive for the municipality to conduct an economic relief program since it must itself supply all the revenue necessary above the amount of the State grant.

Under the second, or reimbursement method, the amount of revenue that may be required from the State Treasury is not known in advance. The State appropriation must be based upon an estimate of the cost of relief for the current year. While this method also offers an incentive for municipal economy, it is not as great as that of the first method since the percentage of reimbursement remains constant regardless of total costs.

When the legislature has agreed upon the general principles of a method for granting State funds for relief it is then interested in knowing what it is going to cost the State to put this method into operation. Estimates of costs are given in Part III of this discussion, which follows.

ESTIMATES OF COST TO THE STATE OF VARIOUS METHODS OF

GRANTING STATE AID FOR 1941

1.

Uniform Percentage Grants Estimated Cost of Relief for 1941 $11,125,000.

State Grant	Cost to State *	Cost to Municipalities
40%	$4,450,000.	$6,675,000.
50%	5,562,500.	5,562,500.
60%	6,675,000.	4,450,000.
70%	7,787,500.	3,337,500.

* This does not include the cost of State administration,
distribution of surplus commodities, WPA Sewing Projects
and transportation of WPA workers, estimated as follows:

Administration Municipal Aid Administration	$200,000.	
" Comptroller's Department	100,000.	
" Surplus Commodities	100,000.	$ 400,000.
State Subsidies for WPA Sewing Projects	425,000.	
State Subsidies for Transportation WPA Workers	600,000.	1,025,000.
TOTAL...................		$1,425,000.

2.

Graded Percentage Grants
(Percentage determined by relative ability
of municipalities to finance the remaining local share)

A. Graded outright grants, i. e., grants based upon
relief cost of preceding year(as in 1940).

State Grant	Cost to State	Cost to Municipalities
1. 5%-40% (Senate Bill 361) (40% for 3 mills & over)	$4,900,000.	$6,225,000.
2. 5%-50% Same principle as Senate Bill 361	6,000,000.	5,125,000.
3. 5%-50% - 50% for 2 mills and over	6,660,000.	4,465,000.
4. 5%-60% Same principle as Senate Bill 361	7,200,000.	3,925,000.

B. Graded percentage reimbursement; i. e., grants
based upon relief costs of current year (1941).

	State Grant	Cost to State	Cost to Municipalities
1.	5% to 50%	$4,900,000.	$6,225,000.
2.	5% to 60%	6,000,000.	5,125,000.

Any formula which may be adopted is bound to meet criticism, and
that incorporated in the proposed new law will be opposed automatically by
some municipalities on the ground that they will get less money from the
State in 1941 than they received in 1940. This opposition, however, prob-
ably will not take into account the fact that the demand for relief will be
less this year than last, and that costs will be lowered correspondingly.
It is also true that legislative agreement on the principles involved will
be the most effective means of meeting this type of criticism.