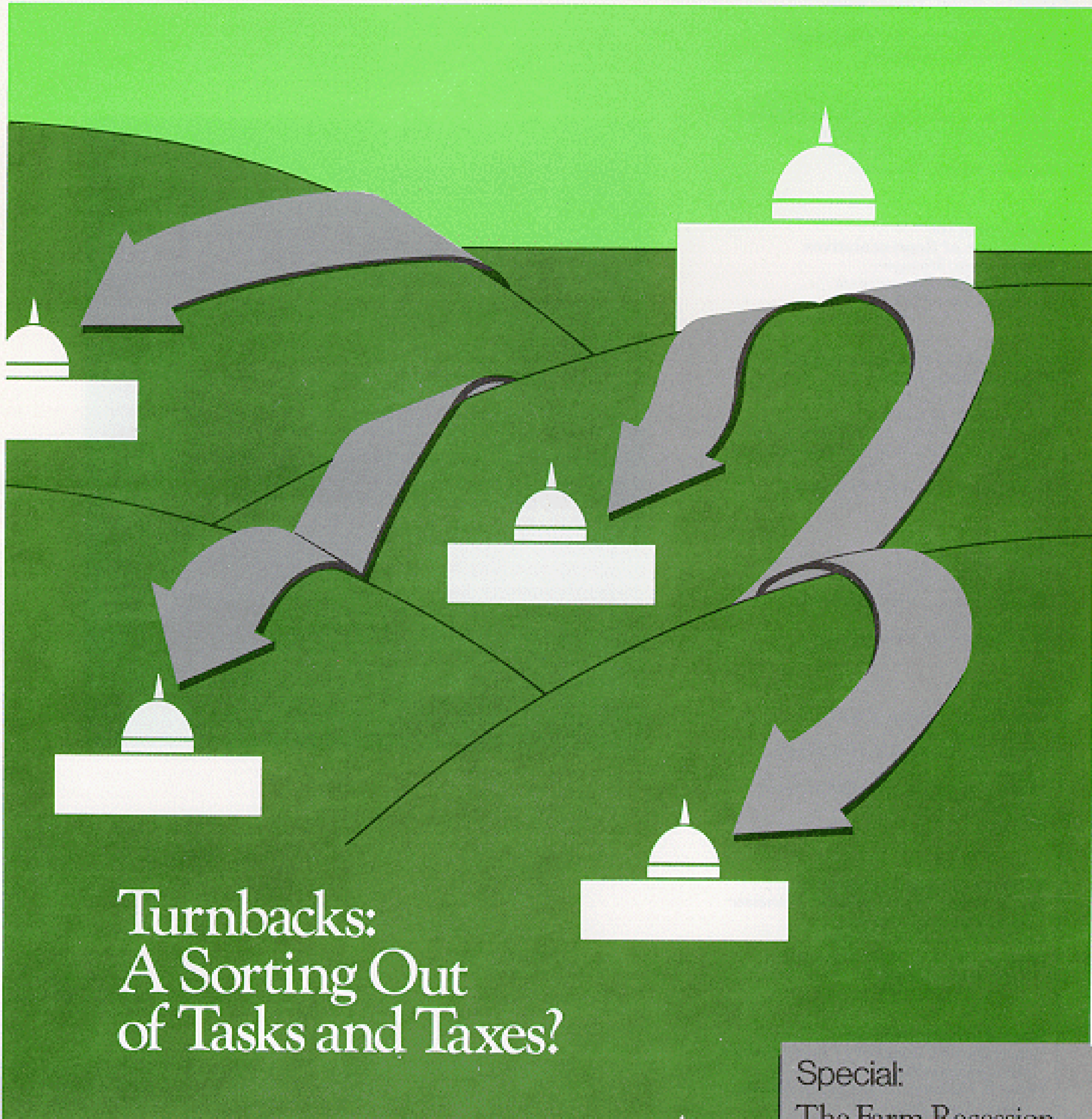
Intergovernmental

PERSPECTIVE

Summer 1986, Vol. 12, No. 3



Turnbacks: A Sorting Out of Tasks and Taxes?

Special:

The Farm Recession and Local Governments

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

In This Issue . . .

This Summer 1986 issue of *Intergovernmental Perspective* highlights the theme **"Turnbacks: A Sorting Out of Tasks and Taxes?". In our Point-Counterpoint** feature, ACIR Chairman Robert B. Hawkins, Jr. writes in support of the turnback of federal programs and tax sources to state and local governments, and Commission Member Joseph P. Riley, Jr. offers an opposing view. . . . The **Special Report** looks at the effects of the farm recession on local governments and summarizes the findings of a recent ACIR staff information report on this important public policy issue. . . . A **new ACIR service**—government finance data for individual cities and counties on microcomputer diskettes—is described and ordering information is provided. . . . Our **Fiscal Note** previews the 1984 Representative Tax System (RTS) estimates of state-local fiscal capacity and tax effort. . . . The **Intergovernmental Focus** department spotlights the Texas ACIR. . . . **ACIR News** highlights recent Commission activities. . . . And the **And Briefly: Books** section describes some new reports of intergovernmental interest and includes an errata page reprint for the 1985-86 edition of *Significant Features*.

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Summer 1986, Vol. 12, No. 3

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Intergovernmental Perspective
is published four times a year
by the U.S. Advisory Commission
on Intergovernmental Relations,
Washington, D.C. 20575
202-653-5538

The Chairman of the Advisory Commission on Intergovernmental Relations has determined that the publication of this periodical is necessary in the transaction of the public business required by law of this Commission. Use of funds for printing this periodical has been approved by the Director of the Office of Management and Budget through September 1986.

ACIR News

Mayor Martinez Resigns Tampa/ACIR Posts

Bob Martinez has resigned as mayor of Tampa (FL) to devote full time to his gubernatorial campaign. As one of four city representatives, he has been a member of ACIR since 1984.

A replacement, nominated by the National League of Cities and the U.S. Conference of Mayors, will be named by the White House.

ACIR Members Named Advisors To Infrastructure Council

North Dakota Senator David Nething and Charleston Mayor Joseph Riley, Jr. have been named to a special advisory panel of the National Council on Public Works Improvement. The five-member Council was created by the Congress as part of the *Public Works Improvement Act of 1984* to assess the state of the nation's infrastructure.

The Council and its advisory group will address a number of policy areas including a definition and assessment of needs; maintenance and renewal programs; capital management, including planning, priority setting, accounting and resource allocation; sources of funding and financing methods; the relationship of infrastructure to economic development and international competitiveness; and intergovernmental relations and responsibilities.

During the next two years, the Council will sponsor a series of nationwide public forums, hearings and conferences. The first of three major reports will be submitted to the President and the Congress in September.

State/National ACIR Partnership Strengthened

As the interest in establishing state ACIRs and similar agencies has grown, so have the partnerships and network grown between and among the state panels and the national ACIR. With the addition of statutorily-based commissions in Louisiana and Oklahoma this year, 25 states now have an intergovernmental counterpart agency, 17 of which are patterned after the national ACIR model. A number of states have a state ACIR proposal under consideration or are seeking ways to restructure or otherwise strengthen their existing organizations.

Several steps have been taken to develop stronger working relationships with the state panels. For example, a national conference of state ACIRs has been held in conjunction with the Commission's spring meeting for the past four years, and the "Intergovernmental Focus" feature of *Intergovernmental Perspective* now highlights the work of one of the state agencies as a regular feature.

Earlier this year, the Commissin unanimously approved several other actions to broaden the state network and develop even stronger ties, including:

- continue staff efforts to promote the creation of new ACIRs and to strengthen existing agencies;
- explore the feasibility of sharing data, technical and other resources;
- identify specific areas where the states and the national ACIR might undertake joint research and information projects and publishing activities;
- work with other organizations, such as the State-Local Task Force of the National Conference of State Legislatures, which are working to improve state-local relations; and
- authorize staff to pursue outside funding opportunities to support the expanding state ACIR network.

The Commission also has authorized the publication of an information report based on the proceedings of the tort reform and liability insurance panel discussions at the spring state ACIRs conference (that will be available in September), and the first joint information project on the topic of state mandates. The state mandates report will be presented to the Commission at its December meeting.

CITY AND COUNTY DATA

NEW DISKETTES AVAILABLE

GOVERNMENT FINANCE DATA FOR INDIVIDUAL CITIES AND COUNTIES

Last Fall, ACIR offered state-by-state government finance data on microcomputer diskettes. Now, government finance data for individual **CITIES** and **COUNTIES** are available on **DISKETTES** for all cities (and northeast towns) over 25,000, all counties over 50,000, and selected counties between 25,000 and 50,000 population. All data are for fiscal year 1984.

Each diskette contains data for population, 62 types of general revenue, 30 types of general expenditures, four categories of government debt, 14 revenue and expenditure categories of locally-operated government utilities, and seven categories of local retirement system finances. All data are drawn from the Bureau of the Census' annual governmental finance series.

The diskettes will work with any microcomputer that is compatible with an IBM-PC and has a minimum of 384 RAM. Although primarily designed for use with LOTUS 1-2-3 and Symphony software, users of other spreadsheet programs which have a "translate" utility also will be able to use the diskettes.

The **CITY AND COUNTY** diskettes will be of considerable use to state and local government staffs, academics, public finance analysts, and others who wish to make intrastate and interstate comparisons of local finances, or who want ready access to the annual Census government finance data. In addition, the release of version 2.0 of LOTUS 1-2-3 will enable users to access the Census government finance data for multivariate statistical analysis.

Because of the large amount of data contained in the city and county series, diskettes are available on a regional basis and may be purchases individually or as a complete 12-region set.

TO ORDER, SIMPLY COMPLETE THE FORM BELOW, INCLUDE YOUR CHECK OR MONEY ORDER PAYABLE TO "ACIR", AND SEND TO: **ACIR Publications, 1111-20th Street, N.W., Washington, D.C. 20575. ALL ORDERS MUST BE PREPAID.** Questions about the content or operation of the ACIR diskettes should be directed to Michael Lawson at (202) 653-5536.

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Intergovernmental Focus

Spotlight on the Texas ACIR

Jay Stanford
Executive Director
Texas ACIR

In January 1986, the Texas Advisory Commission on Intergovernmental Relations (ACIR) began its fifteenth year of service to the state, local governments, and citizens of Texas. During this period, the Commission has undertaken and completed numerous studies and other projects in response to needs identified by public officials. Much of the work has resulted in practical information for local and state entities, but also a sizable number of projects have had direct implications for the state legislative process.

The Texas ACIR was established by statute in 1971. The law was enacted in response to a recommendation by a blue ribbon commission that a state ACIR, based on the national model, should be created to provide continuing evaluation of the state's intergovernmental responsibilities.

Membership of the Texas ACIR reflects the different levels of government in the state. Most of the members are appointed by the governor, and include representatives of cities, counties, school districts, federal agencies, and special districts, as well as private citizens. Members of the legislature are appointed by the Lieutenant Governor and the Speaker of the House of Representatives. Both of these officers also serve as *ex officio* members of the Commission.

Experience and perspectives brought by the members to their service on the Commission have been the most important ingredients contributing to its success. Often, the local government representatives are also active in their statewide associations, and this provides critical input regarding (1) the selection of problems to be addressed and (2) the practicality of alternative solutions that may be developed through the Commission's studies. Similarly, legislative members often include chairmen or members of committees in both the House of Representatives and the Senate which are concerned with intergovernmental affairs and city or county governments.

Texas ACIR members serve six-year overlapping terms, and continuity has contributed to the stability and consistency of the Commission's work over the years. "Charter" members who have served on the Commission since its inception include the current chairman, Fred N. Pfeiffer, General Manager of the San Antonio River Authority, and Jim Dannenbaum, a citizen member from Houston.

Projects

The Commission's work program has been broad and varied, not only tackling state and federal issues, but also addressing the problems of the several thousand local government entities. In Texas, there are 254 counties, 1,100 municipalities, over 1,000 school districts, and nearly 2,000 other special districts and regional governmental entities.

In the aggregate, Texas local governments are responsible for a higher percentage of total state-local revenues and expenditures than their counterparts in most other states, and their share of financial responsibility is still growing. Many of the Commission's projects have been concerned with local government fiscal issues—such as the impact of actual or proposed changes in the federal grant structure; revenue and expenditure needs; grant administration; and management strategies such as cost reductions, investment of idle funds, reliance on user charges, and risk management.

Commission projects usually are undertaken at the request of the local government associations, the governor's office, legislative committees, or other state agencies. Most of the agency's budget is obtained through grants and contracts with other entities. Therefore, for some projects, the Commission serves as a "consultant" by conducting research for the requesting agency. Such projects are related to the main focus of Commission research, however, and rely on experience gained through previous undertakings.

Informational projects have included a number of "handbooks" for local officials such as the *Guide to Texas Laws for County Officials*, now in its third edition. The Commission also has developed more specialized manuals and recommendations for administration in areas such as local law enforcement. A recent initiative has been the development of a "productivity consortium" composed of managers and productivity specialists from major cities and counties with participation by federal, state and private entities as well.

Data Center

The common denominators for state and local government planning, as well as decision-making by private industry, are population and economic data. For the past two years, the Texas ACIR also has served as the State Data Center. Data centers have been established in all but one or two of the states. They provide liaison with the U.S.

Bureau of the Census on dissemination of census reports and computer tapes, planning for the 1990 census, and preparation of population estimates and projections.

The data "center" in Texas is actually a statewide network of computer facilities and local information contacts. It consists of the Texas ACIR as coordinator, three other "core" state agencies, eight universities serving as regional affiliates, and 25 local affiliates which are mostly councils of governments or regional planning commissions. Activities of the data center are now concentrated on (1) coordination of planning for the 1990 census, such as geographic boundary designations, and (2) development of a population estimates and projections program to provide statistics which can be used by the majority of the state and local planning entities. The population estimates and projections work is supported financially by a consortium from ten state agencies. Demographic research and computer support are being provided by Texas A&M.

Special Issues

Recent federal legislation concerning disposal of radioactive waste is beginning to have a profound impact on Texas and a number of other states. Last May, sites in Texas and two other states were officially designated by the federal government as potential locations for a high-level nuclear waste repository. The proposed high-level repository will store used nuclear reactor fuel rods and other materials that will remain "hot" for over 10,000 years. This site selection process is being carried out by the U.S. Department of Energy (DOE) under conditions set forth in the *Nuclear Waste Policy Act of 1982* (NWPA). Texas is one of the states under consideration in the "first round" selection process. There also will be a "second round" selection that will involve potential sites in a number of other states during the next several years.

DOE began studying potential sites in Texas in 1976. Since that time, the state has developed an active program of monitoring and data gathering to ensure that DOE environmental assessments, socioeconomic analyses, and related studies are conducted accurately and reflect the requirements of the *Nuclear Waste Policy Act*. The Texas ACIR is responsible for planning and management of the state's social, economic, demographic and fiscal research studies related to the proposed repository site. The Governor's Office of Nuclear Waste Programs is responsible for the entire state effort in response to the federal selection process.

Texas and most other states are experiencing similar problems in relation to low-level radioactive waste disposal. "Low-level" radioactive waste consists primarily of common materials that have been contaminated by small doses of radiation, including paper trash, clothing, tools and glassware. Low-level waste, produced by university research facilities, hospitals, nuclear power plants, and industry, becomes relatively harmless after a few decades.

The federal *Low-Level Radioactive Waste Policy Act* requires each state to provide for disposal of its own low-level waste by itself or in cooperation with other states. Under 1985 amendments to the Act, the three states now receiving low-level waste are no longer re-

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quired to do so after 1992 (South Carolina, Nevada and Washington). Most states have formed multistate compacts to develop a joint disposal facility to handle their own wastes after that time.

Texas elected not to participate in a compact and has created a state agency with the sole responsibility of locating and developing a low-level site within its boundaries. The Texas ACIR is assisting the lead state agency with research on community impacts, potential mitigation and compensation measures, local government attitudes, and implementation of an impact assistance program.

Other Areas of Recent or Current Interest

In addition to the continuing responsibilities for the State Data Center and the studies on radioactive waste issues, the Texas ACIR currently is involved in a number of short term studies and projects. Examples that follow include information and policy-oriented projects. Several of the activities are associated with interim studies directed by the 1985 legislative session.

- **9-1-1 Emergency Telephone Service.** Originally explored by the Commission in a 1979 study, local 9-1-1 systems have increased rapidly in Texas, partly as a result of recent local-option legislation. The executive director chairs an interim legislative study on the feasibility of implementing 9-1-1 on a statewide basis. A report will be presented to the 1986 legislature.

- **Management and Productivity.** Commission staff have assisted with an interim legislative committee on state agency management services and have consulted with leaders of a new employee incentive commission.

- **Insurance/Risk Management.** Following up on previous research conducted on tort liability and insurance issues, the Commission has just completed a risk management handbook for police departments. The manual identifies loss experience, areas of exposure, and potential steps for improvement. Further research regarding risk management and insurance pooling by political subdivisions is likely in the months ahead.

- **Data Sources for Business/Industry.** The staff is compiling a sourcebook on business and economic data maintained by state agencies. The data sources will assist planners and economic development specialists.

- **Indigent Health Care Financing.** In 1980, the Commission researched and prepared information and alternatives regarding indigent health care problems. A comprehensive study, conducted by a special legislative task force, resulted in major changes in state law last year. The Texas ACIR provided substantial staff assistance to the task force and continues to monitor implementation of the new legislation, with a view toward possible follow-up activities.

Method of Operation

Over the years, Texas ACIR research and information projects have been practically oriented. The Commission has striven for objectivity and independence in its approach, while trying to be as responsive as possible to research priorities identified by local officials, executive and legislative leaders, and representatives of local government associations.

Texas ACIR projects vary from year-to-year in response to different problems created by economic, demographic and technological change. There are recurring themes in the Commission's work, however, which relate to the fundamental principles of governmental structure, finance and administration. The Commission also devotes continuing efforts toward providing basic information for planning and decision-making for all levels of government in the state.

Members of the Commission meet every two months to review the full-range of Commission projects, make decisions regarding future undertakings, and guide the staff in agency financial and administrative management. Members and staff have as a primary goal to be able to respond to the challenges presented by the complex relationships among governments in an environment of rapid economic and demographic change.

GOVERNMENT FINANCE DATA ON MICROCOMPUTER DISKETTES

Many public finance analysts are familiar with the wealth of information published annually by ACIR in *Significant Features of Fiscal Federalism.* Now, for the first time, much of the state and local revenue and expenditure data in *Significant Features* are available on MICROCOMPUTER DISKETTES. All of the data are drawn from the Bureau of the Census annual governmental finance series. Population and income data also are included.

Although many publications (including *Significant Features*) contain a vast array of state-by-state comparisons, they do not allow users the flexibility to compute and display the data in other forms. The spreadsheets on the diskettes developed by ACIR provide access to the Census data in a format not previously available, facilitate manipulation, and reduce the computational burden.

Any microcomputer that is compatible with an IBM-PC and has a minimum of 256k RAM will work. While designed for use with LOTUS 1-2-3 and Symphony software, any spreadsheet program will work by using the appropriate "translate" utility program that is an integral part of most software.

The diskettes will be of considerable use to legislative and executive staff, public finance analysts, and others who wish to make interstate comparisons of government revenues or expenditures, or who need ready access to the Census governmental finance data. State-by-state data for 70 expenditure and 66 revenue classifications, and population and personal income are available for:

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Diskettes are now available for:

- **FY 1984 data (two-diskette set)** **$60**
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Public finance data diskettes for INDIVIDUAL CITIES (all cities over 25,000) and COUNTIES (all counties over 50,000 and selected counties between 25,000 and 50,000) will be available in mid-August. For a free brochure and order form, call (202) 653-5540.

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Point

Turnbacks: A Promising Approach

Robert B. Hawkins, Jr.

Because a recurrent theme in American political history has been the great emphasis placed on political decentralization as an enduring value, ACIR has recommended turnbacks—simultaneous repeal of federal grant-in-aid programs to state and local governments and relinquishment of tax bases—as a promising approach to achieving increased accountability in our federal system. While some obviously localistic programs have previously been folded into block grants, there remains a plethora of categorical grants best financed and administered at the state and local levels.

Over the past 30 years, federal grants-in-aid have grown exorbitantly, both in number and in aggregate dollars. Observers of the intergovernmental system, including ACIR, repeatedly stated that the increasing fiscal and political power of the national government relative to its state and local partners brought the federal system into imbalance. Because of the intricate accumulation of program constraints and requirements, public officials' responsiveness and accountability to the citizenry frequently became impeded. This often distorted the public choices made by the various units of governments administering intergovernmental programs.

More recently, the pressure of huge federal budget deficits engendered cutbacks in grant funding, and this has led to a kind of de facto, disorganized decentralization wherein state and local governments are now financing some program responsibilities formerly funded by Washington. Turnbacks represent a path toward an orderly sorting out of responsibilities: the federal government's withdrawal from programs would be accomplished concurrent with a certainty of funding resources.

Decongesting the System

In other reports, the Commission has characterized the present federal system in such terms as "congested, overloaded, intrusive, inefficient, and unaccountable." This has led to an unmanageable national political agenda, promoted undue federal interference in the operations of state and local governments, and frequently produced incongruences between citizen preferences and the goods and services provided by their governments. The cumulative effect of financial reliance on the national government, and the many conditions and requirements attached to the federal aid, has been to erode the authority of state and local officials. Because most grant-in-aid programs lack flexibility in design and implementation, the most desirable characteristics of a federal system—innovation and diversity—have been seriously retarded.

The Commission believes that the federal government should return many responsibilities more appropriately handled by states and localities or private institutions, along with the revenue sources to pay for them. Such an initiative would provide a means to augment permanently the tax bases of state and local governments, and improve the predictability of state and local revenues. Along with economic efficiency, turnbacks also would enhance political accountability by giving citizens greater access to elected and appointed officials making public choices.

As the first step in proposing turnbacks, the Commission established a test of vital national interest—i.e., only when a program meets certain criteria is national government action justified. This test is detailed in the accompanying box. Applying it to the more than 400 existing federal grants-in-aid, the Commission identified a "candidate list" of 177 programs that could be returned to state or local control. These were in the area of arts and humanities, community development, criminal justice, economic development, economic opportunity, elementary and secondary education, employment and training, food and nutrition, highways and public transportation, libraries, medical assistance, natural resources conservation and development, occupational safety and health, vocational education, volunteer services, and water pollution control.

The Revenue Return

The approach selected by the Commission for returning revenue sources is for the federal government to relinquish all or part of a tax base it currently uses. Chief among those that could be returned to the states (and in some cases directly to localities) are the federal excise taxes on motor fuels, cigarettes, telephones and alcohol. The Commission also noted that the personal income tax is probably the best tax to return in part to state and local governments in seeking to achieve greater political decentralization. Unfortunately, revenue returns by cutting federal income taxation—in light of the tax reform effort—is politically the most difficult to achieve.

While the Commission did not propose any specific legislation, the report accompanying the recommendation (*Devolving Federal Program Responsibilities and Revenue Sources to State and Local Governments*, A-104) includes five possible ways for the federal government to give serious consideration to turnbacks. Each package would return federal excise taxes to the states while the federal government recedes from a variety of programs. The five packages involve $10 billion, $17 billion, $18 billion, $21 billion, and $22 billion in programmatic authority, and would replace from 84% to 98% of the revenues with excise taxes. In addition, the recommendation directed the ACIR staff to develop alternative packages at the request of interested parties.

Principles and Pragmatism

The Commission further recommended that any turnback package be based on the following principles:

- The legislation should provide for an adequate transition period to allow state and local governments to adjust to the new environment of increased political decentralization.
- It should include an adequate pass-through of state funds to local governments during the transition period.
- There should be a mechanism during the transition period to facilitate any state legislative or constitutional changes necessary to adjust the political and fiscal relationship between states and their local governments.

There is an important pragmatic rationale for examining turnbacks at this time. The fiscal reality of current intergovernmental relations is that the federal grant-in-aid system has been under constant budgetary pressure since the mid-70s, and that federal grants will undoubtedly be subject to increased pressures for the foreseeable future. Since 1978, overall spending by states and localities, in constant dollars, has been stable. However, the relative importance of sources of spending has changed dramatically as state and local revenues from their own levies have increased at the same time that federal assistance has declined. In 1978, intergovernmental grants were equal to 36.7% of state and local "own-source" spending; by 1984, that figure declined to 26.9%.

To diminish deficits, it is certain that the Congress will continue to seek spending reductions from that portion of the domestic budget that finances grants-in-aid to state and local governments. Turnbacks offer a way to help meet the mandate for deficit reduction in an efficient and equitable manner.

In a sense, turnbacks might be considered a successor to revenue sharing. While that position may chagrin those who have long supported the revenue sharing concept (including ACIR), the political reality is that the program will almost surely be terminated. Because revenue sharing was originally to be the major decentralization mechanism in the federal system, its demise necessitates a replacement. Turnbacks, which involve both programmatic and tax source returns to states and localities, can act not only as a replacement for revenue sharing, but would represent a true return of authority. For as long as Washington controls the purse strings on the revenues of other units of government, states and localities can never be certain of levels of funding; nor can they be truly self-governing.

Equally as important as fiscal concerns is the restoration of sound federalism principles inherent in the turnback concept. Writing in his autobiography at the age of 77, Thomas Jefferson said: "Were not this great country already divided into states, that division must be made, that each might do for itself what concerns itself directly, and what it can so much better do than a distant authority . . . Were we directed from Washington when to sow, and when to reap, we should soon want bread." Turnbacks endeavor to restore the Jeffersonian virtues of diversity and decentralization that have been seriously eroded over the past two or three decades.

As the number and financial magnitude of federal grants multiplied during the 1960s and 1970s, so did the federal mandates attached to them. Almost every grant became a vehicle for meeting national environmental, civil rights, handicapped access, relocation, historical preservation, citizen participation, and planning standards. In addition, the federal government mandated detailed standards for budgeting, reporting, auditing and other administrative standards. These often confrontational national policies generated massive amounts of new litigation, and because of the federal dollars involved most of the cases upheld federal dominance in these matters. The federal courts not only acceded to the judgement of the Congress in most cases, but even went beyond the vagueness of laws to supply concrete operational interpretations and direct administrative remedies.

Taken together, the activities of the national government have significantly weakened state and local governments' political and fiscal accountability to their citizens by driving a wedge between taxing and spending choices. The will of local majorities has been broadly and unjustifiably thwarted. Washington's activism also has unnecessarily burdened other units of government with intrusive requirements and onerous demands and procedures. This has had the effect of circumscribing the authority of states and localities to the point of hampering effective governance.

The Commission's turnback recommendation contemplates the return of three kinds of responsibilities to the state and local levels: the responsibility of deciding whether and in what amounts to provide certain goods and services which currently are federally supported; the responsibility of deciding how to provide them; and the responsibility for raising the revenue to finance any increase in state and local government activity necessitated by these state and local decisions. Citizens' choices on whether a given service is better assumed by the public sector, as opposed to the private sector or by volunteers, can better be articulated through the state and local political process than by Washington.

At its core, federalism concerns itself with the constitutional design of multilevel government—what James Madison called a "compound republic." Indeed, a compound society such as the United States cannot be governed without a system to accommodate diversity. While some might view decentralization as fostering disparity—a diminishing of national community—those of us who seek to return authority to states and localities see it as fostering harmony among a diverse people. Surely, we are one nation, but it is a nation of unique parts. Turnbacks offer a way to accommodate differing social and political climates across a vast land, and for a diverse people to demand those government services they want and need.

Robert B. Hawkins, Jr. is the Chairman of ACIR. He is President and Chief Executive Officer of the Institute for Contemporary Studies in San Francisco.

THE TEST OF VITAL NATIONAL INTEREST: NECESSARY AND SUFFICIENT CONDITIONS FOR ACTIVITY BY THE NATIONAL GOVERNMENT

(Satisfaction of each of the following conditions is required to justify national government activity. A condition is satisfied only if the appropriate criteria are met under each.)

Condition 1 (Constitutionality) The activity is, under current interpretations of the Constitution, within the constitutional authority of the national government.

(Condition 1 is satisfied if the following criterion is met.)

Criterion 1.1: There exists no provision in the U.S. Constitution that specifically prohibits the national government from undertaking the activity.

Condition 2 (Warrantability) The activity is warranted by the presence of a problem of national scope, or significantly large regional scope, that requires for its solution some measure of national control over, stimulation of, or coordination among subnational governments, private institutions, or citizens.

(Condition 2 is satisfied if at least one of the following criteria is met.)

Criterion 2.1: In the absence of activity by the national government, activities of subnational governments, private institutions or citizens would produce significant interstate externalities (i.e., spillover effects).

Criterion 2.2: Absent activity by the national government, certain goods and services at national scale would be substantially underproduced because of their "public good" properties or because such goods and services are subject to declining marginal costs.

Criterion 2.3: Absent activity by the national government, the activities of subnational governments, private institutions or citizens would weaken the operations of national markets.

Criterion 2.4: Absent activity by the national government, subnational governments would violate the constitutional rights of individuals.

Criterion 2.5: Absent activity by the national government, there would be significant horizontal inequities among residents of different states; i.e., in states with relatively low fiscal capacity, taxpayers would have to bear inordinately high tax burdens to finance state-local services deemed essential.

Condition 3 (Economic and Programmatic Efficiency) The benefits (both economic and noneconomic) derived from activity by the national government exceed the activity's costs—not only the budgetary cost to government but also all other costs likely to result to society as a whole. Further, it can be established that action by the national government designed to correct the problem will represent, in fact, the most efficient available solution, including no governmental action.

(Condition 3 is satisfied only if each of the following criteria is met.)

Criterion 3.1: No workable alternative to national activity is at least as efficient.

Criterion 3.2: The overall national benefits warranted by Condition 2 must exceed the overall national costs of carrying out the activity.

Criterion 3.3: Other than specifically warranted by Condition 2, the activity of the national government does not artificially induce increased taxing and spending by subnational governments, private institutions, or citizens. A polity's capacity to achieve fiscal discipline is not weakened.

Criterion 3.4: Without good reason, the activity of the national government does not make uncertain the financial situations or other circumstances of subnational governments, private institutions or citizens.

Criterion 3.5: An activity of the national government does not burden subnational governments with intrusive requirements and onerous demands or procedures. The authority of states and localities is not so circumscribed as to hamper effective governance and responsiveness to their citizens.

Criterion 3.6: The activity by the national government does not significantly weaken any government's political and fiscal accountability to its citizens by driving a wedge between taxing and spending choices.

Criterion 3.7: An activity of the national government does not work broadly and unjustifiably to thwart the will of local majorities.

Counterpoint

Turnbacks: A Misguided Effort

Joseph P. Riley, Jr.

In one year, we will celebrate the 200th anniversary of our Constitution, our commitment to a federal system and the rejection of a confederation. Ironically, the proposed use of turnbacks to achieve increased political decentralization flouts the principles we are preparing to celebrate. The revenue turnback proposal is a philosophically driven and misguided effort. If its directives were enacted by the Congress, our cities and their citizens would incur substantial harm.

This proposal personifies the sin of excess, a hallmark of the far left and the far right. Excess, or at least the fear of excess, provoked a national re-evaluation of the federal system. The rapid growth and escalation of categorical federal programs in the 1950s, 1960s and early 1970s led to allegations that the federal system was congested and had caused a loss of local autonomy. The criticism that a national response to problems might have been carried to excess in some areas was fair. The result was a re-evaluation of the system, and the pendulum began swinging back in the other direction. This swing led to a substantial decongestion in the federal system.

Two important examples illustrate measures adopted to decongest the system. The General Revenue Sharing program was in part a response to this effort. The program is the diametric opposite of a categorical grant; there is little red tape; it has complete respect for local autonomy and is allocated at the "level of government closest to the people." It is ironic that the leading proponent of the decongestion of the federal system is recommending the abolition of General Revenue Sharing, however, much to the fiscal harm of local governments and their citizens.

The Community Development Block Grant (CDBG) program was another response to the need to decongest the federal system. CDBG replaced many categorical federal programs and replaced them with one block grant where, under general federal guidelines, local governments have the autonomy to allocate the money where the local level deems necessary. This successful program has spirited the revitalization of hundreds of cities and communities across this country; yet it is another program slated to be dissolved under this proposal, causing more harm to our cities.

The growth of the federal government in relation to programs affecting state and local governments started to reverse in the mid-1970s. By 1978, dollars allocated to state and local governments had peaked. Since 1978, there has been a substantial reduction of programs and funding. Federal funds for urban-related programs have been reduced substantially. For most cities, we have had a near-fatal dose of antihistamine. We can afford no more decongestion.

We have a decentralized government by any reasonable standard. In my city of Charleston, this year's budget required a property tax increase, in part because of a reduction in General Revenue Sharing funds. If General Revenue Sharing is completely abolished next year, we will have another and far more substantial property tax increase.

Most cities in our country, Charleston included, suffer from a relatively insufficient tax base and very limited sources of revenue, tightly restricted by state constitutions and state statutes. We do not feel congested by the federal system; we pass our budgets and ordinances without supervision by federal or state bureaucrats. At City Council meetings, the talk is not of decongestion but of a lack of resources.

Excessive Decentralization

If the proliferation of categorical grants-in-aid during the 1960s and 1970s resulted in excessive centralization of government, then the sin of excessive decentralization is likewise committed in this Commission recommendation. It would result in a dereliction of responsibilities by Washington, particularly toward the nation's cities.

This turnback effort is not primarily an effort to decongest; it expresses the philosophical imperative of some to have our national government wash its hands of any concern for local needs and problems. It is the philosophy that "this is not our problem—it's your problem in the cities." Local governments are viewed as not only autonomous but also just as one of the many Third World countries. This turnback philosophy believes that public transportation is not our problem as a nation—it's your problem in the city. The hungry and the homeless, the mentally ill, the terrible cycle of poverty and unemployment in the central cities are not problems of the United States, but localized inconveniences to be borne solely by the states and cities. To be sure, the problems of public transportation, economic development, slums, poverty and homelessness are local problems and can be solved only when there is a determined and aggressive partnership driven at the local level. But these problems can never be solved if our national government does not share its part of the responsibility of that partnership.

National Issues—National Responses

There is no need to apologize for this last generation's national efforts to address issues national in scope by assisting state and local entities. This effort, in historical perspective, has made our country greater. The mid-course corrections required by such a complex undertaking are in place. Now the entire federal-city partnership is being threatened by a philosophy that would inject a fatal dose of antihistamine into a system of government where there is scant evidence that congestion even exists.

Under the turnback philosophy, one would argue that there would never have been a National Endowment for the Arts or a National Endowment for the Humanities. That would have been most unfortunate for our country, because these two agencies have given national leadership, encouragement and modest funding to thousands of artistic endeavors throughout our country that have made this a richer nation. Under the turnback philosophy, there would never have been an Urban Mass Transportation Administration that helped to develop a national consensus on the need to "decongest" our central cities and make our urban areas more livable.

Urban Development Action Grants are not pervasive; they are targeted to our most distressed central cities. Pollution control grants are not intrusive; they help preserve our national environment. Community Development Block Grants are not unmanageable; the program replaced scores of categorical programs and helped revitalize hundreds of cities across our country. General Revenue Sharing is not inefficient; it has complete respect for local autonomy and is allocated at the level of government closest to the people. And these programs—along with scores of others—are costly and unaccountable only to the extent that the Congress imposes excessive restrictions. What is needed is not a turnback, but more flexibility in existing programs.

I ask the proponents of a large-scale turnback program to climb down from their ivory towers and come to my city. I can show them how those national efforts, carried out by an autonomous, uncongested, local, closest-to-the-people government have immeasurably improved my city and all of its people—who are, by the way, American citizens, part of this nation and part of the federal government.

They are not part of a confederation. The confederation ended almost 200 years ago. They are part of a national government and have reason to expect that their national government, as well as their state and local governments, will accept a responsibility to address their needs, whatever they are, wherever they are found.

The rationale for this ACIR turnback recommendation relies on unsubstantiated generalizations which few state and local elected officials and civil servants would endorse.

A major federal turnback effort would do substantial harm to my city and most cities of our country. It would end programs that have been good and successful and would create, at best, an uncertain future. There is little chance that most of the initiative sponsored by these programs would be kept. Certainly, the cold-hearted suggestion to give a tobacco excise tax to state governments, and the other turnback taxes, present no long-term financial hopes. Further, there are state constitutional and statutory barriers to any legitimate pass-through of this taxing authority to local governments. In terms of turning back revenue to localities, many local governmental units do not have the authority—and possibly not the capacity—to pick up the funding of turned-back programs, even though such programs are needed.

The claim that turnbacks are efficient is specious. There are many national initiatives that cannot be divided by fifty in terms of the states or by a thousand or more in terms of cities. The turnback proposal supports a theory that we would have fifty Institutes of Museum Services, or perhaps a thousand. One national Institute of Museum Services can help set some national goals and thoughtfully allocate money where it can be wisely and prudently used. A plethora of Institutes of Museum Services would consume the modest amount of available money just in terms of administrative and bureaucratic expenses. The same can be said of many federal programs that can be run far more efficiently by a small national staff than by fifty state staffs or a thousand local staffs. There are many more examples of this inconsistency in the turnback philosophy.

Deficit Reduction

Turnback proponents cite the need to reduce the federal deficit. Their implication that federal grant-in-aid programs continue to grow is erroneous. It is important to remember that in the last six years when the federal deficit has shot up from $70 billion to more than $200 billion, urban programs have been severely reduced. There was a definite peaking in 1978 of dollars allocated to state and local governments. Between 1980 and 1985, total federal expenditures increased by 23.3%, with defense increasing by 33.9% and interest on the debt increasing 86%, while federal grants to state and local governments decreased. Local governments have already taken more than their fair share of federal budget cuts. It is unrealistic and unfair, if not dishonest, to argue or even to hint that federal urban programs caused the explosion in the size of the national deficit.

The linking of turnbacks with deficit reduction carries scant cogency because our country's basic deficit problem is caused by a failure of political will to deal at the federal level with its root causes and a lack of fiscal discipline in defense spending. This has precious little to do with intergovernmental relations and turnbacks.

The recommendation fails to recognize the constraints within the Congressional process which severely limit the use of turnbacks: the overlapping jurisdiction of committees; the competing interest groups and their reluctance to see their programs changed or given to another level of government; and the reluctance of elected officials, having enacted taxes and being criticized for it, to hand the revenue over to another jurisdiction.

In my opinion, this federal turnback proposal belongs in the files of the ACIR. This proposal swings far too sharply to the right.

Our country will always seek to provide national initiatives—and we should. A given President and Congress will, as they should, look out across this great country, see problems that are important—whether they are housing, economic development, mass transit, encouragement of the arts, poverty, hunger, AIDS or cancer—and they will seek to develop a national response. Because of our experiences in the 1950s, 1960s and 1970s, our country will be less likely to develop a heavy-handed categorical approach and will be more likely to involve the states and localities to every extent possible. Washington will be far more alert to the excesses of a national response, but not oblivious to national need.

The error of this massive turnback program is that it forgets that we are a nation and we should be proud of, not apologetic for, being so. I believe that in years to come this ACIR report will be considered a benchmark—the benchmark of when the pendulum had swung too far to the right.

Joseph P. Riley, Jr. is Mayor of Charleston, South Carolina, and has served as a member of ACIR since 1981. He currently is President of the U.S. Conference of Mayors.

A Special Report

The Impact of the Farm Recession on Local Governments

Michael Lawson

The agricultural recession has been widely reported. Although much has been written about its effects on individual farmers and their communities, little attention has been paid to its effects on the financial health of local governments. The significance of the public sector dimensions of the problem recently were described by Senator David Durenberger:

> My experience in Minnesota and throughout the country strongly suggests that the current agricultural recession, and its effects on the broader rural economy, are beginning to affect—and will increasingly hamper—the abilities of local governments in rural areas to raise sufficient revenues to finance basic public services like education, public safety and transportation.

In December 1985, Senator Durenberger and other members of the Advisory Commission on Intergovernmental Relations requested the staff to undertake a quick "reconnaissance study" that could provide a basis for a more detailed analysis by the newly-formed Commission on Agricultural Policy. The ACIR staff was directed to examine intergovernmental issues and analyze readily available sources of data. In addition, the staff was instructed to identify issues which the new commission might wish to examine and data sources which might be relevant to their work.

This article summarizes an ACIR staff information report that focused on a sample of ten farm-dependent states in the North Central, Plains and South regions. However, before the fiscal health of localities in the sample states is discussed, several general observations emerged from the study which are applicable to the analysis of fiscal health of local governments in most states. These general observations are:

- Because most of the own-source revenue of local governments typically is raised from property taxes, the governments in most communities are protected from dramatic fluctuations in revenue—and, therefore, dramatic changes in service levels—in the short run.
- This "stickiness" in property tax revenue results from the way property taxes are generally administered: significant lags in assessments fail to reflect rapid declines (or increases) in market values of property. Furthermore, farm land often is assessed at its "use value" rather than at market value; in recent years, the use value of farm land has not changed as dramatically as has market value.
- Over a period of several years, decreases in property tax assessments certainly will place additional stress on local governments. In the short run, changes in the value of property typically will have only a modest impact on the ability of local governments to maintain current levels of own-source revenue.
- In sharp contrast to local experience, states typically raise most of their revenue from sales and income taxes—taxes that are quite responsive to changes in economic conditions.
- The more dependent local governments are on their state governments for financial assistance, the greater their exposure to the revenue fluctuations of the state governments.
- Reductions in state aid will not affect all local public services to the same extent. Because local governments are most reliant on states for education, roads, health services, and hospitals, these

local services are more vulnerable to cuts than are others—e.g., police and fire protection.

Defining Fiscal Stress

Fiscal stress is certainly an arguable concept; it can be defined in a variety of ways. Viewed in absolute terms, fiscal stress of an individual government would be apparent if that government were unable to provide an adequate level and quality of public services at a reasonable level of taxation. However, this definition raises further questions: what are adequate levels of services or reasonable levels of taxation? Viewed in relative terms, a fiscally-stressed government would be unable to provide services that are roughly equivalent to services available to citizens in other jurisdictions—at roughly equivalent levels of taxation.

Yet, relative stress can be viewed in a more pragmatic way—fiscal stress is apparent when a rather sudden decline in revenue forces the jurisdiction to cut its expenditure levels or increase its tax rates simply to maintain existing levels of service. This view of fiscal stress was adopted in the study.

Methodology

In sorting through many diverse sources of information about the condition of the ten sample states (selected in consultation with the staff of the Senate Subcommittee on Intergovernmental Relations), it became apparent that several indicators of present or potential fiscal stress could be pulled together for each of the states, for their local governments in general, and for the local governments in the most farm-dependent counties in those states. While recognizing that the best indicators of fiscal stress would be significant decreases in the levels of local services, such indicators are not available. Most of the indicators used are revenue data, which serve as crude proxies for the potential for cuts in services.

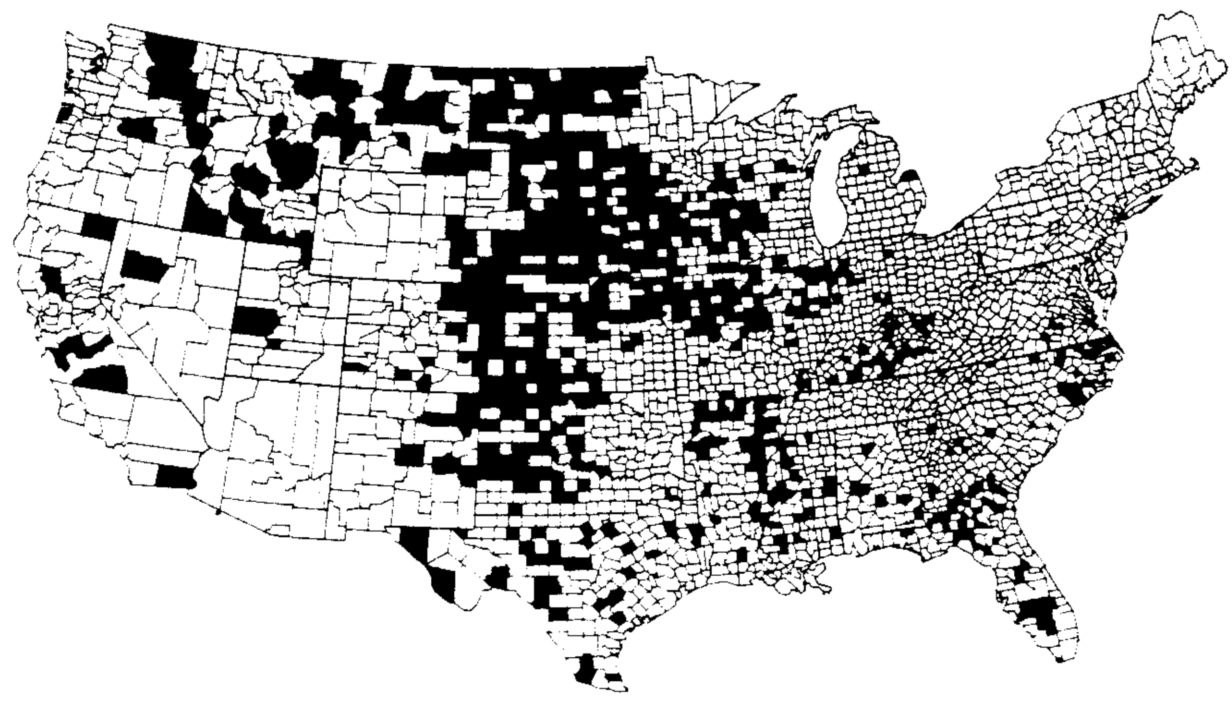
Selection of the Sample States

Nationwide, there were 702 counties that derived 20% or more of their total labor and proprietor income from farming/ranching during 1975-79 (see *Map A*). As the map shows, these counties are largely in the North Central and Plains states, with others scattered in the Northwest and throughout the South. Of the ten states chosen for this preliminary analysis, seven are in the mid-section of the nation, while the other three are in the southern region.

The farm-dependent counties in the sample North Central and Plains states (Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska and North Dakota) were chosen because of their high degree of dependence on grain farming—among the hardest hit sector of the agricultural economy. The southern states were added to the sample to provide some comparison with other types of farming and different traditions of state and local government.

Even these sample states and counties vary from one another considerably in their degree of farm-dependence. *Table 1* ranks the ten states on the basis of the percentage of all personal income in each state that comes from farms, ranging from almost 10% in North

MAP A
702 FARMING-DEPENDENT COUNTIES
20% or more of total labor and proprietor income was from production farming/ranching during 1975-79.



Source: Economic Research Service, U.S. Department of Agriculture.

Table 1
Indicators of Fiscal Stress for 10 Selected State Governments

State [Ranked on the Basis of Farm Dependence]	(1) Percentage of all State Personal Income From Farms	(2) Percent Change in State Revenue 1984-85	(3) Percent Change in State Revenue 1985 est.	(4) Energy & Mineral Rev. as a % of Own-Source Gen. Revenue	(5) State Budget Cuts Since FY86 Budget Adopted	(6) Changes in State Funding for Education Since 1986 Budget Adopted	(7) Fiscal Stress Apparent
U.S. Average	1.43%	9.1%	4.9%	n.a.	17	n.a.	n.a.
North Dakota	9.88	1.1	−19.5	22.0	☒	Decreased	Yes
Iowa	6.96	2.9	4.4	0.4	☒	Decreased	Yes
Nebraska	6.88	−2.7	7.9	1.5	☒	Decreased	Yes
Arkansas	4.91	13.2	3.3	1.5	☒	Decreased	Yes
Kansas	4.02	6.8	1.4	5.4		Increased	Yes
Georgia	3.37	14.4	7.7	0.1		Increased	No
Minnesota	3.34	3.0	−4.3	1.3	☒	Increased	Yes
Mississippi	3.28	4.1	7.7	5.3	☒	No Change	Yes
Missouri	1.30	9.8	6.4	2.6		Increased	No
Montana	0.91	9.8	−4.2	21.1	☒	Decreased	Yes

= Indicator of actual or potential fiscal stress.

Sources: Farm income data based on Bureau of Economic Analysis, *Survey of Current Business*, August 1985; percentage increase in state tax revenue for 1985 based on Census, *State Tax Revenue in 1985*, February 1986; percentage change in state general fund revenue in FY 86 and information on state aid to education based on telephone conversations with state officials, March 1986. All 1986 estimates made between November 1985 and March 1986. ACIR staff compilation and calculations.

Notes:
KS: Estimates made as of November 1986 and incorporate a drop in oil prices from $27/bbl. to $20/bbl. Because oil prices have fallen well below $20/bbl., the 1986 estimate is probably too high.
MN: There was a 10% surcharge on individual income tax still in effect for the first half of FY 85, making the 1986 decrease more pronounced than it otherwise would be.
NE: Estimates made as of February 1986 and assume an increase in the individual income tax from 19% to 20% of federal tax liability.

Dakota to less than 1% in Montana, against a national average of 1.43%. *Table 3* shows the proportion of counties in each state meeting the farm dependency criteria, ranging from 72% in North Dakota to 20% in Georgia.

Indicators of State Fiscal Stress

Local finances are closely linked with state finances because local governments unable to raise sufficient revenues to provide essential services from their own revenue sources are likely to turn to their state governments for fiscal assistance. The extent to which states can assist their troubled governments depends on both the financial well-being of the state as a whole and on the institutional arrangements between state and local governments—e.g., state aid to local governments, the formulas on which those grants are based, and the historical pattern of state assistance to local governments. *Table 1* examines this second topic.

The states are arrayed in order of the importance of farm income as a percentege of all state personal income (column 1). The data in column 1 indicate the degree of exposure of the state government to financial problems experienced by many farmers and farm-related businesses. However, a high percentage of personal income derived from farming is not necessarily an indication of state fiscal stress. For example, a state that has a significant percentage of its personal income derived directly from farming also may have an even greater percentage of its personal income from economic sectors that are enjoying robust economic growth. Furthermore, it must be recognized that some farmers—particularly those carrying large high-interest debts—are affected more adversely than others by the current farm recession.

The data in columns 2 and 3 display the rate of growth in state revenues during the last two years;

they may be compared with the national average that is given at the top of the column. If state revenues do not keep pace with population growth, inflation and the traditional demand for public services, undoubtedly the fiscal stress of a state government will increase. The fact that a number of the selected states have rates of revenue growth well below the national average gives a strong indication that the revenue bases of these states were not growing at a rate necessary to continue full financing of many state and local programs. In fact, North Dakota, Nebraska and Montana have experienced actual reductions in state revenues without reductions in state tax rates. Among the states surveyed, only Minnesota enacted a reduction in state tax rates (after an earlier increase) and experienced a drop in collections.

The inclusion of data on energy and mineral revenue as a percentage of own-source general revenue (column 4) initially may seem incongruous with this attempt at identifying the fiscal stress in agriculturally-dependent states. However, several of the sample states—most notably North Dakota and Montana, but also Kansas and Mississippi—derive significant portions of their state revenues either directly from oil and energy industries in the form of severance taxes or royalty fees, or indirectly from the economic resources that energy industries provide in the state. With the recent dramatic drop in oil prices, governments in states with a high dependence on energy industries will be affected adversely. The problems caused by drops in state revenue due to falling energy prices will be particularly acute for states already affected by the agricultural recession.

Cuts in FY 1986 budgets made subsequent to their enactment (columns 5 and 6) present direct measures of the fiscal stress of the selected states. Note that of the 17 states nationwide which have enacted such cuts, seven are represented in the ten states selected for this study (column 5). Cuts in state aid to education (column 6) provide an even better measure of fiscal stress because education is generally considered to be the most popular state-local program—drawing large amounts of support from middle class taxpayers and various education interest groups. Typically, education is one of the last government functions to be cut in austere times.

Based on these data, it appears that only two of the states in the ten-state sample are not experiencing some degree of fiscal stress—Georgia and Missouri (*Table 1,* column 7). Based on the factors identified in columns 1-6, North Dakota and Montana are facing fiscal stress on two fronts. North Dakota not only has one of the highest percentages of state personal income derived from farming, but it also has one of the nation's highest percentages of state own-source revenue drawn from severance taxes and royalty fees. The overall budget cuts and the cuts in aid to education were forced by the precipitous drop in state revenues in FY 1986 as evidenced in column 3. While Montana's indicators read much the same as North Dakota's, its lesser dependence on agriculture makes its fiscal position slightly better than that of North Dakota.

According to the indicators, the states of Iowa, Nebraska, Arkansas, Kansas, Minnesota and Mississippi also exhibit some fiscal stress. All of these states have sluggish rates of growth in their state revenues, and all but Kansas have made cuts in their FY 1986 budgets.

Indicators of Local Fiscal Stress

The fiscal condition of local governments in the ten sample states is set forth in *Table 2.* One key indicator of **existing** local fiscal stress is shown: the change in local revenue is shown both for own-source general revenue and for tax revenue. Four indicators of **potential** vulnerability to fiscal stress (dependence on the property tax, fiscal home rule, state aid dependence, and federal aid dependence) also are displayed. In addition, *Table 2* summarizes the indicators of fiscal conditions of local governments and repeats the summary findings on state fiscal distress in the ten sample states for the purposes of comparison.

This rating of local fiscal conditions is riskier than the rating of states, because the data do not go beyond 1984 and the farm situation has further deteriorated since that time. Nevertheless, this table can be interpreted in conjunction with the more recent data in *Table 1* to yield a general sense of current fiscal stress at the local level. The established relations between the fiscal affairs of the states and their localities usually do not change rapidly or dramatically.

Table 2 shows that growth in local revenue during 1982-84 lagged behind the national average in six of the ten states, either in total own-source revenues or tax collections, or both. If that lag continues for a long time, it could mean either reduced services, higher tax rates, or increased dependence upon state or federal aid.

Local governments in North Dakota, Georgia and Missouri are more dependent than average on federal aid. This dependence makes them more vulnerable to cuts in federal aid—including the termination of general revenue sharing.

Local governments with a high degree of dependence on state aid—such as those in North Dakota, Arkansas, Minnesota and Mississippi—are vulnerable to reductions brought about by fiscal stress at the state level. Because the state governments in these states are exhibiting symptoms of fiscal stress, they may find it difficult to maintain or increase their current levels of aid to local government.

Greater than average dependence on the property tax shows up in *Table 2* for local governments in North Dakota, Iowa, Nebraska and Montana. This dependence on the property tax makes local governments in these states vulnerable to declines in property tax revenues caused by falling farm assessments.

Four states—North Dakota, Iowa, Nebraska and Montana—also provide less than average fiscal home rule authority to their cities or counties, or both. Absence of fiscal home rule restricts the ability of these jurisdictions to raise tax rates or tap additional revenue sources—particularly relevant for local governments with a high degree of dependence on a property tax base that is contracting. Lack of fiscal home rule also is a problem for cities in Minnesota, counties in Missouri, and both cities and counties in Mississippi.

The overall ratings indicate that local governments

Table 2
Fiscal Profiles of Local Governments in Ten Selected States

	Stress Indicators		Potentials for Increased Stress									
	Change In Local Revenues 1982-84[1]		Federal Aid as % of All Local General Revenue 1984[2]	State Aid Dependence: 1984 (% of General Revenue)[3]				Property Tax as % Own-Source Revenues 1984[4]	Fiscal Home Rule[5]		State Fiscal Stress Apparent[6]	Local Fiscal Stress Apparent
Local Govts. in Selected States	Own-Source Gen. Revenue	Tax Revenue		All Local	County Only	Muni. Only	School Only		City	Co.		
U.S. Avg.	20.4%	19.1%	6.5%	32.7	32.0	19.6	51.6	47.1%	3.2	3.7	n.a.	n.a.
North Dakota	10.1%	12.3%	7.6%	41.1	33.4	16.8	56.4	54.1%	3.5	4.0	YES	YES
Iowa	11.4%	12.9%	5.2%	33.2	23.0	14.2	50.4	61.1%	4.5	4.5	YES	YES
Nebraska	17.0%	16.0%	4.6%	20.6	18.1	13.7	28.0	52.4%	3.5	5.0	YES	YES
Arkansas	17.1%	22.4%	6.5%	38.5	17.2	14.6	60.5	37.7%	3.0	3.0	YES	NO
Kansas	15.8%	18.0%	4.7%	23.6	7.9	5.9	42.9	48.6%	3.0	3.0	YES	NO
Georgia	22.1%	22.5%	8.1%	25.8	12.5	4.5	58.7	35.1%	3.0	3.0	NO	NO
Minnesota	24.9%	38.9%	5.0%	39.0	46.0	19.9	55.1	47.5%	4.0	3.0	YES	NO
Mississippi	25.2%	21.0%	5.5%	41.3	16.5	25.1	70.3	36.4%	4.0	4.0	YES	NO
Missouri	13.4%	10.2%	7.7%	25.7	10.7	7.4	42.3	36.3%	3.0	5.0	NO	YES
Montana	35.2%	7.0%	6.6%	22.7	7.4	5.5	38.5	52.7%	5.0	4.0	YES	YES

Actual or potential fiscal stress; see notes 1/ thru 6/ for interpretations.

1/ Local revenue growth of 16% or less indicates fiscal stress.

2/ The more dependent that local governments are on federal aid, the more likely they are to experience increased fiscal stress from federal aid cuts.

3/,6/ These indicators must be read together. The amount of future state aid depends on the degree of fiscal stress at the state level. Local governments can expect state aid to shield them from fiscal stress only if the state itself is fiscally healthy.

4/ A larger than average dependence of local governments on the property tax makes them more vulnerable to sagging agricultural land values (at least in the long run, as property assessments gradually reflect the decline).

5/ On a scale of 1 to 5, 1 is greatest freedom from state control and 5 is least. The less freedom that local governments have from state control concerning their fiscal affairs, the less likely the local governments are to be able to cope with their own fiscal stresses. An index of 4.0 or greater indicates potential difficulty.

Source: ACIR Staff Compilation based on ACIR, *Significant Features of Fiscal Federalism*, 1985-86, various tables, and on ACIR, *Measuring Local Discretionary Authority*, report M-131, November 1981, various tables.

in five states are exhibiting signs of fiscal stress: North Dakota, Iowa, Nebraska, Missouri and Montana.

Indicators for Farm-Dependent Local Governments

Table 3 compares the sources of revenue available to local governments in the farm-dependent counties vis-a-vis local governments in all other counties in the ten sample states.* Unlike *Tables 1 and 2*, information contained in this table does not provide direct indicators of fiscal condition. It does, however, indicate exposure of agriculturally-dependent governments to reductions in state and federal aid. *Table 3* also gives an indication of the reliance of these governments on the property tax and other local own-source revenue.

The first observation about *Table 3* is that agriculturally-dependent local governments tend to rely more heavily on federal general revenue sharing (GRS) than other governments (column 3). As a result, the termination of GRS this year would hurt agriculturally-dependent governments more than other jurisdictions. Furthermore, because GRS funds were available to general purpose governments only, the impact of the discontinuation of this program likely will have a greater effect on these localities than the figures in *Table 3* would suggest, since data for school and special districts are included in these figures.

Secondly, in eight of the ten states surveyed, agriculturally-dependent local governments are relying more heavily on state aid than other governments (column 5). Thus, cuts in state aid would be more likely to hurt governments in agriculturally-dependent areas than in other areas. Agriculturally-dependent local governments in North Dakota, Arkansas, Minnesota and Mississippi receive from 44-60% of their general revenue from their respective state governments. All of these state governments are exhibiting signs of fiscal stress.

*These data represent county level aggregates for *all types of governments* within each county—i.e., county, city and township governments, as well as school districts and special districts.

Finally, agriculturally-dependent local governments in six of the ten states examined rely more heavily on the property tax than do other governments. This, however, is an ambiguous indicator. Although we know that there have been substantial decreases in the value of farm land, we cannot assume a significant decline in property tax revenue in the short run. Property tax revenues tend to be fairly stable for three reasons. First, the drop in *assessed* values of farm land usually occurs with a significant time lag after the actual drop in the price of farm land. Second, in the absence of tax rate limitations, reduced assessments reflecting market conditions can trigger increased mill rates designed to maintain needed revenues. Finally, when land is assessed on the basis of use value rather than on market value, the fluctuations in use value tend to be considerably less than the fluctuations in market value.

Because the property tax is considered by public finance experts to be one of the most stable sources of revenue, a high degree of dependence on this tax source tends to act as an "insurance policy" for local governments against economic downturns. Despite the increased property tax burden placed on financially-strained taxpayers, the stability of the property tax tends to protect local governments from the vagaries of local economic conditions in the short-term.

In all likelihood, the farm-dependent counties eventually will experience a downturn in their most important revenue source—the property tax. Thus, they will be faced with the need to cut expenditures and service levels, seek additional revenues, or both.

Conclusion

The ACIR reconnaissance study of ten sample states reveals these major findings:

- Local governments in North Dakota and Montana show signs of fiscal stress, and the state govern-

Table 3
Local Government Revenues in Farm-Dependent vs. All Counties in Ten Sample States, 1982

	(1) Percentage of All Counties Ag-Dependent	(2) Total General Revenue	(3) Federal General Revenue Sharing	(4) All Other Federal Aid	(5) State Aid	(6) Property Taxes	(7) Other Taxes Charges & Misc. Gen. Rev.
U.S. PCT. DIST ALL LOCAL	n.a.	100.0%	1.6%	5.9%	33.9%	28.1%	30.4%
North Dakota: Non-Ag.		100.0	1.5	5.6	39.2	26.2	27.6
North Dakota: Ag.	71.7	100.0	2.2	3.4	46.0	28.1	20.4
Iowa: Non-Ag.		100.0	1.5	4.3	33.4	36.1	24.7
Iowa: Ag.	52.5	100.0	1.9	2.2	34.6	38.3	23.1
Nebraska: Non-Ag.		100.0	1.5	5.2	19.6	35.4	38.3
Nebraska: Ag.	69.9	100.0	2.3	2.3	22.6	45.7	27.1
Arkansas: Non-Ag.		100.0	2.5	5.9	35.5	21.9	34.2
Arkansas: Ag.	37.3	100.0	2.8	6.8	47.3	16.8	26.2
Kansas: Non-Ag.		100.0	1.5	4.6	24.3	33.5	36.0
Kansas: Ag.	38.1	100.0	1.7	1.7	17.5	49.8	29.3
Georgia: Non-Ag.		100.0	1.8	6.6	25.4	23.7	42.5
Georgia: Ag.	20.1	100.0	3.4	2.9	43.6	22.7	27.5
Minnesota: Non-Ag.		100.0	1.5	5.1	44.6	22.4	26.4
Minnesota: Ag.	40.2	100.0	1.9	2.6	44.8	22.3	28.4
Mississippi: Non-Ag.		100.0	2.5	5.2	39.0	17.4	35.9
Mississippi: Ag.	23.2	100.0	4.1	2.0	59.6	14.5	19.8
Missouri: Non-Ag.		100.0	1.8	7.9	24.8	25.4	40.2
Missouri: Ag.	31.3	100.0	2.2	4.6	30.2	26.9	36.0
Montana: Non-Ag.		100.0	1.8	5.6	25.2	44.1	23.3
Montana: Ag.	42.9	100.0	2.0	3.9	17.3	54.4	22.5

Source: List of counties that have 20% or more of all personal income directly from farming obtained from Economic Research Division of the U.S. Department of Agriculture; government finance data from U.S. Bureau of the Census, *1982 Census of Governments, Compendium of Government Finance,* Vol. 4, No. 5, Table 50. ACIR staff compilation and computations.

ments are facing financial strains which may limit their ability to help shield localities from the combined effects of the farm recession and the decline in energy prices.

- Local governments in Iowa and Nebraska also show signs of fiscal stress; in addition, these state governments are experiencing some degree of financial stress. State help in dealing with local fiscal problems stemming from the farm crisis is more likely here than in North Dakota and Montana, but the states will not find it easy.
- Local governments in Missouri show signs of fiscal stress, but the state does not. Thus, the state may be in a better position to help shield its local governments from the farm recession.
- Localities in Arkansas, Kansas, Minnesota and Mississippi show few signs of increasing fiscal stress, although the state governments in these four cases do appear to be financially strained. If further local stress should develop, state help might be problematic.
- Local governments in Georgia appear to be relatively trouble free fiscally, as does the state government.
- Local governments in the heavily farm-dependent counties of the ten sample states will be hurt more than nonfarm counties by the termination of federal general revenue sharing. These localities—as is typical of smaller governments—receive a larger proportion of federal grants in the form of general revenue sharing than do their nonfarm counterparts.
- Most of the farm counties are more dependent on state aid than are their nonfarm counterparts.
- Because of the inherent "stickiness" of property tax assessment levels, most farm counties in the sample have yet to register substantial drops in property tax revenue. However, over time, the significant deterioration in the property tax base will be reflected in diminished property tax collections.
- In striking contrast to the relative stability of local property tax revenues, major state revenue sources—especially general sales and income taxes—exhibit a high degree of sensitivity to the changes in the state economy. The vulnerability of state revenue systems to the decline in the farm economy is strikingly illustrated by the recent sharp drop in revenue flows in Nebraska, North Dakota and Montana.
- Since state revenue systems are highly sensitive to economic fluctuations, the most immediate threat posed by the farm crisis for local governments will come in the form of reductions in state aid. Reductions in aid to local school systems already have occurred in several states—Iowa, Nebraska, Arkansas and Montana.

Michael Lawson is an ACIR Analyst. This article is based on an ACIR staff information report "The Agricultural Recession: Its Impact on the Finances of State and Local Governments" prepared by Lawson, Susannah Calkins, and Bruce McDowell.

A Fiscal Note

1984 State Tax Wealth: Preview of the RTS Estimates

Carol E. Cohen
Analyst

State tax experts, economic development specialists, policymakers and others will be interested in ACIR's latest estimates of fiscal capacity and effort. The 1984 results, just completed, continue to highlight the changes occurring in the relative economic and fiscal health and policies of the states. Particularly apparent with the 1984 figures are regional trends in tax capacity or wealth—the ability of the states and their local governments to raise revenues from the tax sources available to them.

Using the Representative Tax System (RTS) methodology, ACIR's preliminary estimates of state-local fiscal capacity and tax effort for 1984 are shown in *Table 1* and mapped in *Figure 1*. Both tax capacity and tax effort are indexed to a U.S. average of 100. For example, New Hampshire—with a capacity index of 110—has capacity 10% above the national average, while Vermont—with an index of 95—has capacity 5% below average.

1984 Tax Capacity

Tax capacity, as estimated under the RTS, is a hypothetical measure of how much revenue a state could raise if it levied national average tax rates and used tax bases "representative" of most other states. It is calculated by applying national average tax rates in each state to a uniform set of 26 state and local tax bases, and estimating the yield based on the size of the underlying tax bases. Because the size of a state's tax bases is directly affected by the condition of its economy, the capacity measure reflects both the state of the economy and how that translates into the potential revenue-raising ability of each state.

Table 1 shows the range of state-local capacities in 1984 relative to the average, as well as some fairly pronounced regional patterns. The three states with the highest ca-

Figure 1
Classification of States According to Tax Wealth Based on the 1984 RTS Capacity Estimates

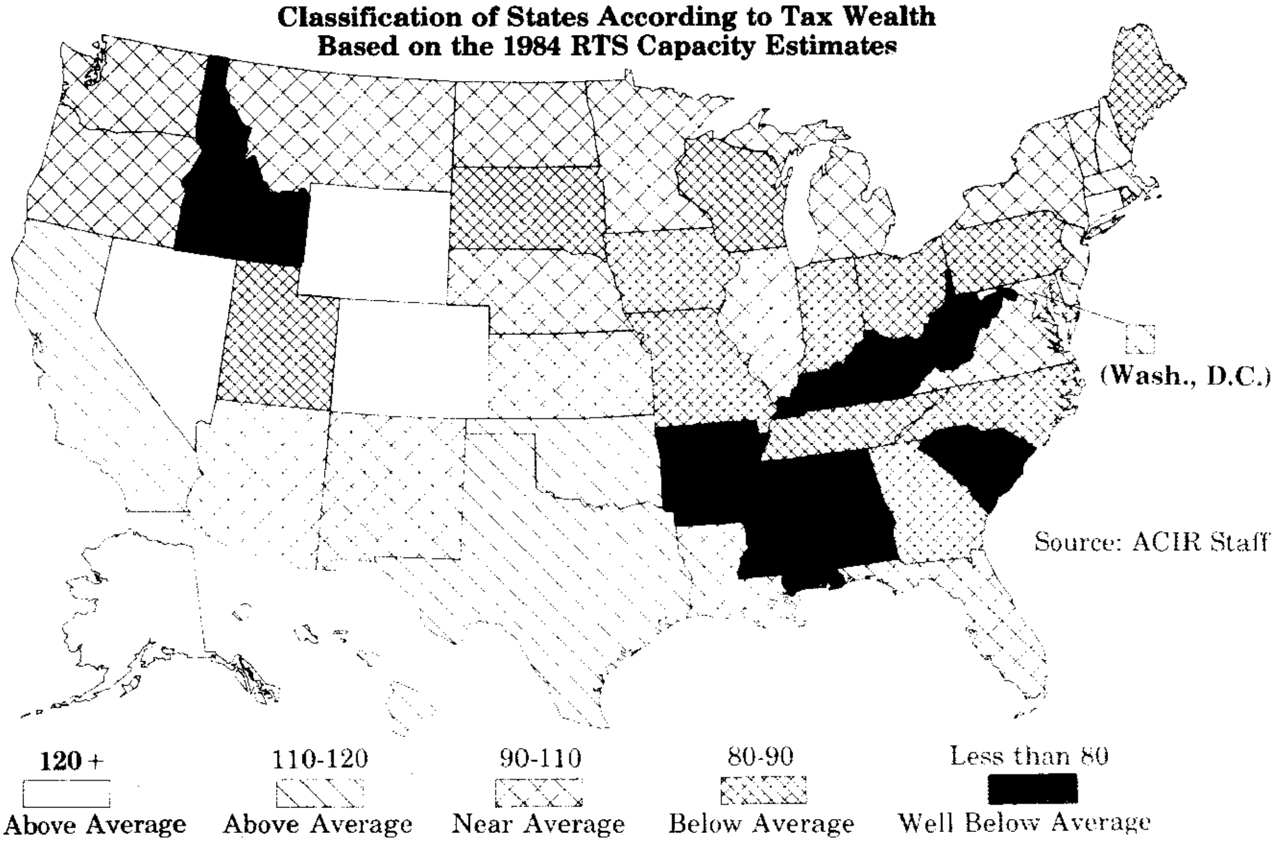


Table 1

Preliminary 1984 RTS
Tax Capacity and Tax Effort Indices

State	1984 Capacity	1984 Effort
U.S. Average	100	100
New England		
Connecticut	124	99
Maine	88	105
Massachusetts	111	105
New Hampshire	110	69
Rhode Island	86	123
Vermont	95	94
Mideast		
Delaware	123	77
Dist. of Columbia	120	139
Maryland	105	100
New Jersey	114	109
New York	98	158
Pennsylvania	88	105
Great Lakes		
Illinois	97	110
Indiana	87	95
Michigan	93	129
Ohio	90	105
Wisconsin	89	133
Plains		
Iowa	87	112
Kansas	100	95
Minnesota	101	124
Missouri	89	85
Nebraska	93	99
North Dakota	106	93
South Dakota	83	87
Southeast		
Alabama	73	90
Arkansas	75	87
Florida	105	74
Georgia	89	89
Kentucky	77	89
Louisiana	102	81
Mississippi	70	95
North Carolina	87	89
South Carolina	77	95
Tennessee	81	81
Virginia	96	88
West Virginia	79	100
Southwest		
Arizona	99	95
New Mexico	103	85
Oklahoma	113	76
Texas	117	69
Rocky Mountain		
Colorado	121	82
Idaho	78	91
Montana	95	101
Utah	81	106
Wyoming	181	105
Far West		
California	119	93
Nevada	146	65
Oregon	94	103
Washington	99	103
Alaska	250	141
Hawaii	118	99

Source: ACIR Staff Estimates

pacities by far were Alaska (250), Wyoming (181), and Nevada (146), all of which have large amounts of taxable resources not generally available to other states—mineral resources in the case of Alaska and Wyoming, tourism in the case of Nevada. Most of the states in the New England and Mideast regions, as well as those in the Southwest, Far West, and Rocky Mountain regions, had average or above-average capacities. The Great Lakes and Plains states tend to have capacities near or below the average, while the region which was worst off is the Southeast, containing six of the seven states that had indices below 80.

While the regional patterns of capacity reflect similarities in economic makeup, demographics and other factors, the states that stand out as having higher capacity than those in the rest of their regions in some cases have large endowments of natural resources (e.g., North Dakota, Louisiana, Texas and Wyoming) or other unusual circumstances such as tourism (e.g., Nevada and Hawaii) which provide additional taxing opportunities. Moreover, the possibility that taxes on these unusual resources may be "exported" to residents of other states lends their presence an even greater weight in that state's total tax capacity.

1984 Tax Effort

Table 1 also shows the overall tax effort index for each state. In the RTS framework, tax effort is a measure of the extent to which a state uses the tax bases available to it, relative to the national average. Calculated by comparing a state's actual tax revenues to its hypothetical tax capacity, it is a measure of tax utilization relative to capacity. Since tax capacity is based on national average tax rates and bases, a state's tax effort figure also is a measure of that state's statutory tax burden relative to the average state tax system. Tax effort is not, however, a measure of the final incidence of taxes. A state with significant tax exporting opportunities may be able to pass on a portion of its taxes to residents of other states, thereby reducing the effective tax burden on its own residents.

In 1984, New York (158), Alaska (141), and the District of Columbia (139) had the highest tax efforts. The states with the lowest efforts were Nevada (65), Texas (69), and New Hampshire (69). As with tax capacity, regional patterns also exist in the distribution of tax effort indices among the states. High tax effort states tend to be concentrated in the Great Lakes, Mideast and New England regions, while most of the states in the Southeast, Southwest and Plains regions have relatively low tax efforts.

There are many relationships of tax capacity to tax effort among the states. The New England and Mideast states generally combine high capacity with high effort and the Southeastern states below-average capacity with below-average effort, but other patterns also are possible. The Great Lakes states have average to below-average tax capacities but above-average tax efforts, while the Southwestern states with above-average capacities have relatively low tax efforts.

Short-Term Trends in Fiscal Capacity

Table 2 shows the states which had the largest increases and decreases in fiscal capacity between 1983 and 1984. While overall RTS index changes of a couple of points or less are probably not significant due to data imperfections and the relative nature of the indices, changes of the magnitude shown in the table clearly reflect underlying currents in the economy. In this table, the regions and industries undergoing the most dramatic changes in 1984 are highlighted.

The regions experiencing the greatest overall gains between 1983 and 1984 were the Mideast and Northeast. Five of the eight states with the largest capacity gains are in these regions, which continued to experience a rebound in fiscal capacity since the recession of the early 1980s. In 1984, the Great Lakes region also showed signs of recovery from the recession, with Michigan leading the way and making it into the group of top gainers. However, unlike the Northeast and Mideast, this was the first year of improvement for states in this region. In the other direction, all 11 of the states which experienced the largest capacity decreases are either large energy-producing or farming states. These states continued to be hard hit by falling prices and less competitive exports.

Long-Term Regional Trends

Table 3 presents the historical series of RTS tax capacity indices for each state. The existence of this series, dating back to the 1960s, when the methodology was developed and published annually since 1979, permits examination of long-term trends affecting capacity. From the vantage point of 1984, the following trends are the most significant:

- Almost all of the Northeast and Mideast states continued to show improvements in their fiscal capacities, a trend that began in 1982 following the downturn in 1981. This improvement can be partly attributed to expansion in high-tech and defense-related industries, particularly for the Northeast, and has resulted in the states in these regions becoming or maintaining their positions as some of the wealthiest in the nation. The only state in these regions that has experienced a long-term decline is Pennsylvania, that went from a capacity index in the high 90s in the mid-1970s to one of 88 in 1983 and 1984.
- In 1984, the Great Lakes states showed the first small signs of a turnaround in fiscal capacity since 1980, with Michigan increasing by three percentage points, Wisconsin by two points, and Indiana and Ohio by one point. Only Illinois continued to slip, with a decrease of one percentage point. The recovery of the automobile and related industries played a large part in helping this region out of a severe fiscal decline, although it was still struggling with a depressed farm sector. For instance, Illinois' continued downward trend in 1984 was strongly influenced by that state's large industrial base in farm implements and machinery.
- The farm-dependent states in the Plains and Rocky Mountain regions continued a long-term decline beginning around 1980 that reduced the capacities in some of those states by more than ten points. Between 1979 and 1984, Iowa's capacity was reduced by 19 percentage points, South Dakota's by 12 points, and Idaho's by 13 points. Among other factors, the loss of foreign markets has been a large contributor to the weakness of the domestic farm sector.
- As oil prices declined from their peak in 1981, so did the capacities of the energy-producing states. Alaska, the quintessential energy state, declined in capacity from 324 in 1981 to 250 in 1984, a decrease of 74 points or 23%. Wyoming, that went from 216 to 181 over the same period, experienced the next largest decrease in both absolute and percentage terms (35 points and 16%). Louisiana, New Mexico, Oklahoma and Texas all underwent capacity declines of 10 to 15 percentage points. As oil prices have continued to drop in 1985—and especially 1986—the capacities of these states can be expected to fall even further.
- Influenced by both lower energy prices and reduced exports, the capacities of most of the major coal-producing states fared as badly or worse than those of the other energy states. Montana's capacity fell by 19 points (114 to 95) between 1981 and 1984, and North Dakota's by 17 points (123 to 106). West Virginia's score went from 94 in 1980 to 79 in 1984, plunging it back into the 70s for the first time since the late 1960s. Kentucky experienced the smallest decline in capacity—decreasing five points since 1982—but with a 1984 index of 77, was fifth from the bottom in capacity among all the states.
- Fiscal capacity doldrums continued in the Southeastern region, especially in Alabama, Arkansas, Mississippi and South Carolina. While these states have increased their taxing capacity in absolute terms at average or above-average rates since the late 1960s, over the length of the historical series they have remained among the poorest in relative tax capacity. Georgia, North Carolina and Virginia, however, appear to have achieved modest—but lasting—gains in capacity since the mid-1970s.

Table 2
Largest Gainers and Losers in RTS Tax Capacity Between 1983 and 1984 (in index points)

Gainers		Losers	
Maryland	+6	Alaska	−22
Delaware	+5	Montana	−10
Hawaii	+4	Nebraska	−8
Massachusetts	+4	West Virginia	−8
Minnesota	+4	Texas	−7
District of Columbia	+3	Idaho	−5
New York	+3	Louisiana	−5
Michigan	+3	New Mexico	−5
		North Dakota	−5
		Iowa	−4
		South Dakota	−4

Source: ACIR Staff Estimates

Additional Fiscal Capacity Information To Be Released

A full ACIR report containing the 1984 RTS results and a discussion of the RTS methodology will be forthcoming. That report will present the set of tables disaggregating the RTS into its 26 component tax bases. It also will contain graphs for each state that describe tax mix and utilization, and trace overall trends in capacity and effort. The detailed data to be presented in the report are par-

Table 3
RTS TAX CAPACITY INDICES FOR 1984 AND SELECTED PRIOR YEARS

State	1984	1983	1982	1981	1980	1979	1977	1975	1967
U.S. Average	100	100	100	100	100	100	100	100	100
New England									
Connecticut	124	124	117	110	112	109	112	110	117
Maine	88	90	84	79	80	80	82	84	81
Massachusetts	111	107	101	96	96	93	95	98	98
New Hampshire	110	108	100	95	97	96	102	102	110
Rhode Island	86	86	81	80	84	84	87	88	91
Vermont	95	94	89	84	84	85	93	94	88
Mideast									
Delaware	123	118	115	111	111	110	120	124	123
Dist. of Col.	120	117	115	111	111	110	123	118	121
Maryland	105	99	100	98	99	99	101	101	101
New Jersey	114	112	106	105	105	102	106	109	107
New York	98	95	92	89	90	89	94	98	108
Pennsylvania	88	88	89	90	93	93	99	98	91
Great Lakes									
Illinois	97	98	99	104	108	112	112	112	114
Indiana	87	86	89	91	92	98	100	98	99
Michigan	93	90	93	96	97	104	103	101	104
Ohio	90	89	92	94	97	101	104	104	100
Wisconsin	89	87	87	91	95	100	99	98	94
Plains									
Iowa	87	91	96	102	105	108	105	106	104
Kansas	100	102	106	109	109	109	105	109	105
Minnesota	101	97	99	100	102	105	100	97	95
Missouri	89	89	91	92	94	97	96	96	97
Nebraska	93	101	97	97	97	100	101	106	110
North Dakota	106	111	115	123	108	109	99	101	92
South Dakota	83	87	87	86	90	95	91	94	91
Southeast									
Alabama	73	75	74	74	76	76	77	77	70
Arkansas	75	78	79	82	79	77	78	78	77
Florida	105	103	104	101	100	100	101	102	104
Georgia	89	87	84	81	82	81	84	86	80
Kentucky	77	79	82	82	83	85	83	85	80
Louisiana	102	107	113	117	109	104	99	97	94
Mississippi	70	68	71	72	69	70	70	70	64
North Carolina	87	87	82	80	80	82	83	85	78
South Carolina	77	76	74	75	75	76	77	77	64
Tennessee	81	80	77	79	79	81	83	84	78
Virginia	96	96	94	94	95	93	91	93	86
West Virginia	79	87	92	90	94	92	90	89	75
Southwest									
Arizona	99	97	96	89	89	91	89	92	95
New Mexico	103	108	115	114	107	103	98	97	94
Oklahoma	113	115	126	127	117	108	101	98	102
Texas	117	124	130	132	124	117	112	111	98
Rocky Mountain									
Colorado	121	122	121	113	113	110	107	106	104
Idaho	78	83	86	87	87	91	88	89	91
Montana	95	105	110	114	112	113	103	103	105
Utah	81	82	86	86	86	87	88	86	87
Wyoming	181	182	201	216	196	173	154	154	141
Far West									
California	119	119	116	115	117	116	114	110	124
Nevada	146	147	151	148	154	154	148	145	171
Oregon	94	96	99	99	103	106	104	100	106
Washington	99	101	102	99	103	103	100	98	112
Alaska	250	272	313	324	260	217	158	155	99
Hawaii	118	114	117	105	107	103	107	109	99

Source: ACIR preliminary staff estimates for 1984. Other years may be obtained from ACIR, *1983 Tax Capacity of the States,* M-148, Washington, D.C.

ticularly useful for state tax policy analysis.

Since the RTS was developed, there have been numerous refinements to its methodology. One of the most important of these modifications has been the development of a more comprehensive capacity measure, called the Representative Revenue System or RRS, based on the RTS but incorporating more revenue sources. In addition to the 26 regular RTS bases, the RRS includes all other taxes, user fees and charges, and mineral rents and royalties. Since the complete RTS is a component of the RRS, it will continue to be published as a consistent series. The RRS simply represents another measure of fiscal capacity that includes non-tax revenue sources. The 1984 index results of the RTS, an intermediate measure based on all taxes, and the RRS can be compared in *Table 4* and will be discussed at more length in the full report.

As part of ACIR's ongoing effort to contribute to the improvement of the measurement of fiscal capacity, the report presenting the 1984 estimates will go beyond discussing only the RTS and RRS results and methodologies. For the first time, it also will present a comparative analysis of several different fiscal capacity measures, including per capita income, export-adjusted income, gross state product, total taxable resources, the RTS, and the RRS. The report will describe the various measures, emphasizing the different concepts underlying each and the uses for which each is most appropriate. It will be published later this year.

TABLE 4
COMPARISON OF RTS-BASED CAPACITY INDICES FOR 1984

STATE	Standard RTS Tax Capacity Index	RTS-Based All-Tax Capacity Index	RRS Fiscal Capacity Index
Alabama	73.2	73.3	78.2
Alaska	249.8	245.5	356.7
Arizona	98.7	98.5	96.1
Arkansas	75.0	75.0	74.1
California	119.3	119.1	117.5
Colorado	121.3	120.8	118.9
Connecticut	124.3	124.5	125.8
Delaware	122.5	121.9	126.6
District of Columbia	119.8	120.3	120.5
Florida	104.6	104.4	101.8
Georgia	89.3	89.3	88.0
Hawaii	117.8	117.2	113.1
Idaho	77.9	78.0	77.3
Illinois	96.6	97.0	97.9
Indiana	87.4	87.5	86.7
Iowa	86.5	86.9	87.0
Kansas	100.2	100.4	99.3
Kentucky	77.1	77.2	76.5
Louisiana	102.3	101.6	106.5
Maine	88.0	87.9	86.2
Maryland	105.4	105.7	105.2
Massachusetts	111.0	111.2	110.4
Michigan	92.7	92.9	93.2
Minnesota	101.2	101.3	100.0
Mississippi	69.6	69.5	68.5
Missouri	89.3	89.5	90.1
Montana	95.2	94.8	95.7
Nebraska	93.1	93.3	93.0
Nevada	145.6	144.0	136.1
New Hampshire	110.2	110.0	110.9
New Jersey	114.1	114.3	118.2
New Mexico	103.4	102.5	121.3
New York	98.4	98.9	100.3
North Carolina	86.6	86.5	85.1
North Dakota	105.8	105.5	106.3
Ohio	89.9	90.1	91.3
Oklahoma	113.0	112.2	108.2
Oregon	93.6	93.5	92.1
Pennsylvania	88.3	88.6	88.6
Rhode Island	86.3	86.8	90.5
South Carolina	76.5	76.6	75.7
South Dakota	83.1	83.2	82.8
Tennessee	80.5	80.5	79.3
Texas	117.4	116.7	113.5
Utah	80.5	80.3	80.8
Vermont	95.4	94.9	91.7
Virginia	95.8	96.1	95.8
Washington	99.1	99.2	97.7
West Virginia	79.3	79.2	77.3
Wisconsin	88.7	89.1	89.0
Wyoming	181.4	178.1	201.5
U.S. TOTAL	100.0	100.0	100.0

Source: ACIR Staff Estimates

And Briefly: Books

Kelly McManus
Information Officer

SPECIAL NOTE
An errata sheet has been prepared for the 1985-86 edition of *Significant Features of Fiscal Federalism* (M-146). The sheet replaces Table 114 on page 190: "STATE RANKINGS FOR SELECTED EXPENDITURE ITEMS, PER CAPITA AND AS A PERCENTAGE OF STATE PERSONAL INCOME, FY84 (State and Local Government Expenditure)". A copy of the replacement page has been reproduced in this issue of *Intergovernmental Perspective* for your convenience.

The following publications may be ordered directly from ACIR.

The Agricultural Recession: Its Impact on the Finances of State and Local Governments (June 1986), $5.00

This staff information report was completed in response to a request from Senator David Durenberger (MN) to assist the Senate Subcommittee on Intergovernmental Relations in its study of the effects of the farm crisis on state and local governments. The report is featured in the "Special Report" section of this issue of *Intergovernmental Perspective.*

The Transformation in American Politics: Implications for Federalism (A-106), $10.00

This Commission report examines the transformation of political party structures and analyzes their effects on intergovernmental relations. Of special interest are sections tracing the evolution and influence of national, state and local party organizations; the role of the media; campaign finance and the growth of political action committees; and the influence of special interest groups on party policies and procedures.

Recommendations address five policy areas: enacting new and modifying existing state laws affecting political parties' roles in nominations and elections; reforming state regulation of party organizational structures, composition and procedures; changing the status of state and local parties under the *Federal Election Campaign Act;* assuring political party access to the media; and the role of cable television in community affairs.

Other Recent ACIR Reports:

Reflections on *Garcia* and Its Implications for Federalism (M-147), $3.00

A Framework for Studying the Controversy Concerning the Federal Courts and Federalism (M-149), $3.00

Devolving Federal Program Responsibilities and Revenue Sources to State and Local Governments (A-104), $3.00

Significant Features of Fiscal Federalism, 1985-86 Edition (M-146), $10.00

Forthcoming:

Changing Public Attitudes on Governments and Taxes, 1986

Tort Reform and Liability Insurance: Proceedings from the Joint National/State ACIR Conference

The following publications may be ordered directly from the publishers cited.

Financing State and Local Governments, by J. Richard Aaronson and John Hilley, 4th edition, The Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, D.C. 20036, $9.95

The Economic and Budget Outlook: An Update, Congressional Budget Office, Washington, D.C. 20515 (August 1986)

City Fiscal Conditions in 1986, National League of Cities, 1301 Pennsylvania Avenue, N.W., Washington, D.C. 20004, $15.00/$10.00 NLC members (July 1986)

Fiscal Survey of the States, National Governors' Association and National Association of State Budget Officers, 444 North Capitol Street, Washington, D.C. 20001, $20.00 (August 1986)

State Budget Actions in 1986, National Conference of State Legislatures, 1050 Seventeenth Street, Suite 2100, Denver, Colorado 80265, $25.00 (September 1986)

The Book of States, 1986-87 Edition, The Council of State Governments, P.O. Box 11910, Lexington, Kentucky 40578, $42.50

The Municipal Yearbook 1986, International City Management Association, 1120 G Street, N.W., Washington, D.C. 20005, $60.00

ERRATA: TO REPLACE TABLE 114, PAGE 190 OF SIGNIFICANT FEATURES OF FISCAL FEDERALISM, 1985-86 EDITION

TABLE 114--STATE RANKINGS FOR SELECTED EXPENDITURE ITEMS, PER CAPITA AND AS A PERCENTAGE OF STATE PERSONAL INCOME, FY84
(STATE AND LOCAL GOVERNMENT EXPENDITURE)

	State-Local Direct Education Expenditure				State-Local Direct Elementary & Secondary Education Expenditure				State-Local Direct Higher Education Expenditure				
Rank	State	Per Capita	State	As a % of Personal Income	State	Per Capita	State	As a % of Personal Income	State	Per Capita	State	As a % of Personal Income	Rank
1	AK	$2,309	AK	14.0%	AK	$1,673	AK	10.2%	AK	$569	AK	3.5%	1
2	WY	1,526	WY	12.7	WY	1,104	WY	9.2	WY	390	UT	3.3	2
3	DE	952	NM	9.9	NY	670	MT	6.8	DE	335	WY	3.3	3
4	NM	939	UT	9.8	MT	667	NM	6.6	ND	330	NM	3.0	4
5	ND	929	MT	9.3	NM	627	UT	6.1	WI	299	ND	2.9	5
6	MT	916	VT	8.5	OR	625	OR	5.8	UT	292	VT	2.8	6
7	WI	903	OR	8.4	DC	619	WV	5.4	IA	290	AZ	2.7	7
8	OR	902	ND	8.0	MN	608	NY	5.2	NM	288	IA	2.7	8
9	MN	893	WI	8.0	NJ	608	MI	5.2	AZ	282	DE	2.7	9
10	NY	885	IA	7.9	MI	592	VT	5.1	VT	276	WI	2.6	10
11	UT	865	AZ	7.8	WI	573	MN	5.1	HI	271	MS	2.5	11
12	MI	857	DE	7.6	CO	566	SD	5.1	KS	264	AL	2.4	12
13	IA	844	WV	7.6	ND	559	WI	5.1	OR	256	OR	2.4	13
14	VT	843	MN	7.5	NE	552	NE	5.0	CO	255	NC	2.4	14
15	CO	841	MI	7.5	WA	550	IA	4.9	WA	252	HI	2.3	15
16	WA	836	MS	7.4	DE	549	ND	4.8	MN	245	ID	2.2	16
17	KS	815	NE	7.3	TX	549	TX	4.8	CA	245	KS	2.2	17
18	NE	814	SD	7.2	UT	541	ME	4.8	MI	240	SC	2.2	18
19	MD	811	AL	7.1	KS	534	AZ	4.8	NE	238	NE	2.1	19
20	AZ	803	NC	7.1	MD	534	OK	4.7	TX	235	LA	2.1	20
21	TX	797	SC	7.1	IA	522	OH	4.6	NC	229	MI	2.1	21
22	NJ	777	LA	7.0	OK	517	WA	4.6	AL	223	WA	2.1	22
23	OK	767	OK	7.0	CT	517	SC	4.5	OK	220	MN	2.1	23
24	CA	759	WA	6.9	OH	513	AR	4.5	MD	217	MT	2.1	24
25	RI	749	TX	6.9	VT	508	MS	4.5	LA	214	TX	2.0	25
26	DC	743	ME	6.9	MA	497	CO	4.5	ID	211	CO	2.0	26
27	VA	733	NY	6.8	SD	495	LA	4.5	IN	210	IN	2.0	27
28	LA	715	IN	6.8	WV	494	IN	4.4	VA	208	OK	2.0	28
29	OH	714	ID	6.7	AZ	493	DE	4.4	MT	203	KY	2.0	29
30	IN	706	KS	6.7	VA	493	KS	4.4	MS	199	SD	1.9	30
31	SD	703	CO	6.7	CA	492	NC	4.4	SC	196	CA	1.9	31
32	WV	698	AR	6.7	RI	488	NJ	4.3	KY	187	WV	1.8	32
33	CT	685	KY	6.5	PA	475	ID	4.3	RI	186	VA	1.7	33
34	IL	682	RI	6.5	IL	473	RI	4.2	SD	185	ME	1.7	34
35	NC	682	OH	6.4	ME	466	MD	4.1	OH	185	MD	1.7	35
36	HI	681	MD	6.3	IN	461	PA	4.1	IL	178	GA	1.7	36
37	ME	670	VA	6.1	LA	456	VA	4.1	GA	172	AR	1.7	37
38	AL	651	GA	6.0	FL	444	GA	4.1	ME	168	TN	1.7	38
39	MA	646	CA	5.8	NV	440	AL	4.0	NY	166	OH	1.6	39
40	SC	641	HI	5.7	MO	435	MO	4.0	WV	166	RI	1.6	40
41	ID	636	TN	5.7	NH	431	KY	4.0	TN	157	IL	1.4	41
42	PA	632	NJ	5.5	NC	421	FL	3.9	NV	152	MO	1.4	42
43	FL	617	MO	5.5	GA	413	DC	3.9	MO	148	NY	1.3	43
44	GA	613	PA	5.5	SC	412	IL	3.8	NH	148	NH	1.3	44
45	NV	610	IL	5.5	ID	404	CA	3.8	AR	147	NV	1.2	45
46	KY	609	FL	5.5	AR	400	MA	3.8	NJ	146	FL	1.2	46
47	MO	602	NH	5.1	HI	400	NH	3.7	FL	140	NJ	1.0	47
48	NH	597	NV	5.0	KY	372	TN	3.6	CT	130	PA	0.9	48
49	MS	593	MA	4.9	AL	368	NV	3.6	DC	124	CT	0.9	49
50	AR	592	DC	4.7	MS	362	CT	3.5	MA	111	MA	0.8	50
51	TN	540	CT	4.6	TN	343	HI	3.4	PA	101	DC	0.8	51
	US	$746	US	6.4%	US	$512	US	4.4%	US	$202	US	1.7%	

Source: Computed on ACIR Government Finance Spreadsheet Diskettes for FY 84. These diskettes contain data supplied via magnetic tape by the U.S. Bureau of the Census.

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