

PERSPECTIVE

Metropolitan Governance

Forum on the St. Louis Area

St. Louis: The ACIR Study

Roger B. Parks and Ronald J. Oakerson

Reorganizing the St. Louis Area: The Freeholders' Plan

Donald Phares

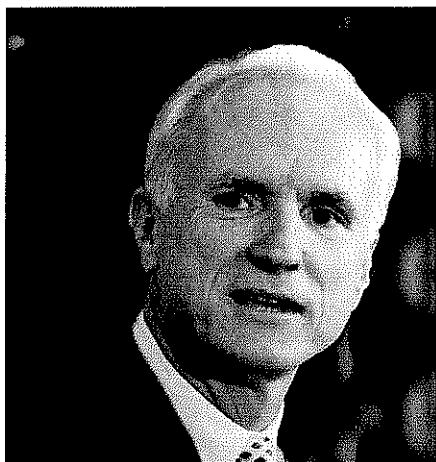
Reconciling Perspectives on the St. Louis Metropolitan Area

Donald Elliott

Reorganizing St. Louis County: The Debate Goes On

James M. Brasfield

A View from the Commission



We stand at the beginning of a new presidency, excited by the prospects of change. Before us is a new administration that will soon begin turning the wheels of federalism in a new direction. The road that lies ahead should be driven carefully, and our new President needs to consider the advice of navigators who have traveled a similar road.

I believe it is time for local officials to join hands with their federal counterparts to begin a renewed commitment to partnership. As mayor of a city that has seen rough times, I can proudly report that Indianapolis is on the rebound. Thanks largely to the public-private partnership philosophy that has guided our progress, the people of Indianapolis now enjoy a renewal of economic health and prosperity and pride.

I think we should move ahead nationally by borrowing from the concept of a public-private partnership to create a "federal-local partnership" that will result in a credible relationship between the two levels of government. The time is long past when we could afford to work against each other. The federal "piggy bank" is now watched more closely than ever before, and those of us who lead the nation's cities

must continually do "more" with "less."

President Bush should pull together immediately a Council of Urban Advisors to make policy recommendations that will affect the 80 percent of the nation's citizens who live in cities and towns. The time appears ripe for such an organization. Writing to the National League of Cities board in July, then candidate George Bush said that he supports the concept of a "Presidential Task Force on Urban Affairs" that would allow the President to hear first hand of our problems and concerns.

This is one campaign promise that needs immediate attention. The first 100 days of any administration are filled with critical construction work on the administration's foundation. And those of us who live in "Urban America" want to be part of the bricks and mortar of that federal foundation.

There was much discussion about this Council of Urban Advisors at the National League of Cities conference in Boston this month. My colleagues and I believe that such an effort would produce the sort of strong federal-local partnership that will be needed to combat the very issues that make headlines in the nation's newspapers.

Homelessness, education, affordable housing, economic development, and drug abuse all can be found on any big city's agenda. We face mounting pressure to induce change, despite a 60 percent cut in key federal programs for cities over the past few years.

Of particular importance to the economic well being of our cities is the quality of the environment. Congress has left us with a long list of environmental problems, from wastewater treatment needs to the solid waste dis-

posal crisis. Cities and towns have been left to find their own solutions and their own funding.

From the towering skyscrapers of the coastal metropolis to the prairie towns of the Midwest, our quality of life is at stake. Big cities and small cities share the need for a better partnership.

The Council of Urban Advisors should be established in the Executive Office of the President to assure that our viewpoint will be considered when decisions are made on the many policies that affect America's cities and towns. We local officials want to work together with our counterparts in Washington, DC, and we need to plan a strategy that allows the local input necessary to make the critical decisions that affect our own and our children's future.

William H. Hudnut, III
Mayor
Indianapolis, Indiana

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

On the ACIR Agenda

ACIR will hold its 99th meeting in Washington, DC, on December 16, 1988. Following are highlights of the meeting agenda.

State Constitutional Law in the Federal System

The report was prepared by a team of 11 legal scholars, summarizing a broad range of legal developments in the newly emerging field of state constitutional law. The renewed interest in state constitutional law is a significant development in American federalism. It comes at a time when the Commission has been promoting efforts to rebalance responsibilities among federal, state, and local governments. The topics covered in the report include federal doctrines allowing substantial scope for state constitutional jurisdiction, as well as the development of state constitutional law in the fields of governmental structures and functions, civil liberties, criminal procedures, economic rights, workers' compensation, and education policy. The report contains a set of findings and four recommendations.

Federal and State Compliance with Disability Rights Mandates

The report addresses the question of whether the federal government "practices what it preaches" with respect to national mandates placed on state and local governments. The report looks at employment opportunities and architectural barrier removal for persons with disabilities, a policy area with mandates that apply to the federal government as well as state and local governments. There is a scarcity of information available on the topic, but what there is suggests that the level of compliance with the mandates by the federal and state governments is roughly equivalent. Furthermore, compliance across federal agencies appears to vary about as much as compliance across states and state agencies. It was also found that federal and state agencies face similar compliance problems. The report contains a set of findings and recommendations.

Residential Community Associations: Phase 2

In accordance with Commission action at the September meeting, ACIR will publish a report on residential community associations (RCAs), with a recommendation, and the proceedings of the conference on which the report is based. The staff proposes to prepare a supplemental report to help guide state and local officials in developing policies regarding RCAs and in interacting effectively with those organizations. The report would outline major public issues raised by RCAs and an array of public responses. The Commission will decide whether to proceed with this study.

ACIR to Design Clearinghouse System

The U.S. Department of Commerce has requested that ACIR assist it in establishing a Clearinghouse for State and Local Initiatives on Productivity, Technology, and Innovation. ACIR will design an information system for the clearinghouse in cooperation with state and local governments and businesses. In addition to developing the design specifications, ACIR will help the department choose the appropriate computer hardware and software as well as conventional information media. ACIR also will provide the initial information to make the clearinghouse operational by September 30, 1989. Barbara J. Lipman is the project manager for ACIR.

The *Omnibus Trade and Competitiveness Act of 1988* assigned responsibility to the Department of Commerce

Susannah E. Calkins Retires

Susannah E. Calkins, an ACIR senior analyst in public finance and public opinion for many years, retired on December 1. Her cheerfulness, counsel, and good humor will be greatly missed, and ACIR extends to her every good wish for the future.

to establish the clearinghouse to "serve as a central repository on initiatives by state and local government to enhance the competitiveness of American business through the stimulation of productivity, technology, and innovation, and federal efforts to assist state and local governments to enhance competitiveness."

State ACIRs Meet in Annapolis

On November 11-12, the Commission sponsored the sixth annual meeting of the state ACIR counterpart organizations in Annapolis. The two-day session was held in conjunction with the Assembly on the Legislature of the National Conference of State Legislatures (NCSL), and included the first joint meeting of the state ACIRs and the NCSL State-Local Task Force.

The conference was attended by representatives from 14 state organizations and from two states that are studying the feasibility of creating a state ACIR. Twenty-eight states now have a state ACIR counterpart agency.

Attendees reviewed the status of the Commission's research agenda, related activities, and possible new areas of study, and discussed ways in which state organizations could be involved, such as participation in thinkers' and critics' sessions, review of report drafts, and data collection or study assignments. The state representatives also provided updates on their work programs and considered areas for possible joint projects between the states and the U.S. ACIR. A small task force was formed to develop a proposal and strategy to solicit foundations and other funding sources to help strengthen and expand the state ACIR network.

Chief among the topics addressed at the joint ACIR-NCSL State-Local Task Force meeting were the development of an annual survey of the state of state-local relations, areas of possible joint activities, including the identifica-

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Intergovernmental Focus

Spotlight on Minnesota's Advisory Council on State-Local Relations

Jim Gelbmann
Special Assistant

The year was 1857—one year before Minnesota was to become the 32nd state of the United States. The Saint Peter Company, a private enterprise located in the Minnesota Territorial town of Saint Peter, had offered to donate land and erect buildings for housing the government there if the Territorial Government of Minnesota agreed to move the capital from Saint Paul.

Both houses of the territorial legislature passed a bill to move the capital to Saint Peter, and Governor Gorman was sure to sign it into law. The bill was then forwarded to the Committee on Enrolled Bills to be prepared for the signatures of the speaker of the House and the president of the Council. Joe Rolette, chairman of the Committee on Enrolled Bills and a great friend of Saint Paul, took the engrossed version of the bill, deposited it in a bank vault, and disappeared to an upper room of a nearby hotel, where his friends made sure he was kept very comfortable. Identical copies of the bill could not be produced, and parliamentary proceedings prevented the Council from passing a second version. While the sergeant-at-arms searched for Mr. Rolette, a number of unsuccessful resolutions were introduced to move the capital from Saint Paul to Belle Plaine, Monticello, Mankato, Shakopee, Saint Cloud, and Nicollet Island. One week later, as the 1857 session of the territorial legislature ended, Mr. Rolette returned with the bill—too late for it to be forwarded to the governor for his signature.

Minnesota's State-Local Partnership

While state-local relations in Minnesota have not always been this colorful, they have often been the focal point of the state's efforts to deliver

high quality public services to its citizens. The delivery of these services involves an extensive network of 23 major state agencies and more than 3,500 units of local government.

The local governments include 87 counties, 855 cities, 1,802 townships, 435 school districts, and approximately 350 special purpose districts. Thus, while Minnesota ranks 21st among the 50 states in total population and 14th in total land area, it ranks 6th in the total number of local units of government.

Administering high quality public services through such an elaborate network, and especially with the fiscal relationships between the state and local governments, requires extensive state-local planning and cooperation.

The state and local governments spend \$12.8 billion annually, or \$3,049 per citizen, on the provision of public services. Only three other states spend more on a per capita basis.

Federal funds account for \$2.2 billion of Minnesota's \$12.8 billion of state and local government spending.

Nearly 65 percent of the state's general revenues are transferred to local governments to finance the provision of locally delivered services.

Using statewide averages, state aid to local governments accounts for 27.1 percent of city and township revenues, 30.5 percent of county revenues, and 54.3 percent of school district revenues.

Governor Creates Advisory Council

Recognizing the importance of effective service delivery systems, Governor Rudy Perpich sought opportuni-

ties to foster improved state-local relationships. In October 1984, a Minnesota Inter-agency Issues Team recommended the creation of a permanent state-local commission to advise the governor and the legislature on intergovernmental affairs. Governor Perpich responded to the recommendation by issuing an executive order creating the Minnesota Advisory Council on State-Local Relations (ACSLR).

While the ACSLR was created by an executive order, its structure and responsibilities are very similar to those of the U.S. ACIR. The executive order creating the ACSLR directed the Council to:

Use informal hearings and surveys to solicit local government attitudes on state-local issues;

Review and comment on proposals by the state that will affect local governments;

Review state agency issue papers on issues affecting local governments; and

Develop policy recommendations on issues of critical importance to state-local relations.

Governor Perpich sought to enhance the independence of the ACSLR by requesting that local government associations appoint their own representatives to serve on the Council. The Association of Counties, the League of Cities, the Association of Townships, and the School Board Association appoint two representatives each to the Council; the Association of Regional Commissions appoints one representative. The ACSLR's local government representation also includes the chairperson of the Metropolitan Council, a regional planning council for the seven-county

Minneapolis-Saint Paul metropolitan area.

The commissioners of Education, Finance, Human Services, Revenue, State Planning and Trade, and Economic Development represent the executive branch of government on the ACSLR. Representatives of the Minnesota legislature are appointed to the ACSLR by the speaker of the House, the Senate majority leader and the minority leaders of the Senate and the House.

A local government representative must always chair the ACSLR. Lani Kawamura, commissioner of the State Planning Agency, serves as the Council's executive director.

Support for the Council

While the ACSLR is still a relatively young entity, it has a broad base of support among state and local officials. Mary Anderson, mayor of Golden Valley and current chairperson of the ACSLR, believes the Council provides an opportunity for state and local officials to share ideas and information. "Prior to my tenure on the ACSLR, I had little opportunity to learn about the issues affecting Minnesota's counties, townships, and schools," Anderson commented. "I believe there is much to be gained by sitting down with other state and local officials on a regular basis and sharing ideas and concerns."

Lani Kawamura believes the fiscal realities of the 1980s have heightened the need for all states to create effective vehicles for state-local cooperation. Kawamura noted that "state and local governments have been placed in a very difficult position. The need to compete with other states and nations for business development and job creation has pressured many state and local governments to reduce taxes. At the same time, Washington has reduced its commitment to financing many domestic programs, and citizens have begun to look toward their state and local governments to fill the void."

Kawamura emphasized further that "a state-local council or commission will be effective only when its members are able to relinquish their provincial hats and work together to meet the challenges of the next decade. All state and local officials must be willing to put aside their turf issues and agree to compromises that will benefit the general public. If state and

local officials are only interested in preserving their self-interest, the effectiveness of the state-local council or commission will be greatly diminished."

Paul McCarron, Anoka County commissioner and the ACSLR's first chairperson, recognizes the value of the ACSLR as "the one place where state and local officials from all levels and branches of government can meet to discuss common concerns away from the heat of the legislative arena." McCarron is in a unique position to comment on the value of a state-local relations council or commission. While he is currently a county commissioner, he has also served three years as a member of the Spring Lake Park city council and ten years as a member of the state legislature.

Accomplishments

During its first three years of existence, with no full-time staff and a minimal amount of state financial support, the Minnesota ACSLR has managed to compile an impressive list of accomplishments in state mandate reforms, tort liability of local governments, and land use planning and zoning laws. These accomplishments were made possible by the dedication of the ACSLR members, the cooperation and staff assistance from Minnesota's five major local government associations, and the staff and financial support of the State Planning Agency.

State Mandate Reforms. During its first year of operation, the ACSLR adopted a Statement of Principles for State Mandates of Local Governments. The statement suggested that the legislature and state agencies consider carefully the ramifications of laws and rules mandating local government action. Several of the key questions that should be asked before a mandate is adopted are:

Is a formal mandate necessary to achieve the intended goal?

Have equally effective or more effective alternatives been considered?

Can the cost of performing the mandate be collected from those who will benefit?

Have both short-term and long-term effects and costs been considered (are unintended consequences likely)?

Have the affected local governments been consulted and do their associations support both the ends and the means of the mandate?

Does the mandate provide adequate time for the local government to plan for its implementation?

At the ACSLR's request, Governor Perpich sent a memorandum to all state agency heads urging them to adopt the Council's principles for mandating. The memorandum further advised the agency heads to refrain from imposing significant costs on local governments unless reasonable means exist for local cost recovery.

The ACSLR's mandates study also prompted the Metropolitan Inter-County Association (MICA), representing eight urban counties, to develop legislation to address the concerns of local officials. Many of ACSLR's mandate principles are reflected in MICA's legislation. The legislation received its first hearings during the 1988 legislative session and will likely be reintroduced next session.

Tort Liability Reform. During the mid-1980s, local governments in Minnesota and around the nation faced a major tort liability crisis. In many cases, increases in liability insurance premiums were threatening governments' fiscal stability. Several local governments were unable to identify an insurer willing to provide general liability policies.

The ACSLR proposed state legislation that would limit the liabilities of local governments, thus increasing the availability of affordable general liability insurance policies. The ACSLR requested that the legislature:

Eliminate or restrict punitive damage awards in civil lawsuits;

Indemnify local governmental units against liability claims when they are acting as an administrative agent for the state (i.e., performing actions required by state law); and

Limit local government exposure in cases of joint liability.

The 1986 legislature responded to the ACSLR's recommendation by placing additional restrictions on punitive damage awards and limiting the joint liability of local governments in certain cases.

Dialogue on State-Local Fiscal Issues. As noted earlier, the fiscal relationships between Minnesota's state

and local governments involve a complex array of state aids, state-financed property tax relief, state guidelines and caps for local property tax levies, and state restrictions on other local revenue options.

During the past few years, the state has attempted to improve state-local fiscal relationships. The goal of these improvements has been to reform the property tax and local aid structures, increase the fiscal accountability of all levels of government for their spending decisions, and reduce property tax burdens, especially those placed on commercial-industrial property.

The Perpich administration has used the ACSLR as a sounding board during the development of property tax reform proposals. By consulting local government representatives during the development of its property tax reform proposals, the administration was able to better address the needs and concerns of local governments. As ACSLR Chairperson Mary Anderson has often noted, "When dealing with issues as sensitive as property tax reform, it is much better if state and local officials can approach the legislature united behind a single proposal. While the political compromises necessary to achieve this ideal are difficult, the ACSLR provides a forum where a meaningful state-local dialogue can take place."

Local Land Use Policies. Over the years, Minnesota has attempted to address the need for managed local growth by enacting laws governing local planning and zoning policies. Unfortunately, most changes in planning and zoning legislation have taken place in an incremental fashion, resulting in significant inconsistencies and lack of clarity within the statutes governing the land use policies of various levels of government.

The Minnesota ACSLR is attempting to foster cooperation among all levels of local government in an effort to revise the local planning and zoning statutes. The goal of the proposed revision is to clarify several of the ambiguous provisions in current law and, wherever possible, apply the same planning and zoning policies to all levels of government.

Over the past two years, the ACSLR has completed an extensive review of the existing planning and zoning legislation and drafted a bill

that addresses many of the problems. The bill was first introduced during the 1988 legislature. Several concerns were raised in a joint House-Senate committee hearing, resulting in the bill being held over for further study during the interim.

The ACSLR has redrafted the bill, responding to many of the concerns raised in the House-Senate committee hearing. The Council plans to have the bill reintroduced during the 1989 legislative session, and hopes to have the legislation enacted.

Survey of Local Officials. Earlier this year, the ACSLR mailed a survey to a representative sample of elected and appointed public officials from all levels of local government. The survey was designed to obtain their opinions on the appropriate delineation of state-local responsibilities for the provision of public services. Over 68 percent of the 1,156 public officials receiving the survey responded to it.

While the final results of the survey have not yet been fully tabulated, some interesting preliminary results have been noted. Sixty-two percent of all local officials indicated a need to change state guidelines establishing state-local responsibilities in one or more areas of public service. Thirty-four percent of those respondents indicated that state human service guidelines need immediate change; 21 percent cited state education guidelines; and 14 percent indicated state criminal-civil justice guidelines.

All surveys were coded, so it is possible to compare the responses of officials from a single type of government. It is also possible to note differences between the responses of elected officials and those of appointed officials.

The ACSLR will use the results of the survey to help guide its future activities.

Current Activities

In December 1987, the Minnesota ACSLR began its most ambitious project thus far. It recognized that much of its earlier activity resulted from the identification of a crisis or the desire to resolve specific issues that had been an irritant for state-local relations. It further recognized that many of the issues adversely affecting state-local relationships were merely symptoms of a larger issue—an inability to define clearly the appropriate roles of the state and local governments for

authorizing, financing, and delivering many of our public services. Rather than continuing to treat the symptoms, the ACSLR decided to address the larger issue head on.

The ACSLR outlined a two-phase approach for its State and Local Service-Fiscal Responsibilities Study. The first phase of the study involved a systematic identification of all public services that are provided jointly by the state and one or more levels of local government. The resulting inventory of state-local services would clearly define the decisionmaking, funding, and service delivery responsibilities of each level of government for existing public services. The inventory would also identify those services where the delineation of state-local responsibilities may be inappropriate or interfering with the effective delivery of the service.

Using this comprehensive inventory, the ACSLR planned to identify opportunities for improving the provision of a service by recommending that the legislature modify inappropriate delineations of state-local responsibilities.

In July 1988, the ACSLR reviewed a draft report on the first phase of the study. Using the report as its base, the ACSLR identified three priority areas where there appeared to be a significant need for further study.

The state-local responsibilities for authorizing, financing, and delivering social services in Minnesota must be further analyzed. If the need to alter the delineation of state and local responsibilities appears necessary, recommendations should be developed and forwarded to the governor and the legislature.

The state-local responsibilities for the provision of day care and child development services must be clarified. The provision of these services involves numerous state agencies and nearly all levels of local government. An effort must be made to determine if the needs of the client are effectively being met with what appears to be a very fragmented state-local system for the provision of these services.

The appropriate responsibilities of the state and local governments for financing Minnesota's trial courts and public defense system must be analyzed. Over the past 15 years, the

state has implemented a structurally unified trial court system and has created a state agency for the provision of felony-gross misdemeanor public defense services.

While the decisionmaking authority for these services has largely been removed from the counties, the counties continue to shoulder the primary responsibility for financing the services.

In addition to addressing these three issues, the ACSLR will use the second phase of the study to develop principles regarding the appropriate roles and responsibilities of the state and local governments for the provi-

sion of public services.

The ACSLR study has the potential to improve dramatically the effective provision of key public services in Minnesota. Paul McAlpine, president of the Minnesota Association of Counties, notes that "this is the first time officials from all branches and levels of government have joined together to forge more effective state-local structures for the provision of essential public services. The ACSLR deserves credit for fostering the proper environment for state-local cooperation."

The Future

Over the past four years the Minnesota ACSLR has matured into an or-

ganization that is prepared to meet the state-local challenges of the 1990s. It has gained the respect of many state and local officials. While state agencies and local government associations will continue to pursue their own agendas, the ACSLR will serve as a forum for coordinating those agendas in a way that will benefit all Minnesotans.

State and local governments throughout the nation can anticipate even greater fiscal struggles during the 1990s. While those struggles will undoubtedly take their toll, the cooperative efforts being forged by the ACSLR will help Minnesota's state and local officials rise to the challenge.

Minnesota Governor's Advisory Council on State-Local Relations

League of Minnesota Municipalities

Mary Anderson, Mayor, Golden Valley, *Chair*
Sam Houston, Mayor, Saint Cloud

Association of Minnesota Counties

Dorothy Grotte, Commissioner, Martin County
Paul McCarron, Commissioner, Anoka County

Association of Townships

David Fricke, Executive Director, *Vice Chair*
Henry Schumann, Past President

Minnesota School Boards Association

Willard Baker, Executive Director
Harry Sjulson, Past President

Minnesota Association of Regional Commissions

Carl Hauchild, Chair, Region 8

Metropolitan Council

Steve Keefe, Chair

Legislators

Rep. David Battaglia, District 6A
Sen. Robert Schmitz, District 36
Rep. John Burger, District 43A
Sen. Earl Renneke, District 35

State Department Heads

Ruth Randall, Department of Education
Tom Triplett, Department of Finance
Sandra Gardebring,
Department of Human Services
John James, Department of Revenue
Lani Kawamura, State Planning Agency
David Speer,
Department of Trade and Economic
Development

(ACIR News, continued from page 4)

tion and recognition of model programs and success stories, and the need for and timeliness of a national convocation on intergovernmental relations next year.

ACIR and NCSL Sponsor Telecommunications Conference

On November 30, 1988, the ACIR joined the National Conference of State Legislatures (NCSL) in sponsoring a conference relating to emerging issues of state taxation of the telecommunications industry. The conference,

which was held in Washington, DC, was attended by 150 legislators, legislative staff, industry representatives, and scholars from across the nation. The conference was supported by contributions from AT&T, Ameritech, Bell Atlantic, and MCI Communications.

The conference topics included changes in the structure of the industry and the implications for economic development and tax policies of local operating and interexchange (long distance) companies, recent trends in state tax policies and the relationship of those policies to regulatory reform, alternative approaches for apportioning interexchange company receipts

among the states, and concerns regarding the goal of providing universal service.

The conference proceedings will be reflected in a forthcoming ACIR report on state taxation of telecommunications, which will be published in the spring.

St. Louis: The ACIR Study

Roger B. Parks
Ronald J. Oakerson

Understanding local government in metropolitan areas means seeking to understand the implications of what is commonly called jurisdictional fragmentation, that is, a multiplicity of governments. Jurisdictional fragmentation is only one of many attributes of local government organization in metropolitan areas, however, and certainly not an attribute that, in and of itself, is either desirable or undesirable.

The ACIR examined various aspects of local government in the St. Louis area, primarily in St. Louis County, to learn how a system with substantial jurisdictional fragmentation works. Here, we summarize the findings of the study—*Metropolitan Organization: The St. Louis Case*—and what we learned from it.

Jurisdictional fragmentation need not lead to functional fragmentation. In St. Louis County, the numerous municipalities and school districts have created a variety of organizational ties and overlays that link the separate jurisdictions together in various functional arrangements. For example, in police and fire services:

An areawide major case squad pools investigative resources from a large number of separate police departments to respond to serious crimes.

The St. Louis County Police and Fire Training Academy supplies recruit training for all police and fire departments in the county.

Mutual aid agreements, frequently containing first response provisions, link all fire departments in the county and St. Louis City.

Mutual aid among police departments, often informal but sometimes formalized, is common throughout the county.

Joint dispatching arrangements, including both joint dispatch centers that serve multiple jurisdictions and intergovernmental contracts that allow one jurisdiction to produce services for others are common among both police and fire departments.

The Regional Justice Information System (REJIS) links all police dispatchers in the city and county to a common data base for information related to crime and criminals.

The countywide "Code 1000" plan can mobilize and deploy police personnel from multiple jurisdictions in the event of a disaster.

An areawide 911 system operates through the county.

The Greater St. Louis Fire Chiefs' Association facilitates the sharing of specialized equipment among fire departments.

Similar cooperative arrangements can be found in public education, such as:

The Cooperating School Districts of the St. Louis Suburban Area supplies members with a large audio-visual collection and with joint purchasing of supplies and equipment.

The Regional Consortium for Education and Technology supplies members with computer technology, software, training, and maintenance.

The Special School District of St. Louis County maintains a program that is highly coordinated with the regular school districts in the county.

The Voluntary Inter-District Coordinating Council helps to implement a voluntary desegregation plan that links city and county schools.

An accurate picture of local government organization in St. Louis County would include, in addition to a map of jurisdictions, a description of the large number of organizational ties and overlays.

Functional ties and overlays among jurisdictions tend to be developed for precisely those functional components of service production and delivery where one would expect benefits from coordination and from limited economies of scale. There are obvious components of service delivery that cannot be organized efficiently on a small scale. These components, requiring substantial capital investment or the creation of a pool of skilled specialists, are beyond the capacity of small jurisdictions. The ACIR research looked for scale economies to determine whether there were any among the municipalities in the county that had not been captured. The approach was to do an econometric analysis of police services and fire services separately, and across the aggregate of services provided by the different municipalities. In each instance, we controlled for the variations in service conditions found across the municipalities. We found limited evidence of uncaptured scale economies in policing, suggesting that some of the smallest police service producers could reduce costs slightly by combining with their neighbors. We found mixed evidence with respect to fire services: On a cost per capita basis it appears that smaller fire producers are more costly; on a cost per dollar value of property protected basis, there was no such indication. We remain unsure as to whether population or property protected is the more appropriate basis for this analysis and, therefore, make no conclusion with respect to fire services.

With respect to overall costs of service production, we found no evidence that larger municipalities had, on average, either higher or lower costs than did smaller municipalities after adjustment for service condition differences. The obvious explanation for the lack of demonstrable economies of scale remaining to be captured is that such economies have already been captured by the numerous organizational ties and overlays noted above.

Jurisdictional fragmentation has some positive, beneficial attributes, including high levels of local representation. Efficiency in the production and delivery of services makes little difference if service producers are not responsive to citizen preferences. Responsiveness depends on representation, the opportunity for citizens to be heard, and citizens' ability to hold local officials accountable. There is a high level of investment in local representation in the incorporated areas of St. Louis County. In many municipalities, the ratio of citizens to elected officials is less than 1,000 to 1, and in virtually all of the municipalities, the ratio is less than 5,000 to 1. Citizens in the unincorporated county have less access to local representation. Each member of the county council represents roughly 140,000 residents. In some parts of the unincorporated county area, citizens report relying more on state senators and representatives to articulate local interests. There also has been a recent resurgence of interest in municipal incorporation.

Fragmentation has another positive attribute—multiple opportunities for what we call “public entrepreneurship.” Public entrepreneurs are individuals who take initiative, and willingly incur the costs of time and effort, to seek out more efficient ways of producing and delivering services. All of the organizational ties and overlays previously noted are products of public entrepreneurship on the part of mayors, police chiefs, fire chiefs, school superintendents, county officials, and so on, individuals (or small groups of individuals) who got an idea, made a proposal, sought discussion, negotiated compromises, and in many cases, obtained appropriate state legislation. While multiple and overlapping jurisdictions give public officials the necessary independence to take initiative, voluntary associations of local governments and associations of local officials provide institutional facilities for working out local agreements. In St. Louis County, these associations include the County Municipal League, the Board of Governors of the Law Enforcement Officials of the Greater St. Louis Area, the Greater St. Louis Fire Chiefs' Association, the Cooperating School Districts of the Suburban St. Louis Area, and the county chapter of the American Public Works Association. In some parts of the county, more limited formal and informal associations exist, the most notable being the Normandy Municipal Council in the Normandy area.

It is possible to have a form of metropolitan governance in the absence of a metropolitan government. Metropolitan governance requires an ability to make rules that apply on an areawide basis. How can this be done without a metropolitan government? In St. Louis County, we found four components of metropolitan governance:

1. A reliance on state rules (constitutional and statutory) that can, when necessary and appropriate, be shaped specifically to St. Louis County;
2. A sizable county delegation to the state legislature elected from districts;
3. Voluntary associations of local governments and local officials that can be used to resolve issues and build local agreement; and
4. A basic allocation of authority to citizens in their particular local communities as they choose to define them. This basic authority includes the power to decide issues of municipal incorporation, the formation of special purpose districts, annexation, and consolidation. Except for a 20-year period when county government exercised a de facto veto over municipal annexations, these have been the rules-in-use in St. Louis County.

Together, these four institutional components have for many years functioned as an areawide mechanism through which local citizens and officials maintain local autonomy and adjust interlocal relationships.

City-county separation can inhibit problem solving across that city-county boundary. Jurisdictional separation is fragmentation without overlap (unlike municipal fragmentation within St. Louis County). Although there

are significant organizational ties and overlays that cross the border between St. Louis City and St. Louis County, some of which we have already mentioned, one area in which there has been a decided lack of cooperation between city and county is economic development. The City of St. Louis has experienced some downtown development but, considered by itself, has lost 30 percent of its employment base since 1970. On the other hand, St. Louis County has doubled its employment base in the same period, adding 234,000 jobs. Two important factors have contributed to the disparity between the City of St. Louis and St. Louis County. First, the city has an earnings tax and the county does not. Simple economics predicts movement of employers from the city to the county, and this has happened, accounting for as much as half of the county's growth. Second, the constitutional separation of the city from the county means that a decline in the city's economic health has no direct effect on that of the county, and may even be beneficial to the county as firms relocate there from the city.

Fragmentation with overlap, such as found in St. Louis County, does not appear to inhibit economic development. Fragmentation without overlap does. Unless some way is found for the city and county to make common cause in economic development, the likely prospect is that the city will continue to lag well behind the county.

A complex metropolitan area that has performed well in terms of service responsiveness and in finding efficient ways to deliver services may not perform equally well in assisting distressed communities. Some communities in St. Louis County are relatively well off. Their residents have incomes well above the county average, and they bear relatively low tax burdens for the services they receive. There are other communities, whose residents have incomes well below average, that tax themselves at relatively high rates, but are still unable to raise revenues at or near the level of their neighbors. The residents of the most disadvantaged communities tend to be racial minorities. The number of these communities is small, and the proportion of the county's population that is either extraordinarily advantaged or disadvantaged is not large. The problem is one that is recognized in St. Louis County, but is not yet resolved. A proposal to increase the county sales tax and target the increased revenues on disadvantaged communities was considered but defeated earlier this year.

Summary

The ACIR research on St. Louis County suggests that a set of relatively small local governments, when embedded in a structure of overlapping jurisdictions and coordinated service delivery arrangements, is a viable alternative for organizing large metropolitan communities. It is an alternative that does some things very well. It can engender responsiveness to citizens' preferences and can deliver public services with substantial efficiency. It is also an alternative, however, that does not eliminate the need to give special attention to the needs of distressed communities. In a system such as that of St. Louis County, distressed

communities may be able to receive the special attention they need while also maintaining their autonomy and self-governance.

Fragmentation with overlap is not the same thing as fragmentation without overlap. This is seen very clearly in the disparity in economic development between St. Louis City and County.

Overall, St. Louis County, even as it struggles to respond to current challenges, has much of a positive nature to teach the rest of metropolitan America.

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Parks and Oakerson were the principal investigators in the St. Louis research. This article is based on remarks prepared for delivery to a symposium on Restructuring Local Government in St. Louis: Assessing the Need and Examining the Options, sponsored by the Center for Metropolitan Studies, University of Missouri, St. Louis, November 3, 1988.

Reorganizing The St. Louis Area: The Freeholders' Plan

Donald Phares

The recent release of the report *Metropolitan Organization: the St. Louis Case* by the U.S. Advisory Commission on Intergovernmental Relations (ACIR) raises once again the question of government organization in metropolitan areas. This is a complex issue that ACIR and countless other organizations and individuals have wrestled with over the decades, and they most likely will continue to do so. Is bigger better? Is smaller better? Do we need some hybrid system? The ACIR report documents in great detail some of the many creative endeavors that local officials in St. Louis County have undertaken to respond to the service needs of their constituents.

Using a "public choice" framework, the report praises the creativity of "public entrepreneurs" and part-time officials in the dozens of small cities. Without question, this praise is well deserved. An intricate web of formal contracts, cooperative arrangements, informal agreements, shared systems, and local associations provides the thread that weaves together this complexity of local jurisdictions (the 91 municipalities indicated in small numbers on the map plus many other local jurisdictions not shown) for the more than 600,000 residents of incorporated St. Louis County.

The release of this ACIR report in September coincided with the formal submission of a major plan for governmental reorganization within the St. Louis City/County area. The contrast between the findings of the ACIR report and the provisions in the City/County Board of Freeholders' *Plan for Governmental Reorganization in St. Louis & St. Louis County* is stark. The ACIR report praises the existing arrangement, noting in conclusion: "The experience of the St. Louis area in metropolitan organization has much to teach the rest of metropolitan America." The freeholders' plan, in contrast, proposes major organizational and financial restructuring for the area.

This article will outline the establishment of the board and the underlying premises that guided the formation of the reorganization plan, and highlight major features of the plan.

The Board and Its Options

A provision in the Missouri State Constitution (Article VI, Section 30) allows for the establishment of a board of freeholders. As interpreted, this board has the constitutional authority to address any and all issues pertaining to local government structure, but is restricted to St. Louis City and County. On September 28, 1987, the most recent board was sworn in, comprised of 19 members, 9 of whom were appointed by the mayor of the city, 9 by the county executive, and one by the governor.

The state constitution [Section 30(a)] designates five types of reform that can be considered. The first three relate to reentry or merger between St. Louis City and County. The fourth addresses the formation of an areawide district or districts. The fifth option allows the board "to formulate and adopt any other plan for the partial or complete government of all or any part of the city and the county." This provision, which is a very broad grant of authority, was added to the state constitution as a result of a statewide referendum passed in 1966.

It is by the terms of this fifth provision that the present board derived its constitutional authority to delve into the myriad issues pertaining to local government organization and finance in St. Louis County. Prior to passage of this provision, a board of freeholders was limited to city/county merger or reentry options or a single-purpose areawide district.

While this provision allows the board to propose restructuring of any and all local governments, including school and special districts, the board made a deliberate choice to focus its attention on municipal issues in the county. Such a focus mandated an examination of fire/

The Board of Freeholders

The Missouri constitution allows for the establishment of a board of freeholders to address local government structure in St. Louis City and St. Louis County.

On September 28, 1987, the most recent board was sworn in with 19 members, 9 appointed by the mayor of the city, 9 appointed by the county executive, and one by the governor.

Five types of reform can be considered. Three deal with reentry or merger between St. Louis City and County. One addresses the formation of an areawide district or districts. One allows the board to consider virtually "any other plan."

The board was convened by petition of 3 percent of the number of voters in the last gubernatorial election in both the city and county.

The board submitted its reorganization plan in September 1988.

The plan is scheduled to be on the ballot on June 20, 1989, at a special election held in the city and county.

A simple majority is required in both areas for approval.

The vote must be "yes" or "no" on the entire 155-page plan.

There have been four prior boards convened:

1926—merge city and county under city government—failed

1954—create a Metropolitan Sewer District—passed

1955—create a transit district—failed

1959—create a multipurpose district—failed

EMS services as well because 19 of the 43 providers of fire protection and EMS services are municipal departments.

While reorganization within St. Louis County may be considered under this constitutional option, the legal interpretation of the provision is that any plan from the board must somehow involve St. Louis City "constructively." That is, the "and" in the provision, as cited above, has been legally interpreted to mean both city and county, not one or the other.

The Major Premises of the Plan

The board's focus on municipal government derives directly from the adverse fiscal environment that has been evolving in the county during at least the past two decades. The context for this work has been provided by several studies, the most recent of which, by the civic group Confluence St. Louis, posed as the title of its report, *Too Many Governments?* After careful deliberation, the board developed several premises that guided its work and helped to form the final plan.

First, there was an overwhelming consensus that the approximately 400,000 residents in unincorporated St. Louis County were not being consistently well served by the county government's provision of municipal services (e.g., police protection). Thus, complete incorporation of all of the county was to be accomplished, with the exception of Lambert airport, which is owned by the city but located in the county.

Second, the county was to be completely removed from the provision of municipal-type services; this responsibility was to be given to the new cities. This arrangement would eliminate the present mixed situation whereby the county government provides both municipal and county services, but with varying geographical output of the former. A clear delineation of functional responsibility between city and county functions was an integral part of this premise.

Third, it was held strongly that all residents of the county should have access to adequate levels of municipal and fire/EMS services irrespective of place of residence. It was determined that this was not being accomplished given the present highly fragmented structure, a situation that was likely to worsen with time.

Fourth, adequate financial resources needed to be made available for support of municipal and fire/EMS services. With vast differences in available resources and service levels being documented, a plan was necessary that realigned existing resources while allowing for the provision of new ones as necessary. It was not the existence of disparities, per se, that defined this premise, but rather the desire to guarantee an adequate level of service to all residents no matter where they live and to provide sufficient resources to accomplish this objective.

Fifth, an "end state" plan was finally agreed on, rather than some variant of a "process" approach, such as a municipal boundary commission. The board felt that it was important to provide as much certainty as possible that the new governmental structure would incorporate all of the county and at the same time provide an adequate fiscal base to finance the revised county government, all new cities, and the new fire/EMS districts. Thus, the decision was made to go with a complete delineation of 37 new municipalities and four fire/EMS districts covering all of the county. A detailed fiscal profile for each new city and the county was prepared by Price Waterhouse to document a balance between projected revenues and expenditure needs (*Supplement to the Plan for Governmental Reorganization in St. Louis & St. Louis County*).

The Context for Reform

There are 91 cities in St. Louis County; part of one (Pacific) lies in another county. These cities provide municipal services to only 63 percent of the total county population. Almost 400,000 people live in unincorporated areas of the county and must rely on county government for their basic municipal services, such as police protection or street maintenance and repair.

Being the single major provider of municipal services (and all county functions) requires that the county have an appropriate tax base for this dual task. With the steady increase in annexation and incorporation attempts and suc-

cesses, the tax base available to the county has been deteriorating through the loss of general sales and utilities gross receipts taxes collected in unincorporated areas that go into the county coffers. Two recent examples of successful major incorporations, Maryland Heights (1985) and Chesterfield (1988), represent a combined population base of 60,000 people and about \$10 million dollars in lost revenue for the county.

Second, population size in these 91 municipalities ranges from less than 30 to over 50,000; 34 cities have fewer than 2,000 residents, and only 20 have more than 10,000.

Third, resources for the support of public services are very unevenly distributed among the existing municipalities. This leads to vast differences in public service levels and a necessity in many instances to compromise on basic services let alone those public activities that enhance the quality of life in a community.

The resource disparity issue has been worsened by "land grab" annexation and incorporation activity, as mentioned above. The most fiscally productive areas in unincorporated St. Louis County are literally being "grabbed up," while the less resource rich (primarily residential) areas remain for the county to take care of, as its diminishing resources allow, or to fend for themselves.

The situation has been contributed to in part by differences in taxable property concentrations, ranging from a 1987 per capita assessed value of less than \$2,000 to communities approaching \$50,000, but the property tax is not the fiscal mainstay of cities in St. Louis County. A much more crucial factor relates to the sales tax and how its proceeds are distributed geographically.

There are two types of cities for sales tax purposes: point-of-sale and pool. The former get to keep all proceeds within their boundaries; the latter share on a per capita basis what remains after point-of-sale. This system produces differences between the pool per capita allocations of about \$70 (in 1987) compared to per capita in some point-of-sale communities of several hundred dollars and a few in excess of \$1,000. With this kind of strong fiscal incentive, the existing cities have attempted to annex commercial and industrial areas that generate sales tax revenues. This is often done in a very haphazard, economically selfish manner.

A second major contributor to municipal coffers, and thus to the fiscal tension, is utility gross receipts revenues. There is a strong incentive to capture this revenue base within incorporated areas as well. Those areas that tend to be high sales tax producers also generate large gross receipts yield; the fiscal problem is compounded.

The Major Features of the Plan

The plan incorporates the entire county into 37 new cities, as shown on the map. Most of these build on an existing core city or cities, but six new cities would be formed primarily from unincorporated portions of the county. The overall fiscal plan would realign finances so that each of the new cities would be able to provide adequate services. As mentioned above, Price Waterhouse did a separate de-

The Freeholders' Reorganization Plan

ST. LOUIS COUNTY ISSUES

Organizational/Structural

All of the county incorporated except airport. Cities reduced in number from 91 to 37. Clear delineation between municipal and county functions.

County no longer to provide municipal services. Cities to have jurisdiction over all municipal matters unless there is a gross violation of the municipal/county master plan. Fire/EMS units reduced from 42 to 4.

Countywide 1 percent earnings tax imposed on salaries, wages, and business profits to fund: fire/EMS districts, county government, a municipal development fund.

Revenues/Funding

Sales tax revenues distributed: 25 percent point-of-sale, 75 percent per capita (pool) distribution.

A new 6 percent gross receipts tax on nonresidential utilities, earmarked for municipal use only.

County operating property tax eliminated, only debt levy remains.

Fire/EMS property tax rates reduced from present levels (as high as \$1.00 or more) to 13 cents.

Implementation

Transition commissions (separate for fire and municipal) will supervise two-year implementation period.

Residents in each new city determine form of government, elected officials, changes in tax rates, municipal name, etc.

AREAWIDE CITY/COUNTY ISSUES

Set up a joint city/county economic development district.

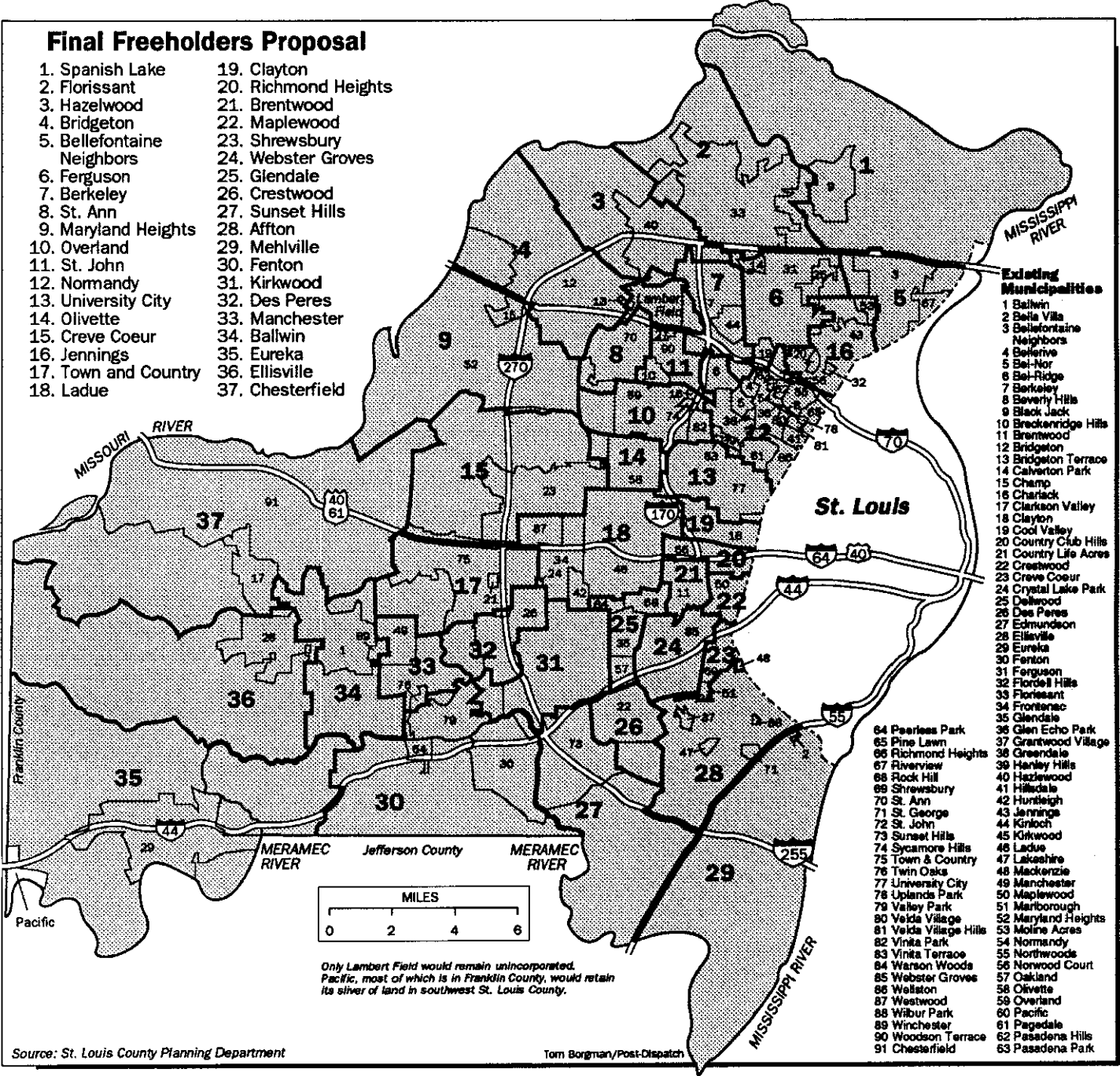
"Metropolitan Commission" has the authority to examine specific issues that affect the entire city/county area.

tailed empirical analysis of all 37 proposed new cities and prepared a fiscal profile of revenues and expenditures for each. The same was done for the reconstituted county.

The fiscal plan has four major elements. A newly implemented 1 percent countywide earnings tax, fashioned after that in the city, would fund county government and the majority of fire/EMS protection, and provide a new revenue-sharing pool for municipal capital and operating needs. A new 6 percent gross receipts tax on nonresidential utilities would offer additional revenue to each of the 37 cities. All sales tax proceeds would be distributed 25 percent point-of-sale and 75 percent on a per capita (pool) basis. No communities would remain 100 percent point-of-sale. Lastly, the entire operating portion of the county property tax would be eliminated, along with 72 percent of

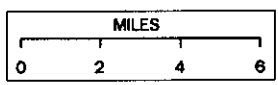
Final Freeholders Proposal

- | | |
|----------------------------|----------------------|
| 1. Spanish Lake | 19. Clayton |
| 2. Florissant | 20. Richmond Heights |
| 3. Hazelwood | 21. Brentwood |
| 4. Bridgeton | 22. Maplewood |
| 5. Bellefontaine Neighbors | 23. Shrewsbury |
| 6. Ferguson | 24. Webster Groves |
| 7. Berkeley | 25. Glendale |
| 8. St. Ann | 26. Crestwood |
| 9. Maryland Heights | 27. Sunset Hills |
| 10. Overland | 28. Affton |
| 11. St. John | 29. Mehlville |
| 12. Normandy | 30. Fenton |
| 13. University City | 31. Kirkwood |
| 14. Olivette | 32. Des Peres |
| 15. Creve Coeur | 33. Manchester |
| 16. Jennings | 34. Ballwin |
| 17. Town and Country | 35. Eureka |
| 18. Ladue | 36. Ellisville |
| | 37. Chesterfield |



Existing Municipalities

- 1 Ballwin
- 2 Bella Villa
- 3 Bellefontaine Neighbors
- 4 Bellevue
- 5 Bel-Nor
- 6 Bel-Ridge
- 7 Berkeley
- 8 Beverly Hills
- 9 Black Jack
- 10 Breckenridge Hills
- 11 Brentwood
- 12 Bridgeton
- 13 Bridgeton Terrace
- 14 Calverton Park
- 15 Champ
- 16 Charlack
- 17 Clarkson Valley
- 18 Clayton
- 19 Cool Valley
- 20 Country Club Hills
- 21 Country Life Acres
- 22 Crestwood
- 23 Creve Coeur
- 24 Crystal Lake Park
- 25 Delwood
- 26 Des Peres
- 27 Edmondson
- 28 Ellisville
- 29 Eureka
- 30 Fenton
- 31 Ferguson
- 32 Florissant Hills
- 33 Florissant
- 34 Frontenac
- 35 Glendale
- 36 Glen Echo Park
- 37 Grantwood Village
- 38 Greendale
- 39 Hanley Hills
- 40 Hazelwood
- 41 Hilldale
- 42 Huntleigh
- 43 Jennings
- 44 Kinloch
- 45 Kirkwood
- 46 Ladue
- 47 Lakeshire
- 48 Mackenzie
- 49 Manchester
- 50 Maplewood
- 51 Marlborough
- 52 Maryland Heights
- 53 Moline Acres
- 54 Normandy
- 55 Northwoods
- 56 Norwood Court
- 57 Oakland
- 58 Olivette
- 59 Overland
- 60 Pacific
- 61 Pagedale
- 62 Pasadena Hills
- 63 Pasadena Park
- 64 Peerless Park
- 65 Pine Lawn
- 66 Richmond Heights
- 67 Riverview
- 68 Rock Hill
- 69 Shrewsbury
- 70 St. Ann
- 71 St. George
- 72 St. John
- 73 Sunset Hills
- 74 Sycamore Hills
- 75 Town & Country
- 76 Twin Oaks
- 77 University City
- 78 Uplands Park
- 79 Valley Park
- 80 Veida Village
- 81 Veida Village Hills
- 82 Vinita Park
- 83 Vinita Terrace
- 84 Warson Woods
- 85 Webster Groves
- 86 Wellston
- 87 Westwood
- 88 Wilbur Park
- 89 Winchester
- 90 Woodson Terrace
- 91 Chesterfield



Only Lambert Field would remain unincorporated.
 Pacific, most of which is in Franklin County, would retain its sliver of land in southwest St. Louis County.

Source: St. Louis County Planning Department

Tom Borgman/Post-Dispatch

that levied for fire services. Funding would come from the new earnings tax. It should be noted that the tax would be collected only once from any individual or business taxpayer. No one would be taxed twice on the same income.

To address city/county issues and to fulfill the constitutional mandate to link the city and county constructively in the plan, the board formulated two new entities. The first one is an economic development district with the formal mandate to promote the entire city/county area. This district is to be funded from an areawide 1 percent tax on nonresidential utility usage.

The second entity is a metropolitan commission, which, once convened, will be empowered to examine emerging areawide problems and propose solutions to the voters (e.g., for solid/toxic waste disposal). This commission format provides a formal structure for addressing problems affecting the city/county independent of the relationships among chief elected officials or the need to go through the state legislature. Whatever is proposed must be approved at the ballot box by a majority of the voters in the city and the county at separate elections.

The board's plan clearly is at variance with the conclusions in the ACIR report that everything is working fine as is and that the St. Louis solution is a model to be emulated elsewhere in the nation's metropolitan areas. The proposed reorganization looks forward to providing an integrated governmental and financial structure that would place the St. Louis area in a stance to enter the 21st century.

The plan would accomplish several objectives. All municipal services would come from a city, not from the county. Fiscal restructuring would better align resources with needs. Each city would be financially able to deliver adequate services to its residents. Adequate fire/EMS protection would be available throughout the county. An areawide district would promote economic development. Finally, a formal structure would be in place to propose to voters a solution to emerging, presently unforeseen, or not yet severe enough areawide problems. Overall, St. Louis would be better positioned to deal with its existing array of problems and any others that might arise in the future.

It needs to be mentioned that the legality of the board and its plan has been considered by the federal district court, the state circuit trial court, the United States Court of Appeals for the Eighth Circuit, and the Missouri Supreme Court under the property owner interpretation of "freeholder" status as denial of equal protection under the U.S. constitution.

To date, the board's constitutional status has been upheld by the Missouri Supreme Court, but the circuit court has yet to issue a formal opinion on the case. Whether anything will result from this legal action remains for the courts to determine. The board finished its work, filed its plan, and went out of existence as of September 16, 1988. Voters will exercise their prerogative on June 20, 1989.

Donald Phares is administrator of the Board of Freeholders, and professor of economics and public policy, University of Missouri-St. Louis.



Coming Soon

Significant Features of Fiscal Federalism, 1989 Edition, Volume I

Significant Features of Fiscal Federalism, 1989 Edition, Volume I, contains completely revised and up-to-date information on federal, state and local tax rates, and national trends in government expenditures and revenues. *Significant Features* is designed for national, state and local policymakers, their staffs, public finance analysts, and other interested individuals who wish to have ready access to a single source of comparative tax data on all levels of government in the United States.

New Tables in the 1989 Edition

- State-by-State Population—1967, 1977-87
- Gross State Product—1967, 1977-86
- State-by-State Personal Income—1967, 1977-87
- State-by-State Per Capita Income—1967, 1977-87
- Circuit Breakers
- Homestead Exemptions
- State Gross Receipts of Telecommunications Services
- State Sales Taxation of Telecommunications Services
- State Corporate Income Taxation of Telecommunications Companies
- State Taxation of Telecommunications Property

Other items included in *Significant Features, 1989 Edition, Volume I*: federal individual income tax rates for 1986, 1987 and 1988; state and local individual income tax rates updated through November 1988; 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 rates and exemptions; federal and state tax rates for cigarettes, alcoholic beverages and gasoline; average effective 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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Reconciling Perspectives on the St. Louis Metropolitan Area

Donald Elliott

The ACIR's recent publication of *Metropolitan Organization: The St. Louis Case* has created quite a furor among public sector practitioners, citizen activists, and academics in the St. Louis area. This furor is due largely to the timing of the ACIR report, which reaches conclusions very different from those of two regional citizen groups, both of which have recommended significant reorganization of governments in the St. Louis area. Consequently, the ACIR report has been both decried and lauded by factions on opposing sides of an upcoming referendum on a proposed plan that would dramatically restructure St. Louis metropolitan government. How and why do the perspectives of the ACIR report and these citizen groups differ? Why have well-informed, well-intentioned, reasonable people reached very different conclusions about how government should be structured in the metropolitan area? This article reviews the objectives, methodology, and conclusions of the ACIR study in an attempt to explain why such diverse policy prescriptions have arisen.

The ACIR Report

Published in September 1988, *Metropolitan Organization: The St. Louis Case* summarizes an ACIR research project begun before the direction of the recent local studies was clearly established. The premise of the ACIR study is that the St. Louis metropolitan area is an excellent subject for a case study examining *how* and *how well* a highly fragmented local public sector functions.

The stage for the study is set with the argument that the traditional literature views fragmentation as detrimental to the performance of local government functions despite the absence of empirical evidence to support this view. The report outlines an alternative theory to explain why and how fragmentation works and offers evidence from St. Louis and other areas to test that theory and to explore further the functional relationships involved.

Theory and Methodology

The theory outlined in the ACIR report builds on the theory of local public goods and finance currently accepted in the economics literature and public finance texts. The general thrust of the research is not unlike efforts by economists of the public choice school. Recent research reinforces the view taken by the ACIR report that fragmentation may actually reduce the costs of providing local government services and, through competition among local governments, enhance the efficiency of the local public sector.¹ Although perhaps viewed as radical by public administrators or political scientists, the theory outlined in the report would be not considered far from the mainstream of current public sector economics.

The assumptions, theory, and criteria for the study are clearly articulated. For example, the research questions outlined are reasonable and important questions bearing upon the process by which local governments in a metropolitan area execute their responsibilities. The investigators adopt the case study approach as their research methodology, a time-honored method for investigating such questions. In later chapters, regression analysis is appropriately selected for exploring economies of scale or size, cost variations, and fiscal inequities.

The ACIR Conclusions

The ACIR's appraisal of the existing constellation of governments in the St. Louis area is generally positive. The perspective is summarized as follows:

Local self-government provides a solid foundation for metropolitan organization in St. Louis County. . . . The experience of the St. Louis area in metropolitan organization has much to

¹ Christopher Bell, "The Assignment of Fiscal Responsibility in a Federal State: An Empirical Assessment," *National Tax Journal* XLI (June 1988): 191-207. Randall Eberts and Timothy Gronberg, "Can Competition among Local Governments Constrain Government Spending?" *Federal Reserve Bank of Cleveland Economic Review* 24 (Quarter 1, 1988): 2-9. Jeffrey Zax, "The Effects of Jurisdiction Types and Numbers on Local Public Finance" (unpublished report, City University of New York and National Bureau of Economic Research).

teach the rest of metropolitan America. Jurisdictional fragmentation, when combined with overlapping jurisdictions, can provide an institutional framework for a dynamic of metropolitan organization that continually offers new opportunities for coordination and productivity improvement. . . . Effective metropolitan governance can emerge from local self-determination and citizen choice. . . .

The Dispute

Why, then, is this report the subject of such controversy in the St. Louis area? Opposing views have been published by Confluence St. Louis (a regional citizens' league), the Board of Freeholders, and several St. Louis area academics, all of whom have studied the region carefully. Supporting views may be heard from mayors of small municipalities and other area academics.

Consider the following quote from the ACIR report (emphasis added):

The selection of St. Louis represents, therefore, the deliberate choice of a "hard case." The processes and arrangements that characterize the organization and governance of fragmented metropolitan areas ought to be writ large in St. Louis County. *If jurisdictionally fragmented areas are marked by confusion, discord, and a lack of cooperation among independent units of government, St. Louis County and the greater St. Louis area should display these characteristics in abundance.* (page 9)

The reports of the citizen groups cite such confusion, discord, and lack of cooperation (among other reasons) as endemic to the current constellation of St. Louis governments and as justifying proposed reforms. Yet, in the face of this criticism, the authors of the ACIR report claim that careful analysis yields different conclusions.

Why are there such differences in perspectives? In this author's opinion, there are at least three sources of these strong differences among the parties to this dispute:

Disagreements over empirical evidence and its interpretation;

The application of different criteria and different weights for criteria in making judgments regarding performance;

Differences in time horizons for analysis and perspectives on the dynamics of the area.

It is important to understand why those who speak with authority disagree. If the differences lie in criteria and how to weight them, then the differences are philosophical, and, ultimately, it is the voters' philosophy that must prevail, not that of the researchers or study commissions. If the differences arise over empirical evidence, objective resolution may be possible and helpful. Similarly, discussion of time horizons and dynamics may lead toward resolution of disagreements and establishment of consensus.

The Empirical Evidence

The ACIR report presents some of the most sophisticated empirical analysis to date of important issues concerning the performance of St. Louis area government. Two sets of questions have arisen, however, regarding the ACIR statistical analyses.

The first concerns the data base constructed for the fiscal analyses. The financial data for municipalities were obtained from reports filed with the Missouri state auditor's office. There is, however, no standardized set of definitions underpinning these reports to ensure comparability of figures reported by municipalities. Lack of comparability could invalidate statistical hypothesis testing from cross-section regression models based on these data. Some local critics have expressed concern that anomalies may still exist in the data used in the ACIR research. The significance of this claim for the conclusions of the research is difficult to assess.

A second question concerns the specification of the regression models used in the ACIR research. For example, to be specified appropriately, regression models explaining local government costs, expenditures, and revenues should take into account not only service conditions and voter characteristics but also the interdependence of costs, revenues, and expenditures through the local government's budget constraint. Such models also demonstrate the importance of marginal tax price (and tax exporting) in explaining local government behavior. In these models the presence of commercial and industrial property reduces the marginal tax price of additional government services to voters, as a substantial portion of the tax burden is exported to nonresident owners and users. The effects on the level of local expenditure are similar to those of matching grants and increased local tax effort. These effects are important to the discussion of fiscal inequities across municipalities.

The ACIR models ignore the interdependence of expenditures and revenues, as illustrated by the use of separate regressions for each in Chapter 8. The most grievous transgression occurs in the regressions of Table 8.7 in which expenditures are actually regressed against revenues, inviting inconsistent estimates of coefficients due to simultaneity. These same regressions also suffer from possible specification bias due to the omission of marginal tax price variables, yet are simulated to underpin the ACIR's conclusions regarding the minimal extent of fiscal inequities in the St. Louis area.

The originators of the type of model used in this section of the ACIR report are more careful in specifying their revenue variables (using property tax base rather than revenues).² They also acknowledge that even their specification is simplistic because it ignores much of the tax price literature (for which one of the originators, Helen Ladd, is largely responsible).

²Katherine Bradbury, Helen Ladd, Mark Perrault, Andrew Reschovsky, and John Yinger, "State Aid to Offset Fiscal Disparities across Communities," *National Tax Journal* XXXVII (June 1984): 151-170.

How much do such concerns bias the ACIR results and conclusions? One cannot estimate the magnitude of the bias without testing alternative models using the same data. The direction of the bias is clear, however. The greater revenue effort of point-of-sale cities (which retain their own local sales tax receipts) will be attributed to either citizen preferences or costs of servicing commercial property. The latter will cause the cost index for point-of-sale cities to be inflated relative to pool cities. Thus, the extent of fiscal inequities between pool cities and point-of-sale cities will be understated.

In summary, the ACIR is to be applauded for its general approach to the scale and equity questions. This report is by far the most sophisticated and respectable effort to date to measure the degree of fiscal inequity among cities in St. Louis County. At best, however, the estimates are lower bounds with respect to the amounts of revenue required to eliminate inequities.

Criteria

A major point of difference between the citizen groups advocating change and the ACIR research appears to be the criteria selected to evaluate government performance and the weights placed on the criteria. For example, one fiscal criterion used in the ACIR study is fiscal equity (pages 122-33). The presence of commercial-industrial property is found to be a predictor of patterned inequalities in the county, and it is noted that point-of-sale cities generally spend more property tax dollars per household (excluding trash) than pool cities. This is not surprising given the effects of commercial and industrial property on marginal tax price, as explained above. The report concludes that patterned inequalities among municipalities are relatively small and could be addressed cooperatively if the public willed it so.

The citizen groups are much more pessimistic, and place greater weight on the equity criterion. For example, the freeholders' report sees a greater need for redistribution of fiscal resources and for tax reform than is envisioned by the ACIR analysis. Equity and access to public services have been cited by the freeholders as major reasons for the proposed restructuring.

In part, this difference in perspectives between the ACIR and the freeholders results from differences over the perceived magnitude of the inequities in the current system. In part, the difference arises from the weights attached to equity versus other criteria. In part, the difference may arise from disagreements over the fiscal dynamics of the region.

Time Horizons and Dynamics

The ACIR case study analyzes a snapshot of St. Louis County government taken in the mid-1980s and, on the basis of that snapshot, is optimistic about the future performance of the constellation of governments that comprise the region. The citizen groups are motivated more by concerns over the long-term future performance of the system than any specific current problems. The basis of this concern lies in the revenue system that supports local governments in the area.

The existing local revenue system in Missouri lacks any significant regional or state revenue sharing, and severely constrains the role of local property taxes and user

fees in local government budgets. A "rollback requirement" prevents the property tax base from increasing rapidly during periods of inflation, and an amendment to the state constitution requires voter approval of any increases in property tax rates or user fees. These constraints limit the property tax and user fees as viable sources of local fiscal discretion because of the significant transaction costs associated with repeated referenda.

These constraints, the loss of federal aid, and the absence of any significant state or local revenue sharing have resulted in skirmishes between local governments over access to sales and utility tax revenues. Annexations and incorporations are the tactics used to capture these regionally generated tax sources. As fiscally attractive areas of the county continue to incorporate or to be annexed, the fiscal viability of remaining high-need, low-wealth pockets will continue to deteriorate. This specter has been a prime impetus motivating the recommendations of the citizen groups. The recent lull in inflation has moderated fiscal pressures somewhat; but if inflation should accelerate, so will the pressures, exacerbating the instability of the existing fiscal structure. The ACIR report acknowledges the intensity of the current battle over sales tax revenues between point-of-sale and pool municipalities as well as the county government. The entire analysis and conclusions, however, view the issue in a static, snapshot context and neglect the dynamics of the situation. The report minimizes the extent of existing fiscal inequities and surely understates the potential fiscal inequities to come.

Other issues addressed in the ACIR report are disputed by some local observers. In contrast to the ACIR findings, many local critics have little confidence in the ability of existing regional forums to resolve major areawide problems, including economic development. The report appears to be somewhat skeptical as well when city/county issues are involved. Furthermore, the St. Louis metropolitan area encompasses counties in Missouri and Illinois. Bistate issues are even less amenable to solution; yet, the bistate nature of the region is hardly mentioned in the ACIR report.

Summary

Whether fragmentation improves or diminishes the performance of the public sector in a metropolitan area is a very important research question. *Metropolitan Organization: The St. Louis Case* is a valuable addition to the literature on this question because of its comprehensive, structured approach to the issue.

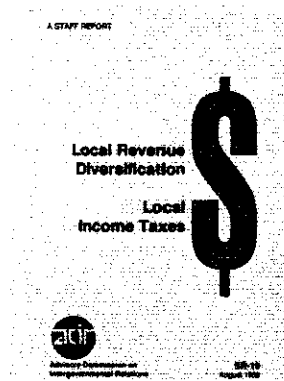
Some observers may (and do) disagree with the assumptions and modeling employed in the ACIR analysis. Others may question the consistency of the data or the specifications used in statistical hypothesis testing. Still others may quarrel with the conclusions because they favor the use of different criteria or time horizons for analysis. Nevertheless, *Metropolitan Organization: The St. Louis Case* challenges those who would disagree to be sure of their analysis, and its methodology raises the level of debate beyond opinion, anecdote, and ad hoc empiricism to the current frontiers of empirical public sector research.

Donald Elliott is a professor of economics at Southern Illinois University, Edwardsville.

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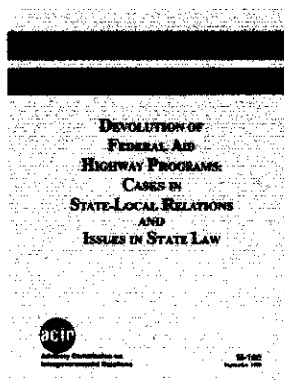
This study is one of a series by ACIR on ways in which local governments can lessen their reliance on property taxes by diversifying their revenue bases. Among the most potentially important nonproperty taxes suitable for use by local governments is the local income tax. It is presently a modest source of revenue, but is important for a number of large cities. In most cases, local income taxes must be authorized by the state legislature, and they are most often used by general purpose local governments. Typically, the local income tax is an alternative rather than a complement to a local sales tax, and all states that authorize a local income tax also have a broad-based state income tax.



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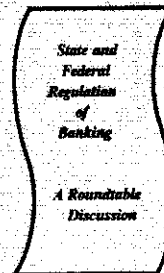
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Reorganizing St. Louis County: The Debate Goes On

James M. Brasfield

More than 20 years ago, Matthew Holden suggested that it might be useful to consider "The Governance of the Metropolis as a Problem in Diplomacy."¹ As a political scientist and an elected local official, I have pondered his idea often over the past decade, while watching the complexity of local government in St. Louis County.

Now, I tip both of my hats to the U.S. Advisory Commission on Intergovernmental Relations for *Metropolitan Organization: The St. Louis Case*, a systematic and enlightening case study of the complex St. Louis public economy. As an elected municipal official, I was pleased to read a sound research study that confirmed many of the judgments about government reform that I have developed over the years. As a political scientist with a 20-year fascination with the subject, I found the study a stimulating contribution to the literature.

¹Matthew Holden, "The Governance of the Metropolis as a Problem in Diplomacy," *Journal of Politics* 26 (August 1964): 627-47.

For a century, the reform impulse has been embedded in the American political landscape. Institutions of local government are a frequent target. Reformers sought comprehensive structural change in order to weaken the urban political machines, and deep within the reform impulse there appears to be a rejection of the untidiness characteristic of American local governments. Because the prevailing local institutions grew with the region, they are usually uneven in size and seemingly disjointed in functional distribution. Reformers yearn to scrap the existing structure and start from scratch. Citizens who find some merit in the current system are often treated with the same disdain formerly accorded the bosses.

Years ago, Charles Lindblom reminded us that policymakers usually "muddle through" because comprehensive problem solving "assumes intellectual capacities and sources of information that men simply do not possess."² Since academics tend to have the same penchant for tidiness as reformers, it is refreshing to find in two ACIR reports on metropolitan organization an assessment of local government that does not begin with an uncritical acceptance of the reform premise.³

The ACIR reports develop a conceptual model based largely on the public choice perspective. The reports do not start with the assumption that local government structures that have developed over a century are pathological because they lack tidiness. Especially commendable is the attempt to bring empirical research to bear on some of the fundamental reform issues. Unfortunately, reformers are often so certain of their cause that they leap to propose a cure before verifying the diagnosis. Since I have never been wholly convinced that the public choice model offers the best perspective for studying these issues, I also hope that this ACIR research on St. Louis will stimulate a new articulation of a neo-reform conceptual framework complete with the type of sound empirical analysis found in the study.

St. Louis County makes a perfect case study because it has long been cited in textbooks as a notorious example of fragmented government and as a place where major reform efforts have been consistently rejected by the electorate. The metropolitan area is also in the midst of a new reorganization battle. What follows is my perspective on how the ACIR study informs us on the major issues that have been raised in the government reorganization debate of the last few years.

The four central issues in the debate are: the negative effects of fragmentation, the significance of economy of scale in the delivery of services, the extent of fiscal inequity in the existing distribution of revenue, and the impact of existing government structure on economic development.

²Charles Lindblom, "The Science of Muddling Through," *Public Administration Review* 19 (1959): 79-99.

³U.S. Advisory Commission on Intergovernmental Relations, *Metropolitan Organization: The St. Louis Case*, M-158, 1988; and *The Organization of Local Public Economies*, A-109, 1987 (Washington, DC: U.S. Advisory Commission on Intergovernmental Relations).

Fragmentation

The reform perspective has been that fragmentation, as defined by a large number of governmental units per 1,000 population, must be reduced. From the beginning, the Board of Freeholders of St. Louis City and County was intent on reducing the number of local governments. Is fragmentation bad because the result is too many governments, or is it bad because governments exist without sufficient capacity to handle the functions they are to perform? Both arguments have been made in the current debate. If this is a capacity issue, then the burden of proof ought to rest with reformers to demonstrate a lack of service capacity. It has also been argued that fragmentation results in unnecessary expense, a premise that should be subject to verification.

The ACIR studies are laudable because they bring empirical research to bear on the question of fragmentation. Reform efforts have assumed the premise of an adverse effect of multiple jurisdictions, but there has been little empirical research on the actual characteristics of a local government system with multiple units. The ACIR study of the St. Louis area focuses on the real functional arrangements for the provision of services rather than simply on jurisdictional boundaries. For ACIR, the relevant question is "the extent to which *jurisdictional* fragmentation leads to *functional* fragmentation, that is, a lack of necessary and useful coordination among jurisdictions with respect to specific functions." (page 2)

Public opinion polls typically confirm that citizens support and identify with the existing units of local government. The freeholders held public hearings before and after the formulation of their reorganization plan. The hearings were dominated not by those condemning their municipalities for poor service but by citizens opposing change or elimination of their existing governments. The freeholder plan vote in June 1989 will offer a test of the observation that small local governments are fiercely defended by their citizens.

Police service is the most identifiable and universal municipal service, and the ACIR examination of this topic offers a sample of the study's approach to fragmentation. Does the existence of multiple jurisdictions produce police service problems in St. Louis County that require major adjustments? Police services in St. Louis County are provided by the county and 62 municipal departments. Seven cities contract with the county and 17 contract with neighboring municipalities. Departments with more than 25 officers serve 70 percent of the municipal population. Only 6 percent of the county population is served by departments with ten or fewer police officers. The ratio of officers to population is from a low of 1.29 to a high of 7.98, with a municipal average of 2.35. The county department ratio is 1.32 per 1,000 population.

The ACIR study on St. Louis shows that the officer per 1,000 population ratio rises with additional business activity, as measured by commercial assessed valuation. Greater expenditures for police per 1,000 population also rise with commercial activity. Many auxiliary services are much less fragmented. Centralized and contract auxiliary services are more common. These include the 911 emer-

gency telephone system, use of the county crime lab, the major case squad, shared dispatching, and the regional criminal justice information system (REJIS). The basic patrol function is provided by multiple jurisdictions, but auxiliary services are frequently coordinated. One of the concluding comments in the study is:

Metropolitan areas that, like St. Louis, exhibited substantial diversification of patrol function combined with substantial concentration of the auxiliary services were found to more efficient compared to other patterns. (page 61)

The study concludes that police services appear to be "reasonably well coordinated," and that "local police have captured economies of scale" in auxiliary services through cooperative measures. Most importantly, "local control of police is highly valued by citizens." Crime rate statistics are not necessarily a good measure of police effectiveness, but the crime rate per 1,000 population was lower in the small municipalities and the unincorporated areas.

My quick calculation using 1984 data is that even if the 21 smallest departments were eliminated, the savings would represent only about 7 percent of total municipal police expenditures. It is unlikely that all of these costs would be eliminated; thus, the potential savings from consolidation of the smallest departments are small. It is not possible from the study to characterize whether or not the quality of service delivered by small police departments is equivalent to that of larger departments.

Economy of Scale

The second major issue in the debate is the related question of whether essential economies of scale can be obtained by the creation of fewer and larger units of local governments. There are conceptual problems with applying this idea to local government services:

Economy of scale means decreasing per unit costs as output levels increase, but most of the literature measures scale by size of population served rather than units of output produced. It is perhaps better to refer to such research as measuring size. (page 139)

Will the consolidation of some units of government yield economies of scale? Probably not, because most public services are labor not capital intensive. The ACIR analysis found slight economies of scale in police and fire, and none for streets. If local sewer systems had been examined, this capital intensive service might have yielded significant economies, but sewer services were consolidated three years ago with the creation of the regional sewer district.

We can use fire service to illustrate the point. The board of freeholders is seeking to achieve economy of scale benefits in fire service by proposing that the existing 24 fire districts and 19 municipal departments be replaced by four large fire districts. It is unfortunate that the ACIR study excludes EMS services, which are tightly integrated with fire services in St. Louis County. The exclusion of EMS data from the fire expenditures in the study makes a comparison between the ACIR report and the freeholder plan more difficult.

The ACIR research concluded that on a per capita expenditure basis some economies of scale might be captured with selected consolidation, but when analyzed on the basis of expenditures per \$100 assessed valuation, "there is no evidence of size economies" (page 72). Also, if we can use the City of St. Louis as an example of a large department, the city spends about 50 percent more per resident than county departments, and more than twice the amount of county departments per \$100 assessed valuation. Any economy of scale measure should also take into account the presence of a much larger daytime population that must be provided with emergency services in the central city and many municipalities.

To an even greater extent than with police services, there is a set of complex cooperative agreements that allow five officials to share and coordinate dispatching and provide effective backup arrangements for major fires. The ACIR study found a pattern of pervasive cooperation among the multiple jurisdictions producing fire services.

Fiscal Inequality

Historic accounts indicate that the primary reason for the 1876 St. Louis city-county split was a sense of tax inequality on the part of city residents. Over a century later, tax equity arguments are a driving force in the debate over government reform in St. Louis County. A 1983 Missouri Supreme Court decision eliminating what had been county government's virtual veto over annexations and/or incorporations caused county officials to fear that the county's fiscal capacity to provide services in the unincorporated areas would be seriously threatened by an expansion of incorporated territory. The reorganization plans proposed by the county planning department and the freeholders both featured a county earnings tax (St. Louis City has an earnings tax) with a major share earmarked for county government. More than any other single factor, this threat to county service delivery in the unincorporated areas stimulated the freeholder process.

For better than a decade, there has been controversy over the method of distributing the countywide 1 percent sales tax. Cities have been allowed either to keep the 1 percent collected within the city or to participate with the county in a per capita distribution pool. Thirty-nine cities are point-of-sale, that is, they keep their 1 percent, and the remaining 52 cities are in the pool. For the most part, the largest and smallest cities are pool cities; point-of-sale cities are predominantly medium sized. When the annexation fever began in 1983, the legislature quickly passed a statute freezing the pool areas. Thus, newly incorporated or annexed areas remain in the pool.

For both cities and the county government, the sales tax is the single most important revenue source. With the exception of a few wealthy enclaves, most cities receive less than 10 percent of their revenue from the property tax. On the other hand, the county derives nearly 20 percent of its revenue from the property tax. A gross receipts tax on utilities is another major source of revenue for the county and the cities.

Sales tax equalization has been the major strategy advocated by those concerned about revenue distribution.

The point-of-sale cities argue that they have assumed the service burdens of development and a large daytime population, and therefore need additional tax revenue to finance those services. Many of the pool cities counter that they are not receiving a fair share of the countywide tax. Some of the poorest and some of most affluent residents live in pool cities. The ACIR study concluded that, "Based on the predicted costs related to employment within municipal borders, the per capita service costs of point-of-sale cities are estimated to be \$49 higher than those in the pool cities" (page 132).

When all revenues are considered, point-of-sale cities receive additional revenue greater than additional costs. The ACIR research also examined residential tax burden and found it to be somewhat lower in point-of-sale cities. The study found some revenue inequities:

Older citizens and minority citizens tend to reside in communities with relatively higher burdens on households. The economic geography of the county is such that merging these relatively disadvantaged communities with equally disadvantaged neighboring communities would do little to reduce these inequalities. Some revenue augmentation for disadvantaged communities would be necessary to accomplish this. The amount required would be relatively small (page 138).

The ACIR study concluded that the amount of money required to reduce the fiscal disparities represented about what could be raised by a .22-cent to .32-cent addition to the current sales tax if appropriately targeted. A proposal to increase the sales tax by .275 cents was placed on the ballot in June 1988, but was defeated.

Even before the local sales tax was initiated in the early 1970s, there were significant differences in patterns of spending among cities. Expenditure differences among cities are only partly a product of available revenue. There also are differences in citizens' service expectations. Even among pool and point-of-sale cities, there are historic differences in service levels.

Revenue distribution, especially of sales tax, continues to be a divisive issue, even among municipalities that are units in opposition to general reorganization. Many observers believe that if the freeholder plan is not approved, additional effort will be made to resolve this issue by expanding the sales tax or changing the distribution formula. The ACIR study provides the best analysis to date of the dimensions of the problem.

Economic Development

Appropriate economic development is a nearly universal goal. It has been asserted frequently by reform advocates that fragmentation contributes to development failures. The ACIR study does not find evidence to support this claim. Employment growth in St. Louis since 1970 compares favorably with places like Baltimore and Pittsburgh. The study concluded the following about employment growth from 1970 to 1985:

No other large, core city-county region in the Northeast and Midwest outperformed St. Louis, although most have significantly fewer local gov-

ernments. . . . Decline has been stronger in the unfragmented City of St. Louis than it has been in all but a small portion of the fragmented, incorporated part of the county. (page 136)

Employment growth was three times higher than in the Kansas City area, which shares the state environment but has very few units of local government. It is possible to find some anecdotes about fragmentation hurting a particular growth opportunity, but the general case for a causal relationship has not been demonstrated by advocates of consolidation.

Conclusion

In conclusion, we return to Charles Lindblom's concept of *disjointed incrementalism* as a strategy for policy development. He argues that bargaining, negotiation, and small steps are the best approaches to policy development. Many area residents believe that the freeholder plan will fail next June. The status quo is not ideal, and many municipal leaders perceive the need for modest reform. The problem with the freeholder plan is that it assumes uncritically a set of reform premises that do not appear self-evident in the light of sound research. Perhaps the freeholders should have reflected on the following comment written by George Wendel of St. Louis University and his colleagues after the failure of the last freeholder proposal 30 years ago:

It is frequently assumed that the impetus for governmental change in metropolitan areas is generated by widespread dissatisfaction with services. But this groundswell of popular dissatisfaction is more mythical than real. . . . In St. Louis, and more recently in Dayton, attitude surveys clearly demonstrated that most people are relatively well satisfied with their local governments and have few service complaints. St. Louis residents had no strong criticism of any of their governments.⁴

Without widespread disaffection, major structural change is unlikely. The ACIR analysis demonstrates why citizens still appear to be relatively well satisfied with their local governments. For most people most of the time, local governments in St. Louis County works. Local elected officials are close at hand and responsive to citizens. This accessibility of local officials may be valued more highly by citizens than the marginal benefits to be derived from a major consolidation.

There is an agenda for change and an important set of goals that can be achieved by incremental steps. A consensus is emerging that county government ought to get out of the local service business and concentrate its leadership on countywide issues. Now, the county is a rival provider of municipal services, and this impeded cooperation and county leadership on regional issues. If the entire county were incrementally incorporated, then the county government could focus on broad-impact issues and leave basic service provision to the municipalities. The ACIR study

⁴George Wendel, Henry J. Schmandt, and Paul Steinbicker, *Metropolitan Reform in St. Louis* (New York: Holt, Rinehart and Winston, 1961).

has identified some of the many existing cooperative efforts that mitigate problems that can arise from jurisdictional fragmentation. It is not a blueprint for change, and the ACIR does not try to suggest a reform package, but the study does provide a good analysis of the strengths and weaknesses in the existing local government structure.

The St. Louis County Municipal League has proposed a plan to achieve universal incorporation of county areas by 2000. This plan envisions the creation of a Commission 2000. When authorized by state law, this body would develop a plan that suggests areas of opportunity for existing cities to expand or for new cities to be created. The commission would also have a boundary review function and provide advisory judgments on proposed new annexations and incorporations. Technical advice to small municipalities weighing consolidation could also be provided by the commission. With more time and opportunities for local involvement than was possible under the freeholder process, detailed studies of alternative service delivery combinations could be explored in some areas of the county.

The fiscal issue is the most vexing. The ACIR study has tried to measure the extent of real disparity, rather than opt for a simplistic solution, such as per capita distribution of the sales tax. For the first time in this long controversy, there is a basis for discussing the actual revenue and service disparities working from an impartial analysis. Bargaining and mutual adjustment are still needed to find an acceptable solution, but *Metropolitan Organization: The St. Louis Case* has helped to define the nature of the problem, providing an alternative conceptualization and pointing to areas of opportunity for significant but incremental reform in St. Louis County.

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Competition: Federalism's "Invisible Regulator"

John Shannon

The continuing debate about the efficacy of intergovernmental competition has long emphasized the fiscal "braking" effect of *tax* competition, but has not focused sharply on the "accelerator" effect of *expenditure* (public service) competition. It is the interaction of these two countervailing forces that serves as the "unseen hand" that prevents a state from either pushing too far ahead of its neighbors on the tax front or lagging too far behind them in the public service area.

Tax Competition—The Fiscal Brake

Interstate tax competition stands out as a highly controversial issue guaranteed to trigger sharply differing responses from liberals and conservatives.

The Liberal Position

Intergovernmental tax competition for jobs and economic development cuts against the liberal grain because it most often calls for tax and spending policies specifically designed to retain and attract upper income taxpayers and business payrolls. Liberals have long argued that intergovernmental tax differentials do not figure importantly in business decisions, and point to the findings of many academic studies to buttress their case.

They also claim that intergovernmental tax competition creates a "beggar thy neighbor" environment that leaves in its wake unwarranted tax concessions, anemic revenue systems, regressive tax policies, and underfunded programs. In short, they contend that intergovernmental tax competition is unnecessary and harmful.

The Conservative Position

Most conservatives view tax competition as twice blessed. First, it places powerful constraints on the "soak the rich" and "stick big business" tendencies of liberal populists. Second, tax competition concerns strengthen the hands of those using a conservative spending policy approach.

Conservatives have long argued that "a good business tax climate" stands out as a strong plus factor in the interstate competition for jobs and economic development. They then define a good tax climate as the absence of those tax policies they deem especially harmful to economic development in general and to business firms in particular. The six tax "sore thumbs" most often cited are:

- An overall state-local tax burden that is well above the national and regional averages.
- A state individual income tax that is both heavy and quite progressive.
- Any major state business tax that is definitely "out of line" with those of neighboring states (state corporation tax, workmen's compensation tax, and the unemployment compensation tax are all subjected to this test).
- A property tax on business realty that is quite heavy and/or discriminatory in character.
- A property tax on business personalty—machinery, inventories, and goods in process.
- A state general sales tax that imposes a levy on a significant number of business purchases (particularly on equipment and building materials).

Most conservatives concede that the absence of all or most of these sore thumbs will not automatically ensure strong economic development. They do contend, however, that their presence can and does work against job creation.

It should be noted that the more sore thumbs a jurisdiction exhibits the greater becomes the likelihood that its policymakers will resort to a wide variety of temporary and

often ineffective and inefficient pain killers—business tax concessions—as the most expedient way to deal with these competitive problems.

While liberals and conservatives differ sharply on both the need for and the efficacy of interjurisdictional tax competition, they do agree on its effects. The sharpness of the debate underscores one area of consensus—both sides believe that competitive taxation can put a real damper on the growth of the state and local sector in general and on the adoption of progressive tax policies in particular.

While keenly concerned about the fiscal braking power of competitive taxation, public policy students have paid considerably less attention to the fiscal accelerator effect of competitive emulation on the public service front. Much of this acceleration effect can be traced to two factors—the pacesetter phenomenon and the “catch up” imperative.

The Pacesetter Phenomenon

State and local innovation is an oft-cited value of federalism. Thus, if a jurisdiction pioneers successfully in one new public service area, it becomes only a question of time before detailed information about this new public service filters through the state-local sector.

As this filtering process takes place, the forces of competition emulation convert yesterday's expensive novelty (or public service “frill”) into today's standard budgetary fare. For example, it was not too long ago that kindergarten services were nonexistent in many parts of the country; now, this tax-supported service is virtually universal. Also, until quite recently, the heavily subsidized community college was something of a rarity. Now, it has become a standard educational fixture in most states.

These expensive innovations usually originate in the “liberal” pacesetter states noted for their high tastes for public goods and services—Massachusetts, New York, Michigan, Wisconsin, Minnesota, and California. Once the beachhead is secured in these liberal states, the proponents of this new public service carry their message into the more conservative bastions and to the less affluent jurisdictions.

The “globalization” of our economy has added new pacesetters—foreign jurisdictions. A recent *Washington Post* article highlighted both the dramatic shift of decision-making from Washington to the state capitals and the liberal pacesetter role of Sweden:

Because legislatures often act fast, business interests have often found themselves playing catch-up on some legislation, said the Conference Board's McGuire. “We have this kind of ‘Stockholm Syndrome,’” where a piece of radical legislation gets passed by the Swedes, then it's flown directly to the U.S. and is passed into law in California. Then it's flown to Wisconsin. Then to New York. By the time it gets to Mississippi, which is about four years later, it's a national birthright.” (*Washington Post*, August 30, 1988)

Our American federal system is now confronting the fact that our states and localities have another and more significant foreign pacesetter—Japan. Instead of Califor-

nia or Wisconsin setting the education pace, it is Japan, our increasingly powerful economic competitor. To become more “competitive,” states and their local school boards will come under increasing pressure to spend more tax dollars for longer school terms and more substantive educational offerings.

The fiscal accelerator of pacesetter governments is also apparent in a very costly area—the negotiation of public employee pay schedules and fringe benefit packages. If, for example, rich Fairfax County, Virginia, raises the minimum annual salary of junior high school principals from \$49,000 to \$54,000, the other school districts in the Washington, DC, metropolitan area will soon come under competitive pressure to meet that higher salary standard. In fact, the representatives of state and local employees are constantly citing higher salary levels of the pacesetters to buttress their case for pay comparability.

The “Catch-Up” Imperative

The accelerating fiscal effect of intergovernmental competition is only partially explained by the pacesetter phenomenon. In the critical and costly economic development areas—education and public infrastructure—the more conservative and the poorer jurisdictions confront a harsh reality. They dare not allow themselves to fall too far behind their more liberal and affluent neighbors—to become written off as poor and backward “banana republics.” In short, they are forced by the catch-up imperative to keep their service levels fairly close to their pacesetter neighbors.

This catch-up imperative is dramatically illustrated by the economic development strategies of many of the poorest states in the federation—Mississippi, South Carolina, Arkansas, and Tennessee. In virtually every recent account highlighting the resurgence of the states, these southern jurisdictions are cited for their willingness to raise taxes—the price they have to pay to keep their educational systems competitive. Their leaders are convinced that both their short- and long-range economic development interests leave them no alternative.

Just as many northern states are trying to shake free from their bad tax climate reputation by flattening their personal income tax rates, many southern states are trying to overcome a poor public school image by raising taxes for education. In a recent *Washington Post* article by William Raspberry, Mississippi Governor Ray Mabus emphasized the pacesetter role of North Carolina, the competitive character of teachers' pay, and the catch-up determination of Mississippi:

The governor in an interview picked up the theme: “Look at a state like North Carolina, which in the late '50s and '60s was pretty much neck and neck with Mississippi. Then they elected Terry Sanford governor. He plowed a lot of money into education, and now it's a tradition there. A succession of governors have made education a priority, and now, 30 years later they're in great shape.

Mabus, in office only since January, has succeeded in selling his program of improved teach-

ers' pay (to avoid the drain of Mississippi-trained teachers to other states) and major new investments in education from preschool to community college to university. . . . (*Washington Post*, May 30, 1988)

Many less affluent local governments are also willing to pay the competitive tax price to keep their schools and public services within at least hailing distance of their wealthier, pacesetter neighbors. In the Washington, D.C., metropolitan area, Prince George's County raised taxes recently to finance the creation of "magnet" schools, and it justified this action in no small part on competitive concerns. The relatively high quality of the school systems of Montgomery County, Maryland, and Fairfax County, Virginia, are widely believed to be the magnets that help attract upper income taxpayers and high-tech employers to those jurisdictions.

Indeed, the draw of the magnets can be dramatic. In Prince George's County, parents camped out all night waiting for the opportunity to register their children in these new "super" schools.

Admittedly anecdotal, these examples underscore the intergovernmental fiscal reality that state and local officials are under unremitting competitive pressure to approximate the public service standards of the pacesetters.

The Countervailing Competitive Forces— Their Fiscal Effects

Has the accelerating fiscal effect of intergovernmental expenditure competition proved stronger than the restraining or braking effect of intergovernmental tax competition? While it is not possible to answer this specific question directly, an examination of historical trends can provide helpful insights into the relative power of the pro-growth and anti-growth forces.

Since the end of World War II, state and local own-source revenue has grown steadily, and at a faster clip than the economy. According to Bureau of the Census statistics, total state and local own-source revenue (general and trust fund) rose from 6.1 percent of GNP in 1946 to 15.9 percent in 1986. During this same 40-odd year period, state and local own-source general revenue also more than doubled, rising from 5.4 percent of GNP to 12.5 percent.

This remarkable real growth in state-local own-source revenue supports two general conclusions about the countervailing power of intergovernmental tax and expenditure competition.

The accelerating fiscal power of intergovernmental public service competition and that of its pro-growth allies (i.e., post-World War II baby boom, the stimulating effect of federal matching grants, the partial write off of state and local tax payments against the federal income tax) have proved stronger than the restraining power of intergovernmental tax competition and that of its principal ally—the taxpayers' revolt of the late 1970s and early 1980s.

This steady growth in state-local own-source revenue since the end of World War II has also knocked into a cocked hat the old conventional wisdom—that states and localities were destined to have anemic revenue systems because they were crippled by fears of intergovernmental tax competition.

The Countervailing Competitive Forces— Federalism's Regulator

While the braking power of intergovernmental competition may not have proved as effective as some conservatives would have liked, intergovernmental competition has provided a valuable regulating service for our federal system. Interstate tax and expenditure competition serve jointly as the two "unseen hands" that set the outer limits on how far any state can push ahead of other states on the tax front or lag behind them in the public service area.

The Convoy Analogy

The behavior of our states resembles 50 ships sailing in a great naval convoy during wartime. The farther any state moves ahead of the convoy on the tax side the greater become the risks of tax evasion, taxpayer revolts, and the loss of economic development to states pursuing more conservative tax and spending policies. By the same token, the farther any state falls behind the convoy in the public service area the greater becomes the risk that it will lose economic development to states providing a higher level of public facilities and services, especially in the public education field.

Our 50 ships of state differ from the wartime naval convoy in at least three important respects:

- The passengers and crew members elect the captain and officers, and can toss them overboard every two to four years and select in their stead a new set of officers.
- The passengers and crew members are free both to move to any other state that is more to their liking and to take with them their possessions, investments, and payrolls. In fact, a primary responsibility of the convoy's protecting super carrier (the federal government) is to make sure that there is a free flow of persons and commerce between the states.
- Most significant, there is no visible control system that sets the fiscal speed and the public service course for each state in the convoy. This situation permits each state considerable room for fiscal maneuver within the confines of this widely dispersed convoy.

A close examination of the 50-state convoy also reveals that there are regional clusterings within the national economy. The smaller states are concerned lest they get too far out of line—in taxes or public service—with the other states in their own region.

The officers of the larger states have a more difficult navigational assignment. Although often pacesetters, these states must keep a close competitive eye on both their regional neighbors and on the other major states in the convoy. For example, New York competes for certain types of business with the distant megastates—Florida, Texas, Illinois, and California—as well as with the other

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A Special Report

Assisting the Homeless

The problem of homelessness in the United States has burst upon the public scene so forcefully in the last few years that the issue has been seen by many citizens as almost overwhelming. In some communities, the private organizations that have traditionally responded to homeless people have been overloaded with requests for assistance. Consequently, the public sector, especially state and local governments, has become deeply involved in the quest for solutions. Although local governments experience the problem of homelessness most directly, both the causes of and the solutions to the problem involve the state and federal governments. As a result, ACIR undertook a study of homelessness, primarily to identify intergovernmental issues so as to help improve public responses to the problem.

As a major part of this effort, the Commission hosted a national conference on "Assisting the Homeless: State and Local Responses in an Era of Limited Resources." The conference, held March 10-11, 1988, was intended to develop a broad understanding of the problem, highlight innovative state and local responses, and uncover key intergovernmental issues that must be addressed in order to improve public and private action. The conference was attended by more than 100 federal, state, and local officials, as well as by academic experts, advocates, and service providers.

What complicates policymaking in this area is that homelessness is not a single, uniform problem; rather, it is a series of separate and often interrelated problems reflecting the different needs and circumstances of diverse groups of homeless people. These problems stem from equally diverse causes. We are no longer talking about just a so-called "skid row" problem.

In general, the homeless population consists of about one-third families with children, one-third persons suffering from some form of mental illness, and one-third who are addicted to alcohol and/or drugs. Within these broad categories there are individuals who are employed, unemployed or underemployed, heads of families who need day care services, veterans, parolees, migrant workers, victims of domestic violence, and runaway children, to name a few.

The needs of some of these individuals and families can be met solely by providing low-income housing. In a few cases, only a minimum level of assistance is needed to resolve a problem. For others, housing alone is not sufficient, and for still others, maintaining their own household is impossible. Combinations of temporary shelter, social services, physical and mental health programs, long-term housing, community development, and institutionalization are needed to make adequate responses to the many dimensions of homelessness. By virtue of this diversity, therefore, it is all the more important that we have good

public-private interaction, interagency coordination, and intergovernmental cooperation.

The *Stewart B. McKinney Homeless Assistance Act of 1987 (McKinney Act)* has begun to focus the attention of the national government on this issue, in part through the Interagency Council for the Homeless, which coordinates existing federal programs and resources. The *McKinney Act* has been reauthorized for two years with added resources to assist state and local governments in coping with the homeless population. In the main, it has been state and local governments that have provided leadership and initiative in responding to homelessness.

The papers presented at the ACIR conference are available in a separate report, *Assisting the Homeless: State and Local Responses in an Era of Limited Resources (M-161, November 1988, \$10)*. The papers attempt to define the diverse dimensions of homelessness and its causes, examine the problem of estimating the size of the homeless population, discuss innovative private and public responses, identify intergovernmental issues (such as state and local problems in coordinating the use of existing federal resources to help the homeless), and suggest additional local, state, and federal actions that might be initiated.

The conference papers provided a basis for Commission consideration of a policy position on homelessness. At its meeting on September 16, 1988, the Commission adopted the following set of findings and recommendations.

Findings

1. Homelessness: Multifaceted Problems Requiring Multiple Policies for Different Groups

Homelessness is not one uniform problem; it is a series of separate problems reflecting the different needs and circumstances of different groups of homeless persons. Basic demographic groups among the homeless include:

Single individuals, with and without family support connections.

Families, including single-parent, two-parent, and multiparent families.

Employed individuals and heads of families.

Unemployed individuals and heads of families.

Each of the above groups consists of persons who have different attributes or combinations of attributes requiring different policy responses for which housing alone may not be sufficient:

Employed individuals and heads of families whose principal needs are low-income housing and opportunities for income advancement.

Unemployed individuals and heads of families who need job training and placement services as well as housing.

Individuals and heads of families who are unskilled or have low skills and who need education and job training and placement assistance so as to be able to maintain an independent household.

Heads of families who need child care services in order to participate in the labor force.

Mentally ill and developmentally disabled individuals and heads of families who need mental health services, some of whom may benefit from institutionalization, others from community and group homes with treatment and support services, and still others from traditional housing placements accompanied by short-term or long-term support services, including job training and placement services.

Substance abusers who need treatment and rehabilitation services and who may also need job training and placement assistance as well as post-treatment support services or a sheltered environment in order to become able to maintain an independent household.

Deinstitutionalized individuals and heads of families, including parolees and mental health patients, who need transition services.

Individuals and heads of families with chronic physical illnesses who need inpatient or out-patient treatment.

Victims of domestic violence who need family assistance and shelter.

Runaway children who need shelter, counseling, and family reconciliation assistance.

Veterans who need medical and mental health services and job training and placement services in addition to housing assistance.

Stranded travelers who need food, shelter, and assistance going on their way.

Migrant workers who need shelter and social services.

2. Size of the Homeless Population

Estimates of the number of homeless persons in the United States range from 350,000 to 3 million. Estimates vary because (1) there is no reliable, systematic, nationwide count of homeless persons; (2) there is high turnover in the homeless population; (3) it is logistically difficult to locate and count homeless persons; (4) different agencies, researchers, and interest groups arrive at different population estimates; (5) definitions of homelessness vary; and (6) counts of the homeless are very sensitive to variations in definitions and methodology.

There have been a few systematic counts of persons on streets and in shelters in specific cities; these studies have generally found the number of homeless persons to be lower than prevailing estimates.

3. Growth of the Homeless Population

Existing research clearly indicates that the number of homeless people has been increasing during the 1980s. Because of the absence of reliable data, however, it is difficult to determine the magnitude of the increase, the rates of increase, variations in the rates of increase, and the duration of the increase. Although the total number of homeless persons probably exceeds 350,000, site-specific counts showing numbers smaller than prevailing estimates suggest that the estimate of 3 million homeless persons is too high. Such widely varying estimates indicate, however, that more accurate data are needed in order to improve policy and target responses more effectively.

4. Defining Homelessness

Definitions of homelessness vary considerably. A narrow definition would include only those persons who can be found actually living out of doors and/or in shelters. The Alcohol, Drug Abuse and Mental Health Administration defines homelessness more broadly as "anyone who lacks adequate shelter, resources, and community ties." Other definitions include within the homeless population adults (and their children) who live in another person's home (e.g., with friends or relatives) rather than in their own home. Another factor that makes definition difficult is that persons are homeless for different periods of time. Some persons may be homeless for a few days; other persons may be homeless for several years or more. Too narrow a definition of homelessness can lead to public policy responses that ignore those persons and families who are at risk of becoming homeless. Too broad a definition of homelessness can lead to public policy responses that are too diffuse to cope adequately with the problem of homelessness.

5. Where the Homeless Are Located

Although homeless persons appear to be concentrated in large urban areas, homeless persons can be found in virtually every kind of locale: in urban, suburban, and rural areas; in big cities and small cities; and in poor and affluent areas. In generally affluent counties and communities, homelessness appears to be related to rising housing prices and rents that drive low-income persons out of the housing market. Research also suggests that most homeless persons ordinarily remain within the community in which they were born or in which they previously had a residence.

6. Composition of the Homeless Population

Given that there is no reliable census of homeless persons, it is impossible to present a definitive profile of the characteristics of the nation's homeless population. A large body of research in specific localities, however, indicates that the traditional view of the homeless person as being a single, white, male alcoholic (e.g., "wino" or "skid row derelict") or demented "bag lady" is not accurate. Families with children, particularly single women with children, account for a growing proportion of the homeless. The results of various studies suggest that, overall, approximately one-third of the homeless population consists of families with children, one-third of persons who have a mental disability, and one-third of persons who have a substance abuse problem. Some homeless persons fall into more than one of these categories; some fall into none of these categories. The precise mix of types of

homeless persons also varies among locales. Some studies suggest that nearly a third of the homeless may be employed, at least part-time, and that 50 percent may have a high school education. Some studies suggest that the average age of the homeless population is about 34, and that 35-50 percent may have significant health problems created or exacerbated by homelessness.

7. Lack of Affordable Low-Income Housing

Although homelessness may be caused by many factors, including job loss, poverty, aging, unemployment, illness, divorce, family breakup, and drug or alcohol abuse, a major factor in homelessness is a shortage of affordable housing for low-income persons. The supply of low-income housing has not kept pace with demand. A number of studies indicate that the supply of low-income housing has actually declined during the past 10-15 years while the need for low-income housing has increased. Many factors have contributed to the decrease in the supply of low-income housing, including reductions in federal funding for subsidized low-income housing, increasing rents relative to household income, rising housing costs, evictions because of code violations or non-payment of rents, foreclosures for arrearages in mortgage payments (exacerbated by escalations in variable rate mortgages), lack of maintenance of older subsidized housing, destruction of SROs, slum clearance and urban-suburban redevelopment, rent control, and insufficient incentives for profit-making organizations to develop new low-income housing.

8. Deinstitutionalization of the Mentally Ill

In 1955, there were approximately 550,000 patients in state hospitals in the United States; today, at any given time, there are approximately 116,000 patients in state hospitals. Deinstitutionalization of persons defined as mentally ill has contributed to homelessness, but deinstitutionalization does not appear to be the single most important factor. Deinstitutionalization has led to homelessness to the degree that community facilities for housing and services for treatment are not available for those who cannot live independently or live with families or friends, and those who are not mentally able to make contact with community facilities or services.

9. Need for Social Services for Specific Homeless Populations

Providing affordable housing for those homeless persons who are also mentally ill, or substance abusers or disabled is not likely to be sufficient. There is a need for tailored social services to meet the specific needs of these subgroups of the homeless population, including, in some cases, institutionalization. For example, mental health systems in most states are not well integrated with shelters and other homeless service providers, thus making it difficult for homeless individuals to access services. Case management—which includes rapid response, system integration, service access, and sustaining support—has proven to be effective in several areas. There is also a need for communities to establish a system of agency responsibility for these homeless sub-populations.

10. Need for Long-Term and Preventive Responses

Although emergency responses are needed to assist homeless persons, there is virtually unanimous agreement

that emergency responses—such as shelters, hotel and motel housing, and hospital emergency-room treatment—are, in the long run, costly and inadequate. Furthermore, emergency responses have limited preventive and restorative capabilities. There is a need to shift policy to permanent housing arrangements and preventive and restorative services as soon as possible so as to reduce public costs and increase policy effectiveness.

11. State and Local Leadership

State and local leadership, with federal assistance, is necessary to develop coordinated intergovernmental responses to assist the homeless. The positive results of aggressive political leadership have already been demonstrated in several states and many localities. Cities, in particular, have been at the forefront of the problem. State and local governments can exercise leadership by increasing public awareness of the problems of the homeless as well as by emphasizing the complex, multiproblem nature of homelessness. Because the homeless population is so diverse and its needs cut across so many policy sectors, there is a need for interagency planning, evaluation, and coordination. The roles of state and local governments include planning, evaluation and coordination, even if they do not fund or operate shelters, as well as the development of long-term policy responses. States and localities that have developed successful policies to assist the homeless have generally:

- a. Encouraged the portrayal of the problem of homelessness using the most accurate and complete data.
- b. Established a formal mechanism for coordinating the activities of relevant agencies, encouraged the creation of parallel mechanisms within state and local governments, and set expectations for agencies.
- c. Encouraged relevant state and local agencies to develop and evaluate demonstration programs for homeless people, and to coordinate programs through an interagency group.
- d. Designed Job Training Demonstration Programs to include outreach to homeless persons, provided employment and training services in collaboration with organizations giving health and housing services, encouraged networking with other agencies, and provided sufficient services to help homeless people complete job training programs and enter employment.
- e. Experimented with a variety of public and private mechanisms and sources of funding to increase the supply of low-income housing.

12. Inflexibility of Federal Regulations

Local and state governments are best equipped to tailor assistance programs to meet the needs of homeless persons. However, states and localities are constrained by regulatory inflexibility in many federal programs. Many of the existing programs that could be used to assist the homeless are not reaching that population for several reasons: (1) federal resources are not being directed to the areas of greatest need due to a reliance on standards that are not applicable to the homeless population and fail to take

into account the differing divisions of responsibility and authority in each state; (2) some restrictions on residency requirements make it difficult for homeless individuals to receive benefits and services; (3) there are inflexible rules as to the method by which Fair Market Rents are calculated in order to obtain Section 8 housing funds; and (4) rules governing existing programs make them ineffective or inefficient when applied to homeless persons.

13. Improving State Responses

Although a few states have responded to homelessness in a concerted and coordinated fashion, many states have not yet fully recognized or responded to the problems of homelessness faced by some of their local communities. Furthermore, some state policies, such as those associated with deinstitutionalization, have contributed to homelessness. States can improve their policy responses by stimulating action on the part of relevant state agencies, coordinating agency responses, providing financial assistance to distressed localities, promoting and distributing economic development around the state, encouraging private sector involvement, developing new mechanisms to maintain and increase the supply of low-income housing, improving mental health and substance abuse programs, and extending greater discretionary authority to local governments where state regulations prevent or complicate local responses to homelessness.

14. Improving Local Responses

Although many local governments have responded to homelessness in a concerted and coordinated fashion, certain local policies, such as building codes, zoning rules, property tax valuations, and rent control contribute to homelessness by making it more difficult to increase the supply of low-income housing, or for low-income people to remain in housing. Some other policies, such as school residency requirements, aggravate the problems of the homeless. For example, in some areas school-age children are placed in motels as far as 75 miles from their home school district. School district residency requirements, however, may compel governments to expend considerable resources to transport these children, sometimes by taxi, back to their home districts. Local social service agencies cannot effectively re-house persons who are evicted from homes, in part because of a lack of coordination between the courts and the local service agencies. Some building codes make it impossible to provide housing that is affordable to low-income groups. Many zoning policies make it difficult to relocate displaced individuals in low-income housing or temporary shelters. More interagency and intergovernmental coordination and a reexamination of local policies could alleviate some of these problems.

15. The NIMBY Phenomenon and Involuntary Institutionalization

Two especially difficult problems need to be addressed, primarily by state and local governments: the not-in-my-backyard (NIMBY) phenomenon and involuntary institutionalization. The NIMBY phenomenon makes it difficult to locate low-income housing and public facilities, such as shelters, halfway houses, and group homes, in particular neighborhoods. There is widespread agreement that involuntary institutionalization of mentally ill home-

less persons unable to care for themselves is a necessary and humane policy. There is widespread disagreement, however, about the criteria, rules, and conditions for involuntary institutionalization. Resolution of the problems associated with the NIMBY phenomenon and involuntary institutionalization will require the participation of state courts. In addition, NIMBY problems will require a combination of public education, adroit negotiation, and zoning code changes.

Recommendations

Recommendation 1: Recognizing Homelessness as a Series of Separate Problems

The Commission finds that homelessness is not a single uniform problem, but a series of separate and distinct problems arising from the different circumstances and attributes of different groups of homeless individuals and families. There is a need to distinguish the social service and housing requirements of different homeless groups, especially the mentally ill and developmentally disabled, substance abusers, recently deinstitutionalized persons, victims of domestic violence, runaway children, veterans, stranded travelers, single individuals, single-parent and two-parent families, unemployed individuals and heads of families, and employed individuals and heads of families who cannot afford decent housing.

The Commission recommends, therefore, that public responses to homelessness, both governmental and nongovernmental, be developed along distinct but coordinated lines that recognize and deal with the different underlying causes of homelessness. In many cases, non-housing public and private services need to be provided to individuals and families in order to make it possible for them to be placed successfully in an institutional or sheltered community-based environment or in an independent household.

Recommendation 2: Need for Reliable Data on Homelessness Problems

The Commission finds that there is a lack of sufficiently reliable data on the problems of homelessness to guide effective policymaking. In the absence of better data and a reliable process for examining data, information can be subject to political uses that do not serve the best interests of homeless persons or of public and private agencies that provide services to different homeless groups.

The Commission recommends, therefore, that federal, state, and local officials and private organizations cooperate to develop systematic and reliable methods for collecting data in ways that neither undercount nor overcount the homeless, and that allow public and private responses to be developed along distinct but coordinated lines that serve the best interests of different groups of homeless individuals and families.

Recommendation 3: Focusing Federal Resources for the Homeless

The Commission finds that homelessness, as a growing and complex social problem, requires immediate intergovernmental responses that can stimulate local-state innovations and private participation. The Commission also recognizes that homelessness is a problem of nation-

wide scope that may require additional federal resources for state and local governments, particularly for the provision of low-income housing and support services. There is, in addition, a need to improve interagency and intergovernmental coordination, and to make better use of available resources. Although there has been an erosion in funding for a number of federal programs, a variety of program resources exist within the federal government, but the ability of state and local governments and private agencies to focus those resources on different problems of homelessness in sensible and cost-effective ways is sometimes thwarted by federal laws and program regulations.

The Commission recommends, therefore, that the federal government reexamine its policies, especially low-income housing policies, and consult closely with state and local officials to identify programs and regulations that potentially inhibit state and local flexibility in assisting the homeless. Obstacles to effective state and local policymaking should be removed wherever possible, and provisions should be made available to states and localities to apply for waivers of regulations, in a manner consistent with the Commission's recommendation of December 1987 on waivers of federal law in public assistance programs. The Interagency Council on the Homeless, created under the *McKinney Act*, may be the appropriate vehicle for initiating and coordinating this process.

*Recommendation 4: A Reexamination of
Local Development Policies*

The Commission finds that the loss of low-income housing, including single-room occupancy hotels, is due, in part, to urban and suburban development and redevelopment processes that are not always sufficiently sensitive to low-income housing needs. The costs of protecting low-income persons from homelessness during development processes are lower than the social and financial costs of coping with homelessness after the fact. The Commission recommends, therefore, that federal, state, and local governments carefully examine their urban and suburban development and redevelopment policies to ensure that they do not inadvertently result in a net loss of decent, affordable low-income housing, and so that opportunities to expand that sector of the housing market are not missed.

*Recommendation 5: State Leadership and
Interagency Coordination*

The Commission finds that homelessness, as a multifaceted problem, requires extensive coordination across agencies (both public and private) and units of government. Public and private programs concerned with housing, mental health, physical health, substance abuse, emergency shelter, income support, and employment training must all be brought to bear in some significant way on the problems of different groups of homeless individuals and families. Political leadership in the states is a key to improving interagency and interlocal coordination. Indeed, some states have already initiated vigorous and innovative efforts to help the homeless, and many local governments have done the same with and without state leadership.

The Commission recommends, therefore, that states exercise political leadership in calling attention to prob-

lems of homelessness; securing better coordination of agencies and program efforts to benefit homeless persons; stimulating private sector participation; encouraging relevant agencies to engage in more vigorous outreach efforts so that services can be delivered efficiently and effectively to homeless persons; assisting localities in the coordination of federal resources; reforming state rules and regulations to allow local governments greater discretion to respond to local circumstances associated with homelessness; providing financial assistance to localities with high concentrations of homeless persons; and examining other policies that contribute to homelessness, such as institutionalization and deinstitutionalization, drug abuse prevention, financial protection for divorced women with children, and residency requirements for school children.

*Recommendation 6: Local Discretion and
Community Balance*

The Commission finds that while homelessness is caused by many factors that lie beyond the effective control of local governments, local circumstances, which vary from one locality to another, can contribute to problems of homelessness. Certain policies, such as zoning, building codes, property tax valuations, rent control, and school residency requirements, are relevant to homelessness.

The Commission recommends, therefore, that as federal and state governments create greater discretion for local governments to deal effectively and efficiently with problems of homelessness, local governments should examine local policies that may unnecessarily increase the price of low-income housing and otherwise contribute to homelessness, directly or indirectly. These include zoning policies that inhibit housing and income diversity within neighborhoods, building codes that unnecessarily increase the cost of decent housing that could otherwise be made available for low-income persons, property tax valuations that threaten low-income homeowners, rent control policies that discourage low-income housing development, and requirements that make it difficult or impossible for children in homeless families to attend school near a shelter or transitional housing site.

*Recommendation 7: Problem Diversity and
Community Diversity*

The Commission recognizes that, in addition to the diversity of problems that contribute to homelessness, there is diversity among communities. Differences among groups of homeless people and among local communities make possible and also require differences in community responses tailored to local circumstances. At the same time, some communities have a greater willingness and/or ability than others to help the homeless.

The Commission recommends, therefore, that where resources are available, local communities encourage private responses to homelessness and develop creative mechanisms for linking private and public funding to help the homeless. The Commission further recommends that each community in a local or metropolitan area contribute its fair share to assisting the homeless so as to ensure that no individual community or group of communities is unfairly burdened with the costs of assisting homeless individuals and families.

Residential Community Associations: Partners in Local Governance or Headaches for Local Government?

Debra L. Dean

In communities throughout the United States, growing numbers of homeowners live in two worlds of local governance: public and private. They are being governed by their elected municipal or county governments and by the rules of membership—sometimes mandatory—in a residential community association (RCA). Estimates vary, but informed observers believe that there may be as many as 120,000 RCAs in the United States, 80 percent of which have a “territorial” scope that makes them resemble a local community. Altogether, about 12 percent of the U.S. population now lives in such communities.

Residential community associations have been called private governments. The analogy is apt, up to a point. In many instances RCAs perform public functions, such as community service provision and land management, and have an elected governance structure; and they exercise powers, including the imposition of mandatory fees, that make them look very much like local governments. Unlike governments, however, RCAs are private organizations, governed by real estate contract law, and they are not bound by some of the rules of conduct which, of necessity, bind public organizations.

Because of the rapidly growing number and population of RCAs, their expanding role in local governance and service provision, and the paucity of research and public information on the associations, the Advisory Commission on Intergovernmental Relations (ACIR) decided to take a look at this quiet revolution in local governance. The Commission held a conference in June 1988, conducted a survey in cooperation with the Community Associations Institute (CAI), arrived at a set of findings and recommendations, and authorized publication of a report on this exploratory effort. The report, including papers from the conference, will be published by ACIR in the spring. This article focuses on a portion of that report, summarizing some of the survey results.

Commission Findings and Recommendations

ACIR found that the number of residential community associations is increasing rapidly and that many of these associations perform functions traditionally thought of as governmental. Furthermore, both RCAs and their individual members interact with local government in various ways, thus raising “intergovernmental” issues that require the continuing attention of state and local governments. The Commission especially expressed concern about RCA financial problems and homeowner disputes that sometimes require local governments to assume

fiscal or legal responsibility for RCA facilities, such as streets or a swimming pool.

The Commission recommended that “state and local governments recognize the potential problems of these associations, give careful attention to the governmental and intergovernmental issues raised by their existence and activities, and cooperate with the private sector and local homeowners to facilitate appropriate development and successful operation of residential community associations.”

The Survey

A nationwide survey of residential community associations and their relationships with local government was sponsored jointly by ACIR and CAI. The survey was mailed in June 1988 to 1,128 RCA officials who are members of CAI. Four hundred and twenty-two surveys were returned, for a response rate of 37 percent. The survey included a variety of questions about RCA characteristics, services, and relationships with local governments.

Our focus here is on those RCAs that are structured somewhat like local governments and perform public functions. The survey, therefore, excludes single, high-rise condominium buildings. The data reported here refer to RCAs with the following characteristics:

The organization is *territorial* in scope. That is, it encompasses a plot of land, including buildings, open spaces, and parking lots, and has defined boundaries, much like a municipality.

The covenants creating the RCA include *mandatory membership* and *mandatory fees* for home or lot owners, as well as rules governing resident behavior, particularly with regard to the exterior features of residences.

The organization is responsible for the *regulation and management of common grounds*, including open spaces, recreational facilities, parking lots, streets, and sidewalks.

Characteristics of the RCAs in the Survey

The results of the ACIR/CAI survey indicate that RCAs are particularly common in suburbs. Sixty-two percent of the RCAs responding to the survey were in suburban areas. The survey found RCAs to be most common in California, Florida, Virginia, Texas, New Jersey, and Maryland, in that order. These findings partly reflect the distribution of CAI membership, and probably understate the number of RCAs, particularly in New York. The undercount in New York is a result of relatively lower CAI

membership in the state. The survey also probably underestimates the number of smaller RCAs because they are less likely to become members of CAI.

The majority of territorial RCAs responding to the survey were condominium associations (54 percent), followed by homeowners associations (43 percent) and cooperatives and others (2 percent). Table 1 displays some of the relevant RCA characteristics.

Although RCAs can be quite large, the number of units in the responding associations ranged from less than 10 to more than 16,000, with the average size being 536 units. This is significantly larger than the average size found in a 1987 survey for the California Department of Real Estate.¹

Table 1
Characteristics of CAI-Member RCAs
(in percent)

Type of Association	
Condominium	54
Homeowners	43
Cooperative	1
Other	1
No answer	*
Location	
Urban	24
Suburban	62
Rural	13
Region**	
Northeast	21
South	33
Midwest	10
West	36

*—Less than 1 percent.

**—CAI membership may understate the number of RCAs in the Northeast.

The ACIR/CAI survey results also indicate that RCAs charge a wide range of fees, some of them quite modest. The average reported annual fee was \$834. But the median annual fee was considerably lower at \$301. Annual fees ranged from well under \$100 to over \$5,000, although one RCA reported an annual fee of \$14,000.

Survey Highlights

The survey brought out a number of interesting findings:

1. There is considerable overlap between the services provided by RCAs and the services provided by local government.
2. RCAs and local governments have relatively few contacts. To the extent that contacts exist, they appear to be initiated by the RCA.

¹ Stephen Barton and Carol Silverman, *Common Interest Homeowners' Associations Management Study* (Sacramento: California Department of Real Estate, 1987), p. 43.

3. RCA officials generally believe that local governments treat them fairly. Even so, one out of ten RCAs in the survey described the cooperation between themselves and local government as "poor."

Extent of Services Provided

RCAs commonly provide a variety of services, many of which are provided to other residential communities by local government. Table 2 shows the percentage of RCAs reporting that they provide each of the 18 services asked about in the ACIR/CAI survey.

Overall, lawn and shrubbery care and building maintenance are the most common services provided by RCAs. But the traditionally governmental functions of streets and parking, trash collection, recreation, and water and sewer services also rank high. Other common public services, such as police (security) patrol, snow removal, and play areas, are less common. However, snow removal is provided by 87 percent of the associations outside the Sunbelt.

Table 2
Services Provided by RCAs
(in percent)

	Yes	No
Frequently Government Functions		
Grass cutting in common areas	94	6
Trees/shrubbery in common areas	94	6
Trash collection	72	28
Water or sewer	65	35
Street repair	65	35
Sidewalks	59	41
Street lighting	58	42
Snow removal	48	52
Play areas/tot lots	33	67
Security patrol	31	69
Other recreation facilities	27	73
Lake or beach	16	84
Typically Private Functions		
Painting/outside maintenance	79	21
Parking lot repair	77	23
Swimming pool	67	33
Tennis courts	45	55
Indoor community center	38	62
Gates or fences	37	63

Association Influence on Local Government

The survey also included questions about attempts by associations to influence local government with regard to 13 public services (see Table 3). Almost half (48 percent) of the responding associations reported that they had attempted to influence local government with regard to police protection. Forty-one percent reported attempting to influence local government with regard to the location of stop lights or signs.

Table 3
One-Way Stream of Influence
 (percent reporting influence attempt)

	Association Attempted to Influence Government	Government Attempted to Influence Association
Police protection	48	14
Locating stop lights/signs	41	11
Traffic patterns around community	35	12
Development/growth	33	13
Parking in or around community	32	9
Traffic patterns through community	32	11
Zoning	30	13
Animal control	24	5
Water/sewer	23	14
Local government taxes	23	9
Environmental pollution	18	9
Parks/recreation	17	9
Schools	13	6

The more common response, however, was for associations to report that they did not attempt to influence local government. Indeed, for 11 of the 13 services, a majority of associations reported that they had not attempted to

Table 4
Evaluation of Fairness of Local Government
 (in percent)

	Very Fair	Some-what Fair	Some-what Unfair	Very Unfair	DK/NA*
Police protection	38	33	12	7	10
Schools	35	29	5	3	28
Traffic patterns through community	33	29	8	5	25
Water/sewer	32	29	11	8	20
Locating stop signs lights	32	32	10	8	18
Parks and recreation	30	34	7	3	26
Traffic patterns around community	29	37	10	7	17
Animal control	28	34	10	6	22
Environmental pollution	26	33	8	3	30
Parking in/around community	26	32	11	6	25
Zoning	25	37	9	4	25
Development/Growth	21	35	11	8	25
Local government taxes	20	32	17	10	21

*DK/NA--Don't know/No answer

influence local government. This suggests that the typical relationship between an RCA and local government is, as one respondent put it, "We leave them alone and they leave us alone."

The survey also included questions about local government attempts to influence community associations (see Table 3). Here the pattern is clear: RCAs report very few attempts by local government to influence their association. Indeed, influence appears to be a one-way stream, flowing from associations to local government, rather than vice-versa. Although many associations do not report attempting to influence local government, they are even less likely to report an attempt by local government to influence them.

Among the 13 public services tested, the one for which local government influence is reported most often is police protection. Even here, however, only 14 percent of the associations surveyed reported an attempt by local government to influence the association.

Fairness of Local Government

RCA officials were also asked to rate the fairness of local government to their organization with regard to specific government activities. A majority of respondents rated local government as either "very fair" or "somewhat fair" with regard to all of the specific government activities included in the survey (see Table 4).

The activity rated most highly was police protection, with 71 percent rating local government as either "very fair" or "somewhat fair." The activity regarded as least fair was local government taxes. Twenty-seven percent of the RCA officials rated local taxes as either "somewhat unfair," or "very unfair." For many of the activities, between 15 percent and 20 percent described local government as unfair, indicating an undercurrent of concern.

These survey results should be regarded as tentative because RCA officials may have views about their relationships with local government somewhat different from individual RCA members and local government officials, neither of whom were surveyed.

Cooperation with Local Governments

A 53 percent majority of the respondents rated overall cooperation between their RCA and local government as "excellent" or "good." Another 33 percent rated cooperation as either "fair" or "poor," indicating a sizable undercurrent of dissatisfaction within an otherwise generally favorable environment (see Table 5).

Table 5
Evaluation of Cooperation Between RCA and Local Government
 (in percent)

Excellent	13
Good	40
Fair	23
Poor	10
No contact	6
Don't know	1
No answer	5

Conclusion

Although this survey is only an initial look at the relationships between local government and residential community associations, it is evident that many RCAs are providing services to their residents that are often provided to other homeowners by local government. The lack of research and information in this area means that it is difficult to say now what impact RCAs are having on the intergovernmental system and local service provision. However, as the number of community associations grows, and as existing associations mature, the relationships between associations and local government can be expected to occupy a larger place on the agendas of both types of organizations.

Debra L. Dean is an analyst at ACIR.



I congratulate you most enthusiastically upon your "State Constitutional Law." I'd been hoping for some time that a casebook would be published. With the growing interest in reliance by state courts on their own constitutions, it's been very badly needed. I shall certainly encourage any deans I run into to follow the lead of the other law schools already using it.

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Competition (continued from page 30)

states in the mid-Atlantic region. In fact, it was this concern for its competitive position in general and its poor national tax image in particular that recently prompted New York to buy full-page ads in the *New York Times* and the *Wall Street Journal* announcing that it was getting back in line with a dramatic cut in its top personal income tax rate.

Diversity—Setting the Outer Limits

The great diversity on state and local tax and public service policies stands out as another virtue of our federal system. This diversity permits mobile citizens to vote with their feet as well as with their ballots, thereby forcing elected officials to be more responsive to varying public service concerns and more cautious about imposing taxes.

Even this virtue of diversity has its limits. Some institution in a federal system must prevent jurisdictions from drifting too far apart, especially in the critical areas of taxation and public service provision.

In the American federal system, intergovernmental competition has played a key role in preventing states and localities from moving too far apart. This power to contain intergovernmental diversity is clearly reflected in countervailing competitive pressures—competitive tax concerns were forcing New York policymakers to bring their progressive income tax policies back closer to the national norm at the very time that competitive public service concerns were prompting Mississippi officials to raise taxes and narrow the educational distance that separates that state from pacesetter North Carolina.

Admittedly, there are serious problems associated with this regulation by competition approach. Hopefully, the national government will soon provide special financial assistance to the poorest states, thus enabling them to compete on more equal terms with the wealthier states. By the same token, state governments should reduce competitive disparities by providing special financial aid to those localities handicapped by anemic revenue bases or extraordinary expenditure requirements or both. Also, interjurisdictional competition for economic development can work against a state that provides a relatively high level of assistance to the poor or enforces a strict code to protect the environment. In these "spillover" areas, a countervailing federal presence is needed to smooth over the rough edges of interstate competition.

Despite these problems with competition, the interests of our federal system are well served by leaving the delicate and critical task of setting the outer limits of intergovernmental diversity where it now resides—primarily with elected state and local officials operating in a competitive environment. Why? Because in most areas, the "invisible hand" of tax and public service competition is still clearly preferable to the visible hand of Washington.

John Shannon, former ACIR executive director, is a senior fellow at The Urban Institute. This article is a revised version of a paper given at a conference on intergovernmental competition, sponsored jointly by ACIR and The Urban Institute, March 23-24, 1988.

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