

## Property Tax Issues

### Local Property Taxes: Emerging Trends

*Philip M. Dearborn*

### Assessments and Property Taxes: Today and Tomorrow

*John O. Behrens*

### The Property Tax: Local Revenue Mainstay

*Hugh Miels, Jr.*

### Two-Rate Property Taxes and Urban Development

*John E. Anderson*

### Modern Technology for the Mass Appraiser

*David L. Jensen*

### Assessment Innovation in Orange County, Florida

*Richard W. Rourke*



# A View from the Commission

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The June 18 9-minute debate and 5-second voice vote on the floor of the U.S. House of Representatives to eliminate FY 1994 funding for ACIR should be a call to arms for all who care about the future of federalism and cooperative intergovernmental relations. It's not just ACIR that is at issue here; it's the devaluing of federalism. In the past, Congress was willing to establish institutions such as ACIR and heed their recommendations. Today, this is less so.

Fortunately, on August 3, the full Senate voted to restore funding for ACIR at \$985,000. But this amount is not sufficient for ACIR to maintain its current level of services.

ACIR is not just another federal agency. It is an exemplary institutional expression of the intergovernmental partnership that once animated our federal system. ACIR is the nation's only official, independent, bipartisan forum—funded by the federal government and states—where leading federal, state, and local officials and private citizens come together to address major intergovernmental issues and forge consensus approaches to these matters. Yet, the House members who were present on the floor on June 18 voted as if ACIR were a bureaucratic nonentity. Hence, ACIR, which amounts to a whopping .00012 percent of federal spending, could be zeroed out of the budget, along with other

small agencies. Even if ACIR survives this year's budget cycle, it will continue to have to fight for its existence.

The effort to eliminate ACIR is all the more disturbing now that we have entered an exciting era in which many countries are trying to decentralize power to promote democracy and prosperity. Even Russia is attempting to establish a constitutionally democratic federal system. They look to us for leadership, and ACIR has helped them in their efforts to institute federalism.

The founders of our nation invented modern federalism, and the experiment was a remarkable success. Yet, what are we doing now? We are concentrating power in Washington, piling up national debt, loading mandates on state and local governments, and preempting state and local powers at unprecedented rates. We are in the process of dismantling a system that has worked extremely well for over 200 years.

Unfortunately, the trend toward centralization has eclipsed the concept of federalism, which is the underpinning of our constitutional system. The federal government has eliminated much of its institutional capacity to foster coherent and cooperative intergovernmental relations. OMB's intergovernmental division was abolished in 1983; GAO's intergovernmental unit was downgraded and downsized to near extinction; CRS has minimal intergovernmental capability; offices of intergovernmental research and innovation in the major federal departments are shadows of their former selves; ACIR's appropriations were cut by 52 percent during 1986-89; and the congressional subcommittees having dedicated intergovernmental jurisdiction focus little on intergovernmental affairs. Indeed, the Senate's Subcommittee on Intergovernmental Relations was abolished in 1987 and its functions

absorbed into the Subcommittee on Government Efficiency, Federalism and the District of Columbia.

Given this deteriorating intergovernmental climate, it is no wonder that ACIR no longer holds a secure and special place as the nation's official forum for constitutionally co-equal federal and state colleagues and their local and private-citizen partners. No wonder the state and local officials and public members of ACIR fulfill their Commission responsibilities faithfully while the congressional and federal executive members are less attentive. This is not to say that they do not care, but, today, an institution like ACIR barely registers on their radar screens. As a Senate member of ACIR acknowledged, "there is no political capital in intergovernmental relations."

ACIR is about the only organization remaining that is focused on *intergovernmental* relations. The national associations of state and local officials are not sufficient to fill the vacuum were ACIR to cease functioning. These organizations serve different purposes than ACIR. They are primarily lobbying organizations that focus on day-to-day policy developments. ACIR is the last standing intergovernmental institution established by the federal government during the era of cooperative federalism. If Congress does not fund the Commission next year (or in subsequent years), ACIR will close down after over three decades of much acclaimed public service.

All the outstanding work done by ACIR on constitutional, legal, fiscal, and administrative federalism cannot be fairly detailed even in an entire issue of *Intergovernmental Perspective*. Many people depend on ACIR's balanced, well researched and insightful policy reports. ACIR has provided much in the way of analysis and recom-

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## ACIR's Uncertain Future

On June 18, 1993, the U.S. House of Representatives approved, by a voice vote, a floor amendment to eliminate funding for ACIR for FY 1994. On August 3, 1993, however, the full Senate approved FY 1994 funding for ACIR in the amount of \$985,000.

President Clinton's FY 1994 appropriation request of \$1,859,000 for ACIR—an increase of \$39,000 over the FY 1993 appropriation—had been approved by the House Committee on Appropriations. When the bill reached the House floor, Rep. Joel Hefly (R-CO), supported by Representatives Bill Orton (D-UT) and Jim Lightfoot (R-IA), offered an amendment to reduce ACIR's appropriation amount to zero. Rep. Steny Hoyer (D-MD), Chairman of the House Appropriations Subcommittee on Treasury, Postal Service and General Government, spoke against the amendment in defense of ACIR.

If funding for ACIR is not restored through House-Senate action, ACIR will be required to close down on September 30, 1993.

Speaking for the amendment to eliminate funding for ACIR, Representative Lightfoot said:

I served on the Commission when I was ranking member on the

Subcommittee on House Government Operations a few years back. The Commission does do, I think, good work; but I think we have reached the point in time when we have to make a decision between what do we want and what do we really need. I think in this case, if we draw that definitive line between what we want and what we need, yes, we want it, but do we need it? I think we will have to come down on the side of saying we do not.

Unfortunately, we hate to do these kinds of things, but at the same time, if we are going to chip away at the deficit, every little saving that we can make counts.

Speaking against the amendment, Representative Hoyer said:

The appropriation for this agency is \$1.8 million, not a lot of money, but important money. And if you talk to your Governor, to your mayor, if you talk to your country judge or county executive, they will all tell you that the work product of the ACIR is very useful to them in carrying out their duties, and brings to them ideas that have been tried and found to be successful in other parts of the country, either in terms

of saving money or delivering the product to the American public.

ACIR is highly regarded for its dissemination of useful, objective information on many aspects of federalism and intergovernmental relations.

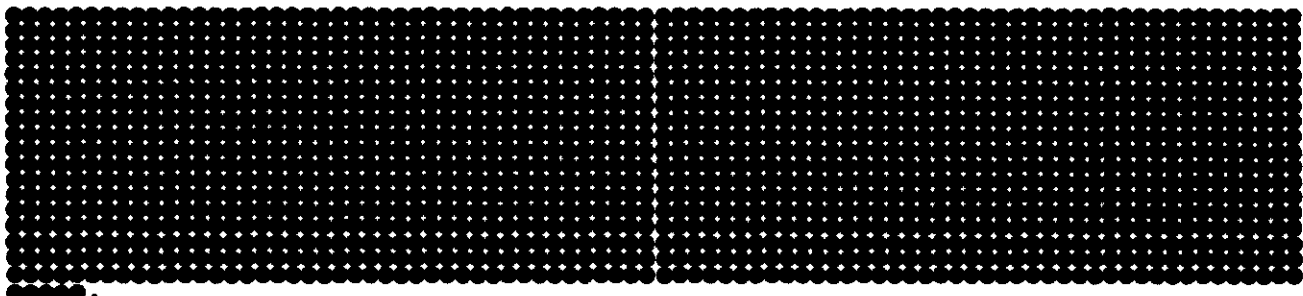
For that reason, Mr. Chairman, the committee decided to keep ACIR in. We did not expand its funding, but we believe this is a small, but useful, agency as we try to better determine the best mix of responsibility at the Federal, State, and local levels.

## Farewell to the Chairman

On June 10, 1993, an appreciation dinner for Robert B. Hawkins, Jr., ACIR's longest serving chairman, was held at the Army-Navy Club in Washington, DC. Former Commission member David Nething hosted the event, which was attended by current and former members and other ACIR friends. Dr. Hawkins received congratulations from many people across the country, including a resolution honoring his service from the Delaware General Assembly.

Former President Ronald Reagan appointed Hawkins chairman on June 25, 1982. His last term on ACIR

ACIR's Appropriation Request Compared  
to Total Federal Government Budget Authority (\$1,517.2 billion) Recommended for FY 1994  
(● = \$1 billion)



(dot too small to show relationship)

↑  
ACIR Appropriation Request—\$1.859 million.



Vivian E. Watts participated in a symposium on corrections in Tampa, Florida, May 23-26, 1993, hosted by the Council of State Governments and the American Probation and Parole Association. Pictured with Ms. Watts (l-r) are NACo First Vice President Barbara Sheen Todd, Pinellas County (FL) commissioner; Carol Carpenter, former chair of NACo's Justice and Public Safety Steering Committee; and R. William Ide, president-elect of the American Bar Association.

Photo courtesy of County News.

expired on June 30, 1993. Hawkins said, "It has been a tremendous pleasure and privilege to serve as Chairman of ACIR. When President Reagan invited me to serve in his administration, I told him that I did not want to move to Washington to work in the White House. I really wanted to work with ACIR because it's in touch with grassroots government and stands for a core value of our great democracy—federalism. Federalism is critically important today, not only for the United States, but also for the world, because federalism is about self-government in a free society, and it's about sharing power among diverse communities and peoples."

"Working with all of the local, state, federal, and public members of ACIR has been a great experience," he added. "We haven't always agreed on issues, but we have tried to work toward consensus and break new ground on matters of overriding importance to intergovernmental cooperation, such as mandates, preemption, intergovernmental regulation, federal and state constitutional law, grant reform, devolution, metropolitan governance, dual economic regulation, and many specific policy areas, such as water governance, welfare, infrastructure, and environmental protection. I leave, therefore, with a true sense of satisfaction and immense appreciation for the members and staff of the Commission who have worked

through some tough years to make ACIR a dynamic and vital institution."

Dr. Hawkins, who is president of the Institute for Contemporary Studies in San Francisco, said that he will certainly stay in close touch with the Commission's work as he continues to remain involved in issues of federalism and self-government.

### On the ACIR Agenda

The Commission met as a committee of the whole on June 10-11, 1993, in Washington, D.C. The full commission, depending on funding, will meet in September for final action on agenda items discussed at the meeting.

Following are highlights from the agenda.

#### Geographic Data Project

The Commission has been working with the U.S. Geological Survey to help develop a state and local partnership with the Federal Geographic Data Committee (FGDC). ACIR convened a work group of representatives from nine national associations representing state and local governments and regional planning councils. The group met in December 1992 and in February, March, and April 1993. On April 23, 1993, the group adopted a statement that supports the work of FGDC and recommends the development of cooperative institutions for more effective and efficient intergovernmental and

interagency exchange of information. The statement also urges the participating organizations to forge an effective partnership with FGDC. The Commission endorsed the statement and will continue its role on the project (see Statement, page 8).

#### Child Care in the Federal System

An analysis of the intergovernmental relations of child care programs was given initial consideration at the Commission's meeting on December 18, 1992. The Commission reviewed the principles, findings, and recommendations at this meeting. Chairman Robert B. Hawkins, Jr., appointed Commissioners Daniel J. Elazar, Robert Isaac, Barbara Sheen Todd, and Bruce Todd to a committee to finalize the findings and recommendations.

#### Other Commission Actions

- The Commission endorsed ACIR's continuing role in the infrastructure strategy project with the U.S. Army Corps of Engineers to evaluate federal, state, and local government and private-sector infrastructure policy issues.

- The Commission approved recommendations with modifications for a report on *State Law and Local Autonomy: Needs for Constitutional, Statutory and Judicial Reform*. The forthcoming report focuses on the legal aspects of local government autonomy.

## State Support for ACIR

The Commission would like to thank the following states for their recent financial support: Arkansas, California, Colorado, Connecticut, Florida, Hawaii, Indiana, Kansas, Kentucky, Maryland, Minnesota, Missouri, New Hampshire, New Jersey, New Mexico, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennessee, Virginia, and Wisconsin.

■ The Commission began preliminary discussion of a new four-year work agenda. Topics discussed included federal mandates, ISTEA, consumption taxes, intergovernmental decision-making in environmental protection and public works, apprenticeship programs, and state versus tribal regulations in the gaming industry.

## ACIR Urges Revamping of Criminal Justice Policies

At a press briefing in Washington, DC, on July 12, 1993, ACIR released *The Role of General Government Elected Officials in Criminal Justice*. ACIR's Chairman, Robert B. Hawkins, Jr., said, "The overloading of our prisons, courts, and other criminal justice agencies has been driven more by public policies, especially sentencing policies, enacted by our elected state and federal officials, than by increased crime or arrests." He urged the nation's general elected state, local, and federal officials to revamp criminal justice policies and require more intergovernmental and interagency coordination.

This report is accompanied by a *Guide to the Criminal Justice System for General Government Elected Officials* to help them oversee the system more effectively. The Guide deals with the system after crime occurs, focuses on major cost impacts, and provides basic tools to help officials improve criminal justice agencies.

## National Conference on High Performance Infrastructure

ACIR, in cooperation with the U.S. Army Corps of Engineers, sponsored a two-day conference on performance-based federal infrastructure investment strategy. The participants reviewed and commented on a draft ACIR report on infrastructure strate-

gy, and the six task force reports on which it is based.

Alice M. Rivlin, deputy director of the U.S. Office of Management and Budget, gave the keynote address on budgeting for performance. Sen. Bob Graham, member of the Congressional Infrastructure Caucus, and Rep. Bob Carr, chairman of the Transportation and Related Agencies Appropriations Committee, presented views from the Congress.

Also participating in the conference, which involved more than 200 people, were ACIR members Edward G. Rendell, Mayor of Philadelphia, PA; Barbara Sheen Todd, Commissioner, Pinellas County, FL; and Bruce M. Todd, Mayor of Austin, Tx.

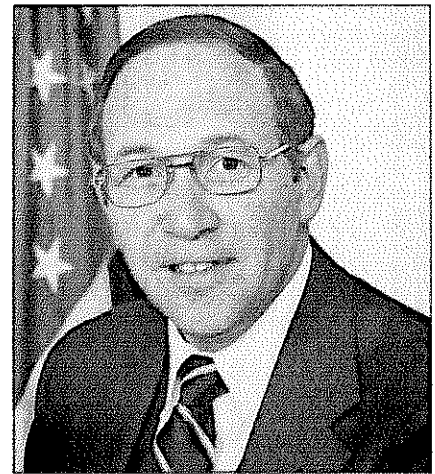
## Short Course on Clinton Federalism

ACIR will host a short course on "The Clinton Administration and the Prospects for Reinventing Federalism." The course is sponsored by the Organized Section on Federalism and Intergovernmental Relations of the American Political Science Association. The course will involve briefings on the federalism initiatives of the Clinton administration as they relate to the administration's mandates for change: rebuilding the economy, reducing the federal deficit, investing in the nation's infrastructure, providing affordable universal health care, reforming welfare, educating America, and greening the market. The course will be held at ACIR from 12:00-5:00 p.m., September 1, 1993. Registration, which is due by August 20, is \$35 per person for APSA Federalism Section members and \$45 for non-members. To register, please contact: Prof. Stephen L. Schechter, Department of Government, Russell Sage College, Troy, NY 12180; phone (518) 270-2363; FAX (518) 271-4545.

## Commission Appointment

House Speaker Thomas S. Foley appointed Rep. Steven H. Schiff (R-NM) to a two-year term on the Commission.

Representative Schiff has been a member of Congress since 1989. In addition to his membership on the Judiciary Committee; the Science, Space and Technology Committee; and the Committee on Standards of Official Conduct, Representative Schiff serves as the ranking Republican on the



Steven H. Schiff

Subcommittee on Human Resources and Intergovernmental Relations.

Representative Schiff serves as chairman of the House Republican Research Committee's Task Force on Crime, which is developing model legislation for dealing with violent juvenile offenders. The committee also is studying prison reform, including good-time credit for prison inmates, truth-in-sentencing, and DWI legislation.

## State ACIR News

■ The Virginia Advisory Commission on Intergovernmental Relations recently published *Town-County Fiscal Relations: The Issue of Double Taxation*. The study is designed to determine whether there are certain county services that town residents do not receive even though they partially finance them through payment of county taxes.

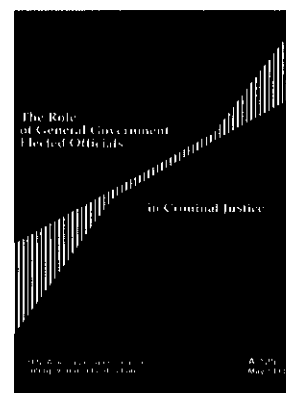
■ The Rhode Island State-Local Relations Commission is now inactive.

■ The Florida Advisory Council on Intergovernmental Relations will host the annual conference of state ACIRs on September 10-11 in Orlando, FL. Agenda items for this conference include: state mandates, Indian gaming, local autonomy and home rule, and double taxation. For further information and registration material please contact Sandy Shiver (904) 488-9627 or Jeffrey Fitzpatrick (202) 653-5540.

### The Role of General Government Elected Officials in Criminal Justice

General government elected officials play a crucial role in every aspect of criminal justice—from shaping policy to holding an administrator accountable for the cost of a new building; from listening to a grieving relative plead for tougher sentencing to sorting out the statistical claims of program performance; from using political leverage to requiring interagency collaboration in making hard budget decisions. This report spells out the intergovernmental, policy, and management issues facing general government elected officials in dealing with the effects of explosive growth in the system during the last 15 years and with the challenges of the next decade.

A-125                      1993                      \$20

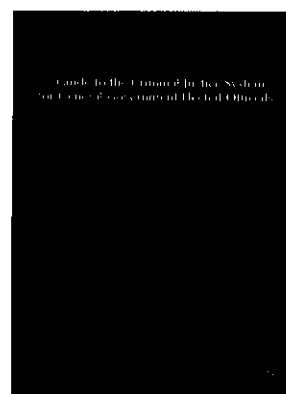


### Guide to the Criminal Justice System for General Government Elected Officials

The guide is intended to assist general government officials—elected chief executives, legislators, and administrators and advisors—in their oversight of the criminal justice system. The guide focuses on system actions after crime occurs, emphasizes the role of state and local governments (the federal justice system handles only about 6 percent of criminal cases), focuses on concerns that have major cost impacts across agencies and governments and over time, and provides basic tools to help officials improve the functioning of criminal justice agencies.

M-184                      1993                      \$8

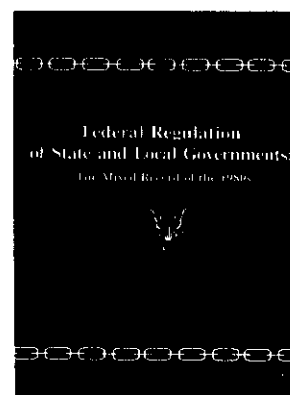
Set (M-184 & A-125)                      \$23



### Federal Regulation of State and Local Governments: The Mixed Record of the 1980s

A decade ago, ACIR issued a report on regulatory federalism—the use of federal regulations aimed at or implemented by state and local governments. This report examines the results of initiatives to reform intergovernmental regulation during the 1980s, especially Executive Order 12612 on Federalism and the *State and Local Government Cost Estimate Act*. The report also inventories a number of new mandates and traces the U.S. Supreme Court's evolving doctrines affecting intergovernmental regulation.

A-126                      1993                      \$15



(see page 29 for order form)

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# STATEMENT

## Workgroup on State and Local Partnership with the Federal Geographic Data Committee

We, the representatives of the Council of State Governments, International City/County Management Association, National Association of Counties, National Association of Regional Councils, National Conference of State Legislatures, National Governors' Association, National League of Cities, National States Geographic Information Council, and U.S. Conference of Mayors are pleased to have been invited to come together to consider establishing a partnership with the Federal Geographic Data Committee (FGDC) and to become involved in its activities.

We have approached this task with a growing sense of impatient enthusiasm. Data coordination opportunities are being lost and duplicative spending is squandering limited resources. Immediate action is needed to eliminate these losses.

We wish to acknowledge the contribution of ACIR to the positive outcome of our work. ACIR has made it possible for representatives of nine public interest groups, including state and local officials, to work together, to develop and recommend exciting first steps toward building a National Spatial Data Infrastructure in partnership with the Federal Geographic Data Committee. Without the professional, dedicated work, facilitation skills, patience, and understanding of the ACIR staff, our work could not have occurred.

As the result of our deliberations from December 1992 through April 1993:

### I. We Find that:

The annual public expenditures for spatial data collection, maintenance, and manipulation are estimated to be between \$7 billion and \$10 billion nationally in 1993. The federal, state, and local governments each fund substantial portions of these expenditures. Very little of this investment reaches its full potential because of pervasive redundancies, inconsistencies, and inaccuracies. Given the extent of these public expenditures, and the significance of geographic information as a strategic resource in the Information Age, an urgent attempt must be made to seek out operational efficiencies and to fully capitalize on society's investment in spatial data. At this juncture, the public spatial data community has a responsibility to serve the combined interests of all taxpayers and public decisionmakers.

The opportunities for coordination and collaboration are technically practical, economically feasible, and fiscally responsible. FGDC has proposed a concept for developing a national spatial data infrastructure (NSDI) consisting of rapidly developing technologies, data resources, systematic frameworks, and communities of individuals and institutions dedicated to working together. It is time now for our organizations and others to step forward to efficiently and responsibly invest in NSDI as an essential mechanism for coordination and collaboration among all the sectors of government.

### II. We Affirm that:

Geographic information is a strategic national resource of vital importance to both the public and private interests in the nation. It consists of prodigious amounts of geographic and geographically referenced data produced by the federal, state, and local governments, interstate and intrastate regional agencies, utilities, and others. We must act to realize the full value of this strategic national resource by developing spatial data partnerships among the federal, state, interstate, substate regional, and local governments and the private sector. Such partnerships should:

1. Expand the content and availability, and improve the accuracy and quality of the national geographic information resources beyond the ability of individual parties working on their own;
2. Reduce the duplication of effort and minimize the costs of collecting and maintaining data;
3. Maximize the use, sharing, and reciprocal exchange of geographic information;
4. Provide the institutional framework for formal and regular participation among federal, state, interstate, substate regional, and local entities; and
5. Improve the quality of public and private decisionmaking by helping decisionmakers envision the geographic realities which they are addressing.

### III. We Support:

1. The purpose of FGDC and its efforts to: (a) coordinate federal agencies' geographic data programs, and (b) involve state, interstate, substate regional, and local governments, as well as the private sector in its activities;
  2. The creation and implementation of the national Spatial Data Transfer Standard (SDTS);
  3. The creation and implementation of the national Metadata Standard;
  4. The creation and implementation of the national Geographic Data Clearinghouse;
  5. The creation and operation of a nationwide network of information superhighways to facilitate rapid, easy, open, and affordable public access to the many different sources of geographic data in the nation;
  6. Within each state, the District of Columbia, and the territories of the U.S. (hereinafter referred to as "state"), the recognition and development of an existing state geographic coordinating council (SGCC), or the creation, recognition, and development of a new SGCC in each state where none presently exists, that will: (a) bring together federal, state, interstate, substate regional, and local agencies, utility companies, tax assessment officers, and other producers and users of geographic information within the state to foster coordination and collaboration; (b) convene specialized working groups as needed; and (c) provide an avenue of communication, education, and advocacy with those involved in the development of geographic information and the NSDI;
  7. Where appropriate, the recognition of existing regional geographic coordinating councils (RGCCs) of either interstate or substate scope, and the recognition of voluntarily created RGCCs that: (a) serve one or more SGCCs and/or (b) address functional or technical issues. In carrying out these functions, RGCCs may bring together federal, state, interstate, substate regional, and local agencies, utility companies and other interested parties, and may convene specialized working groups as needed;
  8. The evolution of a national geographic coordinating council to link, facilitate, and support federal, state, interstate, and substate regional geographic coordinating councils, and promote full development of NSDI; and
  9. The evolution and use of dispute resolution processes by the FGDC and the other geographic coordinating councils referenced above
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**IV. To Help Reach These Objectives, We Urge Our Organizations to:**

1. Make use of their communications media—including newsletters and conferences—to disseminate information about, raise the visibility of, promote understanding of, and advocate geographic data uses, issues, and needs with the political decisionmakers and staffs of state and local governments;
2. Promote the use of geographic information for a wider variety of purposes;
3. Provide active and continuous advice and assistance to FGDC and its coordinating committees, subcommittees, and working groups;
4. Coordinate and promote intergovernmental partnerships with FGDC and the federal departments and agencies represented on FGDC;
5. Consider adopting and promoting applicable FGDC initiatives;
6. Formalize and fund the coordination of public interest group work related to geographic information to respond to OMB Circular A-16 and work with FGDC;
7. Promote education and training in the use of geographic information systems and resources; and
8. Address proprietary, privacy, public access, pricing, and ethical issues in the sharing and use of geographic information.

**V. We Propose That Our Organizations Work with FGDC to Accomplish the Following Objectives (Which Are Not Necessarily Listed in Priority Order):**

- Create a state-local geographic information node for INTERNET computer access in each state that does not already have one;
- Recognize an SGCC (with a facilitative staff) in each state (and help to establish an SGCC in each state that does not already have one) to promote INTERNET use and to convene such federal, state, regional, and local user groups as may be needed to address operational problems in sharing data and to develop cooperative agreements supporting joint projects;
- Promote local government and regional agency connections to and use of the state INTERNET nodes;
- Develop the nationwide Geographic Data Clearinghouse accessed through INTERNET to include:
  - notification of all of the activities and agendas of FGDC (including its committees, subcommittees, working groups, and staff) as well as GIS events and special projects;
  - a complete catalog of geographic data resources residing throughout the nation; and
  - a bulletin board service to facilitate interaction among geographic information creators, managers, and users.
- Implement the SDTS and Metadata standards so as to meet the combined needs of the federal, state, interstate, substate regional, and local governments;
- Develop and publicize case studies demonstrating the benefits of geographic information use by public officials in making more effective, efficient, and timely decisions about critical public policy issues (including targeting human resource service delivery, assessing environmental impacts, planning infrastructure and transportation improvements,

allocating fiscal resources, and managing public programs such as the decennial census);

- Pursue joint projects to produce higher quality, more economical, and more accessible data files and standard reporting formats;
- Develop consistent, easy to use contract and intergovernmental agreement formats for routine use by federal, state, interstate, substate regional, and local partners wishing to pursue joint projects;
- Develop a cooperative financial plan for public sector participation in strengthening the NSDI;
- Examine the complex and sometimes conflicting issues relating to proprietary data, pricing of data, privacy, public access to data, and the ethics of access to and analysis of sensitive data;
- Sponsor and schedule regular forums for state, interstate, substate regional, and local participation in coordination, collaboration, and information sharing; and
- Establish incentive-based policies and mechanisms to promote development of NSDI by: (a) encouraging voluntary participation; (b) leveraging resources from a variety of participants; and (c) avoiding the use of unnecessary mandates.

**VI. To Continue the Intergovernmental Dialogue Essential to Underpin the NSDI, We Recommend the Following Immediate Action Steps:**

- The Clinton-Gore Administration should clearly articulate its vision for the NSDI, reaffirm its support for FGDC, and provide more adequate funding for FGDC commensurate with its responsibilities under OMB Circular A-16;
- The Workgroup on State and Local Partnership with FGDC should be continued as an interim committee until a replacement organization is established, and it should be provided with continued FGDC funds to support limited secretariat, meeting and travel expenses;
- The U.S. Advisory Commission on Intergovernmental Relations (ACIR) should be asked to continue its role as the secretariat to the interim Workgroup;
- The interim Workgroup, in partnership with FGDC, should:
  - develop a list of top priority operational issues needing FGDC attention and quick fixes (including such problems as administrative delays in federal contracting);
  - develop a plan to establish a national geographic coordinating council to underpin the NSDI;
  - establish federal recognition of an appropriate SGCC in each state;
  - develop recommendations to the Clinton/Gore Administration for incorporating the NSDI into the performance review plans for restructuring government and using technology to enhance America's economic growth;
  - develop an economic justification for support and funding of NSDI; and
  - design, develop, evaluate, and publicize a small number of case studies that would demonstrate critically needed advances in the development of the intergovernmental relationships and partnerships essential to the coordinated/integrated collection, sharing, maintenance, and use of geographic information.

**Dated April 23, 1993**

*(signed by 30 members of the work group representing all nine sponsoring organizations.)*

# Local Property Taxes: Emerging Trends

Philip M. Dearborn

**T**hat old war horse of taxes, the property tax, kicked up its heels in the 1980s. A surge in property values and new construction, coupled with improved assessments that reflect values on a more current basis, provided many local governments with a flood of revenue. From 1980 to 1990, local property taxes increased nationally by an impressive 128 percent, with 32 states experiencing increases over 100 percent—certainly not the record of a sluggish tax source. And from 1990 to 1991, despite the national recession, property taxes increased nationally by 8 percent, well above the inflation rate. Property taxes in 11 states increased by more than 10 percent from 1990 to 1991 (see Table 1).

*Table 1*  
Percentage Change  
in Local Property Tax Revenues

	Percent Change 1980-1990	Percent Change 1990-1991
Alabama	116.8%	6.3%
Alaska	212.0	1.7
Arizona	151.0	5.3
Arkansas	76.1	7.5
California	172.1	8.9
Colorado	137.0	3.3
Connecticut	135.9	7.9
Delaware	103.0	4.4
Florida	262.6	14.3
Georgia	194.3	4.9
Hawaii	129.0	14.8
Idaho	94.9	6.2
Illinois	105.4	5.3
Indiana	98.3	22.2
Iowa	75.0	4.6
Kansas	89.3	5.8
Kentucky	96.2	12.5
Louisiana	133.3	3.4
Maine	148.5	9.8
Maryland	134.3	6.2
Massachusetts	46.9	6.4
Michigan	97.1	10.3
Minnesota	134.8	2.7
Mississippi	129.4	8.3
Missouri	64.9	11.4
Montana	64.1	-38.0
Nebraska	91.5	-1.5
Nevada	164.5	13.8
New Hampshire	212.0	16.7
New Jersey	146.2	9.9
New Mexico	90.7	4.9
New York	109.4	8.0
North Carolina	133.8	11.0
North Dakota	74.6	5.6
Ohio	93.1	5.7
Oklahoma	90.6	-8.9
Oregon	141.1	5.7
Pennsylvania	114.4	10.2
Rhode Island	107.3	9.4
South Carolina	183.1	7.6
South Dakota	67.4	0.7
Tennessee	116.7	4.0
Texas	181.2	6.6
Utah	116.6	-0.9
Vermont	140.6	11.3
Virginia	197.6	8.5
Washington	138.7	9.4
West Virginia	72.2	7.0
Wisconsin	122.7	9.3
Wyoming	40.5	2.1
Total	127.9	7.9

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances in 1979-80, 1989-90, and 1990-91*.

It may be popular in Washington to talk of more exotic taxes, such as the value added tax, but property taxes remain the bedrock of local government tax revenues, especially those of school districts. The fixed nature of the base, predictability of revenues, and stability of yields from year to year have made the property tax not only a key revenue to support vital local services, such as police, fire, and education, but also the revenue pledged by local governments for payment of general obligation bonds. Because of its importance in our tax system, this issue of *Intergovernmental Perspective* presents several articles on emerging property tax trends.

Property taxes constituted almost three-quarters of all local tax revenues in 1991, a dependence virtually unchanged from 1980. However, the use of property taxes varies widely by type of government. Independent school districts received 97.5 percent of their tax revenues from property taxes in 1991. This contrasts with municipalities, which received only 52.1 percent from that source, and counties, which received 74.0 percent.

There is also a wide variation between states in the use of local property taxes (see Table 2). New Hampshire's local governments derive 99.4 percent of their tax revenues from the property tax while, at the other extreme, Alabama's local governments receive only 36.9 percent. Most, but not all, of the low-use states are in the South and West. High-use states tend to be in the North and Northeast. Of the 41 states with independent school districts, all but three depend almost entirely on property taxes as a local tax source.

The importance of property taxes, while high on an aggregate national or even state basis, varies widely among local governments. This is especially true for large central cities, some of which are permitted by their states to use alternative taxes, such as sales and income. A review of 30 large central cities shows a property tax dependency that ranges from 8.5 percent in Columbus, Ohio, to 92.5 percent in Boston (see Table 3). Almost half (14) of those cities received more than 50 percent of their tax revenues from property taxes, with several cities getting three-quarters of their taxes or more from this source.

A frequent local complaint about the property tax is its alleged lack of elasticity, that is, that annual revenue increases do not keep pace with inflation and local economic growth. However, the record of the 1980s does not support this premise. Increased revenues were caused by economic growth that resulted in new construction and increases in market value of land and existing improvements, and by changes in tax rates and in the ratio of assessments to market value. While some local governments are able to allocate their increased revenues to each of these factors, no national statistics permit such an allocation.

However, an examination of what happened to assessed values in large central cities in the 1980s suggests that increases in assessed values were a major contributor to the growth of property taxes, not tax rate increases. Assessed values in 16 of 29 large central cities between 1984 and 1990 increased by more than twice the increase in the CPI rate over the same period (see Table 4). Only eight

Table 2  
Property Taxes as a Percentage of Total Local Taxes  
1991

	All Local Governments	School Districts
New Hampshire	99.4%	100.0%
Vermont	99.2	100.0
Rhode Island	98.8	*
Connecticut	98.7	*
Maine	98.6	100.0
New Jersey	98.2	100.0
Massachusetts	97.2	*
Wisconsin	97.1	100.0
Iowa	96.1	99.3
Idaho	95.9	100.0
Minnesota	94.6	99.9
Mississippi	94.5	99.9
Montana	93.8	100.0
Michigan	93.3	99.4
North Dakota	92.2	99.3
South Carolina	92.1	99.6
Oregon	89.5	100.0
Indiana	89.5	99.7
Nebraska	87.8	99.9
Alaska	85.6	*
Wyoming	85.2	96.7
Delaware	85.1	100.0
Kansas	83.8	100.0
Florida	82.5	100.0
Texas	81.5	99.8
West Virginia	80.6	100.0
Hawaii	79.5	*
South Dakota	78.6	95.9
Arizona	78.5	100.0
Illinois	78.0	100.0
Utah	75.7	100.0
Virginia	73.1	*
North Carolina	72.6	*
Arkansas	70.8	100.0
California	70.3	100.0
Georgia	70.1	100.0
Pennsylvania	68.7	83.8
Colorado	68.2	100.0
Nevada	67.9	99.4
Ohio	67.9	99.8
New York	62.2	98.3
Tennessee	61.0	*
Maryland	59.9	*
Missouri	59.8	99.1
Washington	58.8	100.0
New Mexico	55.5	100.0
Oklahoma	55.1	99.2
Kentucky	51.1	67.0
Louisiana	41.3	43.0
Alabama	36.9	100.0
<b>Total</b>	<b>75.7</b>	<b>97.5</b>

\* No property taxes reported by school districts separate from general governments.

Source: U.S. Department of Commerce, Bureau of the Census, *Government Finances in 1990-91*.

**Table 3**  
**Property Tax Dependency, Selected Major Cities, 1990**

City	Property Taxes as a Percentage of Total Taxes	City	Property Taxes as a Percentage of Total Taxes
Boston	92.5%	New Orleans	45.1%
Milwaukee	92.4	New York	43.4
Buffalo	87.5	San Diego	39.6
Indianapolis	80.9	Chicago	39.2
Jacksonville	77.4	Phoenix	36.8
Minneapolis	77.4	Los Angeles	36.3
Memphis	74.6	Detroit	34.8
Baltimore	68.2	Seattle	33.2
Dallas	58.6	Denver	27.6
Nashville	57.3	Philadelphia	19.6
San Antonio	55.1	Cleveland	18.5
Houston	54.3	Kansas City	18.1
Atlanta	54.2	Cincinnati	16.9
San Francisco	53.5	St. Louis	12.5
Pittsburgh	45.9	Columbus	8.5

Source: Philip M. Dearborn, George E. Peterson, and Richard H. Kirk, *City Finances in the 1990s* (Washington, DC: The Urban Institute, 1992).

**Table 4**  
**Property Tax Changes, Selected Major Cities, 1984-1990**

	Nominal Assessed Values	Tax Rate	Tax Levy
Atlanta	60.2%	19.7%	56.3%
Baltimore	63.7	-0.7	63.8
Boston	158.5	-50.6	56.0
Buffalo (1988-1991)	-2.9	N.A.	N.A.
Chicago	52.2	-7.2	41.7
Cincinnati	35.8	3.1	40.8
Cleveland	17.4	-4.6	17.2
Columbus	60.4	0.0	55.0
Dallas	11.3	14.7	50.7
Denver	65.5	-24.6	17.4
Detroit	3.3	-9.3	-6.1
Houston (1984-1989)	-12.7	27.3	11.1
Indianapolis	67.5	-12.5	38.0
Jacksonville	116.5	-5.9	101.9
Kansas City	75.5	-16.4	68.6
Los Angeles			
Memphis	17.7	5.8	18.3
Milwaukee	14.7	12.4	26.0
Minneapolis	29.5	0.0	28.3
Nashville	190.5	-24.0	126.5
New Orleans	23.1	30.9	77.7
New York	53.5	6.4	62.8
Philadelphia	43.3	-4.0	37.6
Phoenix	69.8	15.1	107.4
Pittsburgh	25.8	21.3	41.4
St. Louis	64.5	-26.0	21.2
San Antonio	49.8	13.7	70.4
San Diego	86.3	-3.1	107.3
San Francisco	76.4	-2.8	70.4
Seattle	69.1	48.6	86.6
CPI	25.8		

Source: Philip M. Dearborn, George E. Peterson, and Richard H. Kirk, *City Finances in the 1990s* (Washington, DC: The Urban Institute, 1992).

cities' assessed values increased less than the inflation rate. In response to the rapid growth in assessed values, 14 cities decreased their nominal tax rates. However, 12 cities increased their tax rates, in five instances apparently to offset below inflation growth in assessed values.

Some cities stand out in their experiences over the 1984-1990 period. Boston, because of new construction, inflation of values, and a 100 percent value-assessment ratio, had a 158 percent increase in assessed values. This permitted the city to reduce its tax rate 51 percent while experiencing a 56 percent increase in its property tax levy. Jacksonville and Nashville, two consolidated city-county governments, more than doubled both their assessed values and property tax levies, while also decreasing property tax rates.

Houston stands in sharp contrast to these favorable property tax results. From 1984 to 1989, the city assessed values decreased by 13 percent, and despite a 27 percent tax rate increase, its total tax levy increased only 11 percent over the five-year period. Detroit, while experiencing barely any increase in assessments from 1984 to 1990, nevertheless reduced its tax rate and was the only central city surveyed to have an actual decline in its total tax levy.

Overall, it is clear that the property tax in the 1980s more than held its own in terms of importance. It also disproved its stodgy reputation as a stable but low-growth revenue source. This record is especially surprising in view of Proposition 13 enacted in California in 1978, Proposition 2<sup>1/2</sup> enacted in Massachusetts in 1981, and the general public dislike for property taxes.

The continued strength of property taxes may be the result of improvements urged by ACIR and others to make the property tax a better revenue source. Among these were recommendations to make the property tax less regressive, including the circuit breaker; improved assessment practices; and constant yield tax rates to limit inflation growth.

Nevertheless, by the late 1980s, the revenue bonanza, while beneficial for governments, caused a resurgence in taxpayer demands to limit annual growth in property taxes. Initially, when revenues were increasing as a result of reassessments, the demand was to limit increases in assessments due to inflation, but with the recession's depressing effects on property values in the early 1990s, the emphasis may be shifting to limits on rate increases. Split tax rates, with land taxed at higher rates than improvements, have been suggested by some as a desirable new property tax improvement. There also has been renewed court activity challenging assessment practices that may be discriminatory among taxpayers, and there continue to be court actions challenging the uneven distribution of school financing based on property taxes.

New technology has made it feasible to update assessments annually with improved accuracy and at lower costs, and new geographic mapping capabilities make it easier to maintain property records and characteristics. In addition, IRS reports of real estate sales provide a rich new source of information about value changes.

All these developments make property tax policies and administration a matter of keen interest to local officials.

*Philip M. Dearborn is director of Government Finance Research at ACIR.*

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# Assessments and Property Taxes: Today and Tomorrow

John O. Behrens

**L**ocal and state property taxes comprise 14.9 percent of the revenue produced by all taxes levied by all governments in the United States. The nationwide property tax base, to a great extent the work product of the nation's 13,500 assessors, probably surpassed \$6 trillion in assessed value by 1989. Its market worth is a valuation challenge, in part because its state-assessed component, largely utility property, rarely sells. A component that more often does sell, namely the 118 million parcels of locally assessed real property, had an estimated assessed value, in 1989, of \$5.2 trillion, an amount that approximates \$15 trillion in market value.

## Market Value: The Explicit-Implicit Value Level

Market value is the standard for assessing, explicitly by law in 17 states and the District of Columbia, and implicitly in the 12 states that assess at specified single percentages of market value and the 17 states that "classify" by types of property.

California uses two market values, one at property acquisition, the other at change in ownership. Indiana disavows market value and wants "true tax value" instead (depreciated reproduction cost for improvements and sales-oriented value for land). A legislative proposal calls for assessing at market value on December 31, 1999. Minnesota has 24 "tax capacity" rates, each for multiplying by an applicable market value estimate (subject to a "limited" value just passed). New York State permits New York City and Nassau County to use four classes each, and to limit specified assessment increases. All other assessing jurisdictions in the state may have two classes, the second one for homestead exemptions. There are classifications by different rates, not value levels, in the District of Columbia, Massachusetts, and West Virginia.

## Ratio Studies and Their Uses

Because market value is subjective, the objective assessment-sales price ratio study, conforming with statistical principles, is used to identify de facto assessed value levels, measure disparity among them, and monitor assessment performance. Conducting such studies means enumerating all or representative samples of sales within a specified time. There must be enough sales to support essential statistical analysis. Study products include measures of central tendency (mean, weighted mean, median) and dispersion (coefficient of dispersion, coefficient of variation).

Ratio studies have two problems; first, getting enough sales and second, countering their implication that sold properties represent all taxable properties. Although little can be done about the second problem, getting enough sales prices may become easier. A promising harbinger is the requirement, added as Section 6045(e) of the U.S. Internal Revenue Code by the *Tax Reform Act of 1986*, that the person responsible for closing every realty transaction report gross proceeds (sales price) to IRS. Reporting includes sales price, identification of sold property, and name and address of seller. Beginning in 1992, the *Energy Policy Act* added to the reporting for every sale of a residence the amount of real estate tax for the year of sale that was paid by the buyer. IRS thus accumulates an annual data base with as many as 10 million sales. Agreements among all parties could result in sharing such data with state and local assessing officials.

Documentation containing sales prices also comes from 35 of the 38 states that impose transfer taxes on realty sales. In 15 states, the requirement is an affidavit. A third potential source of sales data will be any state law patterned after the American Bar Association's Model Law on Real Property Transfer Information. The statement it calls for is a public record if the state follows the ABA text.

## Individual Tax Obligations and Litigation

Tax payable usually results from interaction of assessed value and tax rate, but litigation, tax relief, and rate limits may also influence the outcome.

The *Nordlinger v. Hahn*<sup>1</sup> case has left intact Proposition 13, formally Article XIII A of California's constitution. It limits real property taxes to 1 percent of full cash value, defined as assessed value for base year 1975-76 (the initial acquisition value), subject annually to decreases without limit and increases of no more than 2 percent of base value to account for inflation, subject to immediate revaluation at market value when a change in ownership occurs. Two changes escape reappraisal: (1) transfers from parents to children of principal residence plus the first \$1 million of full cash value of other real property, and (2) transfer by owner-occupier aged 55 years or older of base-year property for any in the same county of equal or lesser value. The U.S. Supreme Court upheld the acquisition value system even though plaintiff Nordlinger faced an increased tax bill of \$1,700 on her home, purchased (change in ownership) in November 1988 for \$170,000 (reappraisal at market value). Neighbors in very similar homes paid about \$350 because they had base-year assessed values of about \$35,000.

In its 8-to-1 opinion, the Court said Proposition 13 did not violate equal protection guarantees of the U.S. Constitution's 14th Amendment because it posed no threat to any fundamental interest and had no suspect classification that warrants strict scrutiny (despite disparities as high as 500 to 1). California's acquisition-value system has a rational basis, namely, it discourages rapid turnover by allowing older owners to pay less than newer ones. Older owners had "reasonable reliance interests" more worthy of protection.

Three economists examined all sales in Los Angeles county for 1990 and 1991<sup>2</sup> and found that 43 percent of homeowners had not moved since 1975. With a median disparity ratio (market to assessed value) at 5.19, each owner has an effective property tax rate of 0.19 percent of market value. If all 1975 base-year owners sold their homes, each new owner would pay 400 percent more in property taxes. In contrast, if California repealed Proposition 13, then increased each base-year assessment to market value and lowered the tax rate enough to get the same revenue, all 1975 base-year taxpayers would face tax bills increased by more than 160 percent. Chances of that denouement are slim.

The Supreme Court distinguished California's acquisition value system, rooted in state law, from the effects of aberrational departure from state law, that is, assessing property "in proportion to its value," in West Virginia. In *Allegheny Pittsburgh Coal Company v. Webster County* in 1989,<sup>3</sup> the assessor derived assessed values from sales only for three coal mining properties, each involved in separate sales. The Allegheny Pittsburgh property sold for \$24 million in 1979 and was assessed at \$12 million until 1982, when its assessment increased to \$15 million to reflect a second sale at \$30 million. For two other coal companies sold during the same period, sales prices also were used to get respective assessed values. The latter were 8 to 35 times

higher than the prevailing value level would justify. The Supreme Court ruled the coal company assessments invalid because selective aberrational use of sales created excessively high assessments. In California, in contrast, reappraisal is mandatory as soon as a change in ownership occurs.

In *Pacific Southwest Realty v. County of Los Angeles*,<sup>4</sup> the plaintiff sold Security Pacific Plaza, an office building, to an insurance company for \$310 million, conveying all "right, title and interest," except the "estate for years" affecting two towers constituting 73 percent of the property, embodied in a leaseback to the plaintiff, who agreed in the lease to pay the plaintiff's share of property taxes. The plaintiff leased one tower for 60 years, including 10 consecutive renewal options of five years each, and also became lessee of the second tower for 21 months, including renewal option. The plaintiff had substantial control of the entire structure. For income tax, the plaintiff and Metropolitan Life Insurance Company treated the transaction as a sale and leaseback. The county assessor, advised by the state equalization board, reassessed only the portion not subject to the lease, at a value of \$169.5 million. Seven months later, the board reversed itself, concluding there was a change in ownership, and the assessor accordingly reappraised, setting the new value at \$323 million. The plaintiff paid the tax bills, applied for a refund, and won relief in trial court, which the court of appeals approved.

The California Supreme Court reversed, agreeing that there was a change in ownership, under the three-part test of the state revenue and taxation code: (1) there was transfer of a present interest in realty; (2) it included transferor's beneficial or equitable interest in the land; and (3) the value of interest transferred was substantially equal to the value of fee interest.

In a Wisconsin case, *State ex rel N/S Associates v. Board of Review of Village of Greendale*,<sup>5</sup> N/S Associates bought Southridge Mall in April 1988 for \$114.9 million. The 1987 assessed value was approximately \$33 million. The assessor increased this, as of January 1, 1989, to \$100,968,000 (\$2,020,900 for land, \$98,947,100 for buildings). The state board of review upheld the assessment. The circuit court affirmed, as did the court of appeals, which said the sale was an arm's length transaction, unaffected by a simultaneous purchase of Northridge, a related mall, from the same seller. The appeals court noted that in reports to investors, dated September 30, 1988, and March 31, 1989, Southridge Mall was reported to have market values of \$128 million.

### Use-of-Revenue: Public Education Cases

Assessed value and tax rates are not the only aspects of the property tax to be subject to litigation. Texas and California are among 29 states where, as of June 1993, challenges of state school finance systems were in the courts. In those two states, school finance cases go back two decades. Reasons given for the current litigation include failure to maintain "thorough" and/or "efficient" education systems, and failure to assure equal protection of the law as required by state constitutions. Two recent court cases in Texas became a preface to ill-fated

legislation that was struck down by a third case. At the "last minute," a new law has appeared.

States have contributed about 51 percent of total school district revenue nationwide since FY 1978, when their share hovered at 48 percent. The local property tax portion of school district revenue stood at 41 percent that year, 36 percent in 1982, and 37 percent in FY 1991.

School finance initially gained attention in 1971 in California, when the state supreme court, in *Serrano v. Priest* (*Serrano I*)<sup>6</sup> noted that one school district in a county had an assessed value per pupil 14 times that of another, yet was able to spend twice as much per pupil as the other with less than half the other's tax rate. In 1977, the state supreme court affirmed in *Serrano II*<sup>7</sup> that California school finance violated the state constitution's equal protection provisions. *Serrano IV* is emerging, although no trial date has been set.

In Texas, school finance woes preceded and followed the 1973 case *San Antonio Independent School District v. Rodriguez*,<sup>8</sup> in which the U.S. Supreme Court held that there was no suspect class or fundamental interest identified as disadvantaged by the Texas system, hence no violation of the U.S. Constitution's 14th amendment.

In *Edgewood Independent School District v. Kirby* (*Edgewood I*)<sup>9</sup> brought by 68 school districts, the Texas supreme court held that the state violated the Texas constitution by failing to establish "an efficient system of public free schools." The "hundred poorest districts had an average tax rate of 74.5 cents" per \$100 of assessed value and "spent an average of \$2,978 per student. The 100 wealthiest districts taxed at an average of 47 cents per \$100 and spent an average of \$7,233 per student." In *Edgewood II*,<sup>10</sup> the court noted that the new law left tax base disparities of 450 to 1.

In a third Texas case in 1992, *Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District et al.*,<sup>11</sup> the state supreme court struck down an unauthorized state ad valorem tax. On May 1, 1993, the people voted against a proposed amendment authorizing the state to transfer \$500 million annually from property-rich to property-poor districts. State District Judge Scott McCown stated that if no school finance plan emerged by June 1, 1993, he would freeze all county and state education funds.

With a court-imposed deadline of June 1 for the legislature to pass a school finance plan, Governor Ann Richards signed Senate Bill 7 on May 31, and it became law the next day. It gives the 109 school districts with the most taxable property per student five options for sharing available wealth to produce a ceiling of \$280,000 per student for any district: (1) consolidate tax base with that of another district; (2) send money to the state to educate children in property-poor districts; (3) contract with other districts to educate their students; (4) consolidate fully with another school district; and (5) transfer some business property to another district's tax rolls.

#### Uncertainty Ahead

New technology for the assessment and property tax environment is here, with more old traditions still vitally alive than either proponents or detractors would expect.

(continued on page 23)



### Significant Features of Fiscal Federalism 1993 Edition Volume II – Revenue and Expenditures

This volume of *Significant Features* presents data on revenues and expenditures for the federal, state, and local governments. *Significant Features* contains a broad picture of changes in the government's role in the economy through 1991. Also presented are:

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Volume II	M-185-II	September 1993	\$22.50
Volume I	M-185	February 1993	\$20.00

(see page 29 for order form)

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# The Property Tax: Local Revenue Mainstay

Hugh Miels, Jr.

**T**here is no part of the administration of government that requires extensive information and a thorough knowledge of the principles of political economy so much as the business of taxation. . . . It might be demonstrated that the most productive system of finance will always be the least burdensome. There can be no doubt that in order to a (sic) judicious exercise of the power of taxation, it is necessary that the person in whose hands it is should be acquainted with the general genius, habits, and modes of thinking of the people at large and with the resources of the country. . . . *Federalist No. 35.*

The basic principles of good democratic tax policymaking have long been well known. We also know that there are limits to how well governors and state legislators can run local governments from state capitals. Behind the issues that drive most tax policy decisions lies the fundamental one of how to make certain that government administers the system responsibly, fairly, and equitably while also making certain that citizens have the information they need to understand how the process works.

Harold M. Groves, an eminent public finance specialist, noted in 1948 that, up to that time, the general property tax had been by far "the most important member of the tax system in the United States."<sup>1</sup> It had been particularly outstanding as "the main and frequently the sole support of local government units" despite "constant and emphatic criticism." Critics found property only a rough gauge of benefits received and "an even less defensible index of ability to pay." Groves pointed out that the property tax was "supported as the *best available independent source of local revenue*" and made it possible for citizens "to spend their own money" as they collectively saw fit (emphasis added). This simple observation gets at some core political truths that have been ignored in recent years at great cost to the local body politic.

Groves acknowledged that administration of the property tax caused concern for at least three good reasons: (1) tangible personal property was often included in the base and increased the difficulty of administration; (2) there were problems associated with use of the same tax and frequently the same tax base to serve different governments; and (3) there were thorny problems associated with determining value.

Despite all, it could reasonably be said that the property tax enjoyed a "steady evolution" for the better into the 1950s, although with substantial variations from state to state. Some states improved the process through better administrative devices, such as central supervision and equalization. Others sought to deal with problems by classification, treating various forms of property with different rates or levels of assessment. During the Great Depression, several states had experimented with rate ceilings and homestead exemptions.

## How Things Have Changed

In 1966, Dick Netzer noted in *Economics of the Property Tax*, that, although the property tax was no longer virtually the sole support of state and local governments as it was at the turn of the twentieth century, it remained the most important factor in state-local finance.<sup>2</sup> Netzer also suggested that the intensity of criticism of the property tax had become somewhat muted by "a new complacency."

In 1993, John Peterson concluded that the property tax remains the "mainstay," the "prime mover" in local public finance that it was at mid-century. Despite the fact that "more than any other form of government revenue, the property tax has been subject to a myriad of constraints meant to ease, shift or obviate its potential burden on a few, many or all taxpayers, the property tax generally has demonstrated remarkable ability to survive."<sup>3</sup>

No other tax gets more attention and review by local government officials. By the nature of its local administra-



tion, the assessment process, the method of billing, extensive coverage by the press, recourse to appeal and frequent involvement in bond referenda for schools and capital improvements, the property tax invites high levels of citizen participation and involvement. It is extremely difficult to avoid, and its unpopularity is exceeded only by the income tax. (In the 1992 poll commissioned by the Advisory Commission on Intergovernmental Relations, 25 percent of the public said the income tax was "the worst" while 24.5 percent so characterized the property tax). It is also a stable and dependable source of revenue.

Serious problems of property tax administration persist. Many local governments have failed to meet statutory requirements to maintain current market values through timely property reassessments. Some have been slow to implement state-of-the-art improvements in administration, valuation and collection, and computer technology generally. New technology and data gathering techniques, where adopted, make it possible to fine tune the system and achieve overall progressivity, with its impact favorable to low-income families, modest and fixed-income families, and individuals.

Geographic information systems (GIS) and computer-assisted mass appraisal systems (CAMA) can contribute substantially to the effectiveness of the property tax system. Links with relevant government census data gathering programs and other publicly available data sources also make it possible for local governments to significantly improve valuation capabilities and, thus, basic equity.

Despite the considerable progress in quality of administration, however, another "new complacency" leaves property tax administration under attack. Moreover, the governmental response has hardly been studied.

### State-Local Actions

State and local governments appear to be in competition for diminishing tax revenues. Governors, state legislators, citizen watchdog organizations, trade associations, and other groups try to limit, diminish, or otherwise control the impact of the property tax on constituents. A few states are considering wider use of state property taxes, part of which would be dedicated to meeting certain local needs, such as public education. Some are approving a cap on local real property taxes. Some states go to the voters for approval of a tax increase by referendum. There also is much action in state courts.

The Kansas legislature, at the behest of the state supreme court, enacted a statewide property tax to finance provision of equal funds to all school districts. The constitutionality of the statute is being challenged, and several of the wealthier counties have threatened to secede. The Texas legislature, at the direction of its supreme court, proposed that the more affluent counties equalize by dedicating property tax revenue to poorer counties, consolidating richer with poorer school districts, assigning revenue from specific properties to poorer school districts, or simply having the rich districts make grants from property tax revenues to the poorer districts. The process is being vigorously challenged by several counties.

Prior to the mid-1970s—and passage of the New Jersey "cap law," the Tennessee constitutional limitation on spending, and California's Proposition 13—limitations on the ability of local governments to spend public funds had been "covert, indirect and subtle."<sup>4</sup> Nearly all the states have constitutional provisions or statutes limiting local governments' ability to incur debt. A few have provisions requiring an extraordinary majority vote for approval of revenue and appropriation bills.

By far the most controversial of the limitations was Proposition 13, approved by California voters on June 8, 1978. This amendment to the state constitution transformed the property tax from an ad valorem tax into a tax of up to 1 percent on acquisition value as of base year 1975-76 or as reappraised at market value whenever an applicable change in ownership occurred. The immediate impact of Proposition 13 was a 57 percent loss of property tax revenue and an equally significant loss of local control over the delivery of services for which local governments were responsible. Initially, the state felt obligated to plug the gap with the funds needed to avoid a massive disruption of services expected from local governments.<sup>5</sup>

Proposition 13 was declared constitutional by the U.S. Supreme Court (8-to-1) in *Nordlinger v. Hahn* on June 21, 1992. In his dissent, Justice John Paul Stevens said the proposition "establishes a privilege of a medieval character: Two families with equal needs and equal resources are treated differently solely because of their different heritage."

Similar interventions have occurred or are being considered in a number of other states. In Michigan, fiscal crises forced the town of Kalkaska to close its schools more than two months early. One of the factors that led to this was a state-imposed one-year freeze on property assessments, which had a cascading effect. Further down the fiscal ladder, Kalkaska County cut its allocation to the schools. "County officials tried three times to persuade voters to approve a referendum authorizing the necessary increase needed to keep the schools open and each time they were rejected."<sup>6</sup>

On June 4, 1993, Michigan held a referendum for the approval of a 50 percent increase in the sales tax in exchange for a cap on the local property tax and a guaranteed minimum in state per capita school aid. It lost.<sup>7</sup> Montana held a referendum on June 8, 1993, proposing the first sales tax in state history. Proceeds were to be used to equalize spending in schools statewide and to reduce the property tax. The poor were to get rebates. Increases were to be limited by a constitutional cap. The proposal lost overwhelmingly with a 75 percent vote.

Indiana, Illinois, and Ohio are reported to be considering proposals to limit further the authority of local governments to levy real property taxes. While the proposals include provisions to deal with amortizing existing debt, Standard and Poors has reported that the measures could reduce budget flexibility of the local governments affected and possibly, as a consequence, harm the credit quality of certain municipalities.<sup>8</sup>

Why would other states want to follow California, given the seriousness of the state's financial crises as a

result of ballot budgeting and its debilitating impact on local governments' revenue-raising capabilities? Cities and counties in California are facing a loss of \$2.6 billion as a result of the state's wide-open initiative process. Governor Pete Wilson wants to balance the state budget and meet California's constitutional obligation to schools by transferring the \$2.6 billion from local governments. In exchange, he offers repeal of state program mandates and the granting of a six-month extension of a temporary half-cent sales tax (which would generate \$700 million for local governments) and an opportunity for voters to make it permanent on a county-by-county basis.

Local officials have responded that the proposal is simply a short-term fix that would see the state evade responsibility for its own fiscal crises by shifting the burden to local government. Local officials object to adding to the patchwork of rates and services.

Recent referenda in other states may not have been California-style initiatives, but there is probably little to distinguish the two in terms of depth of voter understanding of the long-term impact likely to be produced by a yes vote. Assuming that the state officials involved have been keeping up with the literature, the California experience must cause some concern about the risks involved in using the referendum process.

#### Where We Are Going

We require truth in lending and should demand truth in taxation as well. Minnesota has already acted to initiate a process that will seek such truth. It has repealed all legislation limiting local governments' ability to adjust property tax rates. It does require a truth-in-taxation hearing before the local government can adopt its annual budget. The local government must establish its maximum levy before the hearings and can only adjust them downward as part of the approval process.<sup>9</sup>

Perhaps part of the reinventing of government might involve taking some tax policymaking functions entirely out of the hands of the politicians and making them the responsibility of commissions, which would periodically suggest needed changes in the system that could be voted up or down but could not be changed. If this approach works for base closing, it may be worth considering for tax decisions.

Alternatively, some states might consider following the model used in New York City and create a financial control board to oversee and enforce a long-range plan for spending and deficit reduction. As a result of the work of the New York Financial Control Board and its supporting trust fund mechanism, the Municipal Assistance Corporation, the city has had 12 years of balanced budgets and will have its debt retired by 2008.<sup>10</sup>

What people really want from their tax system, we are told by the pundits, once they are satisfied that it is fair, is their money's worth. The property tax seems destined to remain a major factor for education, building of community infrastructure, and the practice of democratic local government. That being the case, it is important for all involved to understand its significance in the democratic fiscal-political system, and how to make the property tax system operate both efficiently and fairly.

*Hugh Miels, Jr., is a planner with Linton, Miels, Reisler and Cottone, Ltd.*

#### Notes

- <sup>1</sup> Harold M. Groves, ed., *Viewpoints on Public Finance* (New York: Henry Holt and Company, 1948).
- <sup>2</sup> Dick Netzer, *Economics of the Property Tax* (Washington DC: The Brookings Institution, 1966).
- <sup>3</sup> John E. Peterson and K. K. Edwards, *The Impact of Declining Property Values on Local Government Finances* (Washington, DC: Urban Land Institute, 1993).
- <sup>4</sup> J. G. Rose, ed., *Tax and Expenditure Limitations: How to Implement and Live within Them* (New Brunswick: Center for Urban Policy Research, Rutgers, 1982).
- <sup>5</sup> A. O'Sullivan, T. A. Sexton, et al., *The Future of Proposition 13 in California* (Berkeley: University of California Press, 1993).
- <sup>6</sup> E. Walsh, "Michigan District Closes Schools Early; State Audits \$1.5 Million Fiscal Shortfall," *Washington Post*, March 25, 1993.
- <sup>7</sup> M. Wines, "What People Want When Their Taxes Rise: Their Money's Worth," *New York Times*, May 16, 1993.
- <sup>8</sup> J. D. Panger, et al., "Great Lakes Tax Limits Could Hurt Credit Quality," *CreditWeek Municipal*, April 19, 1993.
- <sup>9</sup> *Ibid.*
- <sup>10</sup> Felix G. Rohatyn, "How the Big Apple Is Polishing Off Its Deficit," *Washington Post*, June 1, 1993.

### RTS 1991 State Revenue Capacity and Effort

With *RTS 1991: State Revenue Capacity and Effort*, ACIR continues its tradition of providing information on the relative economic well-being and fiscal performance of the states. ACIR developed the Representative Tax System (RTS) and the Representative Revenue System (RRS) to improve on available measures of state revenue capacity and effort. These measures show state and local government capacity to collect tax as well as nontax revenue.

#### Why measure state fiscal capacity?

- To facilitate *comparative fiscal analysis* by state and revenue base.
- To provide *perspective on economic trends*.
- To aid in *designing federal grant formulas*.

#### Why use the RTS and RRS?

- They measure governments' *potential abilities to raise revenues* relative to a national average.
- They are *comprehensive*, measuring all major tax sources and nontax sources that contribute to a government's ability to raise revenue.
- They are the *only indicators* that measure fiscal capacity *on a revenue-by-revenue basis*.
- They are *readily understandable systems* that are used by many state and federal policymakers and analysts.

#### RTS 1991: State Revenue Capacity and Effort—

- Contains tables and graphs on RTS and RRS arranged by revenue base and state.
- Discusses recent changes in states' revenue capacity and effort.
- Compares RTS and RRS with other capacity measures.
- Includes historical data.

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# Two-Rate Property Taxes and Urban Development

John E. Anderson

**T**he property tax has been implemented traditionally with equal rates applied to land and improvements. The assessor determines the combined value of the land and the structures. The local governments apply their tax rates to that assessed value, generating revenue to support the provision of local public goods and services, most notably schools. This form of property taxation was long thought to be perfectly neutral in its effects on land use. Recent research on property taxes, however, has suggested several non-neutral effects that may occur. Property taxes can affect both the capital intensity and the timing of development. For both of these reasons, there is cause to consider the split-rate or graded property tax that taxes land and structures at different rates.

The extreme version of a two-rate tax is the single tax espoused by Henry George 1879. In that case, the rate applied to improvements falls to zero and that applied to land rises to the level necessary to meet revenue requirements. In recent years, we have come to understand that there may be good reasons to move away from a standard property tax with an equal rate applied to land and structures toward a tax that places a heavier burden on land and a lighter burden on structures. Property tax systems that tax land and improvements at differential rates are interchangeably called two-rate, split-rate, or graded tax systems. These systems are distinct from a classified tax system that taxes properties of particular type of use at different rates.

The primary advantages of a two-rate system are recognized as (1) discouraging speculative holding of land, thus encouraging a more orderly development process, and (2) encouraging commercial improvement of property, and at the same time enhancing the housing stock. The single-rate property tax, in comparison, (1) encourages the holding of undeveloped land because taxes are low on vacant land and (2) discourages property improvement because any capital improvements result in higher taxes.

The Henry George view of property taxation stressed both efficiency and equity. Since land is a fixed factor of production (as Will Rogers said, "They ain't makin' any more of it"), its return on investment is a pure economic rent or a payment beyond that necessary to draw it into productive use. Taxing land rents in this context results in no efficiency loss to the economy. It simply redistributes wealth from landowners to others. Given that landowner wealth is due to the pure economic rent, an equity objective can be achieved in taxing land rents. Henry George summarized the effects of various tax alternatives this way:

Tax manufactures, and the effect is to check manufacturing; tax improvements, and the effect is to lessen improvement; tax commerce, and the effect is to prevent exchange; tax capital, and the effect is to drive it away. But the whole value of land may be taken in taxation, and the only effect will be to stimulate industry, to open new opportunities to capital, and to increase the production of wealth.<sup>1</sup>

While economists in general have not shared Henry George's vision of a single tax on land, they have noted the potential benefits of land value taxation. In fact, C. Lowell Harriss, writing in *Incentive Taxation* in 1991, reported that seven Nobel prize winning economists have endorsed the concept.

## Indications from Economic Theory

The traditional property tax with equal rates of taxation on land and improvements was thought to be neutral with respect to land use decisions, but recent studies have shown that there are clear non-neutralities and that the property tax can affect both the timing and intensity of land development.

Jan Brueckner was the first economist to investigate specific effects of graded taxation using modern economic theory. The policy issues had been debated for many decades, and this careful analysis was long overdue. Brueckner's long-run model of applying higher tax to land

in a small area demonstrated that the price of housing will remain unchanged, but the level of improvements per acre and the value of the land itself will increase.<sup>2</sup>

The increase in land values was surprising because one would think that a higher tax on land would result in a lower value. Usually that is true, but because the lower tax on improvements has the effect of raising land values, the net effect will depend on the relative magnitudes of these two impacts. Brueckner demonstrated that the effect of the lower tax on housing improvements will more than offset the effects of the higher tax on land. Hence, land values and land tax rates are directly related when an equal-revenue switch from improvement taxation to land taxation occurs.

If the area over which the tax is implemented is large relative to the city (or housing market), the effect is reversed. Taxing land at a higher rate will depress land values because it will have an effect on housing prices. (In a small area, the overall price of housing in the area is unchanged.) As the rate of taxation on land is increased, the price of housing falls sharply (due to the inelasticity of housing demand), and there is a correspondingly large reduction in the net-of-tax price of land.

These results indicate that the effects of a move to a graded tax system will depend crucially on the comprehensiveness of the tax, that is, the portion of the urban area that moves to a graded-tax system. Cities that apply a graded tax in a small area or an isolated zone can expect land values rise. Those implementing a graded tax over the entire urban area can expect land values to fall.

These results are also indicative of the long-run effects that can be expected. In the short-run, however, a move to a graded tax system will create windfall gains and losses that are also important to consider. Brueckner explains that short-run losses are conferred on the most intensively developed parcels of land while short-run gains are conferred on the least intensively developed parcels. This result may seem to be counter-intuitive because it would appear that intensively developed parcels have the most to gain from a switch to site value taxation. That view ignores the corresponding fact that intensively developed parcels also have high land values; hence, a switch to heavier reliance on site value taxation will be burdensome to them. When the elasticity of substitution between capital and land is less than one, a reasonable assumption given the empirical evidence, the latter effect dominates the former and tax liability rises with the switch to a graded tax system.

### Evidence from Policy Simulation and Implementation

#### Pennsylvania

Several municipalities in Pennsylvania have implemented two-rate property tax systems.<sup>3</sup> The experience of Pittsburgh, in particular, has received a good deal of attention. Some advocates have asserted that the city's recent revival was due in part to its implementation of the system, but analysts must be cautious in attributing recent growth to this policy because the city implemented its modified land tax in 1913. Pittsburgh did change its property tax policy significantly in 1979, increasing the land tax rate from twice to five times the rate on improvements.<sup>4</sup>

Wallace Oates and Robert Schwab reported favorable analysis of the Pittsburgh reforms. They speculated that the distortive effect of a land value tax that biases development decisions in favor of capital intensive projects with quick payoffs was partly responsible for Pittsburgh's fast growth in the 1980s. Their results indicated that "new building activity clearly picked up following the striking rise in land taxation in the city of Pittsburgh—and this increase in new building permits is not to be found in other cities of the region."<sup>5</sup> They urged caution, however, in interpreting the apparent effects, noting that "the results are, in a sense, too good: it is difficult to believe that city property tax reform could, by itself, produce such dramatic results. There were, in fact, other programs introduced at this time. . . ." An association between building activity and the tax-regime change does not prove causality, but it is reason for further investigation.

#### Boston

Joseph DiMasi simulated the effects of a move to a two-rate property tax for the Boston metropolitan area using a long-run computational general equilibrium computer model. By his estimation, a two-rate property tax could result in a welfare gain for residents of as much as 6.6 percent of tax revenues raised. His model also predicted that a move to a two-rate system would reduce land values, raise housing prices, raise wages, and cause the urban area to shrink in size.<sup>6</sup>

#### Jamaica

James Follain and Tamar Fernandez simulated the general equilibrium effects of a reduction in the Jamaican income tax with increased reliance on either a land value tax or capital value tax. Their results indicated that the revenue potential of the land value tax is less than that of the capital value tax.<sup>7</sup> Using a land value tax to replace 20 percent of the income tax revenue in Jamaica would require confiscation of its land. This result vividly indicates the severe revenue limitations of its land value tax.

They also demonstrated that the potential welfare gains from a switch to the land value tax are sensitive to the nature of the economy. For a closed economy with a modest labor supply elasticity, the welfare gains are estimated to be .06 of GNP or about one-third of the deadweight loss generated by an income tax only. For an open economy with the same labor supply, the gain is magnified by a factor of ten. With more elastic labor supply, the potential gains are even greater.

### Implementation Issues and Problems

Implementing a two-rate property tax system requires, first of all, that assessors identify site value and improvement value separately for each parcel in the taxing jurisdiction. Although assessors do this routinely, and such a requirement may be quite simple to implement, serious issues must be considered that affect our ability to separate value into distinct components. A site and its capital improvements are complementary elements of a property that has an economic use. Because these factors (each of them valuable) are combined to form the productive

*(continued on page 28)*

# Modern Technology for the Mass Appraiser

David L. Jensen

**C**omputer-assisted mass property appraisal (CAMA) has been confined to two of the three valuation approaches, replacement or reproduction costs and comparable sales. The third approach, capitalization of income, usually requires attention to individual properties and the financial markets.

In the late 1950s and throughout the 1960s, the computer proved to be an ideal tool for appraising large numbers of real property parcels. CAMA's early disadvantage was cost. The first mainframe machines were within the budgets of the largest jurisdictions only, and the assessor was just one customer among municipal department heads. Ultimately, the computer emerged as a mass appraisal tool, sometimes made available to smaller jurisdictions by private service bureaus, with machine-time and programming support provided on a contractual basis.

In the early 1980s, computer hardware and software became affordable for even the smallest jurisdictions. When emphasis shifted from the replacement cost approach to market valuation techniques, computer-assisted mass appraisal really came into being with sophisticated techniques for estimating the market value of unsold properties. This could be done effectively by using either market models or comparable sales.

Market models are simply mathematical representations of real-world economic influences that determine property value. These include property location, lot size, lot frontage, building style, living area, structure age and condition, types of roofing, exterior siding, foundation, numbers of living units, bedrooms, bathrooms, fireplaces, extent of air-conditioning, and existence and sizes of attached or detached garages, carports, covered or enclosed porches, decks, patios, swimming pools, and sheds. The models are algebraic formulas that equate sale price to described property value components. The formulas are initially calibrated to recent sales and then used to estimate expected sale prices (indicators of market value) of properties that have not sold.

*Multiple linear regression analysis* is the market valuation technique at the center of most CAMA software packages. When comparable sales are used for estimating market value, actual sales prices must be adjusted. For example, suppose that the most comparable sale to a particular property was \$100,000 and that property was 100 square feet larger, but did not have an attached garage. The actual sale price of \$100,000 would have to be reduced by the dollar value of the 100 square feet and increased by the value of the attached garage in order to determine what the sale price would have been had the two properties been identical. Thus, usually, only adjusted rather than actual sale prices are reliable indicators of market values of subject properties.

Sales price adjustments (in the previous example, market value of the 100 square feet) can be determined accurately without knowing current rates for the various property descriptors. The rates cannot be determined from cost tables because building price is not necessarily market value. Current market rates can come only from local recent sales. One way of computing them is to fit a market model to available sales using multiple linear regression analysis. The desired rates emerge from coefficients computed for the model. Thus, even when market models are not used to estimate market values directly, they can be used to support the alternative comparable sales approach.

Most of today's better CAMA software packages offer both techniques. Software packages also offer enhance-

ments to conventional multiple linear regression analysis. *Stepwise regression* automatically excludes statistically unimportant (such as water heater condition) or redundant (such as room count) property descriptors. *Constrained regression* is a means for restricting the range or limiting the size of each computed coefficient. *Nonlinear regression* and *adaptive estimation* (feedback) enable complex models to be fit to available sales data without requiring complex transformations. *Bayesian regression* makes possible updating of an existing model by the insertion of a set of sales. With this technique, a statewide or countywide model derived from a large diverse set of actual sales can accommodate a local jurisdiction with otherwise insufficient sales. Finally, *cluster analysis* automatically separates different markets in a common data set for individual modeling.

### Mastering Computer-Assisted Mass Appraisal

Technical tasks required for developing fine-tuned market models include: (1) formulating an algebraic model capable of support from the available sales data; (2) transforming raw variables (measured and observed property descriptors) into statistically relevant forms; (3) computing statistical estimates of the market rates and percentage adjustments; (4) testing the accuracy and integrity of computational results; (5) checking the validity of underlying statistical assumptions; and (6) refining the model for effective use.

Competent in-house appraisers can be trained in just a few weeks to perform regression-based market modeling effectively. However, the versatility, flexibility, and statistical power of the newer CAMA packages tend to limit their use to highly trained specialists in data processing and statistics. Few jurisdictions have the in-house talent needed to implement computer-assisted mass appraisal, and most cannot afford the salaries necessary to attract qualified candidates, nor can they justify the expense of hiring outside consultants, at least on an on-going basis.

Michael Ireland and Linda Adams proposed the use of a central model-building agency in which computer resources could be shared by a group of related jurisdictions within a county or state. They demonstrated this solution with a residential market-calibrated cost model for four jurisdictions (two towns and two small counties) in Illinois. In critiquing this effort, William Wadsworth noted that results obtained for the two better jurisdictions were worse than those obtained by an in-house staff.<sup>1</sup> It must also be noted that this "solution" presents its own problems, such as unifying the data base, standardizing the data collection procedures, and ensuring complete and consistent data cleaning, sales verification, etc.

It was predicted that computer-assisted mass appraisal would not become widespread until software could be implemented without specialist support—an artificial intelligence system that would perform regression modeling automatically, decide statistical aspects internally, and generally simulate the knowledge of an expert in computer-assisted mass appraisal.

### Expert CAMA Systems

Sigma Systems Technology was employed to assist in the development of a total valuation system for the Junta

de Andalucia (Seville), providing CAMA software and expertise necessary to create the knowledge base for carrying out the regression analysis and market valuation via artificial intelligence.

An optimum system would need to integrate the knowledge base and decisionmaker that together constitute the artificial intelligence capability within the regression software, so that the statistical modeling process could be directed in real-time. This would require the power, efficiency, and functional integration of a tailored statistical package that did not exist. In the circumstances, as a practical alternative to time-consuming, costly system development, it was decided to place the knowledge base within a generic artificial intelligence shell, and to tie that shell to a field-tested, regression-based CAMA software package capable of generating required market models.

The resulting prototype, called "Tributum," even though a patchwork of unrelated software, actually worked. Although still under development, Tributum has been successfully tested on Junta de Andalucia data through the initial modeling stages. This prototypical effort demonstrated that a CAMA system with artificial intelligence is indeed possible.

Building on this effort and its own CAMA experience, Sigma developed the Automatic Cost Calibrator for market models, which uses advanced regression-based techniques and requires no external direction from the user or statistical analysis. Unlike Tributum, the Automatic Cost Calibrator functionally integrates the knowledge base and decisionmaker all in one unified package so that the model process can operate efficiently in real-time within a single computer run. The Automatic Cost Calibrator uses artificial intelligence to (1) perform a preliminary sales analysis; (2) determine data-cleaning edit limits from available sales; (3) formulate a meaningful multivariate model that available sales data will support; (4) transform the raw variables (measured and observed property descriptors) into statistically relevant forms; (5) fit the model to the available sales (in the process computing initial estimates of market rates and percentage adjustments); (6) test the accuracy and integrity of computational results; (7) refine the model so that computed rates and percentage adjustments will be intuitively acceptable and defensible; (8) check the validity of underlying statistical assumptions by means of a complete residual analysis; and (9) generally complete the model so that it can ultimately meet all of the demands placed on it.

As a final step, the program automatically decomposes the total market-adjusted cost model into separate land and building models (market-adjusted reproduction cost new less depreciation) so that the two additive value components can be independently calculated and individually defended. Thus the system becomes ideal for smaller jurisdictions that have no technical staff in-house and cannot afford consultants. Even where experienced modelers are available, the system is cost effective because it can reduce the number of computer runs required and save time.

Though Automatic Cost Calibrator does not perform true market valuation, but rather produces market-adjusted cost estimates, the artificial intelligence and modeling techniques it uses can be extended to a full market model as soon as requisite software is developed.

## Typical Results Using Computer-Assisted Mass Appraisal

Overall appraisal performance can be measured by statistics such as the median assessment-sales price ratio, the coefficient of dispersion, the index of inequality, and the price-related differential. The median assessment sales-price ratio indicates the de facto level of assessment with respect to market value. The coefficient of dispersion and the index of inequality indicate the uniformity and consistency of the reappraisal by showing the extent of scatter or spread around the median ratio. The price-related differential is the quotient resulting from dividing the mean ratio for a group of sales by the aggregate ratio for the same group. A price-related differential greater than 100 indicates that higher value properties in the group have lower ratios than lower value properties, and vice versa.

The International Association of Assessing Officers (IAAO) has established standards for these statistics: for the median assessment-sales price ratio, 90 to 110 percent; for the coefficient of dispersion, under 10.0 percent (for new and/or otherwise homogeneous areas) and under 15.0 percent (for older and/or otherwise heterogeneous areas); and for the price-related differential, 98 to 103 percent.

Charleston County, South Carolina, completed an in-house computer-assisted mass appraisal within two years. Officials were able to accomplish the following: issue a request for proposal for CAMA software, evaluate responding proposals, select a contractor, install the CAMA software on their mainframe computer, convert data, train staff, clean up the data base, perform the necessary mass appraisal (employing all three valuation approaches, as appropriate), arrive at and review final results, publish taxpayer notices, and initiate informal hearings with taxpayers in preparation for completing the assessment roll.

The median assessment sales-price ratio went from 72.99 percent before the reappraisal to 100 percent. The South Carolina State Tax Commission mandates that the ratio fall between 80 and 105 percent. The county's coefficient of dispersion dropped from 25.4 to 12.2 percent. Similarly, the index of inequality dropped from 16.9 to 6.3 percent. The South Carolina State Tax Commission mandates the latter index be less than 15.0 percent. The price related differential for the county dropped from 108 to 103 percent. These performance achievements indicate that Charleston County improved from an unacceptable appraisal situation to a near perfect one in just two years, and they did it in-house without expensive consultants.

Similarly, Shelby County (Memphis), Tennessee completed two successive full reappraisals in four years, as well as procuring and installing a complete hardware system. In 1991, median assessment-sales price ratios ranged from 92.46 percent to 99.40 percent, and the corresponding coefficients stood at 8.16 percent and 11.85 percent. The low-high range among the coefficients extended from 6.45 percent to 22.03 percent. In 1993, the ratios were as low as 68.76 percent and as high as 107.57 percent. Both ratios are extreme because it was necessary to use techniques other than multiple regression analysis. The two regions are near but not at the top of the range in coefficients of dispersion, which extended from 7.13 percent to 15.04 percent. These performance statistics indicate good quality reappraisals for the most part.

Shelby County, like Charleston County, did most of the work in-house. Both had good CAMA systems plus considerable training. Similar outcomes have occurred in Boston, Cambridge, Newton, Lexington, Bedford, and Somerville, Massachusetts; Evesham, New Jersey; Cuyahoga County (Cleveland), Ohio; Des Moines and Polk County, Iowa; Salt Lake County (Salt Lake City), Utah; and Dona Ana County (Las Cruces), New Mexico. In all of these jurisdictions, the assessors used the same CAMA software package, totally in-house.

In-house, regression-based market software is today's practical standard technique for use in computer-assisted mass appraisal. Tomorrow's CAMA is likely to call on expert systems that use artificial intelligence to drive the regression-based modeling. Non-computerized, manual mass appraisal, particularly any based on the replacement cost approach, is slowly becoming obsolete.

### Notes

<sup>1</sup> Michael Ireland and Linda Adams, "Transportability of a General-Purpose Residential Market-Calibrated Cost Model," *Property Tax Journal* 10 (Spring 1991): 203-204; and William Wadsworth, "Comments on Ireland and Adams, Transportability of a General-Purpose Residential Market-Calibrated Cost Model," *Property Tax Journal* 10 (Spring 1991): 225-226.

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### Assessments and Property Taxes

(continued from page 13)

The courts also continue to influence the ultimate shape of property taxes. Recent court decisions interpreting state tax limits and assessing practices, as well as the use of property taxes for school financing, bring new uncertainties to property taxes.

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### Notes

- <sup>1</sup> Nordlinger v. Hahn, 120 L Ed 2d 1, 112 S Ct 2326 (1992).
- <sup>2</sup> "The Future of Proposition 13 in California," by Arthur O'Sullivan, Terri A Sexton, and Steven M. Sheffrin, *CPS Briefs* 5 (March 1993): 3-6.
- <sup>3</sup> Allegheny Pittsburgh Coal Company v. Webster County, 488 U.S. 336 (1989). See also "Federal Accountability for Local Tax Assessment Schemes: An Equal Protection Overlay," *The Tax Lawyer* 43 (Winter 1990): 457-473, esp. 466.
- <sup>4</sup> Pacific Southwest Realty Co. v. County of Los Angeles, 820 P 2d 1046 (1991).
- <sup>5</sup> State ex rel. N/S Associates v. Board of Review of Village of Greendale, 473 NW 2d 554 (Wisconsin, 1991).
- <sup>6</sup> Serrano v. Priest, 487 P 2d 1241 (1971), 96 Cal. Rptr. 601 (1971).
- <sup>7</sup> Serrano v. Priest, 557 P 2d 929, 135 Cal. rptr. 345 (1977).
- <sup>8</sup> San Antonio Independent School District v. Rodriguez, 411 US1, 93 S Ct 1278, 36 L Ed 2d 16 (1973).
- <sup>9</sup> Edgewood Independent School District v. Kirby, 777 SW 2d 391 (Texas, 1989).
- <sup>10</sup> Edgewood Independent School District v. Kirby, 804 SW 2d 491 (Texas, 1991).
- <sup>11</sup> Carrollton-Farmers Branch Independent School District v. Edgewood Independent School District et al., 826 SW 2d 489 (Texas, 1992).

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# Intergovernmental Digest

## President Signs Supplemental Appropriation

President Clinton has signed a supplemental appropriations bill for FY 1993. Included in the bill are: an additional \$250 million in loan authority for rural water and sewage treatment; \$35 million for rural water and waste disposal grants; \$250 million more loan authority for rural housing; \$66 million for rural housing assistance; \$170 million for summer youth employment programs; \$50 million for a new "Youth Fair Chance" program under the *Job Training Partnership Act*; \$150 million for discretionary grants to state and local governments to hire more "cops on the beat"; and \$90 million for disaster assistance under the Community Development Block Grant program.

## Garcia Redux

In *McDonnell v. City of Omaha*, the U.S. Court of Appeals for the Eighth Circuit ruled in favor of Omaha by holding that the city need not pay overtime wages to five current and former assistant fire chiefs because, as bona fide administrative employees, they are exempt from the overtime mandates of the federal *Fair Labor Standards Act*. The July decision by the appeals court overturned a district court ruling against the city, which would have cost Omaha about \$67,000 in overtime payments. This case was regarded as so important that the National League of Cities mounted an unprecedented support effort for Omaha, including an *amicus* brief by NLC and financial support from state municipal leagues across the country. The *McDonnell* decision, however, stands in contrast to an earlier ruling by the Ninth Circuit Court of Appeals in *Abshire v. County of Kern*. That decision went against local governments. Under *Abshire*, cities in the Ninth Circuit, including Los Angeles, face millions of dollars of overtime costs per year. It is likely, therefore, that the U.S. Supreme Court will have to settle the difference between *Abshire* and *McDonnell*.

## City Finances Still at Low Ebb

The National League of Cities' *City Fiscal Conditions in 1993*, released in mid-July, reported little improvement since 1990. More than half the cities included in the survey said that their general fund spending will exceed revenues in 1993. Cities having more than 300,000 people, central cities, and northeastern cities are the most likely to experience tight fiscal conditions in 1993. The average ending balance of cities responding to the survey is expected to be \$5.9 million in 1993, a 6.3 percent decline from the 1992 average balance of \$6.3 million. The most frequently cited factors contributing to fiscal stress were the cost of city employee health benefits, infrastructure needs, unfunded federal and state mandates, and local economic conditions.

## Court Rules Retroactive State Tax Relief

On June 18, the U.S. Supreme Court ruled in *Harper v. Virginia Department of Taxation* that its 1989 *Michigan v. Davis* decision requires states to provide retroactive relief to federal pensioners whose retirement benefits were taxed by the states while state government pensioners were exempted from taxes on their benefits. In 1989, the Court ruled that states cannot give favored tax treatment to state over federal retirees, but it did not resolve the question of retroactive remedies. As a result of *Harper*, some 17 states may now have to refund as much as \$2 billion to federal pensioners.

Virginia heads the list with a possible liability of \$467 million, followed by Arizona at \$339 million, South Carolina at \$200 million, and, near the bottom, Alabama, Oklahoma, and Montana at about \$20 million each. However, Justice



Clarence Thomas, writing for the majority, said that "federal law does not necessarily entitle (the pensioners) to a refund . . . but it requires Virginia to provide relief consistent with federal due process principles." The case was remanded to state courts to decide appropriate relief measures.

### Motor Voter Gassed Up

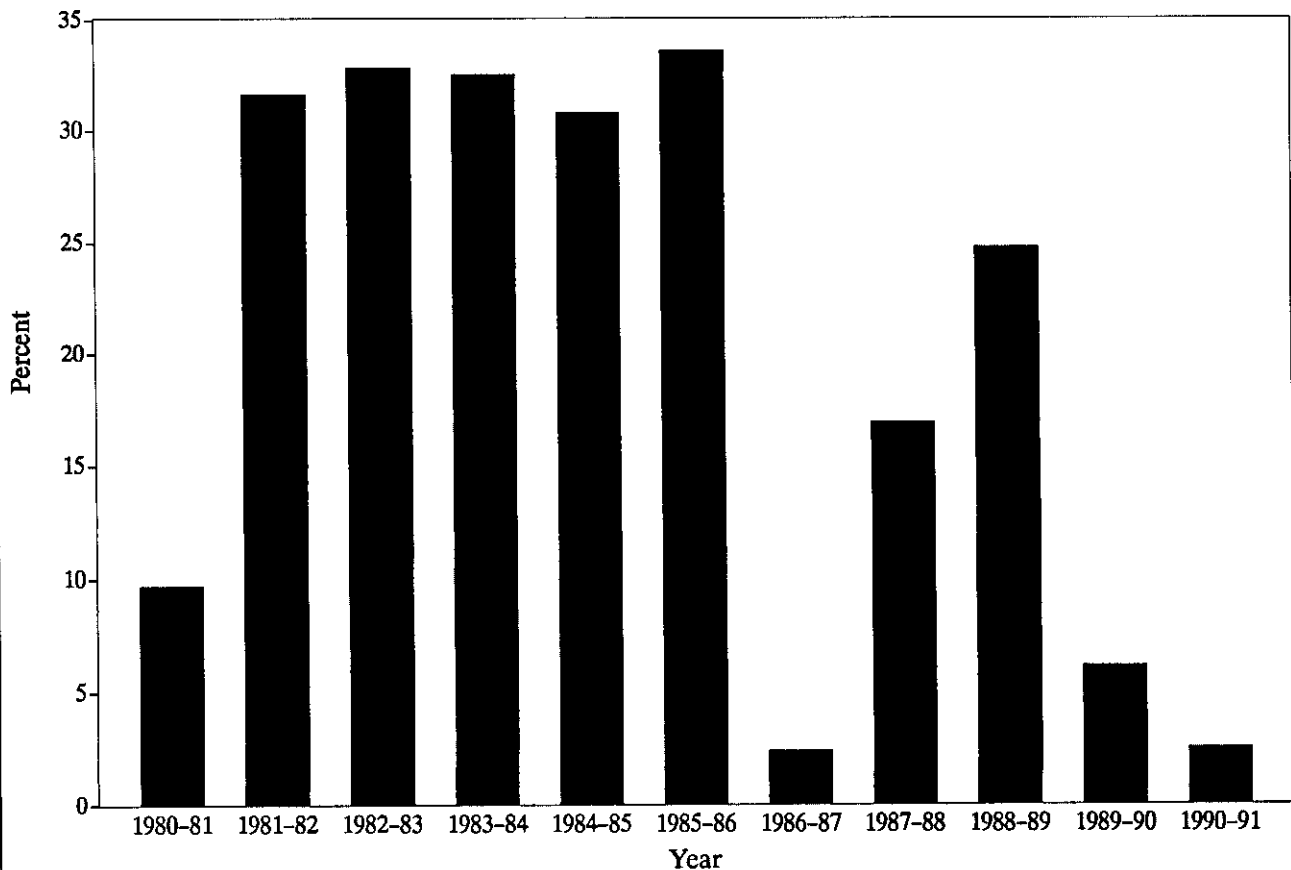
President Clinton signed the *National Voter Registration Act* (PL 103-31) on May 20, 1993. States will be required to provide for voter registration by mail, at driver's license bureaus, public assistance offices, and state-funded offices that serve persons with disabilities. Under a House-Senate compromise, welfare offices must inform applicants and recipients that failing to register to vote will not affect their benefit levels. States may also establish registration at unemployment offices and designate other sites for voter registration, such as public libraries, fishing and hunting license bureaus, tax offices, and public schools.

Nearly 30 states already provide for "motor voter" registration, although many will have to revise their programs to comply with the federal law. The Congressional Budget Office estimated that state compliance with the law will cost about \$20 million a year for the first five years. Some state officials believe the costs will be higher. "Motor voter" goes into effect at the beginning of 1995, or 1996 where states must amend their constitutions to comply with the federal law.

### Lottery Revenues Down

The trend in state lottery revenues took a sharp downward turn during 1990. The 2.5 percent increase in 1991 lottery revenues was below the rate of inflation and below the annual increases in recent years, despite new state lotteries and new games in some states.

Figure 1  
Net Proceeds of State Lotteries, Annual Percentage Change, Fiscal Years 1980-91



Source: U.S. Department of Commerce, Bureau of the Census, *State Government Finances: [various year]*.

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# Assessment Innovation in Orange County, Florida

Richard W. Rourk

**U**nder today's tight economic conditions and with citizen demands for more and better service at lower costs, governments throughout the nation are pressed to look for more efficient methods of operation. In Florida, massive growth in the past 20 years and a tourist-based economy have placed extraordinary burdens on the infrastructure. In central Florida, the office of the Orange County Property Appraiser is meeting demands for greater efficiency by implementing new technology to address the increasing challenges of tax assessment.

The property appraiser (tax assessor in Florida) assesses all taxable property in Orange County—a growing metropolitan region of 1,000 square miles, with more than 270,000 parcels and a taxable value of over \$40 billion, and home to Disney World, Universal Studios Florida, and SeaWorld. Orange County also is a leader in the implementation of geographic information systems (GIS). The National Center for Geographic Information and Analysis describes GIS as “a computerized data base management system for capture, storage, retrieval, analysis and display of spatial (locationally defined) data.” GIS includes people, data, technology, and associated procedures, all keyed to promote innovation.

GIS evolved over many years in Orange County, based on three principles: (1) data quality is essential, (2) data must be accessible to all people and programs, and (3) people and process will change.

## Data Quality

One of the most important factors in any data base application is the data. This is especially true with GIS. Unlike typical information system applications that are delivered as “empty” systems in which the data is built over time by the end-user, GIS must have hardware, software and applications, and data as well. Accurate and maintainable data need to be created, converted, or acquired to make GIS successful.

The Orange County GIS project emphasizes rigorous quality control to achieve the necessary data accuracy and reliability. Without these, meeting the increased demands of citizens and state regulations would be impossible. Utilizing a key GIS capability, with the ability to display thematic graphics or maps, the property appraiser's office analyzes large geographic regions for data completeness and consistency each time a change occurs.

More than 40 field appraisers and 20 agencies use the GIS data. These include City of Orlando and Orange County agencies, such as public works, public utilities, planning and development, zoning, real estate management and environmental services. The GIS data file also is distributed to other municipalities and private organizations. Their feedback is channeled through standardized error correction forms providing valuable in-the-field verification.

Better data quality translates into better decision-making. Erroneous data leads to poor appraisals, which can have expensive effects. For example, when an error helps generate a value below what a property owner thinks is a “fair market” value, the property owner rarely complains, and the undervaluation results in lost property tax revenue. Conversely, when an error leads to a value judgment higher than the property owner thinks is fair, there may be a complaint. It can take an hour or more to correct even a simple factual error that needs no field verification. If the property owner remains unsatisfied and appeals the assessment, the costs can be significant. In a jurisdiction the size of Orange county, error reduction alone can account for over 1,000 hours of savings per year on complaint handling. This can prevent tax revenue losses amounting to millions of dollars.

## Data Accessibility

Tax assessors have been utilizing computer-assisted mass appraisal (CAMA) systems for mass property

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appraisal since the 1970s. CAMA data provide an excellent foundation for building new technologies and applications. The system of the 1990s must accommodate greater statistical and graphic modeling to integrate numerous appraisal support elements and applications. These include statistical packages, spreadsheets, word processing, photographic images, document images, and spatial data of all kinds.

For example, one may wish to direct output from a CAMA comparable sales application onto a GIS map to display the location or other attributes of the properties. Orange County has relied heavily on in-house customization to achieve this level of integration. A variety of stumbling blocks impedes integration, usually related to variations in hardware, software, and data.

One of the challenges is integrating older CAMA systems with GIS. Many CAMA systems were developed more than 20 years ago and tend to be mainframe systems with proprietary, non-relational data structures. Because integrating its old mainframe CAMA system with new technologies would be costly, Orange County decided to convert its system to a PC Local Area Network (LAN). The LAN has facilitated implementation of a records management system, officewide electronic mail, and spreadsheet, data base, and advanced statistical applications. The network allows easier and less expensive upgrades and enabled the county to save nearly a million dollars a year by lowering costs of hardware maintenance, computer operation, and software support.

Orange County directed that its CAMA-GIS system change from proprietary to open, with non-redundant data sharing. A major impact of the implementation of GIS has been elimination of manual map products. Appraisal map products are now generated directly from CAMA. As a result, any inconsistencies and errors become noticeable quickly and corrective action is set in motion immediately. Although the effects of this on decisionmaking are difficult to quantify, it is worth noting that elimination of redundant maintenance saved of more than 1,000 hours per year. With a mechanism that links GIS to the CAMA system, higher quality products are now generated more efficiently.

Increased data accessibility also has allowed the appraiser to create new customized products for each user group. These customized products enable appraisers to perform their assignments more efficiently. The new products were never practical before GIS because they required large volumes of dynamic data. As a result of better data accessibility, more than 10 new appraisal products were developed. They reflect an estimated annual labor savings of over 7,000 hours. Some of these products include value defense, sales-assessment ratio analysis, land reassessment, structure use and dimensions, and sales analysis maps. These new GIS products not only utilize color and hatch patterns to highlight specific attributes, but they often include advanced statistics, market indicators, and locational key maps to aid the appraiser in property identification and valuation. Their basic benefit is better decisionmaking, which, in turn, results in more equitable and defensible value judgments.

## People

People are the major component of any computerized system. Individuals compile data, digitize maps, analyze data, make inquiries, analyze results, and update the data base. Users contribute to design, development, and implementation of any new technology.

Frequently, of course, there is a natural resistance to change. The appraiser's office has developed several strategies to overcome this. An end-user steering committee provides advice on new applications. In the process, all of the workers get a look at the vision of the future. In addition, advantage is taken of opportunities to expose users to new products and systems.

The county provides a variety of training and cross-training alternatives to help users understand the new systems. These include training programs of various kinds, plus in-house expert/novice work pairing. In-house training deals with the specific environment, processes and applications of the appraiser's operation. Expert/novice training teams emphasize team work and employee cooperation, while computer-based instruction offers challenges and opportunities during non-peak work hours or on personal time.

## Process Re-Engineering

Often in government an inefficient process will continue for years because "it has always been done that way." Those who would improve it with something new, however, first need a thorough understanding of existing processes. This county review of data and procedures, called process re-engineering, has included records processing and the appraisal function.

To administer property taxation and analyze market trends appropriately, the appraiser's office tracks name, address, and legal changes whenever property is sold or otherwise transferred. The typical "instrument of change" is the deed. Before the re-engineering, there was a four-month processing backlog in recording deeds. By restructuring work flow, enough time was gained to include the double entry of all ownership and sales data, and also achieve 100 percent accuracy. All ownership changes are now processed within one day. The benefits of these changes are profound. Aside from the benefit of higher quality sale data for use in value judgments, accurate ownership information eliminates unnecessary mistake correction, and saves more than 500 hours of staff time.

Increasing efficiency via process re-engineering may necessitate organizational changes. In Orange County, a permanent staff of four accomplishes what seven permanent and four temporary staff members did. These changes produced savings of 5,000 hours annually.

A second example of productivity increase relates to new appraisal procedures made possible by GIS. Residential appraisers were able to initiate a house-to-house evaluation project that incorporated information about new construction and structural additions. As a result, appraisers were free to appraise rather than to spend time tracking sales and permits. This re-engineering process also improved the quality of the property assessment records associated with the area.

Land appraisers have also revised their operating procedures to incorporate a new GIS equity evaluation technique made possible by project re-engineering. Appraisal staff cite a 75 percent reduction in time spent, in comparison with previous manual methods. This also has helped appraisal staff discover opportunities for better coordination of commercial and residential appraisals. The ultimate impact of these changes is a combination of increased efficiency and improved decisionmaking, both reflected in more accurate property valuations that are more convincingly defended.

Advances like integrating CAMA with GIS can help government make better decisions and dramatically increase efficiency of operations through innovations affecting data, systems, people, and procedures. As a result, government becomes more responsive and accountable to its citizens through use of innovation.

*Richard W. Rourk is director, Mapping and Records, Orange County Property Appraiser, Orlando, Florida*

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### Two-Rate Property Taxes

*(continued from page 19)*

property, they are jointly responsible for the income stream generated by the property. What is the site worth on its own? Well, we could just look at a similar site without improvements and find that value, couldn't we? The answer is yes. But would the two sites really be comparable? No.

An analogy from the sporting world helps to illustrate this point. If we wanted to know how much Cecil Fielder, the home-run hitter for the Detroit Tigers, is worth we would face the same difficulty. Cecil's productivity depends on the productivity of those hitting in the line-up ahead of him. He will have more RBIs if they get hits. Thus each baseball player's economic worth depends on his teammates' performance. The same is true of land and structures, and the problem of separating the value of each is not trivial. Conventional appraisal and assessment methods provide only imperfect estimates of land value distinct from improvement value for developed parcels. Observing vacant land values and inferring from those what land is worth in developed use is like asking what Cecil Fielder is worth in the absence of the rest of the team. Economists must develop better methods of valuing land in developed use in order to implement a two-rate property tax.

Another issue is the proper ratio of taxation of site and structures. Between the extremes of the conventional property tax with equal rates applied to land and improvements and the Henry George single tax with a zero rate on improvements and a unitary rate on land, there is a number of possible two-rate tax structures. Which of these possibilities is the best? As yet, there is no research to guide policy application of a two-rate system. There is experience from communities that have applied several different ratios, but there is no systematic evaluation of the effects. Research is needed on the optimal ratio of tax rates to be applied to sites and structures. The optimal ratio will depend, of course, on the objectives of the community. Because timing, density of development, land values, house values, and other

factors are all potentially affected by a move to graded taxation, the community must determine its objective in making such a change and select tax rates that will support that objective. This will be no easy task. The potential payoff, however, is that the community may have an additional fiscal tool in the form of the two-rate tax to use in affecting land use and development.

### Summary and Conclusions

The idea of affecting urban development patterns using a split-rate property tax is worthy of careful consideration. It will not solve all of our urban problems. It could, however, help alter both the timing and the density of urban development in ways that would relieve some of the problems faced by cities. On the basis of economic theory, there is reason to believe that split-rate taxes are worth a try. On the basis of experience in a few limited applications, there is no reason not to try this form of taxation.

From a practical point of view, there are several impediments to adopting a two-rate system. The most immediate concern is providing assessors with methods to distinguish site value from the value of improvements accurately. Further, additional research is needed to determine the optimal rates of taxation on sites and improvements, given community objectives.

All in all, two-rate property tax systems provide a potentially useful method of affecting urban development patterns. We would do well to consider them carefully and plan for selected implementation with comprehensive evaluation of their effects. A two-rate property tax will not renew every blighted urban area or fill in every vacant parcel being held for speculation. But there is plenty of reason to think harder about implementing such tax systems because they hold the prospect for clear improvements over the traditional single rate property tax.

*John E. Anderson is professor of economics, University of Nebraska.*

### Notes

- <sup>1</sup> Henry George, *Progress and Poverty* (New York: 1929, Robert Shalkenbach Foundation, 50th Anniversary Edition), p. 414.
- <sup>2</sup> Jan Brueckner, "A Modern Analysis of the Effects of Site Value Taxation," *National Tax Journal* 39 (January 1986), 49-58.
- <sup>3</sup> Other isolated cases have existed in the United States. For example, an assessor in Southfield, Michigan, once implemented a two-rate system in violation of the state constitution. A recent change in Colorado law resulted in different rates of taxation on vacant land and improvements. This is a relatively new development and provides limited experience from which to draw inferences.
- <sup>4</sup> The school district and county continued to apply a single-rate property tax. The combined effect of the city, school, and county taxes resulted in a total tax rate on land of slightly more than twice the rate on structures.
- <sup>5</sup> Wallace E. Oates and Robert M. Schwab, "Urban Land Taxation for the Economic Rejuvenation of Center Cities: The Pittsburgh Experience," *Pennsylvania League of Cities Reporter* (January 1992): 28-30.
- <sup>6</sup> Joseph A. DiMasi, "The Effects of Site Value Taxation in an Urban Area: A General Equilibrium Computational Approach," *National Tax Journal* 40 (December 1987) 577-590.
- <sup>7</sup> James R. Follain and Tamar Emi Fernandez, "Land Versus Capital Value Taxation: A General Equilibrium Analysis," *National Tax Journal* 39 (September 1986): 451-470.

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# Grants Notes

## More, Smaller Federal Grants Are Focus for "Reinventing" Government

Charles Griffiths and Bruce D. McDowell

Analysts in the Congress and the National Performance Review being conducted by Vice President Al Gore for President Bill Clinton have asked ACIR to update an analysis of federal grant programs published by the Commission in 1981. Following is a brief summary of findings from this update.

After some streamlining of the grant system in the early 1980s, ground has again been lost. The number of separate grant programs is at an all-time high, and many of the programs are quite small (see also page 32). The challenge of "reinventing" the grant system is at least as great as it was when the 1980s began.

The number of federal grants has crept back up from a low of 404 in 1984 to a high of about 557 in FY 1992. Block grants, which accounted for about 15 percent of all federal grant funds in 1978, now account for only about 10 percent. Thus, complexity and rigidity have reemerged in the grant system.

In its 1981 report *An Agenda for American Federalism*, ACIR clustered similar federal grant programs and compared the percentage of federal grant programs in each cluster to the percentage of federal grant funds in the cluster. This produced a "fragmentation index."

An index number of less than one indicates that the cluster has fewer, and larger programs than average. An index number greater than one indicates the cluster has a larger number of smaller programs. The reasoning behind the index is that, in general, the smaller programs probably carry a disproportionately heavy burden of administrative overhead and provide a disproportionately small amount of the resources needed to meet nationwide program needs effectively. A high fragmentation index, then, suggests where opportunities might exist for grant consolidations, terminations, or turnbacks.

### The Update

Over the past two months, ACIR has prepared a rough update of the rankings of federal grant programs by

size, and has recalculated the fragmentation indexes of program clusters. Because of substantial program changes over the past dozen years, the comparisons between the FY 1980 findings (used in the 1981 report) and FY 1992 findings are not precise. Nevertheless, a few of these comparisons are noted to give a sense of historical development. Of primary interest for current grant reform efforts are the FY 1992 fragmentation indexes.

**Number and Size of Programs.** As shown in Table 1, the federal grant programs available to state and local governments in FY 1980 have increased to 557, up about 19 percent. In 1980, the largest 19 programs accounted for 80 percent of all federal grant dollars, compared to 22 programs in 1992. Ninety percent of all grant dollars were in the largest 49 programs in 1980 and the largest 47 programs in 1992.

**Changes in Program Structures.** As shown in Table 2, health/medical programs moved up to become the largest program cluster, while housing dropped from first place to fourth. The employment/training, criminal justice, and occupational health and safety clusters dropped in relative size. The other clusters remained fairly stable in relation to each other, although precise comparisons are difficult because of some inconsistencies in program classification.

**Fragmentation Indexes.** As shown in Table 3, again allowing for some differences in classification, the fragmentation patterns remained much the same over the 12-year period. The most fragmented program clusters in both years were education, criminal justice, resource conservation and development, cultural affairs (arts and humanities), and disaster prevention/relief.

### Conclusion

It should be stressed that these fragmentation indexes are only rough indicators of where to begin looking for opportunities to "reinvent" grant programs. Some small programs, undoubtedly, are well designed and effective for the purposes they serve. Changes should not be made without a thorough investigation of the individual programs within a cluster.

With that caveat, it appears from this analysis that the most likely opportunities for grant consolidation or other reforms might be found in the following program clusters: health, education, and social services and public assistance (which contain the largest number of programs), and justice, natural resources, veterans' benefits and services, libraries, occupational health and safety, and cultural affairs (which have the highest fragmentation indexes).

A more detailed report, listing all the FY 1992 programs, by size and functional cluster, is available from ACIR for \$5.

Number of Programs	FY 1980		Number of Programs	FY 1992	
	Obligations (thousands)	Percentage		Obligations (thousands)	Percentage
5	\$56,320,044	48%	3	\$100,512,921	50%
19	92,246,837	80	22	160,914,730	80
49	104,507,435	90	47	181,407,882	90
473	116,227,656	100	557	201,376,162	100

*Table 2*  
**Program Clusters of Federal Grants to State and Local Governments,**  
**by Number of Programs and Percentage of Total Funding in Each Cluster, FY 1980 and FY 1992**

Percentage of Funding	FY 1980 Categories	Number of Programs	Percentage of Funding	FY 1992 Categories	Number of Programs
19.45%	Housing	6	37.99%	Health	90
15.11	Medical	102	11.42	Transportation	22
12.05	Employment and Training	18	10.80	Income Security	10
10.17	Transportation	23	10.25	Housing	11
9.80	Food and Nutrition	14	7.15	Education	84
9.20	Education	77	5.88	Social Services and Public Assistance	67
6.32	Public Assistance	24	5.31	Food and Nutrition	15
5.91	General Revenue Sharing	1	2.89	Local and Area Development	28
4.39	Environmental Protection	33	2.38	Training and Employment	11
4.15	Development	41	2.14	Environmental Quality	36
0.81	Natural Resources and Conservation and Development	21	0.81	National Defense	7
0.72	Vocational Rehabilitation	14	0.61	Indian Programs	25
0.53	Criminal Justice	20	0.49	Natural Resources	37
0.48	Economic Opportunity	5	0.49	Disaster Prevention/Relief	13
0.21	Civil Preparedness	7	0.44	Agriculture	13
0.19	Arts and Humanities	30	0.38	Justice	23
0.17	Occupational Safety and Health	4	0.26	Energy	13
0.17	Miscellaneous	10	0.15	Cultural Affairs	36
0.09	Volunteer Services	5	0.07	Libraries	6
0.08	Libraries	6	0.07	Veterans' Benefits and Services	5
0.02	Energy	9	0.05	Occupational Health and Safety	5
0.00	Fire Protection	3			
	<b>TOTAL</b>	<b>473</b>		<b>TOTAL</b>	<b>557</b>

*Table 3*  
**Federal Grant Program Clusters Ranked by Fragmentation Index, FY 1980 and FY 1992**

	Percentage of Programs Funding		FY 1980 Categories	Fragmentation Index	Percentage of Programs Funding		FY 1992 Categories	Fragmentation Index
<b>LESS FRAGMENTED</b>	0.21%	5.91%	General Revenue Sharing	0.04	1.80%	10.80%	Income Security	0.17
	1.27	19.45	Housing	0.07	1.97	10.25	Housing	0.19
	2.96	9.80	Food and Nutrition	0.30	3.95	11.42	Transportation	0.35
	3.81	12.05	Employment and Training	0.32	16.16	37.99	Health	0.43
	4.86	10.17	Transportation	0.48	2.69	5.31	Food and Nutrition	0.51
	5.07	6.32	Public Assistance	0.80	1.97	2.38	Training and Employment	0.83
	<b>100.00</b>	<b>100.00</b>	<b>All Programs</b>	<b>1.00</b>	<b>100.00</b>	<b>100.00</b>	<b>All Programs</b>	<b>1.00</b>
<b>MORE FRAGMENTED</b>	21.56	15.11	Medical	1.43	1.26	0.81	National Defense	1.55
	6.98	4.39	Environmental Protection	1.59	5.03	2.89	Local and Area Development	1.74
	16.28	9.20	Education	1.77	12.03	5.88	Social Services and Public Assistance	2.05
	8.67	4.15	Development	2.09			Education	2.11
	1.06	0.48	Economic Opportunity	2.22	15.08	7.15	Environmental Quality	3.02
	2.96	0.72	Vocational Rehabilitation	4.08	6.46	2.14	Disaster Prevention and Relief	4.81
	0.85	0.17	Occupational Safety and Health	4.88	2.33	0.49	Agriculture	5.36
			Natural Resources and Conservation and Development	5.45	2.33	0.44	Indian Programs	7.37
	4.44	0.81	Civil Preparedness	7.09	4.49	0.61	Energy	8.90
			Criminal Justice	8.01	2.33	0.26	Justice	10.98
	1.48	0.21	Volunteer Services	11.76	4.13	0.38	Natural Resources	13.64
	4.23	0.53	Miscellaneous	12.38	6.64	0.49	Veterans' Benefits and Services	13.75
	1.06	0.09	Libraries	16.75	0.90	0.07	Libraries	16.08
	2.11	0.17	Arts and Humanities	33.91	1.08	0.07	Occupational Health and Safety	18.96
	1.27	0.08	Energy	89.49	0.90	0.05	Cultural Affairs	42.70
	6.34	0.19	Fire Protection	874.33	6.46	0.15		
1.90	0.02							
0.63	0.00							

# Federal Grants-in-Aid Soar in the 1990s, But Not for Locals or General Government Purposes

Brenda Avoletta and Philip M. Dearborn

Federal grants to state and local governments increased 46 percent in just three years, from 1989 to 1992. Even after adjusting for inflation, the increase was 31 percent (see Figure 1). In 1992 alone, grants increased 15 percent, following increases of 14 percent in 1991 and 11 percent in 1990.

This expansion in the 1990s is a remarkable turnaround from the record of the 1980s, when total grants declined in 1982 and 1987. Over the entire ten years, grants to state and local governments had average annual increases of only 4 percent. After adjusting for inflation, grants declined 12.4 percent over the decade of the 1980s.

Although grants may not again equal the 26.5 percent of state-local spending achieved in 1978, there has been a dramatic increase from a low of 17.3 percent in 1989 to 22 percent in 1992. Similarly, as a percentage of the total federal budget, grants rebounded from a 1980s low of 10.7 percent in 1989 to 12.9 percent in 1992. This is, of course, still far below the 17.0 percent of 1978.

With this kind of resurgence in the 1990s, why are many state and local

governments still crying the blues about federal aid? Undoubtedly, the most important reason is the shift of federal emphasis in grants from state and local governments as places to individuals in those places. This shift affects discretion over the use and control of the grants. Grants to places recognize governmental needs and give state and local officials some discretion over how to spend money. Grants to individuals are usually entitlements. Although they are administered by state and local officials, they must be paid in accordance with federal rules on behalf of all residents who qualify.

Federal grants for payments to individuals (by state and local governments) constituted 62.9 percent of all grants in 1992. In 1978, they were only 31.8 percent. This shift from less than a third to almost two-thirds of all grants going to individuals was caused both by decreases in grants to places and increases in grants to individuals.

Leading the decreases in grants to places was the canceling of General Revenue Sharing to states in 1981 and to cities in 1986, resulting in grant reductions of over \$6 billion. This pro-

gram provided relatively unrestricted aid to state and local governments, and it was clearly important aid for those governments.

In contrast, Medicaid, the largest of the grant programs for individuals, increased 147 percent over only five years, from 1987 to 1992 (see Figure 2). This increase was attributable in part to more recipients becoming eligible for benefits as a result of the recession and to hyper-inflation in health care costs. But it was also caused by expanded benefits legislated by the federal government, and by state use of provider taxes and other such devices to maximize the federal payments. Federal income security grants to individuals, principally for AFDC, also increased in the early 1990s because more individuals became eligible as a result of the recession.

In short, intentional federal changes in the character of federal grant programs, together with unintentional effects caused by the economy, resulted in states and localities receiving fewer grant dollars of value directly to the governments and far more of value to individuals.

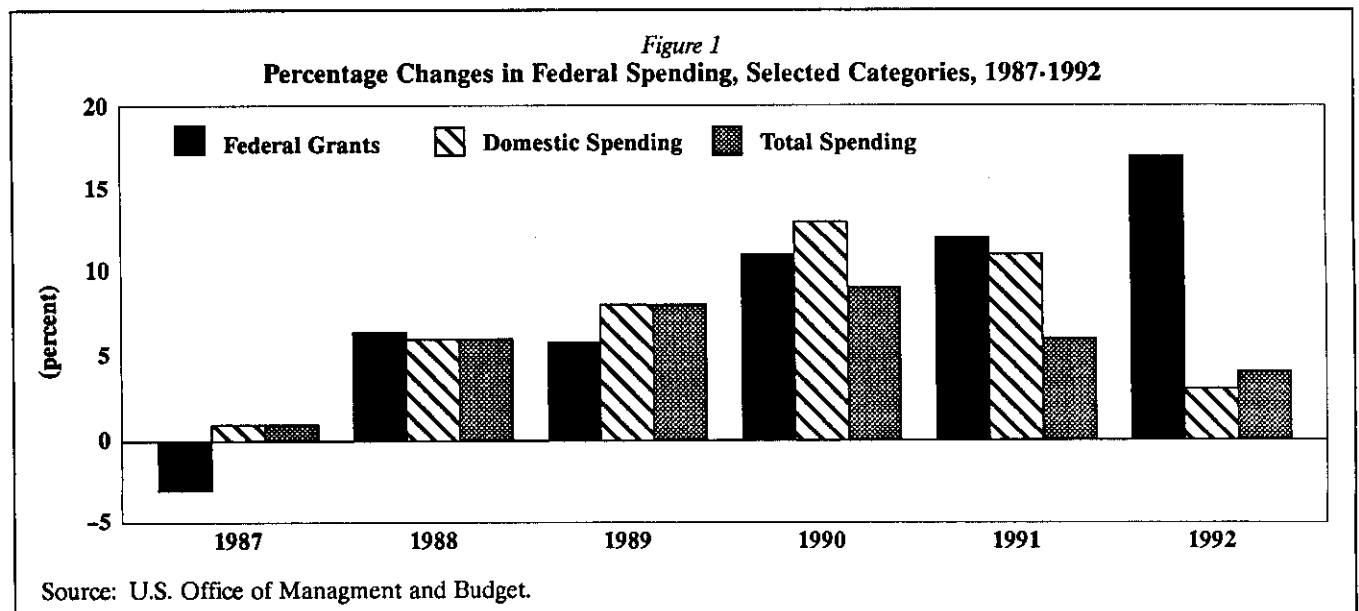
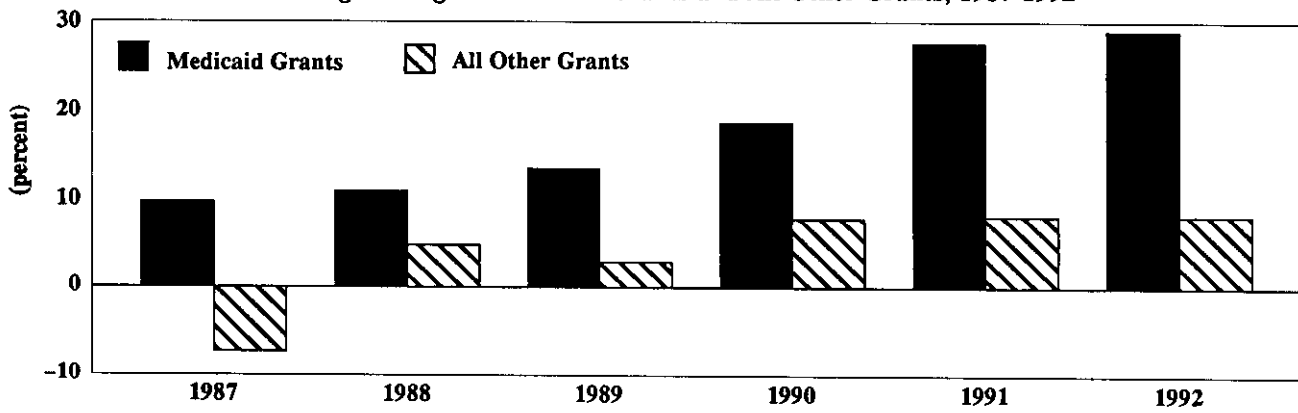




Figure 2  
Percentage Change in Medicaid Grants and All Other Grants, 1987-1992



Source: U.S. Office of Management and Budget.

Some would argue, therefore, that the dramatic increase in state and local grants in the 1990s is not meaningful because it does not directly benefit governments. However, state and local governments do not always see the relative importance of federal grants to individuals this clearly. A proposal to cap Medicaid grants met swift objection from states. This reaction reflects a recognition that without increased Medicaid grants, the states may have to assume responsibility for increased health care costs from their own revenues. The concern over capping the grants also may reflect the fact that some states have been able to divert a portion of Medicaid grants to their general funds by use of provider taxes or other devices. In any event, the cap issue suggests that grants to individuals are of considerable importance to state governments. If so, this means that the increases in these grants in the 1990s do represent a substantial improvement in federal aid to states.

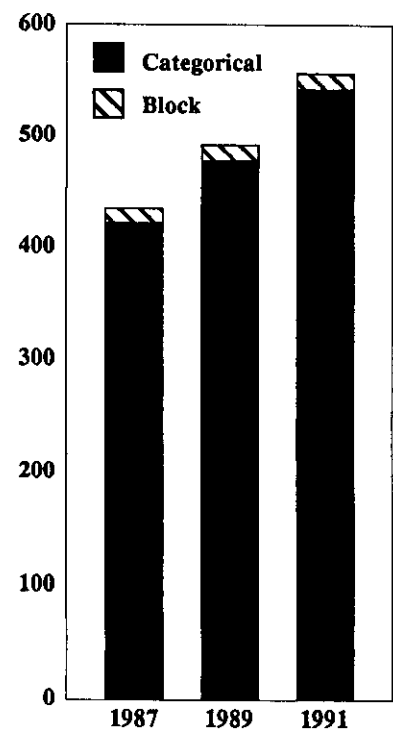
However, local governments have not fared so well, and there is little hope for a change, based on current trends. For 1991, only 12 percent of all federal grants went directly to local governments. This is a sharp decrease from earlier years. In 1987, 17 percent of all grants went directly to local governments; a much higher 28 percent did so in 1978. Local governments not only lost General Revenue Sharing in the 1980s but also experienced a change in federal philosophy in the early 1980s with a shift to block grants to states instead of direct payments to local governments.

Although some portion of federal grants to states is passed through to local governments, no accurate accounting of the amounts or year-to-year changes is available. However, since state payments to local governments have remained a constant 34 percent of local revenues between 1987 and 1991, local governments are at best holding their position and not benefiting directly from the rapid increase in federal aid to states in recent years.

Viewing grant trends from another perspective, the number of funded grant programs to state and local governments reached a new high of 557 in 1991, up from only 404 in 1984 (see Figure 3). However, all of the new grants were categorical aid for narrow, restricted uses. The previous high number of grants was 539 in 1981, just before the Reagan administration's consolidation of categorical grants into block grants. The importance of the 1991 increase in the number of grant programs is hard to judge. Few of the new programs involve much money. Of the 82 new grants enacted between 1989 and 1991, the largest disbursed \$150 million in 1991, and only eight exceeded \$50 million, or the equivalent of \$1 million per state. With the constraints on the federal budget and the increased spending for Medicaid, it is likely that any new grant programs will continue to be relatively small and of little importance to the finances of state and local governments.

While the importance of the increases in federal grants to state and

Figure 3  
Number of Grant Programs, by Type, Selected Fiscal Years, 1987-1991



Source: U.S. Advisory Commission on Intergovernmental Relations.

local governments in the 1990s may be questioned, there is no doubt that a major change has occurred from the trends of the 1980s. For states at least, the money has again been flowing, and the number of grant programs has been increasing.

## Child Care

**WHERE THEY STAND: A Digest of Organizational Policies on Child Care and Education.** Child Care Action Campaign, 330 Seventh Avenue, 17th Floor, New York, NY 10001, 1993. 138 pp.

This digest is Part of CCAC's multi-year national public education campaign, "Child Care and Education: The Critical Connection." The campaign objectives include: (1) ensure that early childhood education and child care are considered part of the same process; (2) ensure that needs of parents and children are addressed; (3) make a continuous system of child care and education a broadly supported public policy; (4) develop comprehensive system guidelines for states and localities.

The digest includes 89 publications from 45 organizations of elected officials, educators, policy analysts, researchers, child care advocates, and business leaders. The annotations focus on policies and recommendations. A chart displays the organizations' treatment of financing, quality, and school-age child care. There are reference lists of the organizations profiled and additional resource organizations. Although the organizations represented are very diverse, all agreed on universal access, school-agency collaboration, parental involvement, role of the private sector, need for appropriate program content, school-age child care, changes in government policies, and government financing.

## County Government

**VOLUNTEERS & COUNTIES: Partners in Service.** National Association of Counties, 440 First Street, NW, Washington, DC 20001, 1993. 32 pp.

In this time of expansion of responsibility either delegated by federal or state government or generated by citizen demand, county governments must look for ways to provide quality services while controlling or cutting costs, and facing growing citizen skepticism of all government. Developing

volunteer programs is one strategy that counties can use.

This report catalogs 12 programs around the country in which volunteers assist in airport operations, serve as parking enforcers, conduct environmental awareness programs, staff recycling hotlines, assist courts by serving as special advocates for neglected and abused children, offer mediation services, and provide mental health counseling. NACo surveys indicate that the number of county-sponsored volunteer programs increased from 13 to 50 percent. NACo is operating a program to help counties establish or expand volunteer programs.

## Federalism

**GRASSROOTS TYRANNY: The Limits of Federalism.** By Clint Bollick. CATO Institute, 1000 Massachusetts Avenue, NW, Washington, DC 20001, 1993. 205 pp.

For most people, Bollick says, federalism is one of those murky concepts that crops up in political science classes, at best vaguely understood as a notion that was important during the founding of the nation and having something to do with a preference for local over national government because of its proximity to the people. Most people probably would consider federalism a quaint anachronism. Is it? Federalism issues, he notes, are at the core of legal battles ranging from abortion to taxation to regulation.

The primary purpose of the Founders in embracing federalism, Bollick says, was to safeguard individual liberty. He argues that two major developments have thwarted that goal. The first reason is demographic—the growth in the number of governments and their officials and employees. The second development he calls the abandonment of the traditional principles of federalism as promoting individual liberty. What has been created instead is grassroots tyranny—the abuse by local govern-

ments of individual rights in private property, freedom of speech, economic liberty, privacy, and equality under law.

## Environment

**A GOVERNOR'S GUIDE TO ENVIRONMENTAL RISK RESPONSE.** By Barbara Wells. Center for Policy Research, National Governors' Association, 444 North Capitol Street, NW, Washington, DC, 20001-1512, 1993. 24 pp.

Governors typically are not asked to become involved in environmental controversies. When they are asked, they are likely to be in unfamiliar territory. Successful gubernatorial response to environmental controversy depends as much on understanding the roots of community concern about risk as on dealing with a specific hazard. This report explores six case studies in which a governor was called on to respond to an environmental risk. Some of the situations were the result of negative publicity. In other cases, the governor was asked to act before community concerns escalated. In a few cases, the governor acted as the state's defender against perceived threats from other states or the federal government. The situations involved siting and exposure issues with radioactive wastes, dumping hazardous wastes, cleaning up groundwater contamination, oil spills, and chemical air pollution hazards. The cases share many characteristics and illustrate key considerations when a governor tries to relieve public concerns through risk communication and crisis management.

## Finance

**CITY FINANCES, CITY FUTURES.** By John L. Mikesell. Volume 2, Challenge of a New Century: The Future of America's Cities Series. Ohio Municipal League and National League of Cities, 1301 Pennsylvania Avenue, NW, Washington, DC 20004, 1993. 108 pp.

This volume is focused on municipalities' future finance and taxation challenges. Mikesell attempts to gauge the

potential of several financial resources—from debt to taxes and services to intergovernmental aid—to support urban services. He contends that the trend toward self-reliance is “not an aberration, that cities’ future fiscal strength will rest on their own political and economic strengths, not on state or federal philanthropy.” Thus, cities’ fiscal future hinges on how much revenue-raising authority they are given, creativity in financing services, better targeting of users of facilities and charging for their use, and how competitive they are in expanding their tax bases.

The book includes chapters on cities and government services, fiscal conditions in the intergovernmental environment, city revenue structures, infrastructure and bond markets, consequences of city fiscal failure, and positioning for the future. There are “comment” sections by John Petersen, Roy Bahl, and Peter Harkness.

### Intergovernmental Finance

CATALOG OF STATE AND FEDERAL PROGRAMS AIDING NEW YORK’S LOCAL GOVERNMENT. 1993 Edition. Legislative Commission on State-Local Relations, Agency Building 4, 14th Floor, Albany, NY 12248, 1993. 462 pp.

The commission issues the catalog as part of its evaluation of the state’s system of aid to localities. The guide is updated on a two-year cycle, and this revision reflects the status of 409 programs as of December 1992. Individual program profiles contain information about administration, eligibility and restrictions, the award process and method of apportionment, and annual appropriations and disbursements.

The commission notes that the 1980s was a time of contracting federal funds with an increased demand for public services on state and local governments. As a result, the state and its municipalities have had to share a larger portion of their fiscal responsibilities. Fiscal uncertainties continue, and increased aid from Washington is unpredictable.

CATALOG OF STATE ASSISTANCE TO LOCAL GOVERNMENTS. Fifth Edition. Illinois Commission on Intergovernmental Cooperation, 707 Stratton Building, Springfield, IL 62706, 1993. 386 pp.

The state transfers over \$3.5 billion a year in federal and state funds to

local governments and special districts. Through 41 agencies, the state provides more than 345 financial and technical assistance programs, shares revenue with local governments to be used at their discretion, and provides salary subsidies and bonuses to many local officials (e.g., state’s attorneys, assessment officers, county clerks, and police and probation officers). Each program summary includes a description and information regarding eligibility, fiscal data, and statute and code citations.

DETERMINING THE APPROPRIATENESS OF MANDATORY ASSIGNMENT IN THE STATES. By Janemarie Mulvey and Dorothy Jensen. Public Policy Institute, American Association of Retired Persons, 601 E Street, NW, Washington, DC 20049, 1993. 126 pp.

This paper is intended to assist states that are considering introducing mandatory assignment legislation that would require physicians to accept Medicare’s approved charges as full payment, thus limiting so-called balance billing and lowering patients’ out-of-pocket liabilities. Recent federal policies have been enacted to limit balance billing, and many state legislatures are considering such bills.

AARP notes that such legislation, along with other regulations on physicians’ fees, could have significant adverse effects on availability of and access to health care for beneficiaries in some states. The authors discuss trends in balance billing liabilities, federal and state policies affecting balance billing, and key indicators for mandatory assignment (the assignment rate, physician supply, income and poverty status, carrier practices, and effects of physician payment reform), including a chart for each state. The authors assign the states to one of three categories—red light, yellow light, and green light—based on what they believe to be the possible or potential impact of mandatory assignment on Medicare beneficiaries.

### International Trade

GOING GLOBAL: *A Governor’s Guide to International Trade*. National Governors’ Association, 444 North Capitol Street, NW, Washington, DC 20001-1572, 1992.

In the past 20 years, governors have taken on an expanding role in international trade promotion. State

governments are recognized as established, experienced, and effective export promoters, and every state has a program of services to small and medium sized companies. States work in partnership with the business community, other governments, and often with each other. The states’ programs have changed in recent years in response to the emergence of new democracies and the formation of regional trading arrangements, federal policies that have emphasized a narrower set of programs, and local economic and budget realities.

This reference guide contains comparative (time and place) data on total world trade, U.S. merchandise exports and imports, state exports to the world, state budgets and personnel for international trade promotion, state budgets for trade development, state foreign trade development programs, and the number of state offices around the world.

### A View from the Commission

(continued from page 2)

mendations in the areas of grant reform, state and local capacity building, the Representative Tax System, distressed communities, metropolitan governance, mandates and preemption, regulation, infrastructure, state constitutional law, the new judicial federalism, and so on. This type of analytic support that ACIR provides to federal, state, and local decisionmakers is invaluable, and it would be very unfortunate if its operations were discontinued.

But, let me end on a personal note. Although I have long been familiar with ACIR, it was not until I recently returned to graduate school to work on my Ph.D. that I fully realized how widely cited, quoted, and appreciated ACIR’s work has been over the years. ACIR has had a profound impact not only on intergovernmental affairs but also on the entire field of public administration. This impact is not confined to the United States either; it is evident around the world. We need ACIR, and the country needs the federal government to recognize that fact again.

Mary Ellen Joyce  
Senior Regulatory Analyst  
American Petroleum Institute

**Members of the  
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(August 1993)

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