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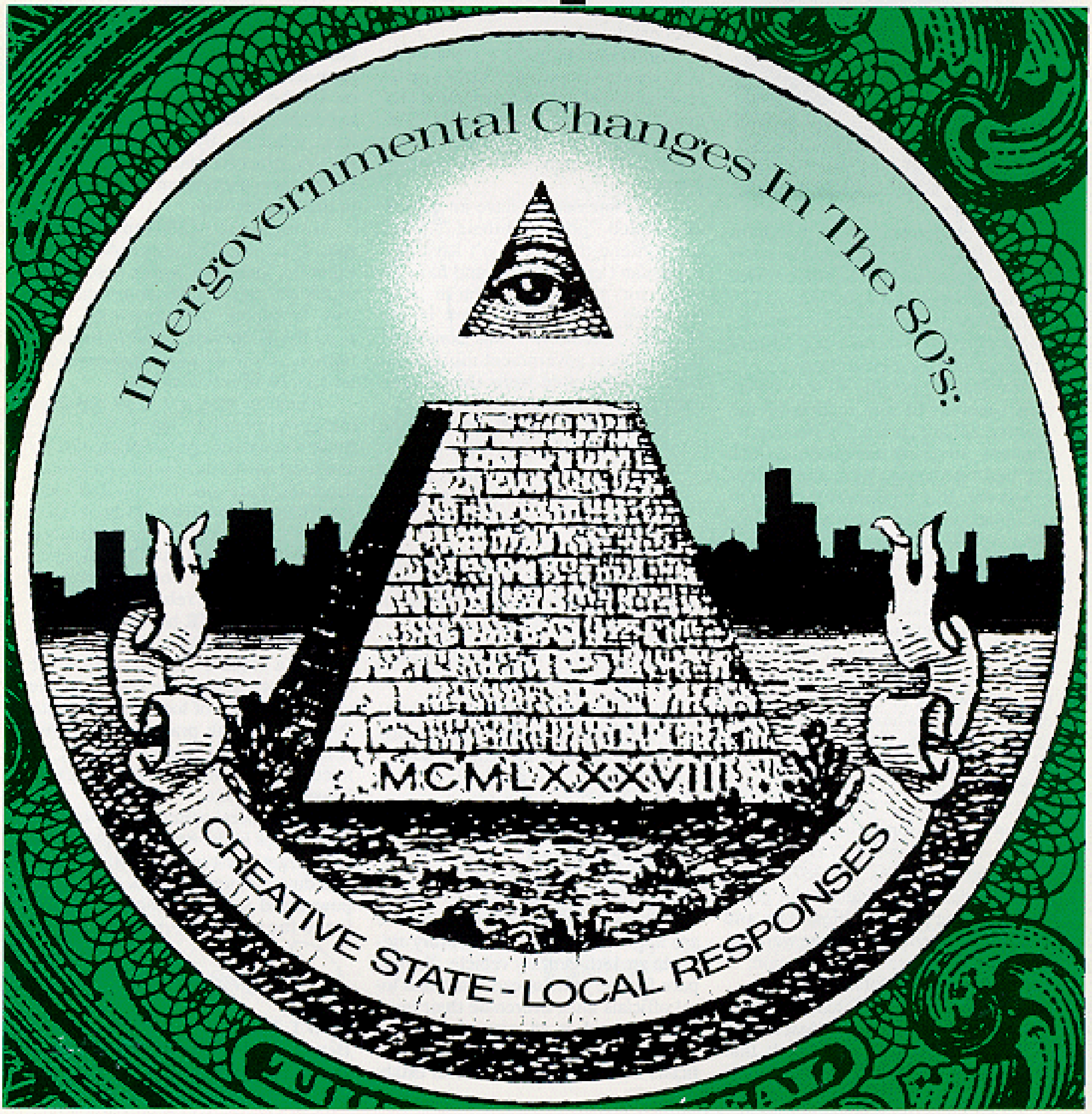
Intergovernmental PERSPECTIVE



ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

A View from the Commission

Dear Reader:

In 1986, leaders of the Southern Growth Policies Board issued a report on the future of the South entitled *Halfway Home and a Long Way to Go*. At the core of the report were ten regional objectives to ease the South's entrance into the 21st century.

Strangely enough, all ten objectives seem to fit any section of the country. All are common goals of government involving education, at-risk families, technology, jobs, and the environment. It is significant that two of the objectives point directly at government itself: (1) develop pragmatic leaders with global vision; and (2) improve the structure and performance of state and local governments.

The development of "pragmatic leaders" will continue to be debated in every election. The global vision, however, is already upon us. Many state and local leaders have come to realize the the fortunes of their citizens are tied to global affairs, and that there is much to be learned from other countries. The National Governors' Association reports, for example, that governors of 47 states led 87 delegations to foreign countries in 1987. While these leaders were circling the globe for economic opportunities, state and local governments back home were demanding more and more attention, to say nothing about dollars.

The March 1988 Fiscal Survey of the States by the National Association of State Budget Officers reveals that last year 24 states cut their budgets in mid-year and that 34 states raised tax levels. The survey also documents the wide array of budget balancing initiatives employed by states.

Amid the otherwise routine statistics, one item stood out: "Sixteen states recommended new and expanded programs to help local governments." This is very important in a time of declining federal aid to state and local governments.

In Tennessee we have an expression called "poor mouthing." When you contend that you don't have anything, can't get anything, and have no hope for the future, you're poor mouthing. In my early years in the General Assembly, I was convinced that our local government representatives in Tennessee were the all-time champion poor mouthers.

However, recent studies by the Tennessee ACIR report that:

> 54 of the state's 95 counties do not raise half of their budgets from local sources.
>
> 49 counties have one or more constitutional clerks whose office fees do not generate enough revenue to cover the cost of their offices.
>
> 44 counties are making a greater tax effort than their capacity.
>
> 20 counties with the lowest educational attainment have consistently had the highest unemployment rates.

We cannot pass these findings off as poor mouthing. Such findings also are not unique to Tennessee. Similar figures or others equally critical can probably be found in other states.

The pressing problem is that we are approaching the 21st century riding in an 18th-century vehicle. To prepare for the years ahead, state and local officials must overcome their mind sets that each is an avowed enemy—and this also goes for state and local officials in relation to the federal establishment, *Garcia* and *South Carolina* v. *Baker* notwithstanding.

We need, among other things, better intergovernmental coordination, not just federal-state-local but also state-local. A look at the changes going on in the federal system today will highlight the importance of good state-local relations. By working together, we can structure state and local governments to make them more effective in the 21st century.

In this, state ACIRs can play a vital role. Our own Tennessee ACIR, for example, identifies issues, researches problems, makes recommendations, and facilitates communication. We need the Tennessee ACIR to focus attention on the wider intergovernmental context of public policy.

The Congress, too, must repair its intergovernmental machinery. Unfunded mandates, preemption of state and local authority, the federal deficit, declining state aid to state and local governments, the low priority of intergovernmental affairs, and reduced support for the U.S. ACIR—all signal problems on the horizon for good federal-state-local relations.

The U.S. ACIR has spoken of the need to restore balance in the federal system, a balance that recognizes the renewed strength of the states and the vital importance of local governments. Perhaps to think pragmatically about restructuring our federal system, we need to stop thinking about it as a top-heavy totem pole.

Our federal system does not have to be a stick in the mud. It is and can be an energetic system of constitutionally coordinated governments that share power and perform functions according to the will of the people.

John Bragg

John T. Bragg
Deputy Speaker, Tennessee House of Representatives

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Staff

John Kincaid
Executive Director

Robert Gleason
Director of Communications and Publications

Joan A. Casey
Editor

Cover Design: Baskin and Associates

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ACIR News

John Kincaid Named ACIR Executive Director

John Kincaid has been named ACIR's new Executive Director. His appointment was ratified by the Commission after a unanimous recommendation by the Commission's selection committee. Dr. Kincaid has been ACIR's Director of Research since late December 1986 and Acting Executive Director since January 1, 1988.

The selection committee was chaired by Commissioner David E. Nething. The other members were Commissioners John Bragg, David Durenberger, Daniel Elazar, Philip Elfstrom, Robert M. Isaac, Ann D. McLaughlin, and Ted Weiss. Prior to making its recommendation, the committee interviewed four strong finalists for the position. In selecting the finalists, the committee was assisted by former ACIR Executive Directors William Colman and John Shannon.

Before coming to ACIR, Kincaid was associate professor of political science at the University of North Texas in Denton. He taught previously at Temple University; St. Peter's College, Jersey City; Arizona State University, Tempe; and Seton Hall University, South Orange, N.J. He received a B.A. in political science from Temple University, Philadelphia, in 1967; an M.A. in urban affairs from the University of Wisconsin-Milwaukee in 1968; and a Ph.D in political science from Temple in 1981.

Kincaid is an editor of *Publius: The Journal of Federalism;* associate editor of the University of Nebraska Press' State Government and Politics book series; and author of books and articles on federalism, intergovernmental relations, and American government. He is the editor of a recent issue of *The Annals* of the American Academy of Political and Social Sciences, on State Constitutional Law, and coeditor of a forthcoming book, *The Covenant Connection: Federal Theology and the Origins of Modern Politics.*

In accepting appointment as ACIR's Executive Director, Kincaid said that the Commission will continue to emphasize issues of current urgency on the intergovernmental agenda as well as latent issues likely to become important in the near future. In so doing, the Commission will continue to provide the intergovernmental community with up-to-date data on developments in fiscal, political, and judicial federalism.

Kincaid has also placed priority on further developing ACIR's capacity as a forum for airing and addressing diverse views; fostering cooperation within the intergovernmental community; improving ACIR's resource base; and increasing sales of publications and microcomputer diskettes, which have improved considerably this year.

In announcing Kincaid's appointment, ACIR Chairman Robert B. Hawkins, Jr., said: "The Commission has an important and exciting research agenda, and I am delighted that John Kincaid has accepted the responsibility of guiding the ACIR staff in maintaining ACIR's superior analysis of American federalism."

Shannon Gets Stone Award

John Shannon, who retired as ACIR Executive Director this year, was the 1988 recipient of the Donald C. Stone Award for Researcher of the Year, given by the Section on Intergovernmental Administration and Management of the American Society for Public Administration.

Conference Offers Perspective on Residential Community Associations

ACIR held a two-day conference on residential community associations (RCA) on June 13-14, focusing on the associations' role as "private governments" and how they do or should fit into the intergovernmental system. Among the specific topics discussed were: RCA governance and service provision, land use issues, the role of large-scale developers in private residential governance, the life-cycle of RCAs, the use of challenge grants to encourage RCA formation, the implications of "state action" for local governments, and the range of issues facing local governments.

Each day began with a focus session, followed by panel discussions, and ended with a pro-con roundtable discussion. Participants included representatives of the federal, state, and local governments, community associations, and the private sector.

Symposium Sessions Continued

At the June Commission meeting in Bismarck, ND, a discussion was held on "Federal Preemption of State Banking Authority: Good or Bad for the Nation's Dual Banking System?" The discussants were James Chessen, American Bankers Association; David T. Halverson, New York State Banking Department; Sandra B. McCray, ACIR Banking Project Consultant; Kathleen O'Day, Federal Reserve Board; and Keith Scarborough, Independent Bankers Association.

Spotlight on the New Jersey County and Municipal Government Study Commission

David A. Mattek
Executive Director

The New Jersey County and Municipal Government Study Commission is a mature state ACIR. It has a long record of making a positive contribution to the legislative process, to the effectiveness of local government operations, and to the interaction between county and municipal government and the state government. The commission was created by statute in 1966 as an autonomous advisory body within the legislative branch of state government.

The commission's legislative mandate is to "study the structure and functions of county and municipal government . . . and to determine their applicability in meeting present and future needs of the State and its political subdivisions." The commission provides a forum for legislators, local government representatives, and executive agencies to define issues and work toward solutions. The process is supported by staff reports based on extensive consultation with state and local officials and an in-depth analysis of the problem under investigation. This interaction strengthens the ability of both state and local governments to function effectively.

The commission is composed of 15 members: 9 named by the governor, 3 senators by the president of the Senate, and 3 assemblymen by the speaker of the General Assembly. The commission has a five-member professional staff and utilizes consultants as needed.

For the last four years, the two houses of the legislature have been controlled by members of opposite political parties. The commission is fortunate to have the majority leaders and other ranking legislators in both houses among its members. The commission also has the executive directors and other members of the two major local government agencies in the state on its board. We also have a member of the governor's staff and experienced citizen members on the commission. When this blue ribbon group makes recommendations, its voice is heard.

The commission has prepared one or more reports every year dealing with a broad range of issues. The reports recommend policy changes affecting local government, or, less often, provide technical information to local officials. Many legislative changes have resulted directly from commission recommendations.

The commission's initial report, *Creative Localism: A Prospectus* (1968), recommended a comprehensive and systematic study of the patterns of planning, financing, and performing the functions of government. The more than three dozen reports issued since then have led to more effective approaches to service provision among municipal, county, and state governments by achieving statutory improvements and changes in administrative practices and policies.

The commission's recent report *The Structure of County Government: Current Status and Needs* (1986) led to the enactment of the Haytaian-Orechio county government reform bill. The legislation authorizes all New Jersey counties to absorb a dozen state-mandated boards and commissions into departments of county government. This was the most important organizational improvement in law for county governments since the enactment of the Optional County Charter Law, a previous recommendation of this commission, more than a decade ago.

The commission report *Functional Fragmentation and the Traditional Forms of Municipal Government in New Jersey* led to the introduction and enactment of new and modernized form of government laws for the state's boroughs, towns, and cities. The fourth bill concerning townships is winding its way through the legislative process. These bills repeal 31 enabling acts for various kinds of autonomous municipal agencies. They also merge 31 existing special district governments with property taxing power and elected governing bodies into their surrounding municipal governments. They repeal more than a thousand sections of old and redundant law, rewriting these form of government laws using clear and simple language.

New Jersey is unique in that 567 nonoverlapping municipal governments cover the entire state. There is no annexation in the state because there are no unincorporated areas that can be annexed. New Jersey townships are identical in all ways with the four types of municipal governments authorized in the state—cities, towns, boroughs, and villages.

With the enactment of the fourth bill described above, all local school districts and special districts, except fire districts, will have contiguous boundaries with one or more municipal or county governments. Fire districts will also be the only remaining type of special district in New Jersey with elected governing bodies or with property taxing power.

The County and Municipal Government Study Commission has become the "father" of the Optional Municipal Charter Law (Faulkner Act), which was enacted prior to the creation of the commission, because of the commission's involvement with legislative amendments to the original act and direct field assistance to municipalities utilizing its provisions. One hundred and ten municipalities with 45 percent of the state's population now operate under the statute.

The commission recently recommended the largest intergovernmental transfer of responsibilities that has ever been seriously considered in the state in its report *Judicial Unification*. The report recommends the transfer of 5,000 county judicial employees to the state with a resulting saving of $120 million to the property taxpayers. Senator Carmen Orechio, the commission chairman, and Assembly Speaker Chuck Hardwick are moving the implementing legislation through the legislature. The principal impediment to rapid enactment of the measure is the question of the method of funding. As of this writing, the special needs of the three elected county constitutional officers (elected row officers) in the court system have been resolved.

The most recent major report of the commission is entitled *Solid Waste Management in New Jersey*. This report is aimed at expediting the construction of the 20 resource recovery and 15 landfill facilities contained in the solid waste management plans prepared by the state's 21 counties. The county solid waste management plans were prepared pursuant to legislation enacted as a result of an earlier study by the commission. New Jersey is a national leader in pursuing solutions to the solid waste problem, and the commission is pleased to be making a major contribution to the solution of this contentious problem.

The commission's past work program has examined almost every function of local government from the perspective of the intergovernmental relationship between municipal, county and state governments. These intergovernmental studies have included examinations of transportation, water supply, flood control, water quality, public health, public safety, housing, libraries, and social service. The commission's current work program includes studies on the elderly, code enforcement, corrections, and municipal volunteers and boards.

The commission is broadening its intergovernmental efforts to include consideration of the federal government's involvement with state and local government. The commission has exerted and continues to exert a positive impact on the relationship between the executive and legislative branches of state government and the state, county, and municipal governments.

New Jersey County and Municipal Government Study Commission

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Executive Director, New Jersey League of Municipalities

Robert F. Casey
City Manager, Hackensack

Benjamin R. Fitzgerald
City Clerk, Atlantic City

Administering The Small Cities CDBG Program: A Federal-State Experiment

Dale A. Krane

During the 1970s, the proliferation of federal categorical grants was seen as causing an epidemic of financial and administrative ills—a national government overload and weakening of state and local responsibility. Various proposals—devolution, decentralization, and sorting out of functions, for example—have been made to shift responsibility for policy decisions and program administration from federal agencies to state and local governments. The Nixon Administration's approach included funds to be shared with states and localities without strings via general revenue sharing and block grants. The current Administration's strategy seeks to transfer program operations to state government officials (but not local officials) and to wean state and local officials from reliance on federal assistance.

To implement this strategy, the *1981 Omnibus Budget Reconciliation Act* consolidated 57 categorical grants into 9 block grants that simultaneously devolved program authority to the states and reduced federal funds for these programs. Of the nine block grants, the Small Cities Community Development Block Grant (CDBG) program represents an "experiment" with a transfer of functional responsibility within the federal system. For CDBG's first seven years (1975-81), the Department of Housing and Urban Development (HUD) administered the program directly and bypassed state governments. In FY 1982 Small Cities CDBG was transferred to state administration on an optional basis, which allowed state officials to choose to operate the program or stay with HUD administration. The states also had to meet certain conditions or the program would revert to HUD.

The Small Cities CDBG Program

The 1974 Housing and Community Development Act (HCDA) consolidated seven categorical grants into two separate funding categories: an entitlement program for larger cities (at or above 50,000 population) and a discretionary program for smaller cities (below 50,000 population). Activities funded with CDBG money had to meet national objectives requiring that benefits (1) go principally to "persons of low and moderate income," (2) prevent or eliminate slums and blight, or (3) meet the urgent (i.e., emergency) needs of a community. By the time of the transfer of the program to state administration, 19 eligible activities had been approved to fulfill these national objectives, including aid to for-profit enterprises.

Unlike the entitlements for large cities, HUD administered the Small Cities CDBG program as a project grant; that is, eligible communities had to compete for CDBG money. As a consequence, smaller jurisdictions (below 10,000) lost out to larger localities, which typically could afford to hire specialists to work on obtaining grants. Another program characteristic was HUD's emphasis on housing rehabilitation, even though small cities could request funds for any one or a combination of authorized activities. Studies of HUD administration have argued that the department emphasized housing rehabilitation in part to substitute the CDBG program for the defunct urban renewal grants.

Because housing had not been a traditional activity of local governments, local officials chafed under HUD's orientation. HUD defended this programmatic focus with the claim that housing rehabilitation projects maximized the targeting of CDBG funds to the beneficiaries.

The program provoked criticism from local officials. In the smaller communities, officials complained about what they saw as a larger locality bias in the award procedures, which channeled funds away from many communities which, by HUD's own research, were among the most needy. HUD's response was to argue that very small localities lacked the capacity to manage projects successfully.

Throughout the program's history, the mandate that CDBG funds benefit primarily low and moderate income persons has been a source of controversy. Conflict has revolved around three key issues: (1) the type of eligible activities that would best aid low and moderate income people (e.g., housing versus public works versus job creation), (2) the ability of local officials to siphon off CDBG funds to ineligible activities, especially those which benefit more affluent populations, and (3) the regional distribution of funds, which reflected biases in the award formula. Interest groups representing the beneficiaries complained about HUD's failure to target CDBG funds accurately.

The Pros and Cons of Devolving the Program

Three competing demands dominated the debate over the proposal to devolve the Small Cities program to state control. Local officials, especially from the smallest cities and towns, wanted less HUD emphasis on large-scale neighborhood renewal projects that relied on housing rehabilitation. Interest groups representing the beneficiaries and the National League of Cities (NLC) preferred continuation of HUD administration, claiming that transfer of the program to state administration would put CDBG money into the hands of officials who had no incentives to obey national policy objectives. The National Governors Association (NGA) and the Council of State Community Affairs Agencies (COSCAA) said state administration was the optimum approach to community development because state officials could avoid HUD's administrative complexities and better target CDBG funds to communities in need. NGA and COSCAA based their claims on the enhanced management capacity of state governments and on the extensive experience of state governments with federal aid programs.

Federal officials justified the transfer proposal with two sets of arguments. First, there were the conventional themes of administrative efficiency and fiscal responsibility. Second, over and above the management issues, they emphasized that local governments were creatures of state governments and not the federal government. Therefore, local governments should not depend on the federal government for aid, but should look to their state governments. As applied to community development, it was argued that state officials were better situated to determine the needs of local areas and to devise appropriate strategies to attain improved local conditions.

Resolving the Federal Dilemma

Agreement about the assignment of functions to a particular government has never been easy to obtain in debates over American federalism. The establishment of direct national-local aid programs, for example, was a response to the neglect of urban problems by state governments. Conversely, the national government's rescue of urban areas led to standardized policy responses that were not sensitive to interjurisdictional differences. Because the U.S. Constitution is an ambiguous blueprint, diverse value preferences lead to dilemmas in regard to policy decisions about the functional assignment of programs to different governments.

The Small Cities CDBG program represents a deliberate attempt to "experiment" with a transfer of functional responsibility within the federal system. HUD, reacting to the growing complaints by local and state officials, agreed to test the feasibility of state government management of the Small Cities program. In 1980, HUD chose Kentucky and Wisconsin from among nine applicants to participate in a "demonstration project" of state administration. The results of the project were impressive: 58 percent of Kentucky localities and 70 percent of Wisconsin localities preferred state government administration over HUD management. The demonstration project showed that state officials could successfully administer the federal program and simultaneously satisfy local officials' concerns.

The Small Cities program, therefore, provides a unique vehicle for an "experimental" policy test. For its first seven years (1975-81), HUD administered the program directly and bypassed the state governments. The FY 1982 transfer of the Small Cities component to state administration, however, put state officials in charge of awarding federal dollars for community development. States were given wide latitude in devising their own award criteria and procedures. As a result, states were able to develop a variety of eligible project categories, different funding cycles, and even their own definitions of low and moderate income households. Equally important, the Small Cities program received one of the few increases in the FY 1982 budget. Within the first year, 37 states and Puerto Rico took advantage of this discretion over federal dollars; 9 more states opted for the program in FY 1983; one more state decided in 1984; and Maryland became the forty-eighth state to administer the program in 1987.

The Achievements of the State CDBG Program

State administration has resulted in a number of important changes from the previous HUD-administered Small Cities program. The most noticeable administrative difference is the diversity in state award criteria and application procedures. States vary in the degree to which factors such as community "distress," project design, leveraged funds, local capacity, prior CDBG awards, and cost effectiveness determine the receipt of CDBG funds. Similarly, the states have devised various mechanisms by which dollars are distributed to localities. More than 30 states utilize some form of competition; that is, funds are distributed after (1) general statewide competition (e.g., South Carolina, Wyoming), (2) specialized competitions structured by population, project purpose, or project type (e.g., Idaho, Iowa, Mississippi), or (3) some hybrid form of competition (e.g., Alabama, Louisiana). Arizona, Texas, and Utah allocate funds to substate regional competitions, and Ohio disperses funds via a formula. Interstate variation is also evident in practices such as award cycles (e.g., annually, quarterly, monthly), length of projects in years, or the inclusion of low and moderate income benefits as a rating criterion. Without a doubt, state officials have made sub-

Table 1

State CDBG Funding by Purpose of Grant
(in percent)

Fiscal Year	Housing Rehabilitation[1]	Public Facilities	Economic Development	Other
HUD Administration				
1977	41.3	47.8	—	10.9
1978	43.9	44.1	1.8	10.2
1979	43.5	45.0	1.3	10.2
1980	45.8	42.3	1.8	10.1
1981	46.2	40.5	2.6	10.7
1977-81 Average	44.1	43.9	1.9	10.4
State Administration				
1982	35.8	43.8	17.5	2.9
1983	31.9	45.5	19.5	3.1
1984	24.2	47.9	26.2	1.7
1985	24.1	49.6	23.9	2.4
1986[2]	32.8	48.3	16.7	2.2
1982-86 Average	29.8	47.1	20.7	2.5
COSCAA				
1982-85 Average	23.8	47.8	18.4	10.0

[1]includes acquisition and clearance expenditures for 1977-1981 [2]as of June 30, 1986

Sources: U.S. Department of Housing and Urban Development, *1987 Consolidated Annual Report to Congress on Community Development Programs*, March 1987.
Council of State Community Affairs Agencies, *State CDBG Update*, July 1987.

Table 2

Percent of State CDBG Funding by Type of Recipient
Fiscal Years 1982-1986*
(in millions of dollars)

	Percentage of Funds Awarded in Fiscal Year				
Type of Recipient	**1982**	**1983**	**1984**	**1985**	**1986**
Towns under 2,500	23	25	29	30	32
Very Small Cities 2,500-10,000	29	32	29	28	28
Small Cities 10,000-50,000	26	24	20	19	18
Counties (nonmetro)	22	19	22	23	22
Total	100	100	100	100	100
Funds Awarded	$708	$907	$898	$848	$247

*as of June 30, 1986

Source: U.S. Department of Housing and Urban Development, *1987 Consolidated Annual Report to Congress on Community Development Programs,* March 1987, p. 58.

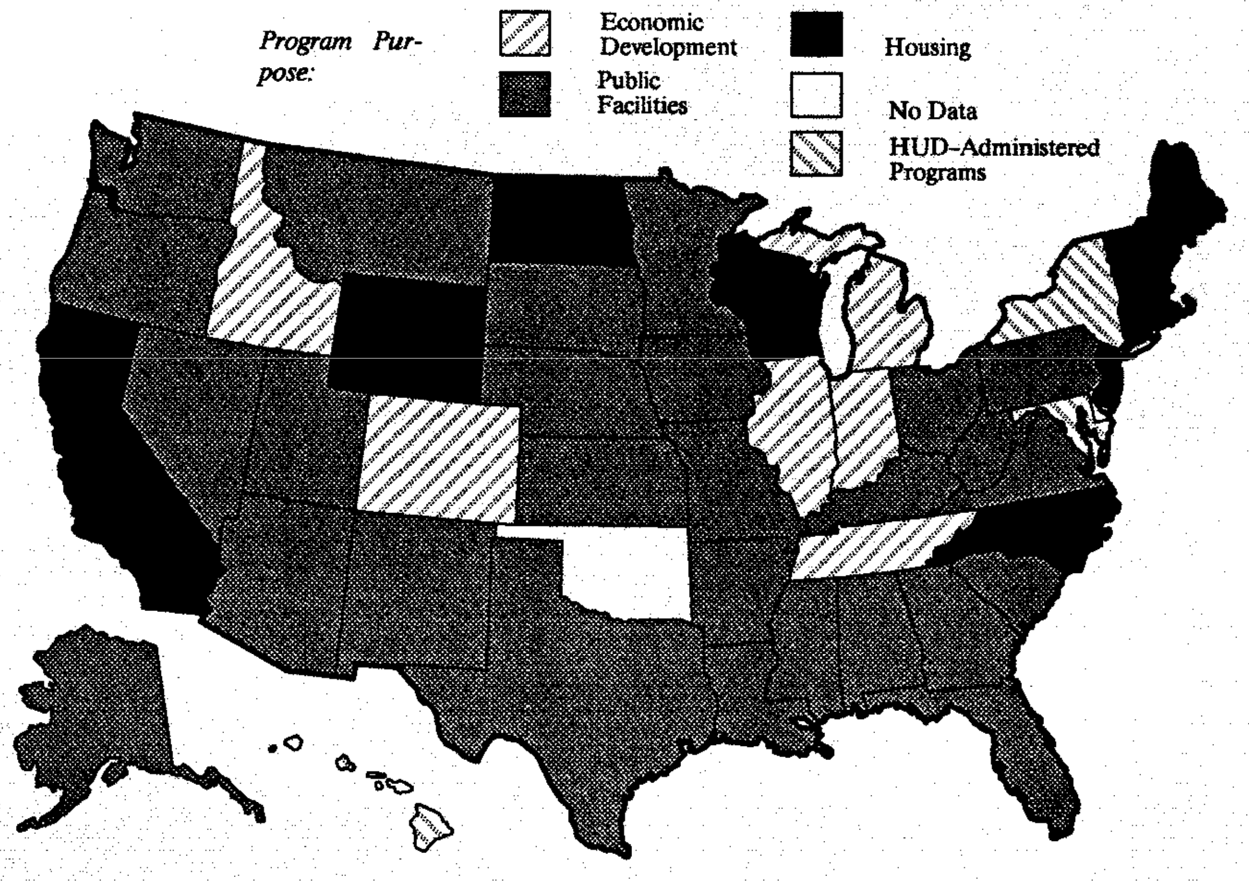
stantial use of the administrative discretion granted to them. The effects of state administration also stand out boldly in each state's pattern of CDBG awards. A significant change is the shift of funds away from housing rehabilitation to public facilities and economic development projects. Table 1 provides a long-term look at Small Cities CDBG funding by program category. While the variation in the percentage of funds awarded between housing and public facilities during the period of HUD administration is almost negligible, state administration drastically reduced the percentage of funds for housing projects. The preference of state officials for public works and economic development projects varies by regions, as depicted in Figure 1. While the FY 1985 average allocation for public facilities was 45 percent, the regional percentages ranged from a low of 20 percent (Region I—Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont) to a high of 66 percent (Region III—Delaware, Pennsylvania, Virginia, and West Virginia). Similarly, the FY 1985 average allocation for economic development was 23 percent, but the regional values ranged from a low of 8 percent (Region III) to a high of 46 percent (Region V—Illinois, Indiana, Ohio, Michigan, Minnesota, and Wisconsin).

States have also increased the annual number of awards made to localities, while simultaneously decreasing the dollar amount of each award. Table 2 shows that state officials have directed a larger percentage of funds toward the smallest communities, thus correcting one of the problems seen in the HUD award pattern. Approximately 40 percent of state recipients had never been awarded a CDBG grant by HUD.

For many analysts, the acid test of state administration is the commitment of CDBG dollars to low and moderate income beneficiaries. The 1974 HCDA required participating jurisdictions to give "maximum feasible priority" to activities that would benefit such families. Because the Congress did not give specific guidance as to how much social targeting to low income groups was acceptable, the decision fell to HUD's policymakers. In 1977, HUD tried to establish a rule that at least 75 percent of a community's grant benefit low and moderate income families. Social targeting more closely approximated 60 to 65 percent. CDBG's transfer to state governments, which were per-

Figure 1

State CDBG Program Primary Funding Purpose, by State, FY 1982-1985



Source: U.S. Department of Housing and Urban Development, Office of Program Analysis and Evaluation, *CDBG State Performance and Evaluation Data Base.*

ceived as having less incentive to support redistributive policy, threatened even this level of social targeting. This fear was heightened in 1982 by HUD's regulation (24 CFR Part 570.489) which gave states a free hand in defining low and moderate income thresholds. Some states used this new discretion to eliminate social targeting from their award criteria. In 1983, the Congress established a minimum floor of 51 percent. The FY 1982 to FY 1986 average percentage of state CDBG funding for low and moderate income beneficiaries is 98.5; this figure exceeds the 88.2 percent level obtained in HUD's last year of CDBG management.

The Value of the State CDBG Transfer

In administrative and financial terms, the state CDBG program functions differently and produces outcomes that differ from HUD administration. Surveys indicate that local officials find state administration preferable to HUD management. Likewise, where state officials have involved local officials and/or interest groups in the preliminary design of the application procedures and the selection of the award criteria, then local support for state administration is positive. For example, at least 27 states have established policy advisory boards that include local officials. Approximately 40 states provide technical assistance to local communities. Also contributing to a sense of equitable participation is the absence of manipulation of state awards.

CDBG monies now flow to more cities and to a greater variety of cities, especially very small ones. The shift from housing rehabilitation to public facilities and economic development projects indicates a trend toward general benefits, away from benefitting particular target groups. On the other hand, confusion abounds over the issue of low and moderate income benefits. The previously cited HUD data and several state studies indicate that states continue to serve national policy goals while at the same time broadening the program's impact. However, other studies conclude that state officials have deliberately lost sight of the redistributive goal; for example, two different studies claim that distressed communities and poor individuals receive fewer dollars from state administered programs.

With the 1987 Housing and Community Development Act, the Congress has responded to these concerns about social targeting by raising the low and moderate income threshold from 51 percent to 60 percent. Lack of agreement on appropriate means by which to measure and compare the benefits of different projects to these groups, however, leaves the issue of state fidelity to national goals unanswered. Nevertheless, the very high average percentage (98.5 percent) of funding for low and moderate income beneficiaries indicates that state governments are not ignoring national objectives in the targeting of CDBG funds. The diversity of state award criteria and allocation procedures once again substantiates the familiar maxim that the states are laboratories of democracy. Freedom of program design and management has resulted in precisely the outcome desired by the advocates—the states have performed admirably as administrators of a federal assistance program. Equally important, local officials have also gained a degree of freedom under state administration. Despite the direct federal-local relationship of HUD administration, small-city officials were among the most vigorous critics of program activities local officials did not prefer and of "rolling regulations," that is, annual rules changes. State administration, by contrast, has simplified application procedures and made it possible for smaller cities to compete on a more equal footing.

Perhaps the single biggest gain from greater state and local discretion has come in the crucial process of deciding just what constitutes "community development." The 40-year history of debates on community development has not produced agreement on the correct beneficiaries (e.g., individuals or jurisdictions), the attributes of intended beneficiaries (e.g., urban or rural poor, the poor, and/or families of modest means), or the strategies that spur community development (e.g., slum clearance, job creation, income subsidies, or basic public services). The new Small Cities program transferred the problem of defining these concepts to state and local officials. Instead of HUD determination of local project priorities, their selection has become a series of negotiations between state and local officials. What "community development" means and what the preferred development strategies are now more accurately reflect the demands and needs of each state.

Conclusion

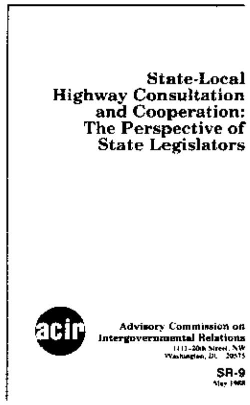
Will the Small Cities CDBG survive? After relatively steady allocations from FY 1982 to FY 1985 (approximately $1.2 billion per year), Small Cities funding declined by 14 percent in FY 1986 (to $879.8 million). This decline continues, with a 6 percent cut in CDBG monies projected for FY 1988. This downward trend may lead to a withering away of the CDBG program.

The intergovernmental "experiment" with the Small Cities CDBG program contains some clues about future attempts to use the states to administer federal aid programs. First, state management capacity no longer poses a serious obstacle. Second, the gap remains between the states and the national government over which level can more easily raise revenues in support of redistributive goals, and without adequate funds states will be hard pressed to take over financing of federal aid programs. Third, state officials will have to provide necessary technical assistance to localities to ensure that local projects operate smoothly. Fourth, state officials will have to include local officials and members of beneficiary groups in the planning and design of the state administered program. This action stands out as a key to the success of individual state CDBG programs.

Dale Krane is an associate professor of political science at the University of North Texas, Denton.

State-Local Highway Consultation and Cooperation: The Perspective of State Legislators

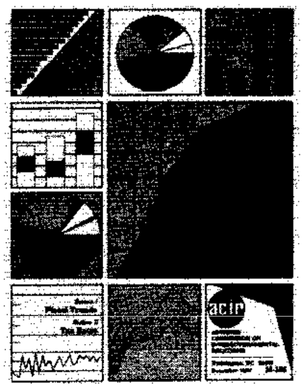
Report SR-9 $5 May 1988



This report is part of a larger study of the feasibility of devolving federally aided non-Interstate highway programs and revenue bases to the states, and of state-local relations in the field of road and highway planning, financing, and construction. In a survey of state legislators conducted by ACIR, it is suggested that state-local cooperation is generally perceived as satisfactory, and that state-local relations are improving. There was general agreement that state and local governments consult and cooperate on highway matters, and that most states would probably meet highway needs under a turnback program.

Significant Features of Fiscal Federalism, 1988 Edition, Volume I

Report M-155 $10 December 1987



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Among the items included in *Significant Features, 1988 Edition,* Volume I: federal individual income tax rates for 1986, 1987 and 1988; state and local individual income tax rates updated through December 1987; detailed information on standard and itemized deductions, exemptions and exclusions to income for federal and state income taxes; tax rate and base information on social security and unemployment insurance; general sales tax rate and exemptions; data for state and local governments; federal and state tax rates for cigarettes, alcoholic beverages and gasoline; average property tax rates for each state; information on estate, inheritance and gift taxes; state and local property transfer taxes; and fees and taxes on automobiles

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Intergovernmental Change: A Denver Area Perspective

Robert W. Gage

Many observers believe that American federalism has entered a period of competition and innovation that is here to stay. In a recent article in *Intergovernmental Perspective*, John Shannon indicated that this brand of "fend-for-yourself" federalism is marked by diversity, competition, and resiliency.[1] John Herbers, former *New York Times* reporter and now Visiting Ferris Professor of Politics and the Press at Princeton University, emphasizes the resurgence of innovative activity.

An explosion of innovations and initiatives by state and local governments has occurred since 1980 under President Reagan's policy of cutting back on federal domestic programs and regulatory requirements enacted over more than a century. Although the changes have occurred without any overall blueprint, there is a consensus that they are more far-reaching than almost anyone envisioned seven years ago, despite the fact that Congress has blocked a number of attempted cutbacks.[2]

Innovation, Initiative and Change in The Denver Area

The Study. This article reports the results of a recent study undertaken in the Denver metropolitan area, focusing on innovations and initiatives in local governments in relation to officials' perceived changes in intergovernmental relations since 1980.

The study sought to describe specific kinds of innovations judged to be most important by city managers and mayors in the region, and to relate these innovations, if possible, to changes in intergovernmental relationships. The perceived strength and viability of local governments today, as compared to the 1970s, also was explored to determine if, in the opinion of local officials, these attributes had increased or decreased during the Reagan years.

The study did not attempt to determine if specific initiatives of the Reagan Administration alone caused these local governments to innovate. Innovations could have been stimulated by a number of interrelated factors, including the more immediate budgetary pressures resulting from the adverse condition of the Colorado economy at the time and certain features of state-local fiscal relations, as well as federal budget cuts and federalism reforms.

By mid-1987, the stagnant Colorado economy was at best "bouncing along the bottom." The impact on local revenues was severe. Declining revenues, from sales taxes in particular, have contributed to a three-year period of "bare bones" budgets in local governments.

Also, local governments in Colorado carry a higher financial burden for providing services than their counterparts in most other states. In Colorado, local governments' share of state and local general expenditures averaged 51 percent for 1985. Nationwide, the local share averaged 43 percent. This factor probably led to greater fiscal pressure on local governments in Colorado than elsewhere.

The Denver Metropolitan Area. Local general purpose government in the Denver metropolitan area consists of seven county governments (Adams, Arapahoe, Boulder, Denver, Douglas, Gilpin, and Jefferson) and 46 municipal governments (including Denver, which is classified as a city and county). According to the Denver Regional Council of Governments, as of January 1987, 25 of the municipalities had populations under 5,000. In addition, there were 315 other jurisdictions in the area, including 198 single purpose special districts and 20 school districts.

Prominent among regional bodies serving the area are the Denver Regional Council of Governments, the regional transportation district, the tri-county health district (Adams, Arapahoe, and Jefferson counties), the Denver water board and the Greater Denver Area Chamber of Commerce. Five regional projects were at different stages of planning at the time of this study: a new regional airport, the Two Forks reservoir, the new Denver Convention Center, completion of the beltway system, and a metropolitan rapid transit authority. Each of these projects was the focus of a heated political controversy.

All these factors are important because of their likely effect on changes in interlocal relationships and innovations that were reported by local government officials.

The Sources. There were two principal sources of data for the study. The first was a mail survey of 81 local officials—41 mayors and 40 city managers—who had indicated (by telephone poll) a willingness to participate. After followup, 56 questionnaires (69 percent) were returned, 35 from city managers and 21 from mayors. Responses from Denver (2) and from cities in the adjacent counties of Adams (11), Arapahoe (16), and Jefferson (13) accounted for 75 percent of the returns. The remaining 25 percent was distributed among outlying counties (Boulder, 9; Douglas, 3; and Gilpin, 2).

A second data source consisted of descriptions of 57 programs submitted by local jurisdictions for the 1987 Innovations in Local Government Awards Program conducted by the Denver Regional Council of Governments. The council provided the narratives for this study.

Perceptions of Intergovernmental Change

Systemwide Change. Local officials' responses indicated an unmistakable awareness of significant change in the intergovernmental system since 1981: 31 percent thought change had been very significant and another 49 percent viewed it as significant. Conversely, fewer than 10 percent indicated no significant change had occurred.

When asked to indicate the principal direction of intergovernmental change, about a third (32.8 percent) of these officials cited the federal to state shift as the main direction of change in responsibility. Almost half of the respondents (47.8 percent) indicated a federal to local change in responsibility (Table 1). This was somewhat surprising, since most of the new federalism has stressed a devolution from the federal government to the states. The responses to this question suggest that many Colorado officials believe that the effects of any change in responsibility eventually manifest themselves in local government.

Table 1

Directions of Change in IGR since 1980

	Percent*
Federal to State Emphasis	32.8
Federal to Local Emphasis	47.8
State to Local Emphasis	11.9
No Significant Change	6.0
Other	1.5
	100.0

*N = 53. For this item, the total number of responses actually was 67 because more than one direction of change could be indicated by each respondent.

It is interesting that all responses (except a few "no change" answers) were consistent with the direction of devolution. No one mentioned changes shifting responsibility to the federal government.

Denver area local officials expect the current trend toward a reduced federal role in domestic affairs to continue, regardless of the outcome of the 1988 elections. Eighty-five percent thought there would be no departure from current trends for the foreseeable future. They cited such reasons as the massive federal deficit, limited federal resources, the condition of the economy (negative balance of payments and tough international competition) and a conservative shift in public opinion. Only 13 percent were uncertain that present trends would continue.

Changes in Intergovernmental Contacts. The changes since 1980 in types of intergovernmental contacts reported by these mayors and city managers were significant. More frequent contacts with other local officials were reported by almost 70 percent (Table 2). Over half (52.9 percent) reported more frequent contacts with state officials, while almost 40 percent reported less frequent contacts with federal officials.

Table 2

Changes in Intergovernmental Contacts Since 1980

Intergovernmental Contacts	More Frequent	Same	Less Frequent	Total	N
Interactions with:					
Federal Officials	11.8%	49.0%	39.2%	100%	51
State Officials	52.9%	41.2%	5.9%	100%	51
Other Local Officials	69.8%	28.3%	1.9%	100%	53

There was no mention of regional bodies in open-ended descriptions of intergovernmental contacts in the area, despite the controversial and full regional agenda.

In describing increased contacts with state officials, 48 percent of the local officials mentioned the new federal block grants (particularly the small cities community development block grant, indicated by 54 percent of those mentioning federal block grants). Twenty-one percent mentioned disputes over "cash funding" of state programs as a reason for contacts with state officials. Cash funding refers to the practice of the Colorado General Assembly to mandate state-local programs but not to fund them, forcing local governments to provide revenue from their own sources to continue services.

Table 3
Changes in Methods of Local Government Service Delivery

Method Used to Finance or Deliver Services	More Frequent Use	Same Use	Less Frequent Use	Total	N
Contracting with:					
Local Governments	26.4%	71.7%	1.9%	100%	53
Private Sector	41.2%	49.0%	9.8%	100%	51
User Fees	71.1%	23.1%	3.8%	100%	52

Table 3 reports changes in patterns of service delivery since 1980 that were considered most important by local officials. Local governments were relying more on user fees and contracts with the private sector. In addition to these increases, 26.4 percent indicated more frequent use of interlocal contracting. It seems remarkable that local officials responded as positively as they did when asked about intergovernmental changes in the 1980s, given the fiscal pressure they experienced. Of 54 respondents, more than half (55.6 percent) indicated that the intergovernmental changes of the 1980s contributed to the vitality and importance of local governments (27.8 percent said "no" and 16.7 percent were uncertain). Local officials' evaluation of the effects of intergovernmental changes on Colorado state government was almost as favorable. Of 53 respondents, 49.1 percent saw a positive contribution, 24.5 percent did not, and 26.4 percent were uncertain. Several individuals indicated, as a reason for their optimism, that they felt challenged by the somewhat greater autonomy afforded by the last several years.

Innovation in Local Government

The mayor or city manager in each municipality was asked to rate the emphasis on innovation today as compared to the 1970s. More than four out of five officials indicated that there was now more emphasis on innovation: 81.1 percent responded that there was more effort today; 7.5 percent indicated that the effort was about the same, and 11.3 percent saw less effort. In open-ended responses, the reasons given for innovation were mostly of two types:

> *Type 1* reflected urgency, precipitated by budget cuts, fiscal pressure, the need to do more with less, the need to act to survive, and the need to provide the same basic services with less funding.
>
> *Type 2* related to reduction of federal oversight and the opportunity to refocus energy on local needs and problems, the stimulation that came from greater independence and greater ability to take advantage of local opportunities (8 respondents).

Respondents giving the first type of answer frequently mentioned the familiar phrase "necessity is the mother of invention." Respondents giving the second type of answer focused on the opportunities that existed because the federal presence was diminished. Both kinds of responses were couched in positive terms and reflected a proactive posture toward solving problems. (Respondents who indicated less emphasis on innovation in their jurisdictions did not give any reasons for their replies.)

Innovations were problem oriented and were likely to result in lasting improvement that had tangible benefits which were visible and could be realized relatively quickly. Usually, they were linked directly to an existing service and a problem in maintaining that service or expanding it to meet greater needs. However, despite the apparent fiscal pressure, there was some focus on new services. Projects nominated for the council of governments innovation awards were almost equally divided among three categories: cooperative services between two or more public jurisdictions (20 projects), public-private partnerships (19 projects), and productivity improvement (18 projects). More than half (31) of the projects introduced a new technique, procedure, or technology; 12 projects were concerned with expansion of existing services; and 14 projects were for new services or facilities (Table 4).

In the category of productivity improvement, one city introduced a new road surface testing system; other jurisdictions automated parts of programs or functions, from police property and evidence inventory control to a personal property tracking system for the assessor's office to building permits and code enforcement.

Table 4
Projects Nominated by Local Governments for Denver COG Innovation Awards, Summary Data

Type of Project	Main Characteristic of Project: New Technique or Technology	Expansion of Existing Service	New Service or Facility	Total
Cooperative Service Delivery (public jurisdictions)	10	5	5	20
Public-Private Partnerships	7	5	7	19
Productivity Improvement (one jurisdiction)	14	2	2	18
Total Projects	31	12	14	57

Note—There was no limit on the number or types of projects that could be nominated by one jurisdiction.

Source: Denver Regional Council of Governments

New technologies were also introduced in cooperative service delivery projects and in public-private partnerships. Two large-scale cooperative service projects increased the capability of many neighboring jurisdictions to respond to hazardous materials emergencies. In one project, municipalities shared costs for expensive specialized equipment and were able to provide an adequate response capability. No single city had been able to provide adequate service.

The use of technology in public-private partnerships was demonstrated in numerous ways: one partnership demonstrated a solar heating cogeneration plant for a new jail; another used privately supplied trash compactors to realize significant economies in solid waste removal.

It was somewhat surprising to find a substantial number of program expansions and new programs launched at a time of fiscal austerity. Most of these were human services programs administered by public-private partnerships or funded and administered cooperatively by several municipalities. Among the new programs offered cooperatively by public organizations were a youth employment program, a teen activity center, and a teen parent program. Public-private partnerships were formed to build a new recreation center and to offer physical fitness programs for employees of private firms. An outstanding summer reading program for children was sponsored by the Denver Public Library and the Lakeside Amusement Park. Free admission and rides in the park were offered as incentives in the reading program. The program set record summer reading levels for the target group. Transportation and weatherization programs for senior citizens also were sponsored by public-private partnerships.

Conclusions

A spirit of community responsibility, self-determination, and optimism emerged in the Denver area in the 1980s despite (or because of) the fiscal difficulties faced by local government at the time. The reports of local officials indicated that:

- The vitality of local government had increased since 1980.
- More emphasis was being placed on innovative activity in local jurisdictions today.
- There were more frequent contacts among local officials.
- There was more frequent use of interlocal contracting among governments and with elements of the private sector.

These reports were congruent with the kinds of innovative projects actually under way in the area at the time the survey was conducted.

Spontaneity and innovativeness of local community life may be at the core of our system's durability and its long-term capacity to survive. The flexibility of local governments and their continuing ability to innovate are critical capabilities that enable local governments to be responsive to local values. They are also critical for the well-being of the total federal system.

As Deil Wright has noted, the Reagan "revolution" has represented more of a redirection than a revolution.[3] However, one can say that it has had a positive effect as a warning against excessive centralization, and has accomplished some devolution as well. In the climate of the 1980s, change brought on by the Reagan Administration, along with numerous other factors, has helped spur local governments to act in the best interests of their communities. The increased vitality of local governments reported by officials in the Denver metropolitan area is a positive factor. Reiterated on a national scale, such an increase in the vitality of local governments would strengthen the federal system as a whole.

NOTES

[1]John Shannon, "The Return to Fend-for-Yourself Federalism: The Reagan Mark," *Intergovernmental Perspective* 13 (Summer/Fall 1987): 43.

[2]John Herbers, "The New Federalism: Unplanned, Innovative and Here to Stay," *Governing* 1 (October 1987): 28.

[3]Deil S. Wright, *Understanding Intergovernmental Relations*, 3rd Edition (Monterey, CA: Brooks/Cole, 1988), p. 105.

Robert W. Gage is an associate professor at the Graduate School of Public Affairs, University of Colorado at Denver. He currently has an Intergovernmental Personnel Assignment at the U.S. General Accounting Office.

A System for Strategic Budgeting and Resource Management

Henry W. Maier

Milwaukee, like other central cities throughout the United States, is confronting a growing imbalance between available resources and necessary expenditures. There are a number of reasons for this imbalance. First, there is a relative loss of state and federal aid due to a continual decline in population (a principal factor in formulas used to distribute aid). Second, our tax base and revenues have been seriously eroded by state and federally mandated programs and policies. In Milwaukee, for example, the state unilaterally exempted industrial equipment, machinery and stocks from the local property tax. This reduced our tax base by hundreds of millions of dollars, and there is no way to determine whether we are getting full reimbursement for this loss through state shared taxes. Third, continued concentration of the poor and the elderly in central cities adds to the fiscal dilemma. This results in an increase in service load for which there is no corresponding compensation. In addition, the disparities between central cities and their suburban neighbors continue to increase.

At the same time, the availability of resources and our revenue generating capacity continues to decline. This is accompanied by the paradox of the increasing demand for both lower taxes and more services. Addressing this fundamental dilemma of demand versus available revenues requires new techniques in municipal budgeting and resource management.

Performance Budgeting—A Beginning

The City of Milwaukee has long emphasized innovative budgeting and management techniques. For example, in 1961, the city initiated a performance budgeting system.

The performance budget was the first major step away from the traditional line-item budget. It provided a new perspective, which we refer to as the output side of the budget. It was designed to identify the specific services provided by the city and to track the costs, units of services provided, and unit costs of such services and productivity. The total city budget included about 2,100 purpose accounts.

With the use of purpose accounts, a direct relationship was established between appropriation inputs and service outputs. Within purpose accounts the city was able to maintain a wealth of data on production units. For example, one could determine the cost in dollars or work-hours to sweep one mile of street or to plant one tree. It also provided a better method for cost control for each service on a year-to-year basis.

In contrast, the former line-item budget showed only what items were purchased. For instance, in reviewing the budget document, policymakers could see the number of street sweepers purchased, but could not determine the number of miles of street being swept or the cost per mile to sweep them. In other words, the line-item budget could not link object expenditures with a service. Therefore, the line-item budget was of little value to policymakers who were more interested in services than objects purchased.

The performance budget also required time reporting by each of the city's 9,000 employees. Work hours could, therefore, be tracked for each specific service. As a result, time reporting became a well-established and indispensable practice in the budgeting process. This was a major step forward. It enabled managers or supervisors to better know what their employees were doing and assess performance changes over time. For the first time, managers could actually measure productivity based on formally documented facts.

The performance budgeting system was implemented over a four-year period. It gained nationwide and international attention and received an award from the Municipal Finance Officers Association.

ADAP Conceived

Any system, no matter how good, can be improved. During the 15 years the performance budget was operative, the need for some improvements became evident.

For instance, a number of purpose accounts were too narrow in scope for policy decisions. These accounts were originally established to have primary value to departmental management. (The purpose accounts remain an integral part of the budget, but have been modified for use in the ADAP system). There also were no formally documented departmental goals and objectives with which policymakers could determine the effectiveness of departmental management. Finally, there was no mechanism for policymakers to rationally reduce or eliminate programs, or to make major reorganizations.

Therefore, there were missing links in the performance budgeting system. It did not generate the necessary information for the establishment of priorities among services, nor for long-range planning. More specifically, with the performance budget, managers could not determine what tactical programs were necessary to implement the objectives of a long-range plan. With the zero-base component of ADAP (Allocation, Decision Accountability/Performance), this weakness was remedied. ADAP provides policymakers with the basic data and a checkpoint system needed for long-range strategic planning. It requires clearly documented data on costs of major programs and services and relative departmental priorities. Programs become more meaningful and realistic because they are developed by decision-unit managers who are also responsible for implementing them. Such programs contain objectives and strategies for accomplishing long-range goals.

During the late 1970s, pressure on local governments to cut costs and taxes increased dramatically. Double-digit inflation hampered efforts to control costs, and the state and national governments were not providing the necessary local resources to deal with inflation. In some parts of the country, there was the Proposition 13 syndrome. Citizens were seeking, through referendum, to have a ceiling put on tax increases. They were successful in California and elsewhere. Locally, city aldermen were calling for across-the-board cuts and cuts in administrative overhead. While cuts in administrative costs are less detectable by the public, they can have disastrous effects on the administration of services. These factors made it increasingly clear that the budgeting system had to be modified to provide a mechanism to set priorities among services. The policymakers needed a more definitive budgetary system at the city level to manage the dwindling resources.

In 1976 the mayor began laying the foundation for a new concept in municipal budgeting. Out of much research, ADAP was conceived. ADAP is a budget system that combines aspects of zero-base budgeting with the good attributes of performance budgeting.

Under ADAP, each department is broken down into a specified number of decision units to pinpoint responsibility. For instance, the police department is now broken down into five decision units: administration, training, uniform, criminal investigation, and technical services. Within each decision unit, alternative service levels are developed. That is, for each decision unit, the department head prepares a budget for at least three different levels of expenditures. The resulting service levels are called minimum, reduced, and current. The department heads may choose to prepare a budget for an increased level, but is not mandated to do so.

After the three service levels in each decision unit are defined, the department head ranks them for the entire department. Again using the police department as an example, it could be that the current service level in the training unit may be ranked higher than the reduced level in technical services. This would indicate that the police chief places a higher priority on training than on technical services. If reductions become necessary, policymakers have a readily available priority list of services in each department.

Prior to the implementation of ADAP, an experiment was conducted in one city bureau with an exemplary record in management. After the pilot program, the bureau manager told the mayor that with the system he had learned many things about departmental operations that he had not known before. In view of this assessment from one of the city's best managers, it became clear that it was in the interest of the city to move forward with this new system. It was evident that bureau heads could become even better budget managers with the new system.

The city implemented the new budgeting system in two test departments in the 1979 budget. City officials decided to phase in ADAP over a three-year period to eliminate the risk of a system breakdown. With a consultant's assistance, the new budget format was customized to fit Milwaukee's needs. The consultants offered valuable assistance as mediators between policymakers and department heads. They also assisted with the development of necessary forms and the training of city personnel. ADAP was implemented citywide in the 1981 budget.

Key Features of the ADAP Budgeting Process

The ADAP budgeting system incorporates several key features in its design: ADAP shifts the focus from year-to-year incremental budgeting to the nature and level of services being delivered. ADAP forces each department to budget programs and services instead of objects. ADAP requires a documented statement of goals and objectives for departmental activities. ADAP provides basic data needed for long-range strategic planning. By requiring documented data on quality and costs of major programs and services and on departmental priorities, policymakers can decide which programs should be maintained or modified over time. ADAP demands consideration of alternative ways to deliver a service or operate a program. ADAP requires a clearly documented statement of the consequences (in terms of personnel layoffs, service reductions, etc.) of funding each alternative service level. ADAP requires the involvement of middle managers and line supervisors in the budget-making process. This involvement pinpoints responsibility and results in more accountability for budgetary actions.

ADAP is also useful in city departments often referred to as overhead agencies, such as: city attorney, city comptroller, personnel department, municipal equipment, and central electronic data services. Administrative or support agencies are required to submit alternative service level information as an integral part of the ADAP budget process. This means that such departments are subjected to as much scrutiny by policymakers as departments that provide direct services to the public.

These features are extremely valuable strategic planning tools. They facilitate policy determination. Each department must critically reflect on and define its reason for being. Each department must identify its lowest priority services in the event that service reductions become necessary. With the cost and productivity information provided by ADAP, actual departmental performance can be assessed from year to year.

How Has ADAP Worked?

The basic ADAP structure meets the test of usefulness to policymakers. It supplies documentation on the impact of budget reductions at each service level for all departments. This documentation provides policymakers with precise data for a range of alternatives. For instance, with one alternative they know precisely that a $102,110 cut out of the bureau of forestry for 1988 will result in 1,690 fewer trees being planted. Another alternative reveals the impact that a similar cut will have on tree pruning and overall tree maintenance. Policymakers have before them precise information on the impact of reductions on services. They also know the priority each department places on the services it provides.

In November 1981, the ADAP system was put to a critical test. The city faced a serious reduction in revenues due to a shortfall in state aid. State-shared revenues provided the city with only enough dollars for a service level somewhere between the proposed current service level and the reduced service level. The mayor felt it necessary to devise a method to distribute the reductions fairly and equitably across all departments. Such a methodology would be in stark contrast to the flawed method of across-the-board cuts (where all services are cut by an equal percentage), which could seriously impair some services. A second type of cut which often occurs is elimination of entire functions perceived as nonessential. Many times in a fiscal crisis, cultural and environmental amenities afforded by the city, such as a library or the planting of trees, are often perceived as nonessential services and therefore vulnerable. Such cuts under crisis are certain to subtract from the overall quality of life.

ADAP Refinements

In order to determine actual dollar amounts to be cut from departmental budgets, the mayor's office developed a budget reduction formula. This formula relies on data generated by the ADAP budget system. It allocates reductions among all decision units according to the total citywide amount needed.

To maintain all functions important to the overall quality of life in the city, no single department can automatically be exempted from budget cuts. No city department can be considered sacrosanct.

The budget reduction formula weighs each decision by a series of six factors that are critical in reviewing operations. Those factors are:

- the size of each decision unit's budget;
- productivity;
- the impact of deferred maintenance;
- the impact on revenue generating capacity;
- the nature of each decision unit's functions; and
- the proper funding sources for a decision unit's functions.

The following examples illustrate why these are critical factors. First, consider changes in productivity. For example, over several years the bureau of sanitation reduced its workforce by 29 percent, but the workload remained constant. The bureau could not be expected to take a cut as deep as departments that had shown constant or increased employment levels and constant workloads over the same period. With an across-the-board cut, that is exactly what would have happened.

The formula also incorporates a factor to consider impacts on revenue generating activities, The department of fiscal liaison, for example, brings millions of dollars in intergovernmental aid into Milwaukee through its lobbying efforts. Cutting this department's activities too much in an effort to save money would be folly.

Another formula factor takes into consideration the impact of deferred maintenance on the city's infrastructure. No car owner would postpone an oil change to save a few dollars and run the risk of engine failure. Similarly, departments with responsibility for maintaining the city's infrastructure cannot be asked to postpone necessary maintenance. Such postponement could result in costly sewer failures, bridge replacements, and street repairs. This is clearly false economy.

Still another factor in the formula is the nature of the decision unit's functions. If a function is critical to the welfare of citizens, it is likely to be rated more highly than if it were simply desirable. That is, a service like forestry is likely to end up with a relatively lower rating that a service like fire protection.

The purpose of the multifactor analysis is to help preserve our main body of functions and services. This is why each factor cannot stand independently. The factors must all be considered together for a complete picture. Once factor scores are assigned to each decision unit, they are tallied and used to determine an actual dollar amount for the cuts.

While not a panacea, this formula represents an attempt to embrace every important factor having an impact on the day-to-day operations of a department. A consideration of these factors insures fairness as well as a more accurate picture. Such a consideration is more qualitative than quantitative in focus. Many "judgment calls" must be made. But the alternative levels of service coupled with the formula eliminate the need to use the arbitrary method of across-the-board cuts.

An across-the-board cut makes many erroneous assumptions. It assumes that all departmental functions are essentially uniform, which they are not. It assumes that the executive has no essential responsibility for establishing a system for refining the placement of cuts, which he does.

The ADAP budget system along with the reduction formula provides a fair and rational approach to budget cutting. Above all, it reflects an effort to keep a balance of functions which contribute to the overall quality of life.

The 1986 Budget

The 1986 budget represented the city's efforts to strengthen the ADAP process. A direct hour budgeting method developed during the previous year provided us with an additional analytical tool. It permitted us to budget wage and salary amounts more accurately, and provided a uniform method for defining service levels. Direct hour budgeting produced a direct tax levy savings that year of $700,000.

ADAP has shown itself to be a more scientific, more rational approach to resource management and budgetary cutbacks.

Henry W. Maier was mayor of Milwaukee from 1960 until April 1988. He is a past member of the Advisory Commission on Intergovernmental Relations.

Federalism's Fiscal Fable

or

The Long-Distance Revenue Race between the Federal Rabbit and the State-Local Herd of Turtles

John Shannon

Over the last 40 years, the players in our federal system have acted out their own version of the fabled race between the hare and the tortoise. In this contemporary fable, the federal jackrabbit, Sam, emerged from World War II with an enormous revenue-raising lead over federalism's herd of turtles—the 50 states and their thousands of local governments (see Table). Most students of our intergovernmental system concluded quickly, therefore, that the state-local herd was destined to remain hopelessly outdistanced by Sam. To help correct this revenue-raising mismatch, they urged Sam to be generous and to share some of his revenue carrots with the states and localities with no strings (or sticks) attached.

Eventually, and with considerable reluctance, Sam did share a few of his carrots. Later he abandoned that revenue sharing policy when he decided that he needed the revenue more than they did.

What accounted for this surprising turnaround in intergovernmental fiscal fortune? Two factors stand out—the steady, plodding advance of the herd of states and local revenue raisers and the wayward fiscal ways of rabbit Sam.

The Plodding State-Local Advance

Confronted with balanced budget requirements and concerned about their credit ratings, states and localities had to finance increases in their operating expenses the old fashioned way. They had to meet expenditure growth with revenue growth—by raising taxes if necessary. In every decade since World War II, state and local revenue has grown at a somewhat faster clip than the economy (see Table). This steady advance is especially noteworthy because it took place despite (a) the continued presence of a high level of federal revenue, (b) a growing concern for interstate and interlocal tax competition, and (c) in recent years the memory of the 1978 taxpayers' revolt.

The Keynesian Maneuver

Sam's wayward fiscal ways also contributed to the progressive narrowing of his once commanding revenue lead. It started innocently enough after World War II when Sam's friends convinced him that he should no longer raise tax rates to offset declines in revenue caused by economic recession. They pointed out that piling higher taxes on a depressed economy only slowed down recovery. At the first sign of a serious recession, Sam was urged to wade into the Sea of Deficits and simply tread water until a rising tide of economic activity swept him back onto the balanced budget beach. Sam's friends emphasized the fact that he was now equipped with a highly buoyant life jacket—the federal individual income tax—and that his swim in the Sea of Deficits would be both safe and short. Sam followed their Keynesian advice, and the maneuver turned out quite well.

Pushing Sam's Luck

It was not long before it dawned on Sam's friends that if he could avoid the painful and risky act of raising taxes during bad times why not avoid it in good times, too? Sam's friends constructed a waterproof pack into which they would stuff additional expenditure requirements. Accommodating Sam would then strap the pack on his back and dive back into the Sea of Deficits, thereby avoiding the higher tax rate hurdle looming straight ahead.

The helpful tides of economic growth and inflation carried the more heavily burdened Sam safely along the coast. On occasion, the tides would even deposit him back on the balanced budget beach, well beyond the higher tax rate hurdle and still well ahead of the plodding herd of state and local revenue raisers painfully making its way over the tax hike obstacles. Who said a federal system is fair?

Table

Reducing the Federal Revenue Lead—Fifty-Year Governmental Trend: 1936-86
(revenues expressed as a percentage of GNP)

	Own-Source General and Trust Fund Revenue		Own-Source General Revenue		Exhibit: Federal Aid to States and Localities[2]
	Federal	State-Local[1]	Federal	State-Local[1]	
1936	6.2	10.2	6.1	8.9	1.2
1946	21.8	6.1	20.5	5.4	.4
1956	18.9	8.9	17.1	7.3	.8
1966	18.3	10.9	15.4	9.1	1.7
1976	18.7	14.4	13.8	11.6	3.2
1986	20.1	15.9	13.7	12.5	2.7

[1]Excludes federal aid received by states and localities.

[2]Total state-local general revenue—own source plus federal aid—now exceeds federal general revenue.

Source: GNP percentages are based on U.S. Bureau of the Census revenue reports.

Emboldened by Sam's success, his friends no longer waited until he returned to dry land. They sailed him out farther into the Sea of Deficits and stuffed additional expenditure requirements into his pack. While the currents still carried him within sight of the shore, they no longer swept him all the way up onto the beach.

Sam's friends were not too worried. After all, he was still wearing that wonderfully buoyant life jacket, and the tides continued to bring him fairly close to the shore.

Later, Sam encountered double trouble when his friends decided that he should do even more with less. While he was still drifting fairly far out in the Sea of Deficits, they stuffed additional expenditure requirements into his pack. To placate increasingly restive taxpayers, Sam's friends also removed much of the buoyancy from his revenue life jacket by flattening income tax rates and indexing personal exemptions.

Shortly after that, the once helpful tides swept Sam out of the alluring Sea of Deficits and deposited him deep in the Great Dismal Deficit Swamp. Gazing down from high ground, Sam's friends could see him thrashing about in a frantic effort to keep his head above water.

The Grim Diagnosis

Then came the truly grim assessment from those who profess great knowledge of the mysterious ebb and flow of the economy. Virtually all economists agreed that Sam was now caught in a "structural" deficit. Freely translated, they were saying that Sam was in a real bad fiscal mess. No longer could a rising economic tide be counted on to carry him safely back to the balanced budget beach.

The Long Rescue Debate

This grim diagnosis also put Sam's friends on the spot. A quick rescue would call for making very painful and politically risky choices—i.e., reducing substantially the weight of Sam's expenditure pack or interjecting much more buoyancy into Sam's revenue life jacket or taking both corrective actions.

For several years now, Sam's friends have carried on a heated and frustrating debate over the best way to rescue him. Unwilling to make the painful and risky choices that a quick rescue would call for, Sam's friends opted for a less controversial approach—a slow-motion (multiyear) operation.

Sam is not overly sanguine about the eventual success of this rescue operation. As he continues to thrash about in the deficit swamp, he is only too well aware that over the next several years at least four conditions have to work constantly in his favor:

His friends must resist the constant temptation to stuff more expenditure responsibilities into his pack.

The Congress and the President must abide by the spirit and the letter of the Gramm-Rudman-Hollings multiyear deficit reduction plan.

The nation must avoid a major recession—an event that could sweep Sam far deeper into the deficit swamp.

The nation must continue to acquiesce in a rather questionable fiscal policy that calls for using the growing surplus in the Social Security trust fund to help fill in the deficit swamp on the general fund side of the budget ledger.

In view of both the contingencies that surround this slow-motion rescue and the track records of state and local governments, it would be safer to bet that the herd of state and local governments will continue to plod slowly forward than to bet that Sam will once again be on firm fiscal ground some time in the early 1990s.

The Moral

Wagering considerations aside, the moral of this fable is the same as it was some 2,500 years ago in the time of Aesop—plodding wins the race.

John Shannon is the immediate past ACIR Executive Director.

A Special Report

State-Local Relations in Highway Policy

Michael A. Pagano

Policy arenas with implications for state-local cooperation tend to vary by state, depending on the array of functions and responsibilities the state assumes or shares with local governments and allows or requires local governments to assume. All 50 states have created linkages with their local governments on highways. According to the Bureau of the Census report *Government Finances in 1985-86*, local government spending on highways has increased over the past decade from $9.0 billion in 1976 to $19.2 billion in 1986. States have increased direct spending on their highways from $14.9 billion in 1976 to $30.2 billion in 1986. Highway spending by local governments in 1985 accounted for nearly 5.4% of total local spending; state highway spending accounted for 7.9% of total state spending.

States also share revenues with, or collect revenues for, local governments. The contribution of state revenues to local governments for highway purposes amounted to $6.3 billion in 1986—double the figure of a decade ago. Some states (e.g., Florida, Maryland) issue highway bonds on behalf of local governments. Some states share a fixed proportion of total motor fuel tax revenues with their local governments. A few states prohibit their local governments from issuing debt for highways. And all states regulate the extent to which their local governments can raise the excise tax on motor vehicle fuels, or forbid it entirely.

Four surveys, conducted between April and December 1987, were designed to measure the extent of cooperative state-local relations in the highway policy field. Two of the surveys were done by ACIR and the results were published in *Local Perspectives on State-Local Highway Consultation and Cooperation: Survey Responses from State Associations of Local Officials* (SR-4, July 1987) and *State-Local Highway Consultation and Cooperation: Perspectives of State Legislators* (SR-9, May 1988). The last two surveys were conducted by Norman Walzer at Western Illinois University.

The first survey was administered to local government associations in all 50 states (all 49 state municipal leagues, all 13 state township associations, all 47 state county associations, and all 38 state associations of regional government). The second survey was of a sample of 570 key state legislators from all 50 states involved in their state highway programs (all majority and minority leaders, transportation committee chairs, finance committee chairs, and local government committee chairs). The third survey was administered to all 50 state highway department heads, and the last survey was of highway engineers in 2,000 counties. Several identical questions on state-local relations were asked of each of the four target groups. The responses, interestingly, seem to suggest that—except for state highway officials who responded much more positively than other groups about the state of state-local relations—whether

Table 1

How Would You Rate the Level of Cooperation that Occurs in Your State between Local Officials and State Officials on Road and Highway Planning and Construction?

	Township Assoc.	Municipal Leagues	County Assoc.	Regional Council Assoc.	State Legislators	State Highway Officials	County Highway Engineers
Excellent	0.0%	12.1%	8.6%	9.1%	7.0%	32.6%	25.3%
Good	33.3	39.4	45.7	51.5	49.2	58.7	48.8
Fair	55.6	39.4	28.6	30.3	33.7	8.7	18.8
Poor	11.1	9.1	11.4	9.1	7.0	0.0	7.1
Don't Know/ No Response	0.0	0.0	5.7	0.0	3.0	0.0	0.0
N	9	33	35	33	199	44	367

Table 2

During the Past Five Years, Has the Trend in State-Local Road and Highway Cooperation in Your State Generally Improved, Stayed the Same, or Deteriorated?

	Township Assoc.	Municipal Leagues	County Assoc.	Regional Council Assoc.	State Legislators	State Highway Officials	County Highway Engineers
Improved	33.3%	42.4%	36.1%	45.5%	36.7%	56.5%	24.4%
Stayed the Same	44.4	42.4	52.8	42.4	52.3	43.5	57.6
Deteriorated	11.1	15.2	2.8	3.0	6.5	0.0	5.4
Don't Know/ No Response	11.1	0.0	8.3	9.1	4.5	0.0	0.2
N	9	33	36	33	199	44	366

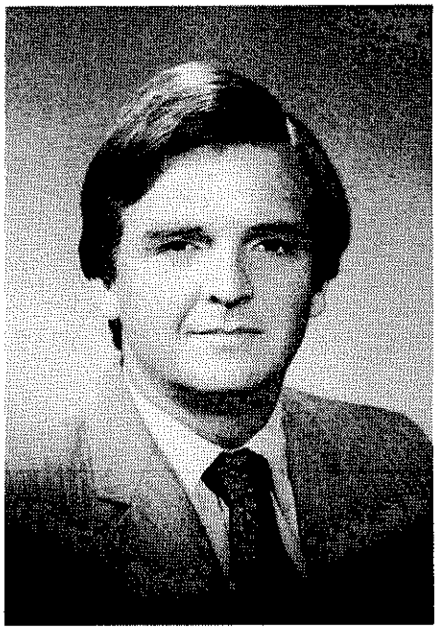
The surveys of state legislators and local government associations provide a view of the level of consultation between state and local officials on highway planning and construction. Between 57 and 63 percent of those two target groups believed that their states require "about enough" state-local consultation. A substantial minority (30%) of state legislators disagreed, arguing that "too little" consultation was required—a view shared by nearly two-fifths of the local government associations. But when all four target groups were asked how "satisfied" they are with the state's procedures for local consultation in state road and highway matters, an overwhelming majority indicated they are "very" or "somewhat" satisfied. Approximately 20 percent of local government associations and state legislators responded that they are "not very" or "not at all" satisfied, while less than 10 percent of county officials and no state highway official selected one of those negative responses. One-third of the county officials did not respond to this, or the following, question.

Each group was then asked to rate the level of cooperation that occurs in their state between local officials and state officials on road and highway planning and construction (see Table 1). Approximately half of each group rated cooperation as "good" or "excellent"; state highway officials were nearly unanimous in rating cooperation so high. Nearly one-third of the state legislators and local government associations rated cooperation "fair"; a much smaller percentage of county and state highway officials—12.9 and 8.7 percent, respectively—rated cooperation "fair." One-tenth of the local government associations responded that cooperation was "poor"; 7 percent of state legislators, 5 percent of county officials, and no state official selected the "poor" category.

Finally, they were asked whether the trend in state-local cooperation on highway matters has generally improved, stayed the same, or deteriorated during the past five years (see Table 2). Nearly half of the respondents chose the "stayed the same" option, and more than one-third thought the trend has "improved." Significantly, less than 10 percent felt state-local cooperation has deteriorated. County officials were less convinced that state-local cooperation has improved compared with all other respondents, while the clear majority of state highway officials felt it has improved. It is not known whether those who responded that state-local cooperation has "stayed the same" meant that state-local cooperation is bad but unchanged or good but unchanged. The important message is that most of those who could discern a trend identified an "improved" relationship between the state and local governments.

Michael A. Pagano is an associate professor of political science at Miami University, Oxford, Ohio.

The Chairman's View



Imagine a cookbook in which the recipes do not list all of the ingredients. The Bicentennial commentary on the U.S. Constitution is like such a cookbook. The most important ingredient of the constitutional system, federalism, is hardly ever mentioned. Individual rights guaranteed by the Bill of Rights are properly given prominent reference, but the Tenth Amendment, reserving powers to the states, is virtually ignored. We hear much about the separation of powers within the federal government, but almost nothing about division of powers among levels of government. In celebrating the 200 years of democracy that the document produced, most discussions disregard the basic institutions of self-governance that the Constitution sought to protect in order to preserve that democracy—autonomous state and local governments.

This silence is particularly bothersome because for over a decade a growing bipartisan chorus of governors and state legislative leaders has emphasized the importance of federalism to the American way of life. The latest voice to call our attention to this issue is that of Governor John Sununu of New Hampshire. As head of the National Governors' Association this year, Sununu has made the preservation and renewal of federalism the major priority of his chairmanship.

Why is there so little national interest in federalism when it is so fundamental? Why, when the integrity of our local and state institutions are threatened, do we as a nation continue to treat constitutional issues of federalism as mere questions of national policy? After all, the absolute necessity of strong and vibrant local institutions ought to transcend any debate over grant-in-aid programs or revenue sharing. Finally, we must ask why most citizens show so little interest in federalism when those same citizens consistently express a desire for greater control of the institutions that affect their daily lives and clearly want to live in small local jurisdictions?

A number of scholars argue that nothing is fundamentally wrong with the federal system today. They contend, rightly, that state and local governments continue to receive large amounts of federal aid, that states and localities are more active than ever, and that they exhibit greater professional capacity than at any time in history. These statements, while true, demonstrate the hollowness of the current federalism debate. Federalism is not about fiscal flows and professional management; it is about self-governance.

The U.S. Constitution was built on the idea that citizens, through "reflection and choice," as Alexander Hamilton said, could create, maintain, and when necessary change their governmental institutions. Local institutions and home rule were the outgrowth of local political liberty, not the result of a management system. Local liberty was the driving force that led large numbers of Americans to be actively involved in public life over two centuries. The productivity of local institutions caused Alexis de Tocqueville, more than 150 years ago, to marvel at the new political order given birth in the United States.

Alas, local liberty for citizens and their institutions has been decreasing in recent years. A few stark examples make the case.

A 17-year-old girl, as a matter of right, has the authority to decide whether to have an abortion. That same girl, and her parents, do not have the right in most states to decide what public school she will attend.

The teachers and principals who, together with parents, are supposed to create the productive communities of effort called schools have little voice in school policy and organization. Local government officials in states such as California increasingly find themselves in a box. State officials, as a matter of right, determine the height of parking meters and how tail pipes will be attached to public vehicles. They are assisted by a state supreme court that rules nine times out of ten that the home rule provision in the state constitution does not protect local governments from the application of state laws such as these.

What the states often visit on local governments is in turn often visited on the states by the federal government. Beginning with the regulation of labor standards for public employees, including the qualifications of school bus drivers, states increasingly find themselves bowing to a plethora of federal mandates.

Some scholars go so far as to argue that federalism and local self-governing institutions are passe—that a modern society requires a centralized governmental apparatus. I would argue exactly the opposite. The information age we have entered actually requires a complex, decentralized, and jurisdictionally fragmented or differentiated set of governing institutions. Fragmentation or differentiation of authority is essential to self-governance. A diverse and vibrant society must develop the constitutional rules, both nationally and state-by-state, that allow self-governing institutions to work. The dead hand of the administrative state, which seeks uniformity and conformity, will not work in the third century of our experiment in self-governance. It will also be the downfall of state and local governments as independent political actors in the federal system.

The future of federalism and local self-governance depends on our ability to focus again on political principles—freedom with responsibility—that energize citizens to take hold of their institutions. Active citizenship may well be the best "management tool" we have in an increasingly complex world. In the information age, self-governance will become more than an ideal; it will be a necessity.

ACIR has taken an initial step in this direction with the publication of a Commission report entitled *The Organization of Local Public Economies* (A-109). The principles in this report were summarized by Ronald J. Oakerson, ACIR Senior Analyst, in the Summer/Fall 1987 issue of *Intergovernmental Perspective.* We think this framework offers a new and very sensible way of thinking about self-governing institutions. We also think that it is critical to start a dialogue with our readers on these important issues. We hope that some of you will take the time to participate in this dialogue, which we will share with our readers in upcoming issues. I hope that we are swamped with letters that respond initially to the arguments we have put forth, as well as suggest ways to extend the discussion to include locally specific issues of vital concern to American citizens in every state.

Robert B. Hawkins, Jr.
Chairman

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