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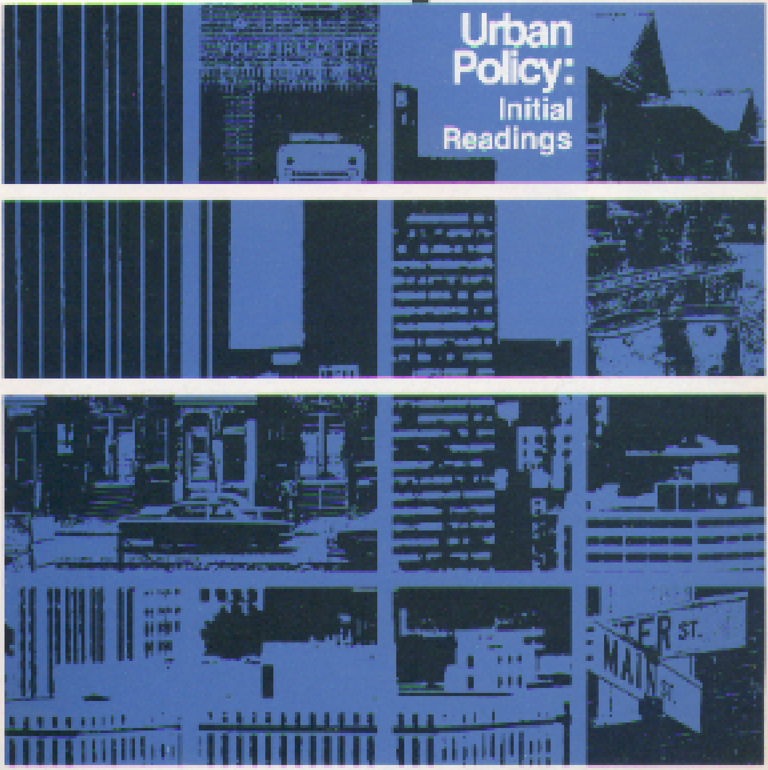
Intergovernmental PERSPECTIVE

Urban Policy: Initial Readings



ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

View From The Commission

Dear Reader:

It is with great pleasure that I introduce this issue of ***Intergovernmental Perspective*** as the chairman of ACIR. I am honored to serve in this capacity as I have been impressed by the work emanating from ACIR for many years. ACIR has made many important contributions to the development of a better understanding of the relationships and stresses between our many governments. I look forward to being an active participant in addressing the issues and meeting the challenges which are ahead of us.

A special note of thanks goes to my predecessor Bob Merriam who served as chairman with great energy, devotion and commitment for eight years. I am pleased that Bob will continue as a member of the Commission so that we all may benefit from his counsel. I hope that I am able to maintain the high quality of leadership that Bob exercised during his tenure.

The coming months promise to be an active and eventful time for intergovernmental relations, in great measure because of President Carter's recently announced urban policy. In that policy, the President calls for a "new partnership" involving all government levels as well as neighborhood and volunteer groups, and the private sector. Whether we agree with all of the policy's components or not, its preparation and now its reality have at the very least raised a much needed and long overdue consciousness about fundamental intergovernmental roles and issues in our Nation today.

One area that I feel is extremely important deals with the effects of federal programs and requirements on state and local jurisdictions. As a former Mayor, I have first-hand knowledge of the increasing impact of federal assistance on a local economy—a phenomenon that ACIR has documented well recently. I also am keenly aware of the complexities of those ever-present "strings" attached to every federal program, which may inadvertently contravene one another. I am most encouraged that simplification, consolidation, targeting and flexibility are among the President's "guiding principles" of his new partnership. I am particularly pleased that the President is requiring that community impact statements be prepared whenever new federal legislation or other actions are proposed. Hopefully, by analyzing impacts, we will discover new ways to assist communities and, equally importantly, will avoid taking actions which work against them.

This issue of ***Intergovernmental Perspective*** focuses on the events and issues surrounding the federal urban policy, and also highlights what states are doing in this critical public policy area. Clearly, the deliberations will be complex, as public policymakers at all levels address the issues of the physical and fiscal well-being of our communities and citizens alike.

Abraham D Beame

Abraham D. Beame
Chairman

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Intergovernmental PERSPECTIVE

Staff

Executive Director:
Wayne F. Anderson

Assistant Directors:
F. John Shannon
Carl W. Stenberg
David B. Walker

Editor:
Jane F. Roberts

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Washington Watch

Cigarette Bootlegging Proposals Under Discussion

After a six year hiatus, the House of Representatives in early 1978 again held hearings on cigarette bootlegging. In late February and early March, the House Subcommittee on Crime heard testimony on H.R. 8853 and H.R. 10066, bills designed to combat the bootlegging problem.

H.R. 8853 represents the cooperative federal-state enforcement approach that was recommended by ACIR in 1976. H.R. 10066 contains enforcement as well as uniform federal tax provisions. ACIR Executive Director Wayne Anderson testified in favor of the federal enforcement legislation at the February session.

In March, the Subcommittee on Miscellaneous Revenue Measures of the House Committee on Ways and Means received testimony on a series of cigarette bootlegging measures using the uniform federal tax approach.

ACIR has recommended that states strengthen their law enforcement efforts, increase penalties for the illicit sale or possession of cigarettes, work to lessen tax disparities, and enter into cooperative agreements for monitoring unusually large cigarette sales which appear intended for unlawful sale. ACIR also has recommended that Congress enact legislation to prohibit the interstate transport of contraband cigarettes, and monitor both federal and state enforcement and tax disparity reduction efforts.

ACIR efforts to assist the Administration in developing its position on remedying cigarette bootlegging were rewarded when, in the early March session before the House Subcommittee on Crime, Department of Treasury officials testified in support of federal enforcement legislation.

Transportation Legislation Submitted To Congress

President Carter has submitted proposed legislation to reorganize federal highway and transit programs. Included are such provisions as consolidation of more than 30 grant programs, uniform matching requirements, and comprehensive transportation planning. The bill would authorize more than $50 billion over five years.

Components of the proposal are consistent with ACIR recommendations in the field, adopted in 1974. Specifically, ACIR has called for strengthened planning and decision-making, and greater flexibility in financing urban and rural transportation needs. ACIR also supports consolidation of functionally related grant programs.

For example, the President's proposal would consolidate highway and transit planning funds and distribute them as a single grant. Planning grants would be made directly to designated metropolitan planning bodies in urban areas over one million in population. Consolidated urban formula grants would replace existing highway categorical programs, and a new urban transit program would provide assistance for acquisition, construction and improvement of facilities, as well as funds for operating—including commuter rail—expenses.

A new small city and rural formula grant program would consolidate nine existing programs and include all public roads not on the interstate or primary systems. Assistance would be available for both capital and operating expenses.

The proposal also includes an urban discretionary program, a unified safety program, aid for the primary and interstate systems, and an expanded bridge replacement and renovation effort.

Government Regs Reform Ordered By President

On March 23, President Carter signed an Executive Order calling on executive agencies to adopt procedures to improve existing and future regulations. The Executive Order does not apply to independent regulatory agencies, although the President has asked those agencies to apply the new policies and procedures voluntarily.

The underlying policies for the new order are that regulations should:

- be simple and clear;
- achieve legislative goals efficiently and effectively; and
- not impose unnecessary burdens on the economy, individuals, public or private organizations, or state and local governments.

Regulations are to be developed in ways which ensure effective agency oversight; opportunity for early participation and comment by other federal agencies, state and local governments, business, public interest groups, and individuals; alternatives are considered; and costs and paperwork are minimized. The need for, and purposes of, regulations must be clearly established.

Agencies will be required to publish an agenda of major regulations under development or review at least twice a year in the *Federal Register*. In addition, agencies must establish criteria for evaluating the "significance" of regulations. Such factors to be considered include coverage, scope of compliance and reporting requirements, impact on private sector competition, and the relationship to other agencies and programs. In those cases where regulations may have major economic consequences (for example an annual effect of $100 million or more, or a major increase in costs or prices for industries, governments or geographic regions), a regulatory analysis is to be prepared.

As a result of the order, OMB Circular A-85—administered by ACIR—has been rescinded. In a memo to agencies and department heads announcing the rescission and requesting the development of implementation procedures, the President explained that ". . . nothing in this memorandum shall be construed as in any way diminishing the affirmative obligation of the executive departments and agencies to actively seek out, encourage, and facilitate the submission of state and local comments in the development of federal regulations in any other ways appropriate to the agency and the proposed regulation."

State/Local Watch

Idaho Task Force Reports On Local Reforms

The Idaho Task Force on Local Government issued its findings and recommendations last December on a broad range of issues concerning structural forms, functional powers, financial capabilities, and state-local relations.

The task force was appointed last June by Governor John Evans, and was comprised of local government officials, state legislators, businessmen and citizens. Proposals have been submitted to the legislature to implement the task force's recommendations.

The task force found that the primary problem local governments will face during the next 25 years is that of inadequate revenues. And further, the capacity of local governments to deal with their problems effectively "essentially involves their capability to generate financial resources with which to deal with these problems."

The members recommended greater flexibility regarding structural forms and functional powers, including alternative forms for counties, the establishment of special county service districts, and an endorsement for the home rule statute for cities; support for the state's local planning act covering city and county planning and zoning efforts; continuation of strong city annexation laws; legislation to make incorporation laws more restrictive; and revision of state and local tax structures, building codes, and housing plans to promote rehabilitation of existing structures.

In the area of fiscal issues, the task force urged such actions as the granting of local authority to impose local option taxes and to establish capital improvement reserves; abolition of the service fee charged by counties for handling city property tax administration; the return of all bridge and road tax revenues to the city of origin; and a study of revenue losses attributable to sales tax exemption.

Finally, in addressing state-local relations questions, the task force recommended the use of fiscal notes; full reimbursements for state legislative, executive and administrative mandates after January 1, 1978; a study of public notice laws; state agency notification to all localities affected by proposed rules and regulations; and the establishment of a state ACIR.

Functional Transfers Proposed For Atlanta-Fulton County Area

A ten-month evaluation of the delivery of public services recently was completed by the Atlanta-Fulton County Study Commission. The focus of the 18-member commission, appointed by Governor George Busbee, was the long-standing controversies regarding public service delivery in the area comprised of Atlanta, Fulton County, and the nine smaller localities within the county.

The commission reviewed 26 services, and recommended change for half of them. Included among the key recommendations are:

- countywide services should be financed from a countywide base such as the property tax, and services available in only specific areas should be financed through the establishment of special tax districts for the service area;
- municipalities within the county should not be able to annex more than 40 acres or 50 residents without the approval of the annexed area's residents, or unless 60% of that population petitions for annexation;
- the state should assist in funding the area's major hospital in view of its "extraordinary service responsibilities to the entire state;"
- the county should be responsible for all tax assessment and collection, with new boards of tax assessors and equalization replacing current assessment and appeals processes;
- the county should be responsible for all solid waste disposal;
- the county and Atlanta water and sewer systems should be merged by 1980, with uniform rates for all retail and wholesale customers;
- fire districts should be created in all unincorporated county areas; and
- the Atlanta Public Library should become a countywide service funded with county revenues.

Debate Surfaces On Level Of State Surpluses

State leaders have called into question the estimate of state and local surpluses contained in the President's Economic Message to Congress submitted in January. The estimates were prepared by the Council of Economic Advisers (CEA), and put at a level of $33 billion. The economic message characterized the surpluses as one of two "major drains" on the economy—the other being an $18 billion trade deficit.

In a letter to CEA Chairman Charles Schultze, Colorado State Senator Fred Anderson, president of the National Conference of State Legislatures (NCSL) and Michigan Governor William Milliken, chairman of the National Governors' Association (NGA) observed: "The $33 billion surplus figure is misleading because it is actually a combination of two figures, operating balances and social insurance funds. . . . The social insurance component is not surplus funds available to state and local officials. The actual aggregate state government operating surplus is probably less than $6 billion, and reflects sound budgeting practices. This would indicate a surplus among cities and counties of nearly $9 billion." These figures are based on a fiscal survey of the states that NGA and NCSL completed late last year, and represent an amount less than half of the CEA-developed estimates.

The letter continued that the bulk of the operating state surpluses are found in only a few states—principally Alaska, Arkansas, California, Indiana, Kansas, North Dakota, Oregon, Texas, Wisconsin. The surpluses generally reflect "conservative revenue projections for FY 1978 which were made in the early spring of 1977; strong economies in energy producing states; the effects of more progressive revenue systems in an improving national economy; and inflation-induced revenue growth."

The state leaders observed that "far from acting as a drain on the economy, these surplus funds will be either returned to citizens to reduce property taxes or reinvested in economic growth aid development." They concluded that in order to prevent the repetition of this "misunderstanding of state fiscal data," that the Administration work with the state groups to improve reporting and data collection techniques.

New Jersey Seeks Urban Growth Strategy

In his annual message to the legislature, New Jersey Governor Brendan Byrne announced plans for a task force to begin work on a comprehensive urban growth strategy. The task force will be comprised of cabinet members, local government officials, and private citizens.

The Governor observed: "In the past, assistance to urban areas has too often been in the form of fragmented forays into a specific problem." In response to this lack of coordination, the group will have three primary tasks over the next six months: to define a strategy, to undertake an inventory of state programs impacting on urban growth, and to propose a plan to stimulate urban growth. The task force also will be responsible for evaluating proposals aimed at fostering private investment in urban areas.

In addition, the executive message included proposals for various state aid incentives, urban homesteading, loan redemption programs, and reverse annuity mortgages for senior citizens. The Governor also recommended a 2% credit on corporate income taxes for new investment in the 28 state urban aid program jurisdictions, as well as industrial development projects within the New York-New Jersey Port Authority district. Another proposal would permit local land grants of foreclosed or abandoned properties to companies willing to build new housing or plants on the sites.

Tennessee Constitutional Revisions Adopted By Voters

In early March, Tennesseeans ratified 12 constitutional amendments, but rejected the revision of the judicial article. The referendum was developed by a constitutional convention last year. The voter turnout was a relatively low 18%.

Among the adopted proposals are gubernatorial succession, allowing a Governor to serve two consecutive four-year terms; a ceiling on state spending, linking expenditures to the growth of the state's economy; an increase in the homestead exemption from $1,000 to $5,000; removal of the 10% interest rate ceiling; and a revision of county government.

The county amendments include such features as: permitting an alternate form of government if approved by a majority of voters in a county referendum; popular election of the executive, legislative body, sheriff, trustee, register, clerk, and property assessor for four-year terms of office; abolition of the ranger and coroner offices; and election of the legislative body (limited to 25 members) by districts. Districts would be drawn by the legislative body and would be reapportioned at least once every ten years on the basis of the most recent federal census.

Project Funded To Help State Legislative Monitoring

A joint effort of the U.S. Civil Service Commission and the Ford Foundation has been launched to improve the ability of state legislators to review and evaluate education and social service programs. The Program Review in Education and Social Services (PRESS) project is being conducted by the Eagleton Institute of Politics at Rutgers University.

Eight states have been selected to participate in the program—Iowa, Maine, Maryland, Michigan, Minnesota, New Jersey, Ohio and Oklahoma. Included on the list of programs for review are: social services and school financing; teacher education and certification; day care licensing; housing; corrections; mental health, aftercare and special education; park facilities; and vocational education.

Training programs have been initiated in most of the participating states. Such legislative tools to be addressed during the two-year project are sunset legislation, performance auditing, budget review, oversight of administrative rules, committee and staff organization, and involvement in program evaluation.

29 States Agree On Military Pay Withholding

Twenty-nine states (including the District of Columbia) have requested the Department of the Treasury to withhold state income taxes from military pay. The actions have been made possible by the enactment of the *Tax Reform Act of 1976*, that removed the prohibition on such withholding.

Prior to the passage of the 1976 act, the Department of Defense supplied information to the states which military personnel claimed as their legal residence, and payments were made directly to the states by the affected personnel. Under the new procedure, an agreement calling for military withholding between a state and the Department of Treasury must be executed, and state tax laws must not exempt military pay from either taxation or withholding. The change became effective July 1, 1977.

ACIR recommended such action in 1975, noting that military withholding would ease tax compliance problems for personnel by making pay-as-you-go payments available to them. It also would remove much of the uncertainty that now exists concerning military liability for state income taxes. The level of compliance with state taxes also would be increased, and the costs of tax administration would be reduced.

National Urban Policy: Initial Intergovernmental Readings

by Jane F. Roberts

"Urban initiatives" are nothing new in this country. For nearly 40 years, the federal government has sought to solve a variety of problems found in urban areas, including substandard housing, inadequate transportation, crime, unemployment, and education.

Yet throughout this time, there has never been an overall "urban policy" guiding these efforts. President Carter's recent national urban policy initiatives, described as a "New Partnership to Conserve America's Communities," represent an attempt to focus attention on urban problems, to improve what many view to be inconsistent and ineffectual federal policy toward urban areas, and to help make "American cities better places in which to live and work."

This article is an initial reading of the urban policy as outlined in the President's message to the Congress and in reports of the task force responsible for it. As such, we examine the process, the announced policy, the initial reactions, the issues and some of the lingering questions surrounding the emergence of these initiatives.

Background

Two of the earliest Congressional actions affecting urban areas were the authorization in the late 1930s of financial aid for public housing projects and the establishment in the *Housing Act of 1949* of an urban renewal program designed to correct physical decay in cities. During the mid-1960s, creation of the Department of Housing and Urban Development (HUD) as well as enactment of the antipoverty, model cities, manpower training, and other Great Society programs signaled the federal government's assumption of a major role in dealing with urban social, economic, and physical ills. The New Federalism of the early 1970s provided further assistance to urban areas but with greater state and local discretion over the use of funds, particularly through general revenue sharing. And recently, federal aid to hard-pressed cities has expanded greatly through the so-called antirecessionary programs and the housing and community development block grant.

In addition to financial assistance, federal tax policies have had a significant impact on urban areas. For example, federal income tax deductibility of interest payments on home mortgages and special rates for capital gains have encouraged the growth of suburbs, which has in turn drawn the middle class (and their taxes) out of the central city.

These are the more obvious examples. Virtually all major federal domestic departments and agencies, as well as the Department of Defense, administer programs which affect the quality of urban life and influence the movement of people and industry into or out of these areas. Recognizing this diversity, Title VII of the *Housing and Urban Development Act of 1970* called for the President to issue a biennial national growth report, beginning in 1972. However, the report never has fulfilled the expectation that it could serve as a coordinating mechanism for the development and monitoring of national growth and urban policies.

The latest action in this four decade chronology is President Carter's highly publicized—and frequently criticized—effort to formulate a national urban policy. Then-candidate Carter announced his intentions during the 1976 Presidential campaign, in an address to a meeting of the U.S. Conference of Mayors: "Today, America's number one economic problem is our cities, and I want to work with you to meet the problems of urban America just as Franklin Roosevelt worked to meet the problems of the rural south in the 1930s. . . . I pledge to you an urban policy based on a new coalition—recognizing that the President, Governors and Mayors represent the same urban constituency."

The President's first step in fulfilling his pledge was establishment of the Cabinet-level Urban and Regional Policy Group (URPG) in March 1977. The Group, chaired by Housing and Urban Development Secretary Patricia Harris, was composed of representatives from HUD, and the Departments of Labor, Treasury, Commerce, Transportation, and Health, Education and Welfare. After only a few months, the pace and character of URPG's work came under attack from such groups as the National Urban League, the AFL-CIO, the Congressional Black Caucus, and the National League of Cities (NLC). Clearly all of these organizations had a stake in the outcome of the URPG's deliberations.

Black leadership and labor groups contended that too much time was being devoted to research and not enough emphasis was being given to "action oriented results." On the other hand, the NLC cautioned that more time would be necessary to do a credible job. The NLC also criticized the "narrow scope" of the Group's focus, noting that such issues as crime, education and energy—which were not to be addressed by the URPG—were integral parts of the urban scene and should be considered as part of an overall policy or strategy.

The pressure from these and other groups contributed to the URPG's difficulties in establishing a comprehensive urban policy. Another major contributor was dissension and power struggles among members of the Group over such issues as administration of an urban development bank and establishment of an urban program coordinator within the White House. In addition, the complexities associated with defining distressed communities and developing effective remedial strategies, the fragmented nature of federal agency responsibility over urban programs, the realities of Congressional concerns about constituency interest and committee jurisdiction, and the constraints imposed by budget and tax policy commitments posed problems which were not adequately addressed in an early report submitted to the President in the fall. He rejected the Group's effort as simply a "laundry list" lacking bold new ideas or clear priorities. He also cited dissatisfaction that the possible role states could play in urban policy development and implementation had not been sufficiently considered. Originally, the URPG's urban program was scheduled for incorporation into the 1978 State of the Union Message. It was finally released, with some fanfare, in late March.

The President's Policy

The President's urban policy focuses on what is called a "New Partnership" involving all levels of government, the private sector, and neighborhood and voluntary organizations. The President said in his message to Congress that the policy is designed to encourage states to redirect their resources to support urban areas more effectively and equitably and to encourage local governments to streamline and better coordinate their activities. It outlines proposals to "make federal actions more supportive of the urban policy effort and develop a process for analyzing the urban and community impact of all major federal initiatives." It also offers incentives to the private sector to make new investments in economically depressed communities and calls for the involvement of citizens and neighborhood and voluntary organizations in meeting the economic and social needs of their communities.

The proposed urban policy is based on four broad goals:

- ☐ preserve the heritage and values of America's older cities;
- ☐ maintain the investment in older cities and their neighborhoods;
- ☐ assist newer cities to confront the challenges of growth; and
- ☐ deliver improved housing, job opportunities, and community services.

There appear to be at least three basic assumptions underlying the urban policy: any effort to deal successfully with urban problems must involve a joint venture between the public and private sectors; the federal government has a major role to play in meeting the needs of distressed communities; and fiscal intervention through grants-in-aid and tax policy, rather than structural or functional reform, is the most effective means to cure urban ills.

The policy identifies several interrelated causes of urban problems: population and private sector job losses, physical deterioration, the concentration of of minorities in central cities, and the inability of eroding tax bases to meet rising service demands. As remedial actions, the package sets forth both new initiatives and revisions of existing programs. The new initiatives come under five general headings: fiscal assistance; community and human development; employment and economic development; coordinating, streamlining, and reorientating government activities at all levels; and neighborhoods and voluntary associations.

In the fiscal assistance area, the key proposals include a $1 billion program to replace countercyclical revenue sharing that expires in September of this year. The primary feature of the new program would be elimination of the state share which would be redistributed to cities with high employment rates. A second proposal would alter the fiscal relief portion of the Administration's welfare proposal now pending in Congress. An additional $2 billion would be distributed to the states immediately, rather than in 1981.

A number of comparatively small categorical programs are proposed in the community and human development area. For example, a $150 million increase is proposed for Section 312 housing rehabilitation in FY 1979. Other initiatives include $50 million for inner city health clinics, $150 million for special services grants (elderly, day care) under Title XX of the *Social Security Act,* $12 million seed money for new community development credit unions, an additional $200 million for urban transportation projects, and $15 million for solid waste recovery project planning. Also included are $1.5 million for a "Cities in Schools" project, $150 million for urban parks and recreation, $40 million for an urban volunteer corps, $20 million for a "livable cities" arts program, an additional $10 million for community crime prevention, and $15 million for a neighborhood self-help fund for housing and revitalization projects.

In the employment and economic development field, various proposals are offered for jobs, tax credits, and loans with both public and private sector emphasis. About 180,000 jobs would be created in a new three-year, $3 billion "soft" public works program to renovate and rehabilitate public facilities. An interagency National Development Bank would guarantee loans of up to $11 billion over the next three years to businesses locating in urban and rural distressed areas. Tax credits would be available to employers who hire CETA workers between 18 and 24 years of age, as well as to those firms which invest in distressed areas. An additional $20 million would be available for community development corporations, and $25 million would be allocated for air quality planning grants. Priority also is to be given to cities in federal procurement and facility siting policies. And finally, increases of $275 million each in Title IX of the *Economic Development Act* and the Urban Development Action Grant program are proposed.

Several major initiatives characterize the coordination and streamlining efforts. First, an urban and community impact analysis is to be conducted by each agency proposing a major domestic program. The analysis will be reviewed by the White House

ACIR Chairman Abraham Beame talks with President Carter prior to a meeting of the Commission with President Carter and three of his top aides April 14. Other Commission members shown are, from left, Mayor Tom Moody of Columbus, OH; Speaker Martin Sabo of Minnesota; and Rep. Clarence Brown of Ohio. Jack Watson, Secretary to the Cabinet and Assistant to the President for Intergovernmental Affairs, is on the right.

Also meeting with the Commission were Stuart Eizenstat, Assistant to the President for Domestic Affairs and Policy, and Barry Bosworth, Director of the Council on Wage and Price Stability.

At the meeting the President asked ACIR to perform two functions: to establish a clearinghouse on state urban policies, provide assistance to states in implementing innovative approaches to solving urban problems, and monitor efforts by federal departments and agencies to formulate urban and regional impact statements; and to assess and develop strategies to meet problems associated with inflation's impact on state-local governments.

domestic policy and OMB staffs and will identify programs and actions which are not compatible with the urban policy's goals. HUD Secretary Harris has said she feels the requirement calling urban impact statements for all programs is "the most important decision adopted by the President." An interagency coordinating council headed by Jack Watson, Jr., presidential aide for intergovernmental affairs, is to be formed to identify operational improvements (such as uniform grant applications) which cut across federal departments, and to facilitate the handling of projects which are too large or complex to be administered by only one agency. OMB also has been directed to form an interagency task force to improve the management of community and economic development grant programs and to consolidate planning requirements. Commerce Secretary Juanita Kreps—as head of the federal statistical policy committee—has been directed to improve the quality of urban data and information systems.

The "neighborhood" initiatives would fund community development credit unions and "self-help" development programs to provide funds for specific housing and revitalization projects in poor and low income areas. Also proposed is the creation of a corps of volunteers at the neighborhood level to work with local governments and community organizations on common problems.

Over the next two years, $400 million in state incentive grants administered by HUD would be available to encourage the redirection of state programs toward urban areas and urban planning activities. Grants would be awarded on a discretionary basis to those states which prepare and adopt, with local participation, plans to assist their hard-pressed communities. And finally, special consideration for discretionary funding would be given to cities which reform their fiscal management practices, streamline regulatory procedures, and coordinate local economic and community development activities.

The new initiatives would require a total of $4.4 billion in budget authority for FY 1979, as well as $2.2 billion in guaranteed loan authority and $1.7 billion in new tax incentives. However, the Administration expects that only about $742 million actually would be spent in the first year. Many of the proposals require new legislative authority.

The policy also calls for reorientation and revision of over 150 existing federal programs, many of which could be implemented through administrative actions. Some of the existing programs designed for revision or redirection are major, big money programs such as community development and CETA block grants and key mass transit and highway grants-in-aid. The focus of several key revisions, particularly in economic development and housing programs, is improved targeting of federal dollars to needy urban areas. Other proposed changes attempt to streamline program requirements and procedures and to increase grant recipients' flexibility in determining the use of certain funds.

In light of the rather limited funding associated with new initiatives in the urban policy and the significant nature of the programs designed for revamping, some, including the President, feel these revisions and alterations may well prove to be the most important component in the proposed urban policy.

The revamping of existing federal programs suggested in the policy was a direct result of an URPG-sponsored review that was conducted by each federal agency of its own programs. The effort was based on a series of 14 principles compiled by the URPG, addressing such issues as:

- ☐ coordinating or consolidating programs, simplifying planning procedures, and reducing federal paperwork requirements;
- ☐ encouraging the participation of private businesses, neighborhood groups, voluntary organizations and individual citizens in urban revitalization;
- ☐ evaluating the urban impact of federal tax, expenditure, and regulatory actions continuously and strengthening their contribution to urban revitalization;
- ☐ strengthening the private sector economic base of urban areas and improving their physical facilities; and
- ☐ increasing the flexibility of federal programs to respond to the diverse needs of cities.

While compiled expressly for the URPG review, the principles are designed for use in continuing and regular agency evaluations of existing and proposed programs going to urban areas. It is too early to guage whether they will be so used. However, there is some feeling that the efforts to date have already served a purpose in making federal administrators more sensitive to urban problems and concerned with possible solutions.

The Initial Reactions

While the policy proposes a number of specific programs and administrative actions—some of which already have been initiated—many of the details are still to be worked out. These omissions predictably have resulted in the inevitable questioning of what the policy really means. Such issues as eligibility criteria, and distribution formulas are being decided as the various legislative packages comprising the program are developed and submitted to Congress.

Critics have contended that if this approach is taken, the "New Partnership" will no longer be a "single coherent national urban policy," but rather simply another group of discrete initiatives. One local official recently observed: "Because of the vagueness of the language, even their (the Administration's) friends are confused." Yet there are those who question whether there can or should be a coherent unified urban policy. Urban problems, they argue, are not simply the "horror" stories one reads about a New York, a Newark, a Detroit, or a Cleveland. Rather, the problems of America's communities are urban, suburban and rural, are greatly varied in nature and degree, and relate to both poor people and poor governments.

Other reactions to the policy concerned the reluctance of the URPG to make the hard choices to exclude certain programs from new initiatives or to consolidate or eliminate existing programs. The result, say some, is too few dollars spread among too many programs. Some members of Congress, on the other hand, have indicated that the additional federal spending called for in the proposal is excessive. One of the most recent expressions of this sentiment came from Rep. Robert Giaimo, chairman of the House Budget Committee. In remarks before a meeting of city officials in early March, he warned the officials not to expect large amounts of new federal spending. He explained: "The name of the game this year is to control inflation."

Other Congressional warning signals are emerging as well. In early April, when the ink was hardly dry on the Carter urban policy, the Senate Budget Committee tentatively voted against the public works jobs and the countercyclical aid to cities portions of the policy. A few days later, the Committee voted to cutback sharply the funds the President had proposed for the National Development Bank. The urban policy had called for $2.4 billion for FY 1979, but acting on the recommendation of its chairman, Sen. Edmund Muskie, the committee approved only $600 million. The action was taken on the basis that the President had not yet given enough "specifics" to justify the original request. Whether these actions set a precedent for other parts of the urban policy remains to be seen.

As would be expected, there has been a rather broad spectrum of reactions from state and local officials and their national organizations. Many had been consulted at various points in the development process; and each, inevitably, had certain expectations. While all of the major public interest groups were involved, none was completely satisfied with the outcome.

The Mayors' groups [National League of Cities (NLC) and U.S. Conference of Mayors (USCM)], for example, had expressed early skepticism about some of the program initiatives, especially their funding levels. Subsequent to the President's announcement, however, the Mayors indicated their support for the policy. In fact, Syracuse (NY) Mayor Lee Alexander, President of the U.S. Conference of Mayors, said "the Mayors are delighted with the role of local government in the urban policy."

The National Governors' Association (NGA) also expressed general support but raised doubts about several components. Specifically, NGA contends that the funding level for the state incentive grant program should be raised and full state participation

"There are those who question whether there can or should be a coherent unified urban policy."

in the proposed national bank ensured. NGA also opposes eliminating states from the countercyclical revenue sharing program. Michigan Gov. William Milliken, NGA chairman, said, "Although the program falls short in many respects of responding to needs of urban America, I am heartened by some of the basic thrusts of the President's proposal . . . I'm particularly pleased that the program includes a grant incentive program for states that provide aid to cities, as Michigan already is doing."

The National Conference of State Legislatures (NCSL) has given its "qualified endorsement" to the urban policy, primarily because the incentive grant program is too small. A recent statement commented: "Dividing up $200 million among 15 states in the first year, and more in the second, leaves rewards that may be too small to encourage states on a broad scale to undertake politically difficult governmental reorganization and retargeting of public aid, particularly in the face of strong rural and suburban opposition." NCSL, however, did have praise for the strong emphasis on private sector involvement in urban economic development. NCSL also issued its own ten-point "urban action agenda" for state legislatures, recognizing that "there are limits to the actions which the federal government can take to alleviate the distress of urban areas." The NCSL recommended that states: provide state categorical and revenue sharing programs; authorize local and regional financing; scrutinize local government fiananoes; help modernize the structure of local governments; examine the effects of state tax policies on urban development; and improve the state capacities to address urban problems.

The harshest words about the President's policy from public interest groups have come from the National Association of Counties (NACo). As a result of an emergency meeting of NACo's leadership on April 12 to discuss the policy, a letter was sent to the President stating, "to your credit you have attempted to address the critical issues facing urban America. To your discredit, you have omitted the level of government which serves the largest segment of our urban population. For this reason, we will actively oppose your policy until it specifically recognizes the key role of urban counties. . . ." At the conclusion of that meeting, NACo President William O. Beach told Presidential Aide Stuart Eizenstat, "If the urban policy is going to be implemented based upon what the President has said, then there is no reason for counties to think they are included as partners, irrespective of your efforts to reassure us that this is not the case."

A White House spokesman has recently acknowledged that "we made a mistake" in excluding any references to counties. And, in a meeting with ACIR on April 14, the President indicated that counties indeed would be part of the various implementing legislative proposals which will be submitted to Congress. Presumably there will now be full recognition of the fact that counties have key roles in providing social and health care services, law enforcement, and other services to distressed communities and citizens and in controlling development at urban fringes.

Another element not to be overlooked is how the public will react to proposals to increase spending for urban programs. ACIR, for the past six years, has conducted a public attitude survey on government and taxes. This year for the second time the following question was posed:

> Many of our major central cities are experiencing financial difficulty. Would you favor or oppose special federal aid for these central cities?

The results indicated that the American public is about evenly divided on the issue, with 43% in favor, 44% in opposition, and 12% with no opinion. As might be expected in part because of sensitivities generated by the "frostbelt" vs. "sunbelt" debate, citizens in the northeast favored the aid by a clear majority (58% to 34%), but opponents outnumbered proponents in all other regions.

How the Congressional and Presidential concerns about inflation and federal spending, the desires of the public interest groups for more funds and more recognition, and the mixed public sentiments concerning federal assistance to the cities will influence the public policy decisions during this election year remain to be seen.

The Issues

As noted previously, there are a number of questions and concerns regarding the President's New Partnership proposals. They already have surfaced in halls of Congress and are the subject of much debate among state and local officials and the press. Some of these questions stem from the absence of information on the specific components of the policy statement. Others reflect not only a concern with program specifics and funding levels but with the theoretical framework of the policy as well.

Is a "comprehensive" national urban policy possible given political and fiscal constraints?

Perhaps the reason that President Carter's "comprehensive" urban policy is the first of its type is that such a policy at best is politically and fiscally difficult to achieve. Moreover, the process of formulating such a policy may raise more questions than can be resolved.

First, there is the question of eligibility and definitions. What governments are "urban?" The key documents presenting the Carter proposal stress cities and neighborhoods. The first sentence of the HUD fact sheet accompanying the proposals declares: "The Carter Administration has developed the first National Urban Policy to ever address comprehensively the problems and promise of America's cities and neighborhoods." Indeed, the word "county" does not appear anywhere in the policy statement. Yet the White House contends that it is only a question of semantics. There is also a question of size. When does a city become an "urban" city?

A related concern is geographical. As recently noted by Richard P. Nathan of the Brookings Institution: "The name of the game in urban policy is formulas." In his view, the targeting impact of the formulas will take on even greater significance because of the "modest amounts" to be expended. Can and should the urban policy be applicable then, to jurisdictions in all sections of the country? Is a poverty neighborhood in Houston as likely to receive aid as Newark? Such targeting questions raise a sensitive political issue.

An issue skirted by the proposed policy involves local government structure and functions. There is some question, of course, as to whether the federal government should intervene directly in these basic state-local matters. Yet federal policies and programs do in fact intervene—powerfully, albeit it indirectly. For example, under the Carter urban plan, funds in some programs may well be targeted to only the neediest cities. Those left out may be those that have done the most on their own to reform their governmental structure and alter their boundaries. An example might be those cities such as Jacksonville, Indianapolis or Nashville which have consolidated their governmental structure and service delivery and revenue raising systems. These cities might well have received more federal funds had they not consolidated. Those areas which have spurned consolidation or other self-help, might benefit the most.

According to some observers, comprehensiveness, coordination, and even targeting may well go out the window as each legislative proposal is subjected to the political process.

Does the President's proposed policy adequately coordinate federal programs and actions that affect urban areas?

Many critics contend that one of the urban policy's most serious weaknesses is its inability to specify how the myriad of individual programs actually would be coordinated, despite the President's intention to do so. As one example of the major obstacles confronting coordination of existing programs and implementation of investment and development strategies, a recent study of the Dayton metropolitan area prepared by the Urban Affairs Staff of the

> **Comprehensiveness, coordination, and even targeting may well go out the window as each legislative proposal is subjected to the political process.**

Charles F. Kettering Foundation found that the $790 million spent on local community problems in 1973 flowed through 270 separate governmental and non-governmental agencies, leading to considerable overlapping and duplication of program efforts, high administrative costs, and poor coordination of public sector investments.

While the President's policy stresses coordination, it does not eliminate or consolidate a single program. In fact, it creates a number of new small, narrow categorical grants that closely resemble the Great Society approach. An interagency coordinating council is to be organized, but its powers are not clearly specified. Given the record of similar efforts in the past, there is strong doubt as to whether it can begin to coordinate the many thousands of regulations and billions of dollars now impacting upon urban areas, some of which have conflicting objectives. A key question, then, is will this council have the clout and the credibility to resolve the conflicts as they arise?

Critics also are skeptical of the ability of Congress to more effectively exercise its oversight role over these many programs. Congress simply is not organized to deal efficiently with many of the programs, particularly those that cross committee jurisdictions.

What role, beyond an incentive program, is there for states?

Many observers anticipated a much stronger role for states in the urban policy and were disappointed at the President's proposals in the area. States, after all, represent a pivotal point in the federal system as well as in efforts to aid local jurisdictions. Fiscal and social problems resulting from political fragmentation in urban areas can be resolved only at the state house. States have the geographic scope required to deal with regional and areawide problems which increasingly are beyond the reach of localities, such as air pollution, mass transportation, and land use controls. They have historically funded and administered programs critical to urban areas such as education, highways, hospitals, health care, and public assistance. And they have a far greater capacity to harness taxable resources than their local governments. This is particularly important in overcoming revenue and service disparities, since only the states have the jurisdictional scope and authority to equalize resources among their local units.

Until recently, the federal government has shown little interest in involving states in efforts to achieve a national urban policy. The states themselves tended to work independently on problems of local units within their boundaries without seeking federal assistance.

Several states—working closely with their local governmental officials—have developed or are preparing comprehensive urban policies which attempt to inhibit urban decay and promote economic development in their central cities. The efforts by three states—Massachusetts, Michigan and California—are described in the article entitled, "Where it Works" in this issue of *Intergovernmental Perspective.* These state urban policies may well have served as models that influenced the national urban strategy. The close working relationship between private and public sectors, the broad comprehensive nature of the strategies, and the emphasis on promoting use of existing facilities and developed areas are components of these state policies that are also key elements in the Carter plan. Thus, one might note that the urban policy focus has worked its way up—from local, to state, now federal levels—a movement directly opposite from the adoption of some other domestic policies, such as civil rights.

Under the President's plan, states would be eliminated from the countercyclical revenue sharing program, and singled out for only one major initiative—the incentive program.

In February, Governors were told that the incentive program would amount to about $500 million during the first year. As actually proposed, however, it was scaled down to $200 million. While its actual content has not been determined, preliminary discussions have centered around the development of comprehensive state programs to aid their distressed areas. A state could be eligible if it devised a growth strategy, reformed fiscal and governmental structures, and targeted public investments to declining areas. It is estimated that about 15 states could qualify in the first year. However, they would have to submit plans, developed in concert with their local governments, for federal approval.

The mixed reactions to the role of the states as outlined in the policy is expressed in the comments of Vermont's Gov. Richard Snelling at the April 13, ACIR meeting. The Governor observed: "President Carter's speech called for a new partnership, but the one issue given top priority by the nation's governors in testimony before the drafters of the President's urban policy is accorded only token recognition. The flexibility for states to identify needs, plan programs and direct federal expenditures is missing." And on the incentive grant program specifically, the

Governor added: "In its objectives it is laudatory. States must reorient their own resources and state-controlled federal resources toward areas of greatest need. However, the program is set as a competition."

Can there be a comprehensive urban policy without including substate regional components?

For the urban policy to be comprehensive, it must surely deal with areawide problems and include substate regional and metropolitan entities. The report of the Urban and Regional Policy Group recognized the importance of problems associated with urban growth and development, notably sprawl, and acknowledged that for an urban policy to succeed, "institutions able to cope with areawide problems must be developed and strengthened." Yet the new initiatives and revisions of existing programs outlined in the President's message to Congress do not include major areawide components.

The low priority of substate regional concerns is a serious one to some, but not entirely unexpected. States and localities have voiced considerable apprehension about a formal regional role and areawide organizations suffer from a lack of strong constituency. Yet, there were some supporters, including the Department of Housing and Urban Development, which, in the summer of 1977, drafted a policy proposing that federal departments use "certified" regional entities as the primary focus for programs geared to solve urban problems.

Supporters of regional involvement emphasize the need for improved coordination of federal and state efforts to aid urban areas—coordination which could be achieved through regional entities. The National Association of Regional Councils (NARC) expressed its dismay with the Carter policy, pressing this point: "The centerpiece to the policy is coordination. Yet the meek Administration proposals for coordination only occur at the Washington level." NARC suggests that "for these proposals to work, they take planning and coordination as well as broad political support. Regional councils can be the glue in these efforts."

What is the role for neighborhoods in a national urban policy and how do neighborhood bodies fit into the intergovernmental picture?

The inclusion of neighborhoods as "partners" in rejuvenating America's urban areas was a significant step for those bodies and other participants as well. It represents the first major instance since the days of the "Great Society" when neighborhood bodies have received direct funding from the federal government.

This proposal illustrates the growing strength of neighborhood organizations which have been forming in many large cities—partly as a result of general revenue sharing and various block grant programs—to deal with problems particularly in the areas of law enforcement, community development, and manpower. The neighborhood groups gained additional national attention when a National Commission on Neighborhoods was established in 1977. The commission has served to focus attention on issues affecting neighborhoods through research and information dissemination, and has proven to be a vocal advocate of and strong lobbyist for neighborhood groups on issues such as the urban policy. Thus while the money going to neighborhood groups under the Carter plan is relatively small—$77.5 million out of a total $4.4 billion for new direct spending in FY 1979, it represents to those groups—and to others—a breakthrough and giant step toward recognition.

One major difference between the current urban policy initiatives and the 1960s program, such as those encouraging the formation of community action agencies, is the provision calling for the approval of the local Mayor before the neighborhood group can apply for funds. Although some of the neighborhood groups object to this caveat, many local government officials feel such control is important so that coordination and a working relationship with city hall can be assured. Indeed, the U.S. Conference of Mayors, which at first opposed funding neighborhood groups, later reversed itself and supported the move. Likewise, the National League of Cities said it was satisfied with the mayoral signoff provisions of the bill.

Such signoff provisions may ease the tensions that existed between similar groups and mayors in the 1960s. Just how closely and how cooperatively these neighborhood organizations and local government officials will work together remains to be seen, yet both groups are optimistic.

Conclusion

Although the answers to these and other questions that have been raised by the national urban policy may not satisfy everyone, there is little doubt that the proposed policy has served to focus attention on the immensity and interrelatedness of the problems facing our urban areas. It has also highlighted the need to accord basic reforms adequate priority. We learned in the 1960s that what is required to help the nation's governments solve the problems of urban America is more than a matter of money. The structure, functions, and processes of government at all levels—and the linkages between the public and private sectors—all need to be scrutinized. The President's New Partnership can provide a significant step toward addressing the broader intergovernmental reform agenda that is intricately linked to national urban policy. Whether this will, in fact, occur—or whether the Carter urban policy will be another missed opportunity—remains to be seen.

Jane F. Roberts is state-local relations associate at the Advisory Commission on Intergovernmental Relations.

Where It Works

Although several states have taken steps to inhibit urban decay and foster urban conservation and development, few have developed comprehensive urban policies or targeted state or regional economic development programs to assist central cities.

Three states have emerged as pioneers in developing and implementing state urban policies. Massachusetts, under Gov. Michael Dukakis, has a broad system of state assistance and guidance in place; Michigan, under Gov. William Milliken, has implemented an urban policy geared primarily toward the state's largest city; and California Gov. Edmund Brown, Jr., has taken the lead in implementing an urban strategy developed by the state's Office of Planning and Research. This article briefly highlights the policies in these three states.

Massachusetts

Revitalization of urban areas was a primary goal of Massachusetts Gov. Michael S. Dukakis upon assuming office three years ago. Instead of ignoring the problem of cities or redirecting the blame elsewhere, the governor recognized that "in spite of much rhetoric about the urban crisis and a spate of programs to save the cities, the great preponderance of state and federal public investment programs has served only to accelerate the dispersal of private investment beyond the borders of our cities."

Therefore, he pledged to use the offices of governor to assure that the state policies assisted rather than hindered the conservation, utilization, and development of existing city and town centers.

The first step in achieving this goal was formation of a special development cabinet, made up of the lieutenant governor, secretaries of economic affairs, environmental affairs, transportation, communities and development and consumer affairs and the director of state planning who serves as chairman. The cabinet meets once a week to consider the broad policy and program issues and to coordinate state regulatory and investment decisions concerning large-scale development projects in urban areas.

The cabinet and Office of State Planning prepared two policy documents that contain specific recommendations on how the full resources of the state government can better serve the urban renewal objectives. As a result of these recommendations and the cabinet-gubernatorial efforts, several revisions in existing law and policy have occurred.

To encourage private sector expansion and location, two development financing mechanisms were established. The Community Development Finance Corporation is designed to provide debt and equity capital to businesses in economically depressed areas of the state, provided these ventures are sponsored by community development corporations. The Massachusetts Industrial Mortgage Insurance Agency is empowered to provide loan insurance to companies in need of financing for acquisition, construction or expansion of existing facilities.

Other changes include:

- ☐ all state agencies contemplating expansion or relocation must fill their needs in existing buildings in city centers;
- ☐ the allocation of state and federal transportation investments now emphasize projects which serve already developed areas;
- ☐ outdoor recreation grants and public housing for elderly will give priority to projects in urban areas;
- ☐ sewer assistance programs have been redirected to favor densely populated areas; and
- ☐ the state's program of school building assistance has been substantially redirected to facilitate rehabilitation of existing centrally located buildings and to encourage intown location of school facilities.

The Development Cabinet is also working with city halls across Massachusetts to revitalize downtown areas by channeling state and federal funds to build new parks, improve public transportation, and promote industrial development. In one instance, the refusal by the state to provide road improvements and guarantee the necessary permits for a proposed suburban shopping center was credited with "turning the tide" in favor of a competing development proposal in a downtown area.

Michigan

Like Massachusetts' efforts, state attempts to rejuvenate urban areas in Michigan has relied heavily on strong gubernatorial leadership and a top level coordinating committee.

In February 1977, Michigan Gov. William G. Milliken established the Urban Action Group charged with the task of developing an overall strategy for cities. Throughout 1977, the group held roundtable discussions across the state on housing, neighborhoods, crime, youth education and employment, economic development and city government issues. As a result of these discussions, recommendations were made in three areas: ways the state might improve life in urban areas, specific legislative actions in functional areas, and areas where administrative attention or further research is needed.

Unlike the Massachusetts approach, the Michigan program concentrated initially on special state financial aid rather than broad state regulatory and allocative authority. For example, in recent years, state revenue sharing for cities has been sharply increased by changing from a per capita formula to one stressing local tax efforts; and state appropriations for housing and neighborhood improvement programs were increased. A plan has been proposed—yet to be approved by the legislature—to share revenues from property taxes from new commercial and industrial construction with a broad regional area, similar to the Minnesota program for the Twin Cities region.

There has also been considerable increase in state aid to hard-pressed Detroit including a special "equity payment" of almost $30 million in 1977 for services which Detroit provides its suburbs. The state-Detroit partnership even includes supplementing city manpower when necessary. For example, in 1976, with the Mayor's approval, state police were called in to back up undermanned Detroit police to battle a wave of felonies committed on freeways in the city.

California

The California plan, announced early this year, borrows heavily from the Massachusetts model. It is comprehensive in its approach and broad in its application. Developed by state's Office of Planning and Research, the policy offers series of recommendations to "revitalize California's urban areas, both cities and suburbs." It also recommends steps to provide for new development while at the same time protecting the state's natural environment.

The strategy has three priorities: renewal and maintenance of existing urban areas, both cities and suburbs; development of vacant and underutilized land within existing urban and suburban areas presently served by streets, water, sewer and other public services; and when urban development is necessary outside these areas, use of land that is immediately adjacent.

Like the Carter policy, the California urban strategy is designed to be carried out by a "partnership of the state, local government, regional agencies, citizens and the private sector." The policy describes the primary role as being that of the local governments, working together through their regional councils of government; the state role is one of a catalyst and leader to give direction to California's urban growth and development. Yet government alone cannot solve our urban problems, it said. "A strong partnership between government at all levels and the private sector is necessary to guarantee the future health of the state's economy and environment."

The strategy contains 45 specific actions to be taken as "first steps" toward implementing the urban policy goals in three broad areas: improving existing housing and encouraging new urban development; improving urban social and economic conditions; and resolving interjurisdictional conflicts. Specific actions are recommended in areas including housing rehabilitation and construction, property tax relief, building code revision, protection of agricultural lands, transportation funding, state revenue sharing, job development, and intergovernmental coordination.

In March of this year, the Governor directed all state agencies and departments to "conform their policies, actions and programs" to the urban strategy. Several executive orders and state laws supporting the policy have been implemented including a strong anti-redlining law and regulations; new state veteran's policies to encourage home purchase and rehabilitation in older neighborhoods; and allocation of state dollars to purchase parks in urban areas.

Other Actions

Other states also have initiated a variety of efforts to develop urban or growth strategies. The New Jersey activities are described in the "State/Local Watch" column of this issue of *Intergovernmental Perspective.* However, not all actions are occurring in typically urban, industrialized states. One such example is that of Arizona.

The Arizona state planning staff currently is preparing a document intended to help unify that state's growth and development efforts. A report, tentatively entitled *An Arizona Development Strategy*, will compile existing information, policies, recent studies, and recommendations on issues related to physical growth. It will represent the first broad attempt to define a growth strategy for Arizona.

ACIR News

ACIR Has New Address, Telephone Numbers

ACIR has moved to Suite 2000, Vanguard Building, 1111-20th Street NW, Washington, DC 20575. Its mailing address will remain Advisory Commission on Intergovernmental Relations, Washington, DC 20575. The telephone numbers are now: Executive Offices, 653-5540; Policy Implementation, 653-5536; Structure and Function, 653-5544; and Taxation and Finance, 653-5548.

Beame Named ACIR Chairman

In February, Abraham D. Beame, former Mayor of New York City, was named as a public member of ACIR, and designated as Commission chairman by President Carter. Mr. Beame's appointment will be for a term of two years. He succeeds Robert E. Merriam who served as chairman since 1969.

Mr. Beame began a career of public service in 1946 as assistant budget director for New York City, and was promoted to budget director in 1952. He was elected to two terms as New York City comptroller (1962-65 and 1970-73), and served as the city's 104th Mayor from 1974-77.

In April, the President named Lynn Cutler as vice-chairperson. She is a county commissioner of Blackhawk County, IA.

Six new members also were named in April. They are:

- Fred E. Anderson, president of the Colorado State Senate;
- William O. Beach, County Judge of the law and equity court in Montgomery County, TN;
- Tom Bradley, Mayor of Los Angeles, CA;
- Richard E. Carver, Mayor of Peoria, IL;
- James T. McIntyre, Jr., Director of the Office of Management and Budget; and
- John P. Rousakis, Mayor of Savannah, GA.

Federal Aid Reform Proposals Being Drafted

During the last four months, ACIR has taken a lead role in the development of federal legislation designed to improve the administration of the grant-in-aid system. Work is being done in conjunction with the staffs of Senators Edmund Muskie (ME), John Danforth (MO), Lawton Chiles (FL) and William Roth, Jr. (DE).

ACIR also is conferring with officials of the Office of Management and Budget and the General Accounting Office, and with representatives from the various public interest groups concerning the formulation of the draft legislation. Although the final form of the draft bill has not been settled upon, the content of several of the titles is emerging. These provisions of a "Federal Assistance Reform Act of 1978" include:

- Administration of Generally Applicable Federal Assistance Requirements that would establish a process to standardize and simplify the so-called "broad" or "cross-cutting" requirements (civil rights, environmental quality, citizen participation, etc.).
- Consolidation of Federal Assistance Programs that would establish a procedure authorizing the President to prepare plans for consolidating assistance programs and to submit them to Congress. Appropriate limitations would be placed on the President's discretion in selecting programs for consolidation, and provisions would be included to ensure expeditious Congressional action on plans.
- Advance Funding, under which new budget authority for assistance programs would be authorized at least one year in advance of the fiscal year in progress.
- Joint Funding Simplification, under which the 1974 act would be renewed and significantly strengthened by facilitating federal, as well as state and local agency participation in joint funding arrangements.

The proposal also will contain miscellaneous amendments to the *Intergovernmental Cooperation Act of 1968*, dealing with information on grants received by local governments, deposits of grants-in-aid, transfer of grant funds, waiver of single state or local agency requirements, standard maintenance of effort requirements, and recipient budgeting and appropriations processes.

ACIR Federal Aid Monitoring Project Underway

On March 20, ACIR convened the first meeting of its experimental Federal Assistance Monitoring Project panel. The panel, comprised of 17 grant administrators from across the country, met in Washington, DC, to discuss strategies for improving the administration of federal grant programs.

The focal point of the panel's first discussion was President Carter's September 1977 memorandum on grant system reform. The panel members critiqued the impact of the Administration's grant reform efforts, cited friction points in the federal aid system, and began to explore means for resolving these administrative problems.

The grant panel, during four meetings this year, will seek to establish an early warning system to identify grant administration problems. The panel's findings and recommendations will be forwarded to President Carter, who requested that ACIR undertake the monitoring project, and to other appropriate policymaking officials.

Buck Act Amendment Sought

In a February letter to Health, Education, and Welfare Secretary Joseph A. Califano, former ACIR Chairman Robert E. Merriam invited HEW to join ACIR and others in urging Congress to amend the *Buck Act*. The *Buck Act* permits military stores and commissaries to sell cigarettes free of state cigarette taxes. This exemption reduces the per pack price by as much as 21¢.

In his letter, Merriam observed: "Obviously, a large proportion of military customers are youths under 20—youths precisely in those years in which more than 75% of persons who smoke acquire the habit. The *Buck Act* . . . is of 1940 vintage, long before anyone had established the connection between smoking and cancer. . . . In addition, in this modern era of an all volunteer career military service, with salaries generally equated with those for comparable civilian occupations, there is no adequate justification for shielding service personnel from the revenue measures states and localities must use to finance public services—including services to military personnel and their families who preponderantly now live off the base."

A Fiscal Note

The Case For Full Disclosure And Indexation

Inflationary pressures have reared again. Recent jumps in the consumer and wholesale price index clearly exceed the 6% increase predicted by the Council of Economic Advisers for 1978, and raise anew the spector of double-digit inflation. Not the least of the several undesirable effects of sustained price increases is its interaction with income tax burdens (federal and state) for the taxpayer. Inflationary pressures propel taxpayers into higher tax brackets by eroding the value of fixed dollar exemptions and "narrowing" tax brackets. As a result of inflation and a progressive income tax, then, tax burdens rise more than proportionately.

Assuming an annual 6% inflation rate, an annual 4% real income growth, and no tax code changes from 1976 on, the inflation-induced real increase in federal personal income tax revenue would be approximately $43 billion by 1981. For the state sector, in 1981, the five-year increase would be close to $7 billion. Inflation, then, would propel federal and state income tax revenues upwards by $50 billion by 1981. Thus, indexation would result in substantial savings to taxpayers (see table).

The nexus between inflation and income tax revenues led ACIR to recommend both full disclosure of the federal and state inflation-induced real personal income tax increase, and indexation of federal and state personal income taxes—the annual adjustment of personal exemptions, the low-income allowance, the maximum limit of the standard deduction, any per capita credits, and the tax rate brackets by the rate of increase in the general price level.

Five major considerations prompted ACIR to recommend that the Congress index the federal individual income tax.

Fiscal Accountability—Indexation is needed to insure that higher, effective income tax rates are the product of overt legislative action rather than the automatic consequence of inflation.

Tax Equity—The maintenance of tax equity requires that increases in tax liability be based on real, rather than nominal, income.

Public Sector Growth—Without indexation, there is a bias in favor of an expanded public sector because inflation automatically pushes taxpayers into high tax brackets with the consequent unlegislated increase in governmental revenues.

Fiscal Imbalance—In the absence of indexation, inflation aggravates intergovernmental fiscal imbalance because the federal government is the primary collector of the "inflation tax."

Current Inflation Rates—The significance of the above considerations takes on increased importance in these times when inflation is well above historic rates.

Estimated Reduction in Federal and State Individual Income Taxes Due to Indexation[1]

(in billions)

Year	Federal Reduction	State Reduction	Total Reduction
1977	$ 5.0	$0.8	$ 5.8
1978	11.4	1.8	13.2
1979	19.6	3.2	22.8
1980	30.3	4.9	35.2
1981	43.3	7.0	50.3

[1]These estimates are based on the following assumptions real economic growth of 4% and an inflation rate of 6% for each year, no change in tax structure for the 5-year period; and federal and state individual income taxes increase by 16.5% for each 10% increase in personal income (an elasticity of 1.65%).

SOURCE: ACIR staff calculations.

And Briefly: Books

The first four publications are recent reports of the Advisory Commission on Intergovernmental Relations, Washington, DC 20575. Single copies are free.

Block Grants: A Comparative Analysis (A-60). As part of ACIR's evaluation of the intergovernmental grant system, four block grants (health, crime control, manpower and community development) were assessed. Based on these studies, this report draws conclusions about the design and administration of the block grants.

The features of block grants are described and compared to the implementation of currnt block grant programs. The lessons from these programs are examined and recommendations concerning the appropriate use of block grants are provided.

Significant Features of Fiscal Federalism: 1976-77 Edition, Vol. 3, Expenditures (M-113). This is the final volume in ACIR's biennial statistical report on federal, state and local finances.

Included are tables on overall expenditures as well as data on expenditures for education, highways, public welfare, health and criminal justice. Selected city data are included along with statistics on public employment and payrolls, and state-local retirement systems.

A Catalog of Federal Grant-in-Aid Programs to State and Local Governments: Grants Funded FY 1975 (A-52a). This report summarizes the main characteristics of the 442 categorical grants to state and local governments studied by ACIR for its report on categorical grants.

Information given includes *U.S. Code* citation, grant type, formula factors, maximum federal share, purpose of the grant, and administering agency.

1977 Changing Public Attitudes on Governments and Taxes (S-6). For the sixth consecutive year, ACIR reported on its nationwide poll of public attitudes on taxes, intergovernmental fiscal relations, and the effectiveness of the levels of government.

For 1977, there was an additional question on the desirability of granting special tax breaks to industry.

The following publications are available directly from the publishers cited. They are *not* available from ACIR.

Review of Title V Commission Plans. A study prepared by the Economic and Government Divisions of the Congressional Research Service of the Library of Congress for the Committee on Environment and Public Works, U.S. Senate, Nov. 1977. U.S. Government Printing Office, Washington, DC 20402. (Price not available.)

The *Regional Development Act* requires the Title V commissions to submit their regional economic development plans to the Public Works Committees for review.

This report evaluates four of these plans on the basis of such factors as their practicality, attention to regional problems, identification of federal, state and local solutions, and relationship to other regional plans.

Capacity Building: Improved Decision-Making and Problem-Solving in Local Government, 3 Vols., U.S. Government Printing Office, Washington, DC 20402. (Price not available.)

The Department of Housing and Urban Development in 1974 initiated a nationwide competition for demonstrations of capacity building techniques for local chief executives. This three-volume report summarizes the eight projects which were chosen and indexes the methods and approaches of policy development, resource allocation, and management responsibilities which were developed. A complete list of the 22 volumes available is included.

Interlocal Service Delivery: A Practical Guide to Intergovernmental Agreements/Contracts for Local Officials, National Association of Counties Research Foundation, 1735 New York Avenue, NW, Washington, DC 20006. $3.95.

In order to provide less expensive and more efficient government services, local governments have turned to contracts, transfers of functions, consolidations, and joint service agreements. This handbook is a step-by-step guide to one method of interlocal cooperation—the service contract. The viewpoints of the government receiving the service and the government providing it are covered.

Modern County Government, by Herbert Sydney Duncombe, National Association of Counties, 1735 New York Avenue, NW, Washington, DC 20006. $8.95 hardcover, $5.95 softcover.

County government has changed since Duncombe's 1966 book, **County Government in America.** This updated version reports on the current functional activities and structural arrangements of counties, summarizes both the history and future of county government, and covers the political system and the role of county government in the federal system.

It would be useful both as a textbook and as a reference for county officials.

Shared Power: A Study of Four Federal Funding Systems in Appalachia, American Enterprise Institute, 1150-17th Street, NW, Washington, DC 20036. $2.

This study compares the federal assistance program of the Appalachian Regional Commission (ARC) with block grants, categorical grants, and revenue sharing using interviews with state and local officials and employees.

The decisionmaking, planning and disbursement of federal aid by ARC are analyzed.

Antirecession Assistance—An Evaluation (PAD-78-20), U.S. General Accounting Office, Distribution Section, 441 G Street, NW, Washington, DC 20548. Free for government officials, libraries, faculty and students; $1 for the general public.

This report is an evaluation of the federal program for antirecession assistance to state and local governments as established by Title II of the *Public Works Employment Act of 1976.* GAO has concluded that the present program is not the most effective means to stimulate the U.S. economy during a downturn.

The Chairman of the Advisory Commission on Intergovernmental Relations has determined that the publication of this periodical is necessary in the transaction of the public business required by law of this Commission. Use of funds for printing this periodical has been approved by the Director of the Office of Management and Budget through April 30, 1979.