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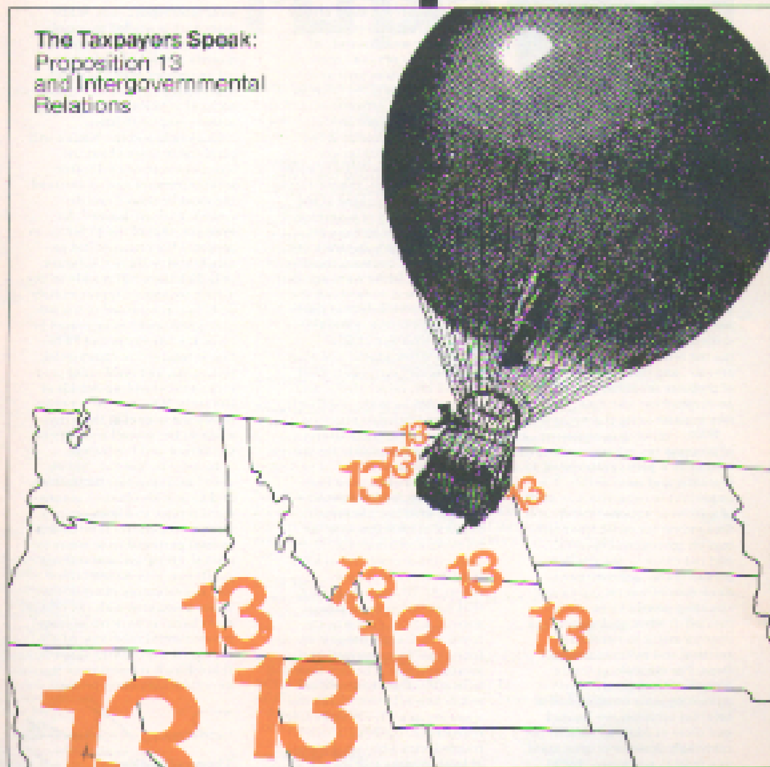
Intergovernmental PERSPECTIVE

The Taxpayers Speak: Proposition 13 and Intergovernmental Relations



ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

View From The Commission

Dear Reader:

Just weeks following the passage of California's controversial Proposition 13, ***Intergovernmental Perspective*** provides a welcomed opportunity to examine the recent wave of "taxpayer revolts" and discuss the future of property taxation, limitations on government spending, and direct impacts to local government.

While California's experience of property tax reform via Proposition 13 is perhaps the most dramatic and most visible, it is important to recognize it as part of a growing national trend demanding tax relief, fixed ceilings on government spending, and reduction in the size and pervasiveness of government. Such restrictions on taxing and spending powers being implemented or advocated around the country result in significant political and policy ramifications. For example, potential erosion of local government autonomy must be addressed as local tax revenues are limited, and cities or counties become increasingly dependent upon state and federal assistance. Social equity considerations in reducing public services must also be addressed, since lower income citizens are most severely affected by loss of even "nonessential" services such as recreational, cultural, or transportation services. Affirmative action programs are severely jeopardized as recently hired women and minorities are among the first to be terminated.

By their actions, the electorate has forced a rethinking of the appropriate roles of government and the scope of services provided. They have, in effect, created an era of cautious reassessment. Thus, while we continue to analyze and understand the more subtle meanings of the electorate's choice, government officials both in California and in other cities, states, and even the federal government, must act quickly, responsively, and responsibly by making difficult decisions related to priorities, needs, services, expenditures, and economic stability for the entire community.

Elected officials must look carefully at the consequences of current taxation patterns. Reduction in local property tax revenues accentuates an already increasing dependence of local budgets on federal funds. A recent ACIR study indicated that large cities have experienced the most dramatic increases in the relationship of federal aid to municipal, own source revenue. The fact that federal revenues generally increase at a rate faster than the economy as a whole (while local revenues increase more slowly) coupled with additional losses of local revenue sources will further intensify the federal-local interdependence. While assistance is needed to comply with federal mandates and adequately protect and preserve urban centers, public officials must cautiously assess impacts on local autonomy and decision-making responsibilities.

California and the Nation will continue to learn about the effect of Proposition 13. Our local experience and understanding must be shared and discussed. We have learned, for example, that of the $7 billion in property tax revenues lost annually statewide in California, only $2 billion will remain in the state's economy. Approximately $2 billion is returned to the federal government as increased income tax payments and $3 billion is returned to commercial, industrial, and residential property owners residing outside of the state. We must continue to assess the impact of these decisions on the overall economy of California and the Nation.

In order to face the "tax revolts" and spending limitations, and to provide effective government service and leadership, a strong, cooperative intergovernmental partnership becomes essential. Organizations such as ACIR can play an important role in evaluating many of the issues associated with tax reform and changing patterns of intergovernmental relations. ACIR can assist the country through this difficult reassessment and uncertain transition period.

Tom Bradley

Thomas Bradley
Mayor of Los Angeles, CA

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Staff

Executive Director:
Wayne F. Anderson
Assistant Directors:
John Shannon
Carl W. Stenberg
David B. Walker
Editor:
Carol S. Weissert
Contributors:
Patricia Koch
Michael Mitchell
Jane Roberts

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Intergovernmental Focus

Congress and White House Endorse Efforts to Eliminate Waste, Inefficiency

Recent public dissatisfaction with governmental performance has focused attention on the waste and inefficiency created by red tape and unnecessary governmental processes and procedures. As a result, strategies designed to improve administration of one frequent source of government red tape—the intergovernmental grant system—are receiving increased attention from the Congress and the Administration.

This summer, the Senate Subcommittee on Intergovernmental Relations will consider legislation to help reduce the complex and burdensome procedures confronted by federal grant applicants. This legislation, to be reviewed in conjunction with the state incentive grant proposal, was developed by ACIR and the Senate Intergovernmental Relations Subcommittee staff, working with OMB and White House staffs and representatives of public interest groups.

The legislation, entitled the "Federal Assistance Paperwork Reduction Act" (S. 3267), would implement several of ACIR's key recommendations in its recent report, *Categorical Grants: Their Role and Design*. For example, the proposal would establish a procedure for standardizing and simplifying crosscutting requirements generally applied to grant programs and would call for advance appropriations, whereby new budget authority for grant programs would be authorized at least one year in advance of the fiscal year in progress.

In March, President Carter issued an executive order directing all executive agencies to reform the regulation process. The order mandates that new regulations be written clearly and simply, the process by which regulations are developed be reformed to reduce paperwork burdens, the economic impact of certain regulations be assessed, and existing regulations be reviewed periodically to determine whether they might be refined, simplified, or eliminated. Agencies issuing regulations have published new promulgation procedures in the *Federal Register*, with lists of regulations to be reviewed using "sunset" procedures. Public comment on these lists and new procedures will be collected through July. The regulation reforms will become effective this fall.

While this agencywide regulation reform effort proceeds through its initial stages, the Federal Highway Administration (FHWA) is implementing its own regulation reform. The FHWA reform effort began in November 1976, with the establishment of the Regulations Reduction Task Force which studied federal highway regulations and the manner in which they are promulgated and established goals of reducing federal highway regulations, controlling issuance of new regulations, and improving delivery of federal aid highway programs.

In June 1977, following extensive consultation with state and local officials, the task force made 33 reform recommendations. Twenty-three of these recommendations were accepted; the remaining were deferred pending additional agency consideration. The FHWA recommendations established a set of 11 criteria for the formulation of new regulations. The new procedures prevent the formulation of regulations which expand upon current laws, and require a review of proposed regulations to determine the programmatic impact if they are not implemented. The FHWA recommendations also call for the formal review of existing directives to determine their effectiveness, applicability, and necessity.

One task force recommendation states that "the department should be encouraged to continue efforts to consolidate federal aid highway program categories to allow state and local flexibility." This statement is in full accord with ACIR policy which calls for grant consolidation as a means of reducing administrative costs for state and local units.

Income Tax Indexation Grows in Popularity

At a time when inflation remains stubbornly high and voters are expressing more and more discontent with their taxes, measures to reduce inflation's impact on taxes are becoming increasingly popular.

Indexation of the personal income tax is one such measure that has passed in two states—Colorado and Arizona—and is under consideration in other states and the Congress.

Inflation interacts with a progressive individual income tax to distort tax burdens in three ways:

- ☐ As income increases to keep pace with inflation, individuals are moved into higher tax brackets. Thus their percentage of taxable income increases, even though their purchasing power may remain constant or even diminish.
- ☐ If income remains constant, tax levels are not adjusted to compensate for the effect of inflation. In this case purchasing power is diminished at a rate equal to the rate of inflation.
- ☐ Regardless of changes in income level, inflation acts to erode the value of tax deductions and exemptions which, like tax brackets, are described in nominal (dollar) terms. Thus, inflation acts to increase individuals' taxable income by devaluing the various tax credits.

Indexation would help control this distortion by requiring annual adjustment of the personal exemptions, the low-income allowance, the maximum limit of the standard deduction, any per capita credits, and the tax rate brackets of the income tax by the rate of increase in the general price level.

The Colorado law, passed in April, provides that the General Assembly, utilizing the consumer price index, will set an annual inflation factor. This factor will be multiplied by the rates of income tax, percentage standard deduction or low-income allowance, and personal exemption to offset the increase in income tax revenues caused by inflation.

In June, Arizona enacted a one-year income tax indexing measure which uses the consumer price index as the annual inflation factor applied to credits, deductions, and exemptions. For future years, the state plans to improve its indexation by developing a metropolitan Phoenix and statewide index to better localize inflationary impacts across the state.

In 1977 the Illinois General Assembly considered but failed to pass a proposal to provide an automatic adjustment of the standard exemption to reflect inflation. The Wisconsin legislature currently has an indexation measure before it, but has not yet acted.

Bills to index the federal personal income tax are currently pending in both houses of Congress. One measure, H.R. 11413, the "Anti-Inflation Tax Reduction and Reform Act," would amend the *Internal Revenue Code of 1954* to permit annual adjustments of income tax and withholding rates to offset inflationary impact. The bill is awaiting action in the House Ways and Means Committee.

In the Senate, S. 2738 would go beyond adjustment of the tax brackets to index exemptions, credits and deductions, as well. This bill was the subject of hearings before the Senate Subcommittee on Taxation and Debt Management on April 24, but the bill has not been reported to the full committee.

In 1976 ACIR recommended that federal and state governments index their income tax as a means of eliminating what it called an "inflation tax." In addition, the Commission called for federal and state governments to estimate the amount of tax increase due to inflation and to publicize this information for each tax year. Model state legislation to implement these recommendations at the state level is available from ACIR upon request.

Regional Government Plan Adopted by Portland Voters

Voters of the Portland (OR) metropolitan area have approved the establishment of the Nation's first directly elected regional government. The newly constituted Portland Metropolitan Service District (MSD) will be responsible for both the planning and delivery of services and will have the power to tax, subject to voter approval.

The new MSD, to begin operation on January 1, 1979, will serve primarily the urban areas in three counties (Clackamus, Multnomah, and Washington). In November, its 12-member non-partisan board of directors will be elected from single-member districts for four-year terms. An executive director will also be elected to a four-year term at that time.

Under the measure approved by the voters, the existing Metropolitan Service District (MSD) and the Columbia Regional Association of Governments (CRAG) will be merged and the MSD name will survive. The new MSD will assume the functions of the two former bodies including solid waste management, surface water control, public transportation, and zoo management. Upon approval of a tax base by the voters of the district, the new MSD can take over and perform other regional functions, including water supply, human services, regional parks, cultural and sports facilities, correctional facilities, and libraries.

The measure passed by the voters does not authorize any new taxes for the MSD but does include authorization for an income tax (not to exceed 1%) upon approval of the voters. The MSD elected council may impose and collect service and user charges in payment for services rendered and is authorized to seek and accept grants, or borrow money from the state or any county or city with territory in the district. Existing revenue sources of the current MSD will continue unimpaired, until June 30, 1981, when the MSD council can no longer assess cities, counties and other municipal corporations within the district for land use planning services and other activities.

Two additional existing regional bodies could be merged with the new MSD according to provisions in the measure. The duties, powers, and functions of the Tri-County Metropolitan Transportation District could be assumed by vote of the MSD board of directors; the Portland Metropolitan Area Boundary Commission could be merged if approved by the voters.

The new metropolitan organizational framework was developed by the 65-member Tri-County Local Government Commission, funded in part by a grant from the Department of Housing and Urban Development through the National Academy of Public Administration. Last year, the Oregon Legislature approved the proposal and referred it to the Portland metro area voters.

Supporters of the measure have stressed that the new district will reduce the number of regional governments without creating a new layer of government; will increase accountability; will increase planning and program coordination; and will reduce costs. Opponents have, on the other hand, described the plan as a "band aid attempt at achieving efficient, coordinated government services." They maintain that a larger bureaucracy will be created and managed by an elected executive without adequate authority to be an effective administrator. Critics also question what will happen to the services which MSD will provide if voters fail to approve a tax base and the legislature rejects a funding request.

A transition committee is currently at work to prepare for the January 1, 1979, effective date.

ACIR has, since 1973, advocated the establishment of a politically viable unit that could serve as an effective and responsible regional decisionmaker as part of an overall substate regional and local government reorganization strategy. The Commission concluded at that time that what is missing in all but a few metropolitan and nonmetropolitan areas is a multipurpose regional unit capable of linking and coordinating areawide planning with program implementation. The Portland experience will be watched closely to determine whether the new MSD can achieve these goals.

Congress, States Move to Curb Cigarette Bootlegging

The Congress and several states have stepped up efforts recently to prevent cigarette bootlegging, or tax evasion resulting from the transportation of cigarettes from low-tax states for sale in high-tax states.

Federal legislation pending in both the House and the Senate calls for a cooperative federal-state enforcement approach to the problem, a solution recommended by ACIR. The Senate bill, S. 1487, was unanimously reported out of the Senate Judiciary Committee on June 21, and is awaiting action on the Senate floor. A similar proposal, H.R. 8853, was marked up and reported to the House Judiciary Committee by the Subcommittee on Crime on June 28.

At the state level, action has been taken primarily on two fronts: taxation and enforcement. The Colorado General Assembly recently used the sunset procedure to reduce the state's cigarette tax from 15¢ to 10¢ per pack. In late June, a bill passed the New York State Assembly which would alter cigarette taxes by reducing the state tax from 15¢ to 14¢ per pack and eliminating the New York City tax. Legislation awaiting action in Massachusetts General Court would lower the state cigarette tax from 21¢ to 17¢ per pack. Recent proposals to reduce cigarette taxes in Tennessee (13¢ to 8¢ per pack), and Florida (21¢ to 17¢ per pack) were defeated.

As states continue to seek sources of marginal revenue, however, pressure is exerted to increase state cigarette taxes. Since the preparation in 1975 of the Commission's report *Cigarette Bootlegging: A State and Federal Responsibility*, several states have acted to increase cigarette taxes. These states include Delaware (13¢ to 14¢ per pack), Florida (17¢ to 21¢ per pack), Indiana (6¢ to 10.5¢ per pack), and South Carolina (6¢ to 7¢ per pack).

With increased awareness of the tax dollar loss due to bootlegging, and the growing involvement of organized crime operatives, some states are attempting to stiffen penalties for cigarette bootlegging and to bolster their enforcement efforts. For example, the Pennsylvania State Senate recently passed a bill to increase the penalty for sale with intent to evade the tax through stamp forgery from a fine of not more than $5,000 *or* imprisonment of not more than five years, to a fine of not more than $15,000 plus prosecutorial costs *and* imprisonment of not more than five years. The legislation would also increase the penalties for cigarette sales without a license, and for sale of unstamped cigarettes. This measure is awaiting action by the Pennsylvania House of Representatives.

Though financially hard-pressed, several northeastern states are devoting substantial sums of money to their cigarette bootlegging enforcement efforts. Connecticut has placed a special investigations section in the state tax department and given it the principal assignment of combating cigarette bootlegging.

The New Jersey Division of Taxation's special investigative unit, responsible for controlling cigarette smuggling, since 1972 has increased its staff size by 50% by adding 20 special agents.

In New York the approximate outlay for cigarette tax evasion investigation rose to $1,029,000 in fiscal 1977. Tax investigators devoted approximately 18,000 man-hours attempting to control bootlegging during that year.

The Pennsylvania Department of Revenue, between fiscal 1973 and fiscal 1977, increased its expenditures for contraband cigarette enforcement laws from $672,000 to $1,191,000 and raised to over 50 the number of special agents assigned specifically to contraband cigarette enforcement. The Pennsylvania Department of Revenue is also offering a bounty to those individuals who aid in the apprehension of cigarette bootleggers.

The State of Illinois has begun to alter the stamps applied to cigarettes on a periodic and unannounced basis in order to combat stamp counterfeiting.

In February, North Carolina's Gov. Hunt announced that his state would expand its contraband cigarette enforcement efforts. These provisions include increased cooperation between North Carolina enforcement officials and investigative agents of other states, and the appointment of a special, high-level agent in the North Carolina Department of Crime Control and Public Safety to work solely on the development of this interstate cooperation.

ACIR has recommended that states strengthen law enforcement efforts, increase penalties for illicit sale or possession of bootlegged cigarettes, and enter into cooperative agreements for detecting and reporting unusually large cigarette purchases.

Legislative Proposal Calls For LEAA Restructure, Reauthorization

A legislative proposal calling for the restructuring and continuation of federal assistance to state and local criminal justice activities has been unveiled by the Carter Administration. The proposal marks the end of an extensive review of the Law Enforcement Assistance Administration program by the Administration, and more recently by the staff of Sen. Edward M. Kennedy (MA).

The proposal requests a four-year authorization for the restructured program and reflects a number of ACIR policy positions—particularly those related to decategorization, simplification of administrative requirements, and enhancement of local participation in the program. Among the changes the measure proposes are:

- ☐ creation within the Department of Justice of the new Office of Justice Assistance, Research, and Statistics that will coordinate three new "independent" bureaus—the LEAA (assistance), the National Institute of Justice (research), and the Bureau of Justice Statistics (statistics);
- ☐ elimination of many annual planning requirements, replacing them with a streamlined three-year application cycle;

- ☐ a new formula distribution of funds directly to states and major local jurisdictions;
- ☐ new limitations on the use of funds for hardware and administrative expenses, and elimination of expenditures for construction;
- ☐ establishment of new priority and incentive grant programs which will replace existing discretionary programs; and
- ☐ new representational requirements for units of general local government on state supervisory boards.

Congressional hearings on the proposal are expected to be held later this year.

The LEAA program has been a target of major criticism by the Administration since early last year, leading some observers to believe that the program would be dismantled entirely. This belief was reinforced by several developments. The program was the subject of review by both a Presidential reorganization task force, as well as by a special study group appointed by the Attorney General. The Administration also requested substantial cuts in LEAA appropriations, many of which have not been sustained by Congress. Last September, all ten regional offices were closed. And finally, the top administrative posts (all Presidential appointees) have been vacant since February of last year—a subject of sharp Congressional criticism in recent weeks.

Thus, news of the impending announcement of the reauthorization measure, and perhaps the simultaneous naming of a new administrator, are viewed as positive developments for the federal assistance program.

In a related development, LEAA has funded a project to study the "institutionalization" of criminal justice planning at the state level. The year-long effort by the National Academy of Public Administration is to address such issues as the structural, procedural, functional, and intergovernmental arrangements necessary to achieve this goal. To date, the vast majority of states have responded to the 1976 federal mandate to enact legislation establishing the state planning agency, however, those states which do not meet this requirement face a cut-off of LEAA funds.

State Incentive Grant Proposal Faces Congressional Scrutiny

Hearings have begun on the President's proposal to provide federal assistance to states to aid their communities, particularly those in distress. Entitled the "State Community Conservation and Development Act of 1978," the bill proposes a $400 million program over two years, to be administered by the Department of Housing and Urban Development (HUD). The measure is one of 15 bills and numerous administrative initiatives to implement the national urban policy announced earlier this year and reviewed in the Spring 1978 issue of ***Intergovernmental Perspective.***

Under the proposal, states would determine which of their communities were "distressed or declining" based on such factors as income levels, unemployment, tax effort, population, declining revenue base, public assistance levels, and "fiscal distress." States then would submit their community conservation strategies to HUD for funding. HUD would have the discretion to determine which state would receive what level of funding for implementing its strategy.

In testimony before the Senate Subcommittee on Intergovernmental Relations, HUD Secretary Patricia Harris stated that the major components of a state's strategy would focus on two primary areas: investment and development, and governmental, structural, and fiscal reform. In evaluating state proposals, Secretary Harris indicated that HUD would use such factors as:

- ☐ maintenance of state spending levels to distressed communities;
- ☐ implementation of state policies which "demonstrably serve to conserve and develop existing communities;"
- ☐ state utilization of incentive grants to implement its strategy; and
- ☐ increases in state benefits to distressed or declining communities by an amount "significantly greater" than the level of the incentive grant award.

Governors Michael Dukakis of Massachusetts and Julian Carroll of Kentucky also appeared before the Subcommittee hearing, chaired by Sen. Edmund Muskie (ME). While they generally supported the Administration's bill, they did recommend two basic changes: an increase in the funding level, and administration of the program directly by the White House rather than by HUD. The Governors also stressed the need for greater coordination and simplification of federal grant programs in general.

ACIR Assistant Director John Shannon did not direct his testimony specifically to the Administration proposal, but presented recent staff findings related to state-local tax systems and suburban-central city economic disparities. Shannon also discussed some of the implications of California's Jarvis-Gann initiative on state-local fiscal relations.

In mid-July Sen. Muskie introduced his proposal for a state incentive grant program, S. 3266, *The Federal System Reform Act.* In addition to provision of federal grants as incentives for state actions to examine and alter state policies toward local governments, the bill also would establish an office of intergovernmental affairs in the Executive Office of the President to administer the state incentive program and to provide a focal point for all federal grant assistance programs. The Subcommittee on Intergovernmental Relations will hold hearings on this measure in July. The Senate Subcommittee on Housing and Urban Affairs will hold hearings on state incentive proposals later in the same month.

After Jarvis: Tough Questions for Fiscal Policymakers

by John Shannon
and Carol S. Weissert

Shock waves of increasing intensity have jolted the state-local finance sector during the last four years. If their severity could be measured on a scale of 1-to-10, then the 1975 New York City crisis might register a Richter-type reading of 5, the 1974-76 recession about 8, and the 1978 passage of Proposition 13—an amendment to the California constitution sometimes called the "California tax revolt"—almost 10.

While the first two shocks—the New York City crisis and the recession—strengthened the hands of the fiscal conservatives, the California tax revolt has put into effect a four-point action program for sharply cutting back state and local government taxes. As of July 1, 1978, the California constitution provides that:

- ☐ No property can be taxed at more than 1% of its estimated 1975-76 market value.
- ☐ No property tax assessment can be increased in any one year by more than 2% unless that property is sold, at which time it can be reassessed on the basis of its market value.
- ☐ No local tax can be increased or a new tax imposed without the approval of two-thirds of the qualified voters.
- ☐ No additional state taxes can be imposed unless approved by at least two-thirds of the total membership of both houses of the legislature.

Proposition 13—also called Jarvis-Gann for its key sponsors—has become a banner to many, a red flag to others. This fascination with Proposition 13 can be attributed to extensive press coverage, dire predictions of doom from many officials, the especially binding nature of the amendment, and the fact that California is the most populous and, in many cases, our most trend-setting state. Immediately following the vote, "experts" and commentators wasted little time in evaluating, criticizing, and predicting the "meaning" of Jarvis-Gann. Yet it is the policymakers—particularly at the state and local levels—who will determine the meaning and who must respond to Jarvis and Jarvis-type actions. To do this, they must deal with these hard questions.

Does the Jarvis approach for controlling the growth of public spending represent the wave of the future?

Although a wave of Jarvis-type limits is rolling across many states—three states now have similar measures on the November ballot and several states have called, or plan to call, special legislative sessions to consider post-Jarvis action—there are several mitigating circumstances which render the California situation highly unusual, if not unique. Foremost among these was a $5.5 billion state surplus to cushion the initial shock of the local property tax rollback. This extraordinary surplus, together with a well above average property tax burden, a high and rising combined state-local tax burden, a strong populist tradition, and an unusually rapid growth in residential property values in Southern California all combined to give explosive support for Proposition 13. California Assembly Speaker Leo McCarthy attributes a major part of the vote to one additional cause—one not unique to California—"an anti-government feeling—part of a tide of skepticism and cynicism."

While huge local property tax rollbacks or partial assessment freezes appear unlikely in most other states, the strong support for Proposition 13 will cer-

tainly hurry history along on three fronts where some states had already been making great strides prior to the California vote.

- ☐ *More Restrictions on Local Tax and Spending Powers.* Since 1970 at least 14 states have placed restrictions on the power of local officials to raise property taxes.
- ☐ *More Restrictions on State Tax and Spending Powers.* Since 1976, New Jersey, Michigan, Colorado, Tennessee, and now, California, have taken various restrictive actions to check the growth of state spending. (See page 10.)
- ☐ *Greater Support for Home Owner Property Tax Relief.* Proposals calling for expanded circuit-breakers, split rolls, larger homestead exemptions, and tax deferrals will compete even more intensively for state legislative support.

Is it possible to moderate state expenditure growth rates without placing fiscal shackles on state legislative bodies?

Two considerations give this question an urgency that cannot be denied. First, there is clear evidence that an increasing number of citizens no longer want the state-local sector to keep growing at a faster clip than the growth in their own income. Ever since World War II, all systems have been "go" for the Nation's largest growth industry.

The Growth of the State-Local Sector, 1948-77
(State-Local Expenditures and Taxes as a Percent of State Personal Income)

	State-Local Direct General Expenditures			
Fiscal Year	Total	From Own Funds (excluding federal aid)	State-Local Tax Revenue	Exhibit: State-Local Employees per 10,000 Population
1948	9.32%	8.34%	7.03%	240[1]
1958	12.93	11.53	8.85	298
1968	16.38	13.64	10.81	396
1976	20.32	15.90	12.47	475
1977est.	20.75	16.05[2]	12.87	485

[1]Based on population including armed forces overseas.
[2]This 1976-77 slight increase varies from an earlier ACIR finding of a slight decrease in the relation of state and local spending to gross national product. This tabulation used census data, fiscal year, and personal income. The earlier analysis used national income accounts, calendar year, and gross national product.

Source: ACIR staff computations based on U.S. Bureau of the Census, Governments Division, various reports, and staff estimates.

Second, there is also evidence to suggest that a part of this growth rate can be traced to imperfections in our system for holding elected officials clearly accountable for the growth in taxes and expenditures—imperfections that become more serious during inflation in these ways:

- ☐ *Unlegislated Tax Rate Increases.* Inflation subtly pushes taxpayers into higher federal and state income tax brackets.
- ☐ *The Diffusion and Misdirection of Political Responsibility for Higher Local Property Taxes.* Is the taxpayer to blame the assessor, the school board, the city council, or the county board for his tax increase?
- ☐ *Diffusion and Misdirection of Political Responsibility for New Spending Programs.* In many instances, Congress takes the political credit for enacting a new program (such as the *Safe Drinking Water Act*) while mandating the additional expenditure requirements on states and localities. Similarly, state legislatures often mandate new services or the upgrading of the wages and pension benefits of local employees and force the added expenditure requirements on local governments. There is also the frequent case in which one legislature will take political credit for the enactment of a new program but leave to the next legislature the task of funding it.

In order to remove these imperfections from the political marketplace, the political accountability of elected officials must be strengthened. By so doing, expenditure growth rates can be slowed down without doing violence to the concepts of representative government, majority rule, and fiscal flexibility. Examples of this strengthened accountability approach can be found on both the tax and expenditure sides of the fiscal equation.

A good example of strengthening political accountability for expenditure decisions is the 1978 Tennessee constitutional amendment that restricts state spending to the growth in the state economy. The state legislature can exceed this limit by a simple majority vote, provided it follows a full disclosure procedure. This amendment also directed the state legislature (a) to at least partially reimburse local governments for state expenditure mandates, and (b) to fully fund the first-year cost of all new state programs. In effect, then, it directs the state legislature to put its money where its mouth is.

The State of Colorado strengthened political accountability when it indexed the personal income tax this year so as to prevent inflation from pushing taxpayers into higher tax brackets. Similarly, Arizona passed a law indexing its deductions, credits, and exemptions. The ACIR has recommended this action on the grounds that higher income tax rates should result from overt state legislative action rather than as the silent consequence of inflation.

Admittedly, these various means for focusing a sharper spotlight on tax and expenditure decisions will come under attack from the hard line fiscal conservatives as very "weak tea." Underpinning their objections is the firm conviction that elected representatives can no longer say "no" to all the various pressure groups—that their backbones must be stiffened by replacing a simple majority requirement

Recent State Restrictions on State Tax-Spending Powers

State	Type of Restriction and Year of Enactment		Remarks
	Constitutional	Statutory	
Colorado		1977	Allows a 7% increase in general fund spending with an additional 4% to reserve fund. Amounts over 11% refunded to taxpayers.
		1978	Indexation of the state personal income tax to prevent inflation from pushing taxpayers into higher tax brackets.
Michigan		1977	Budget stabilization fund provided. Percent in excess of 2% of adjusted personal income multiplied by previous year general purpose revenue to determine amount to be deposited in budget stabilization fund. Withdrawals are provided if there is a decrease in adjusted personal income.
New Jersey		1976	Spending increase limited to increase in the state personal income *(federal series). Increase of between 9% and 10% for this year.*
Tennessee	1978		Spending increase limited to growth in the economy. Increase approximately 11% this year. Provisions for full or shared costs for mandated programs to local governments.
California	1978		Proposition 13 (Jarvis-Gann), by constitutional revision, provides that any changes in state taxes enacted for the purpose of increasing revenues must be imposed by an act passed by not less than two-thirds of all members elected to each of the two houses of the legislature, except that no new àd valorum taxes on real property or sales or transaction taxes on the sales of real property may be imposed.

Source: ACIR staff compilation, 7/10/78.

with a constitutional provision that calls for two-thirds majority approval as the prerequisite for either the enactment of new taxes or a decision to raise expenditures significantly. In effect, this hard line approach gives the conservative minority a veto power over all major tax or expenditure decisions. It, of course, completely undercuts the concepts of representative government, majority rule, and fiscal flexibility—the Jarvis prescription.

A policy of strengthening political accountability will also come under fire from the left side of the political spectrum. Liberals are apt to oppose some of these policies on the grounds that they represent a foot in the door for the fiscal conservatives. Many liberals believe that the public sector is still undernourished, particularly in those program areas that are of most concern to the poor and minority groups. Thus, in their judgment, tax and expenditure questions should be resolved in favor of meeting these urgent public needs—not in figuring out new ways to slow down the growth in state and local government.

Confronted with these conflicting demands and philosophies, many policymakers will opt for the middle course—that of slowing down expenditure growth rates by strengthening the political accountability of elected officials.

When is a state justified in imposing a tight, permanent, lid on local property tax authorities?

In the judgment of the Advisory Commission, the state is justified in adopting a permanent, tight lid policy *only* if the state is willing to provide adequate financial leeway to local governments. The tighter the lid, the more persuasive is the case for a new source of local revenue. Adequate flexibility could take the form of a major new source of tax revenue for local governments or the enactment of a substantial state program of unconditional aid to localities.

Without this compensatory action, the trend toward fiscal centralization will become even more dramatic. This centralizing tendency was clearly underscored by recent ACIR findings that while state lids on local levies reduced property tax levels, this effect was offset by higher state taxes.

Can state policymakers prevent locally elected officials from reaping inflation "windfalls" from rapidly rising property tax assessments without imposing arbitrary and tight tax or spending lids on localities?

This issue becomes especially acute during periods of inflation when property values generally and residential property values in particular rise at a faster clip than the income of the property owner.

In many cases, local legislative bodies do not cut back their property tax rates roughly commensurate with a substantial hike in the tax assessment base and the assessor—not the local legislative body—is mistakenly blamed for the resultant increase in the property tax load.

Florida has resolved this property tax windfall issue without imposing restrictive lids through the adoption of a "truth-in-taxation" procedure. The author of this pioneering legislation, State Representative Carl Ogden, recently described the full disclosure procedure:

> Every year, the tax appraisers reassess homes in light of current market values, which generally are higher than the year before. The tax rate is then reduced, so as to generate no additional revenue from the reassessment. The only "fudge factor" is new construction, which can be taxed outside the normal rolls for the first year.
>
> If last year's revenues plus the fudge factor aren't enough for this year's public expenditures, the taxing unit—for example, the city council—has to put [a] . . . quarter-page ad into the local newspaper of largest circulation: 'The City Council proposes to increase your property taxes. Hearings will be held on (such-and-such a date).'
>
> Lest you overlook the ad, it must be surrounded by thick black border.
>
> If after the public hearing, the council goes ahead and raises taxes, another black-bordered, quarter-page ad must be placed: 'The City Council has voted to raise your property taxes. Hearings will be held (on such-and-such a date).' After the second set of hearings, there's another vote. Only then can taxes actually be increased.[1]

While such a procedure may appear restrictive to many local officials, it nevertheless permits them to raise rates as high as they want by a simple majority vote. In effect, local officials have as much fiscal leeway as they want to exercise— provided they're willing to accept full responsibility for their decision to raise taxes.

What is the best instrument to provide property tax relief to home owners?

In the judgment of the Advisory Commission, a state-financed circuit-breaker gets the nod. Three considerations support this judgment.

First, the circuit-breaker can provide tax relief to those who need it most at a lower cost than a homestead exemption. If the objective is to relieve residential property taxes that are unduly burdensome, the relief should go to those households that are carrying above average property tax loads in relation to their income—the circuit-breaker can do just that.

Second, in contrast to homestead exemptions, renters as well as home owners can be given relief under circuit-breakers. On the assumption that landlords pass on a substantial share of their property taxes to renters in the form of higher rents, the majority of circuit-breaker states designate some percentage of rent as a property tax equivalent which enter the circuit-breaker calculation in exactly the same manner as owners' tax payments.

Third, the circuit-breaker is less likely to encounter legal obstacles than the homestead exemptions or other proposals that tax business property more heavily than residential property, such as the "split roll." Because of the uniformity provisions, a constitutional amendment appears to be a prerequisite for homestead exemptions or split roll proposals in many states. By contrast, because the circuit-breaker can grant relief from residential property taxes without adjusting either tax assessments or tax liability, the courts have consistently held that the circuit-breaker does not violate state constitutional provisions. By the same token, spokesmen for industrial and commercial property owners usually find the circuit-breaker the least objectionable method of providing preferential treatment for homeowners.

Our latest survey indicates that, in 1977, 30 states paid out almost $1 billion in circuit-breaker relief to five million householders—a 112% increase when compared to circuit-breaker payments made three years earlier.

Costs and Participation Rates of State Property Tax Circuit-Breaker Programs: *Fiscal Years 1974 and 1977*

Year	Total Cost of programs (in thousands)	Number of Claimants	Average Cost Per Claimant	Cost Per Capita
1974 (21 states)	$446,970	3,020,755	$147.97	$4.41
1977 (29 states) +D.C.	949,561	5,112,738	185.72	6.90
Percent Increase	112.4%	69.3%	25.5%	56.5%

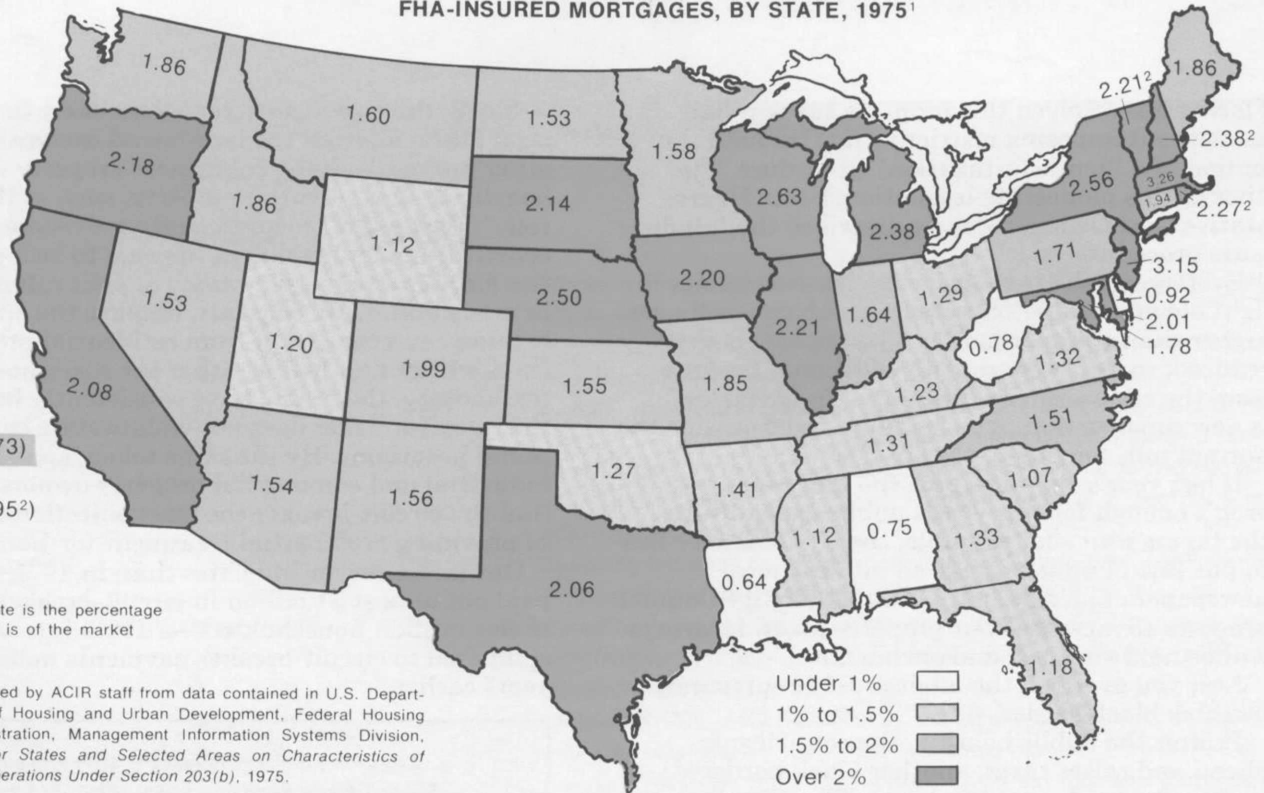
Does it make political and economic sense to retain the property tax as a major source of local revenue in an inflation-ridden economy?

Despite obvious defects and poor public image, the property tax has significant political and fiscal virtues. First, it is the one major revenue source directly available to local government and therefore serves as the traditional defense against fiscal centralization. Second, it is the one tax in general use that can recapture for the community the property value partially created by that community. Third, its high visibility makes it a force that can work in favor of greater public accountability.

Beyond these three considerations there is the inescapable element of fiscal realism—the Nation's local governments will not quickly come up with an acceptable substitute for this powerful $65 billion revenue producer. Prudent public policy, therefore, would dictate the adoption of measures designed to reduce the irritant content of this levy.

What is the ACIR prescription for keeping the irritant content of the local property tax at tolerable levels—particularly during periods of inflation?

[1] *The Washington Post*, June 19, 1978, p. D10.



The danger of a California-type property tax blowout can be minimized if a state adopts a "five-ply" protection plan. While each of the "plys" or elements is important on its own, all must be combined to provide maximum protection against inflation-produced stresses on the property tax. These elements include:

1. A uniform system for administering the property tax marked by:
   - ☐ market value appraisal of all taxable property;
   - ☐ professional appraisers;
   - ☐ either strong state supervision of local assessors or state administration of the tax assessment system; and
   - ☐ the preparation and disclosure of assessment ratio findings to enable taxpayers to judge the fairness of their assessments.
2. A "truth in property taxation" process along the lines of the Florida plan that will enable taxpayers to fix political responsibility for higher property taxes.
3. A state-financed circuit-breaker system to shield home owners and renters with low and fixed income from property tax overload situations.
4. An intergovernmental "fair play" policy. When the state mandates additional expenditure responsibilities on local government, it should be prepared to help finance the added expenditure burden. When a state mandates a partial or complete exemption from the local property tax (such as a homestead exemption), it should reimburse the localities for the revenue loss.
5. A tax utilization philosophy that rests on the premise that a good property tax is a moderate property tax. As with any other tax, the heavier it becomes, the less obvious are its virtues and the more glaring are its defects. A moderate property tax should fall in the 1% to 1.5% of market value range. Beyond 1.5% of the market value, the amber warning light turns on, beyond 2% the red danger light flashes. If a state assumes the full cost of welfare and Medicaid and at least 65% of the cost of local schools, it will probably be able to hold local property tax levels below 2% of market value (see map).[2]

There is room for guarded optimism about the prospects for this five-point program for remedial property tax action. Legislatures in many states may find it far more acceptable than the radical surgery alternative prescribed by Doctors Jarvis and Gann. If this turns out to be the case, then Proposition 13 Day—June 6, 1978—will also become a red letter day in the long and troubled history of the property tax.

[2]These recommendations and background supporting them are contained in these ACIR publications: *The Role of the States in Strengthening the Property Tax* (A-17), reissued in 1976; *State Limitations on Local Taxes and Expenditures* (A-64), 1977; *Property Tax Circuit-Breakers: Current Status and Policy Issues* (M-87), 1975; *State Mandating of Local Expenditures*, forthcoming ACIR report; and *The States and Intergovernmental Aid* (A-59), 1977. In addition, ACIR had drafted model state legislation in each of the first four areas.

John Shannon is Assistant Director for Taxation and Finance and Carol S. Weissert is Information Officer for the Advisory Commission on Intergovernmental Relations.

Proposition 13 and California's System of Governance

by David B. Walker

Jarvis-Gann means many things to many people—a rambunctious populist revolt against soaring taxes, uncontrollable governmental spending, and burgeoning bureaucracies; a racist-inspired push to curb programs for the poor; a real rejection of big government and its spokesmen; a positive affirmation of free enterprise precepts; a powerful punishing of unresponsive politicians palavering endlessly over what to do with mounting surpluses; (and) or a major indicator that inflation and its governmental revenue and spending effects are uppermost in the minds of the voting citizenry.

These various interpretations of Proposition 13 have one thing in common: they entail fiscal issues and varying attitudes about them. Much less frequently have the effects on governmental structures and functions been raised in the rash of instant analyses that has innundated the public since the June 8 tidal wave vote for the Proposition. And, probably with good reason: the governance of California—that is, the complex jurisdictional system wherein the state, counties, cities, school districts, and special districts render a range of services—was not a prominent topic of referendum debate.

In the immediate wake of Jarvis-Gann's passage, only passing references were made to its possible institutional and nonfiscal intergovernmental effects. Instead, local officials advanced dire predictions of drastic service cuts—of reduced fire and police protection, of closed schools and libraries, of abandoning the old, the defenseless, and the poor. Some local jurisdictions made good on some of the forecasts. Summer school programs were scrapped and thousands of school personnel were given unpaid "summer vacations." Various cities and counties instituted "hiring freezes," and some sent out termination notices. Some cut or scrapped their contributions to their regional councils of governments (COGs). Ironically, in some cases, central management people (in budgeting, administrative, and planning units) faced the brunt of the layoffs, thus making it more difficult for local elected officials to "engineer" the necessary long-range adaptations to Jarvis-Gann. In short, much of the initial reaction was to seek out ways to reduce local services in order to live within the straitjacket imposed by Proposition 13.

Talk of "reprivatization," user charges, and new business and nonproperty taxes was also heard, however, and it came from those who felt that a more balanced mix of new and old revenues as well as curtailed services had to be devised if local governments were to survive. A few jurisdictions actually moved to a system of "fees" for certain services and considered new business levies.

But, most of those who sought a nondrastic adjustment to Jarvis-Gann either waited the word from, or descended upon, Sacramento. School district spokesmen wanted a major share of the property taxes and $2.2 billion of the state surplus. The counties sought state takeover of $1.6 billion in welfare and health costs, while city representatives asked for a second penny of the state's 6¢ sales tax and a prorated share of the property taxes. In short, the petitions pretty much boiled down to "m-o-n-e-y," as Los Angeles Mayor Tom Bradley described it.

For somewhat different reasons, the eyes of the rest of the nation, including Washington's, focused on the California capitol and the deliberations of Gov. Brown and a select six-member legislative committee. The latter group, after all, had the tough assignment of divvying up the $5 billion state surplus, the surviving $4.4 billion in property taxes,

and the $2 billion shortfall from pre-Jarvis-Gann property levies. Although the result of these deliberations would be a stop-gap measure—designed only for one year—the decisions reached by the committee could well set a precedent or "test the waters" for later, more long-term actions. They would be of particular interest to a blue-ribbon commission headed by former legislative analyst A. Alan Post which will investigate long-term questions raised by Proposition 13 and make appropriate recommendations.

Many observers felt that the legislative committee would simply divide the bulk of the funds on the basis of each type of local jurisdiction's proportion of overall local expenditures. Most observers then believed a purely public finance response would emerge from the "council of elders." But, they were wrong.

The State Response

On June 23rd, the legislature approved a sweeping package of relief and reform proposals, containing fiscal and functional reassignment, and jurisdictional reform measures. In grappling with the financial issue, the select committee and the Governor addressed some of the institutional and programmatic questions that were subsumed under it.

Fiscally, more than $5 billion in state surplus funds was allocated to California's localities, thus restoring all but $2 billion of the revenue lost to these jurisdictions as a result of Proposition 13. Of nearly equal significance, however, was the state takeover of $1 billion in county outlays for welfare, food stamps, and health and the allocation of $125 million in aid to the 58 counties for allocation in turn to California's 4,700 special districts and authorities. The practical effect of the latter action seemingly is to make the districts and authorities dependent on local elected governments—a move long sought by various governmental reformers (including ACIR). The state takeover of the expensive welfare function is another significant move in redefining functional roles for California's governments.

The net effect of this package of moves is to change the mix of state and local functional responsibilities in a way that some reformers have endorsed for years. The impact on special districts will upset "public choice" advocates and special district spokesmen, but few others. And, a few have forecast the merger by counties of special districts into multipurpose servicing authorities as a way of reducing overhead costs and of curbing programmatic "tunnel vision." Cities are authorized to levy (or raise) charges and to institute certain new revenue raising resources. In personnel terms, all local jurisdictions are required to freeze salaries for fiscal year 1978-79 and fire and police services are not to be reduced. These mandates could place a heavy burden on upcoming local public sector employer-employee negotiations, which in turn might trigger changes in California's "meet-and-confer" labor relations statute.

The immediate legislative-gubernatorial response to Proposition 13, then, was more than a purely fiscal one. Its authors dealt with complex functional, institutional, and personnel questions—all under a deadline and in the shadow of a "fiscal gun."

What Now?

The consensus in Sacramento following the legislature's actions was that these were only a beginning. "Having rescued the state from chaos," declared Sen. Albert Rodda, chairman of the select committee, "the legislature can now proceed to address the problem of total confusion."

The extent of the ultimate confusion depends in part on what set of revenue forecasts proves accurate. There are roughly three broad schools of thought among public finance experts and economists. The first group, the pessimists, argue that future state surpluses will not match the $5 billion that was allocated by the legislature. Some estimate the surplus at $3 billion next year; only $2 billion the following year. Yet the state will be confronted with higher welfare and Medicaid outlays, thanks to the fiscal responsibility shifts engineered by the select committee. All this, plus an expected reduction in the rate of California's participation in federal aid programs (by $5.2 billion, according to one study), adds up to confusion, real service curtailment, and intensified intergovernmental conflict, according to this school of not-so-sanguine thought.

Another group, led somewhat charismatically by University of Southern California Prof. Arthur Laffer, believes that the tax cut (three-fifths of which favors businesses and landlords) will spur business investment and private spending, thus leading to an increase in public revenues. Laffer predicts an additional $3 billion in state revenues (from sales, income, and profits taxes) in the first year of Jarvis-Gann.

A middling group rejects the prophets of gloom, but finds the Laffer curve too optimistic; his optimum point thesis, an untested opinion; and his forecast of revenue gains far too fanciful. Instead, they see reduced state-local revenues, but not by the margin anticipated by the pessimists; a continuing need to make government more effective; and the prospect of some service curtailments.

If this last forecast is accurate, what other efforts might be anticipated in the functional and institutional areas?

- ☐ One fairly safe guess is that interlocal contracting and agreements will increase. These have generally been the most popular ways of making servicing shifts on a multijurisdictional basis because they are voluntary, and an ACIR survey in 1972 found that reduced service costs was the chief reason cited for entering into such agreements. At the same time, it can be expected that

municipal participants in "Lakewood" contracting arrangements will be even more cost conscious than they have been in recent years.

- ☐ Another possible result will be an increase in the transfer of certain functions from cities to counties, given the new posture and program role of California's counties.
- ☐ With the state takeover of the bulk of welfare and health costs, a different state aid picture emerges —one where education is even more ascendant than it is now and where other functional areas may assume greater importance. In general, it seems certain, that local program support, not added stimulation, would be the basic purpose of these state endeavors and that intergovernmental fiscal transfers would assume a larger proportion of the budgets of counties, cities, and school districts than they do now.
- ☐ At first glance, it would seem that California's regional councils and regionalism in general, would be in for a very circumscribed future; local contributions to COGs are being curbed, dues assignments are being shaved, and the staffs of some already are being cut. At the multicounty level, the situation is somewhat different, since lack of local funds will not be a problem. The big regional special districts (chiefly state-mandated), the many federally encouraged multicounty districts, as well as the COGs, still have either state or federal support and the roles they play are not insignificant. In this situation, then, perhaps the formula that the legislature applied to the special districts below the county level will be applied to the various units at the multicounty tier. But, on what authoritative instrumentality would these regional units be dependent? Here, some novel institution building clearly would have to occur. But, a bias in favor of general purpose governments has pretty much dominated Sacramento's deliberations thus far, and this augurs well for the future.
- ☐ With federal assistance, a series of complex issues arise. General revenue sharing will become more popular, but its tax effort allocational factor will cause more pain than ever before. With the large federal-local block grants, like CETA and community development, the no-match requirements will be viewed in an even more favorable light than they have to date. On the other hand, their "maintenance of effort" provisions, and the attempts by federal administrators to reduce local attempts at "substitution" will be resented far more than they are currently.
- ☐ Local policymakers may well begin to grapple with the long-term implications of assuming a series of new functions in the manpower and community development areas, especially if they find that there are spin-off local fiscal and personnel implications associated with these federally encouraged undertakings.
- ☐ Finally, basic questions of centralization vs. decentralization and of "home rule" vs. needed state (and federal) action are bound to be debated as the shifts in funding and servicing roles (mostly upward, but some downward) become more clearly understood.

Conclusion

The complexity of California's functional assignment puzzle, currently under careful examination by state and local policymakers as a result of Proposition 13, is far from unique. In 1974, ACIR found that across the country "present functional assignment patterns are often haphazardly determined on the basis of fiscal pressures on state or local governments, and numerous federal and state program initiatives, all of which often result in inappropriate and conflicting patterns of functional assignment among states, regions, and local governments."[1]

In order to provide a more consistent and logical assignment of responsibility, the Commission recommends that states enact legislation establishing an on-going assignment of functions policy and process. Such legislation, at the minimum, should authorize the state advisory commission on intergovernmental relations, or similar entity, to:

- ☐ formulate general criteria for assigning new public services and reassigning established or expanded ones;
- ☐ develop on a case-by-case basis specific functional classification standards;
- ☐ seek the assistance of affected local and state government representatives in developing the functional classification standards;
- ☐ prepare an intergovernmental impact statement concerning any assignment or reassignment proposal affecting state-local delivery systems;
- ☐ recommend state constitutional, legislative, or where appropriate, local referendum action for the assignment of new and reassignment of established or extended functions according to the classification standards.

During the month of June 1978, California moved far toward achieving many of ACIR's proposals for improved functional assignment. In the confusing, yet clearly not chaotic, period ahead, it is hoped that the more analytical, institutional, and long-range elements in this proposed ACIR strategy could be addressed. If the recent past is prologue, then the future of California's system for delivering and financing of services need not be bleak.

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[1]Advisory Commission on Intergovernmental Relations, *Governmental Functions and Processes: Local and Areawide* (Report A-45), Washington, DC, U.S. Government Printing Office, February 1974.

David B. Walker is ACIR Assistant Director for Governmental Structure and Functions.

The State-Local Role in Federal Economic Stabilization

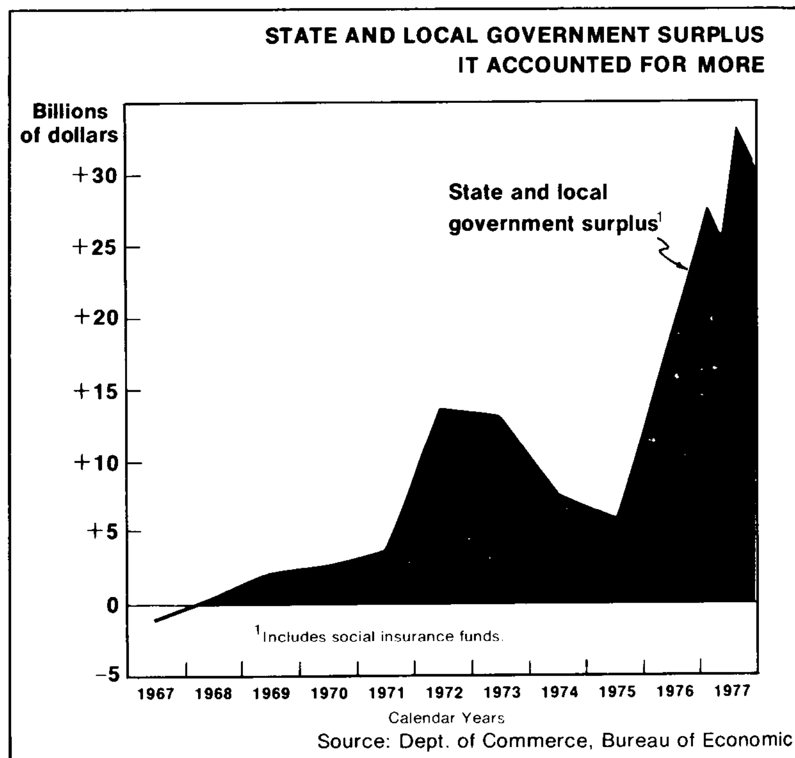
by John P. Ross and Susannah E. Calkins

During 1974 the United States economy slipped into the worst recession it had experienced since the major depression of the 1930s. From the fourth quarter of 1973 until it hit bottom during the first quarter of 1975, real gross national product (GNP) declined by 6%, from $1.24 trillion to $1.17 trillion. The unemployment rate rose sharply, from 4.8% to 8.7% in the second quarter of 1975. Inflation, already high during the previous periods, increased from 8.6% to 12.6% by the fourth quarter of 1974. Although the economy began a modest recovery during 1975, the improvement was not immediately reflected in the unemployment rate: it remained at 7.7% for 1976.

The recessionary impact on state and local governments was severe. Cities which had been experiencing financial problems before the onset of the recession found their fiscal situation growing more hazardous every month. Mayors and Governors asked Washington for assistance.

In Washington there was concern about another issue—the effect of state and local government actions on the national economy. Before the recent growth in the size of the state-local sector of the economy, state and local actions to cope with recession had relatively minor impact on the national economy. But now, with the state-local sector accounting for about 13% of the GNP, actions taken by the states and localities could have adverse or neutralizing effects upon federal efforts to stimulate the economy. With aggregate state and local surpluses amounting at times to more than 1% of the GNP, the overall position of the state-local sector has important ramifications for economic stabilization. Cuts in state-local spending could substantially reduce aggregate demand and increases in state and local taxes could withdraw needed purchasing power.

Congress took action to deal with both state-local requests and federal economic stimulation by creating in 1976, and expanding in 1977, an economic stimulus package of aid to state and local governments with three basic components: a Local Public Works Program to provide funds for state and local public works projects which could be started quickly, an Antirecession Fiscal Assistance Program (ARFA) to provide unrestricted funds to state and local governments with high unemployment rates,

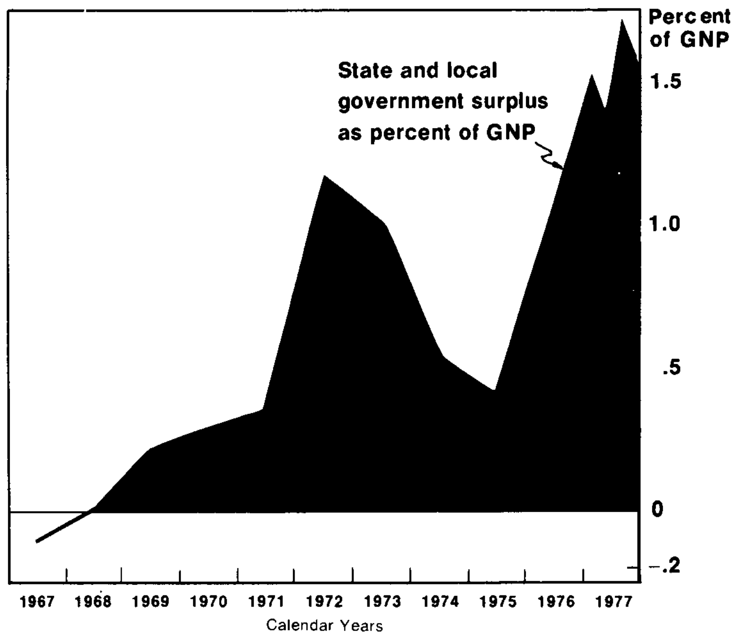


and programs under two sections of the *Comprehensive Employment and Training Act* (CETA) to be used to fund public jobs.

These three programs had two related, but not necessarily identical, purposes. The first purpose was economic stimulation. The additional aid distributed would allow state and local governments to spend more, maintain or improve service levels, hire additional employees, and in the process spur aggregate demand and thus aid the recovery process. The second purpose was to provide fiscal support to those state and local governments whose finances were most severely disrupted by the recession, and at the same time prevent those governments from undertaking actions which would slow down the recovery process. Channeling aid to these particularly distressed governments was appealing because it enabled more precise targeting of assistance than the more traditional methods of tax cuts or national expenditure programs which distribute across-the-board stimulus aid.

Under this package, state and local governments assumed the new role of fiscal agents in federal economic stabilization. Recognizing the significance of their role, Congress, in the enabling legislation, asked ACIR and the Congressional Budget Office to examine the relationships between federal fiscal policy and state and local governments. The ACIR assignment was to determine the advisability of using state and local governments as agents of national economic stabilization policy and of using federal grants-in-aids to stabilize state and local finances in periods of severe economic fluctuation.

HAS CLIMBED RECENTLY; IN THE LAST HALF OF 1977, THAN 1.5% OF GNP.



Analysis, and ACIR staff computation.

The Recession and State-Local Governments

The first step of the ACIR study was to examine the impact of the recession on state and local financial behavior. Three major trends were evident:

- ☐ While state and local governments are still a major industry, during the 1970s, the rate of their expenditure from their own funds slowed down. What growth there has been is primarily due to federal aid.
- ☐ Historically, the flow of federal aid funds to state and local governments has grown with no apparent consistent relationship between the rate of that growth and the health of the national economy. Until 1976, federal aid had not been used for antirecession purposes.
- ☐ For two decades federal aid has grown at a faster clip than state and local revenues raised from their own sources. This is particularly true for local government. State and local governments are becoming increasingly dependent on federal assistance.

The Commission then looked at state and local actions during economic downswings and recoveries. It concluded that in the past, aggregate state and local government actions have not countered federal economic stabilization efforts. Specifically, ACIR found that:

- ☐ State and local governments in the aggregate have not contributed to recession. In the aggregate, their financial actions helped the recovery.
- ☐ State and local fiscal behavior has not been a major driving force in increasing the present rate of inflation.
- ☐ While state and local governments are contributing to the present recovery, that contribution is at a slower rate than in previous recoveries.
- ☐ The combination of inflation and recession has led to an erosion of the financial position of state and local governments in the aggregate. While the net effect has not been devastating, some places (particularly central cities) with high unemployment have suffered real financial distress.

The Economic Stimulus Package

The study also examined the three components of the 1976-77 stimulus package—particularly highlighting the intergovernmental fiscal dimensions.

The Local Public Works Program. Under this program, the Economic Development Administration has granted $6 billion to state and local governments for capital projects which could be started quickly; $2 billion of this amount was authorized under the 1976 legislation. Under the May 1977 extension of the program, known as "Round II," about $4 billion has been allocated to governments by a formula distributing 65% of the funds to state and local governments on the basis of the total number of unemployed in the state area and 35% to jurisdictions with an average unemployment rate

(over the 12-month period ending in February 1977) in excess of 6.5% on the basis of the state's share of national excess unemployment. Total allocations to governments in a state could not be less than $40 million under the two rounds. Approval by the Economic Development Administration of projects submitted by states and localities was considered final at the end of September 1977; expenditures are made as work on the projects progresses.

The Antirecession Fiscal Assistance Program. The program was established under Title II of the *1976 Public Works Employment Act,* and expanded and extended in May 1977. It selectively distributes emergency assistance in the form of quarterly unrestricted grants to state and local governments in areas with high rates of unemployment. Under the two acts a total of $3.5 billion has been authorized through the quarter ending September 30, 1978. Through June 30, 1978, $2.8 billion has been paid to recipient governments.

The total amount available for allocation each quarter depends upon the national unemployment rate for the quarter ending three months earlier. For each quarter with a national unemployment rate exceeding 6%, a base allocation of $125 million is made, plus $30 million additional for each one-tenth percentage point by which the rate exceeds 6%. No payments are to be made for a quarter if the national unemployment rate for the quarter ending three months previous, or the rate for the last month of that quarter is below 6%. (During the first quarter of 1978 the unemployment rate remained only slightly above 6%.)

Two-thirds of the national fund goes to local governments; one-third to states. The funds are allocated under a formula using "excess" (over 4.5%) unemployment and the general revenue sharing allocation for the recipients. No payments are made to any government with an unemployment rate of 4.5% or less. The number of governments which have received quarterly grants has declined from 60% of the total eligible governments for the first quarter (ending in September 1976) to 43% at present.

Public Service Employment under CETA. State and local governments are provided with funds for public service employment under Titles II and VI of the *Comprehensive Employment and Training Act,* which was originally enacted in 1973. In response to the President's proposal for a substantial expansion of federally funded public service jobs for those who find it hard to obtain private jobs, Congress extended and expanded the program and provided funds amounting to $6.6 billion until the end of September 1978.

CETA funds are allocated according to formulas spelled out in the basic legislation to "prime sponsors" (governments or consortia of governments) in areas with above average unemployment. Funds may be used only for public service needs that have not been met with local funds and to implement new services. The legislation contains provisions designed to limit holders of public service jobs to the long-term unemployed, or former welfare recipients, or others who have difficulty finding private jobs. Programs under this title differ from the other economic stimulus programs because their primary focus is providing jobs for persons residing in specific areas, rather than providing funds to state and local governments.

An Evaluation of the Current Program

The three-pronged Economic Stimulus Program represents a decision to use a shotgun approach for combating recession and stabilizing state and local financial positions. State and local budgets are supplemented with a capital component, a personnel component, and a general fiscal support component. An assessment of each program using six criteria illustrates its strengths and weaknesses as a countercyclical tool. The six characteristics are: timing, triggering, reversibility, simplicity, targeting, and overall effectiveness.

Timing. While none of the three programs was ideally timed to counter the 1973-75 recession, the Antirecession Fiscal Assistance Program distributed aid to state and local governments more rapidly than the other two programs. Because its allocations are computed and made quarterly, the program has the potential for the closest coordination with future swings in the national economy.

Because both the CETA programs and the Local Public Works Program operate through one-time allocations, rather than making allocations at specified intervals, they cannot respond quickly to changes in the economic situation.

Despite strenuous efforts made to get the Local Public Works Program started as rapidly as possible, estimates indicated less than $600 million of the $6 billion authorized was actually spent before the end of fiscal year 1977. More than half of the local public works funds will remain to be spent during fiscal 1979 and 1980, well after the recession has passed.

The CETA programs were also slow to go into operation, primarily due to difficulties in filling the public job slots with workers who met the legal qualifications. In fiscal 1977, CETA spending was estimated at less than $500 million.

Triggering. The method by which a program is put into action is called its trigger. It can be either a discretionary action such as Congressional enactment of a grant program, or formula flexibility which involves activating the program as an automatic response to a prearranged economic signal (such as a specified unemployment rate). All three of the economic stimulus programs were begun by Congressional enactments; such enactments tend to lag long after the onset of a recession. Only the Fiscal Assistance Program contains an automatic trigger to

One of the major strengths of all three programs is the ability to provide funds to areas of high unemployment.

authorize funds when the national unemployment rate reaches 6% of higher.

Reversibility. None of the three programs can be reversed (cut-off) quickly without adverse effects, since each has encouraged state and local governments to rely upon the additional amounts of federal assistance provided.

Simplicity of Operation. None of the three is simple in its operation or predictable in the amounts of money which it makes available to individual jurisdictions. The unemployment data by which funds are allocated are generally conceded to be unreliable for smaller units of government; the formulas by which funds are allocated are complicated and frequently produce unpredictable individual allocations.

Targeting. One of the major strengths of all three programs is the ability to provide funds to areas of high unemployment. A high proportion of the funds go to cities (about 60% of the public works funds, 40% of the fiscal assistance funds, and a substantial percentage of CETA funds). Those large cities which are suffering from the greatest fiscal stress are receiving high proportions of the funds. Of the three programs, the Antirecession Fiscal Assistance Program is the most highly targeted.

Targeting to states is greatly influenced by the size of the state population. When allocations under the total package are examined, California and New York have received the largest total allocations (about $1.9 billion each through March 1978). Wyoming and South Dakota received the smallest (about $45 million each). On a per capita basis, however, governments in states with the smallest populations tended to receive the highest per capita amounts (Alaska got $205 and Vermont, $140) due chiefly to the $40 million floor for individual states under the Local Public Works Program. States with the lowest per capita payments (Iowa—$25 and Kansas—$28) tend to be those with relatively low unemployment rates.

Effectiveness. The overall effectiveness of the economic stimulus package as a countercyclical tool is yet to be determined, largely because the majority of the money authorized is yet to be spent. It is too early to determine the impact of the funds upon the economy.

The ACIR Blueprint for an Ideal Antirecession Program

In April 1978, the Commission discussed the staff findings concerning the workings of the present economic stimulus package and considered under what conditions, or with what modifications, the present programs of aid to state and local governments should be continued. In more general terms, they also examined under what conditions the federal government should attempt to accelerate state and local government spending as part of its antirecession policies.

The Commission recommended[1] a permanent and flexible aid policy, or an "accordion-type" aid program, that automatically expands to provide aid to an increasing number of jurisdictions as unemployment rises, and automatically contracts to provide aid to a decreasing number of jurisdictions as unemployment falls.

The ACIR recommended that Congress initiate this policy by making permanent the present fiscal assistance program (ARFA) and removing its present 6% national unemployment rate cut-off provision. The program would authorize a permanent quarterly national appropriation which would increase as the national unemployment rate rises and decrease as it falls. Funds for individual jurisdictions would automatically increase as their unemployment rates rise and decrease as they decline.

In addition, the ACIR recommended placing the present public service jobs program and the Local Public Works Program on a permanent standby basis by providing an authorization for these programs to go into effect if the national unemployment rate reaches a designated level. The basic appropriation for the programs would be increased by a stated amount for each 0.5% by which the national unemployment rate exceeds the trigger. Funds for the program and for the governments receiving them would thus automatically increase as unemployment rates rise and decrease as they fall.

The recommendations of the Commission were based on several considerations. First, it is unrealistic to argue that the federal government should not involve state and local governments in antirecession activities because of the growing importance of this sector in the national economy.

Second, with the programs already in place and available for use if another recession comes, they would respond automatically to the changing economic environment, thus eliminating the lengthy period to enact new legislation. A permanent and flexible standby program with its automatic response to changes in economic conditions at both the national and local levels insures that antirecession actions will be taken on a timely basis and without the delays and political pressures inherent in Congressional enactment of new programs.

The current antirecession package of continuing general support, with public service jobs and local public works on a standby basis, provides more

[1]Congressmen Fountain and Brown, Secretary Blumenthal, Gov. Snelling and Mr. Merriam dissented.

precise geographic targeting than the traditional tools of antirecession economic policy, such as tax cuts or national spending programs.

The package can be targeted to those jurisdictions suffering the most severe unemployment problems. Places with low rates of unemployment will automatically be dropped from the list of recipient jurisdictions, and aid will be concentrated on those places with the greatest unemployment problems. The actual cutoff rate for individual jurisdictions can balance the desire for more precise targeting resulting from selection of a higher unemployment rate with the need to spread the aid across a larger number of jurisdictions. This balance may be achieved by choosing a relatively low unemployment rate for general support given by ARFA with a relatively higher level for CETA and local public works.

A permanent accordion-type program is the best way of providing equitable treatment for those jurisdictions suffering from long-term secular decline as well as those suffering short-term cyclical unemployment. It is a way to preserve and strengthen an aid program that provides needed funds to large, financially hard-pressed central cities which frequently suffer the most severe setbacks from a recession.

The three-part program with general assistance as the centerpiece and CETA and local public works as standby programs balances the goals of an integrated stabilization program directly involving state and local governments with the desire to maintain fiscal balance within the intergovernmental fiscal system. It provides a balanced aid program to state and local governments by giving them the additional resources necessary for their operations and to become major partners in the national antirecession program.

The State and Local Government Role in Fighting Inflation

Congress also asked the Commission to consider the "most effective means by which the federal government can stabilize the national economy during periods of rapid economic growth and high inflation through programs directed toward state and local government."

Until recently the possibility of enlisting state and local governments in the fight against inflation was almost totally ignored; for example, the mandatory price and wage control programs during both World War II and the Korean War exempted state and local government prices and wages. However, in the past decade as the state-local sector began its climb to its present share of 13% of the GNP, it became apparent that the state-local role could not be overlooked. State and local purchases as well as their wage decisions can influence or exert pressure on prices and wages in the rest of the economy.

As a result, during the past decade the federal government has made sporadic attempts at involving state and local governments in anti-inflation efforts. Officials of state and localities have been asked to consult with federal officials on economic policy; at times, they have been asked to exercise voluntary restraint, such as the deferral of new construction projects during periods of rising prices. Federal grants to state and local governments have been subject to federal executive impoundment for reasons of economic policy. In 1972, for the first time, state and local government prices and wages were made subject to mandatory controls during the 1972-74 national stabilization program.

A study of the history of these efforts shows that they have received mixed to poor reviews. Mandatory involvement, such as controls or executive impoundment of grant funds, has been subject to so many objections in the past that it has been ruled out for most purposes for the future.

The ACIR recommended that the federal government establish a voluntary cooperative approach involving the state and local governments in national anti-inflation policy. This position is a reaffirmation of ACIR's 1970 recommendation that "policymakers at all levels of government support effective anti-inflation action."

The Commission also recommended that when inflationary pressures may make it necessary for the federal government to inaugurate a program of voluntary private wage and spending restraints, the President should urge state and local officials and public employee union leaders to accept a commensurate slowdown in holding down employee wages in their jurisdictions.

The State-Local Role in Federal Economic Stabilization

Recommendations of the Advisory Commission in the area of national economic stabilization clearly indicate its position that state and local government has a role to play in economic stabilization efforts. State and local governments are now an important part of the national economic scene. Given their increased share of national economic activities, it is essential that their cooperation be enlisted so that all three levels of government can work together toward economic growth within a balanced federal fiscal system.

John P. Ross, former ACIR senior academic resident, served as project director and Susannah E. Calkins as consultant on ACIR's study of countercyclical grants. The Commission's full report, entitled Federal Stabilization Policy: The Role of State and Local Government, *will be out later this year.*

Commission Supports Countercyclical Aid, Establishes Committee to Review Workplan

In its meeting April 13, the ACIR recommended that Congress enact a permanent "accordion" type federal countercyclical program, collection of unemployment data necessary for the program be improved, and the President and state and local officials work more closely in developing anti-inflation policy.

It unanimously affirmed its contraband cigarette enforcement legislation recommendation made in 1976 and approved the undertaking of a staff research project looking at the intergovernmental dimensions in the field of energy.

A committee to examine the priorities of the Commission was established to review workload, staffing, and emerging problems and to make recommendations for meeting present and future priorities. The committee, chaired by ACIR Vice Chairman Lynn Cutler, will meet in early August and will report to the Commission at its next meeting, September 14-15, in Washington.

The Commission also considered a resolution currently being reviewed in the House calling for a study of the proper roles of the federal, state, and local governments in domestic programs. It concluded that such a study is within the scope of responsibilities already charged to ACIR and that if the Congress and the President believe greater emphasis should be placed on these issues, the Commission's staff should be used in the research effort and augmented as necessary.

During the second day of the meeting, the Commission met with President Carter and his key domestic staff to discuss the Administration's urban policy proposals and the possible roles for the ACIR during the implementation phases.

Survey Shows Military Withholding Improved Administration and Compliance

In 1975, ACIR made a series of recommendations urging federal laws be amended to allow state and local taxation of military pay in the same manner as nonmilitary pay. One of these recommendations was that withholding of state and local income taxes from military pay be instituted. In urging withholding, the Commission argued that tax compliance would be made easier and the costs of administration would be reduced.

In 1977, withholding of state income taxes from military pay was initiated. According to a recent survey conducted by ACIR and John Bowman, Associate Professor in the School of Public and Environmental Affairs at Indiana University, the Commission's predictions have proved to be true.

A majority of the 33 state tax officials responding to the survey indicated that the administration of taxes applying to military personnel has improved. Such improvement might be expected due to the fact that states no longer have to track down those who claim their state as their legal residence. Under the new system the military employee declares his home state and the appropriate state income taxes are withheld by the service and remitted to the state.

Likewise, most of the respondents felt that withholding improved military compliance with state income taxes by removing the ambiguity regarding a military member's tax obligation that existed in the absence of withholding, thus making payment of taxes easier and nonpayment more difficult.

One additional problem remains, however, and that involves the selection of the serviceman's legal state of residence or "domicile." Many servicemen apparently choose states for legal residence which do not have an income tax or which exempt military personnel from their income tax.

Indeed, ACIR's report, entitled *State Taxation of Military Income and Store Sales,* concluded that "available data suggest strongly (if not unequivocally) that many military personnel—particularly higher paid personnel—perceive the tax advantages available under current state income tax laws as they apply to the military and that significant numbers take advantage of the opportunity to avoid state income taxes through domicile selection."

The recent survey—plus additional work by Bowman alone—substantiates that conclusion. This work indicates that since 1974 there has been a steady shift away from states which impose taxes on military and toward states which do not. From 1974 to 1977, the 21 jurisdictions which fully tax military pay experienced large relative declines in military personnel who claim their states as their domicile. States with full military pay exemptions, gained local residents over the same period. Bowman found that the relationship between military domicile shifts and the tax status of military was highly significant.

While this careful choice of domicile is not surprising in view of the fact that it is in the military person's self interest, the question of its appropriateness as a matter of public policy remains. The military personnel now have preferential treatment not available to others. ACIR recommends that this preference be eliminated and that military active duty pay be taxed under the same jurisdictional rule that applies to all nonmilitary income.

Financial Management Project Drafts Bills, Works with States

With recent calls for reduced public spending and reassessment of governmental priorities has come an increased awareness of the need for good financial management at the state and local level.

ACIR has recently stepped up its efforts to provide assistance to states in this key area, thanks to a HUD-supported project now underway. The project, entitled State Initiatives in Local Financial Management Capacity-Building, has drafted or revised 19 model state bills in the area of financial management. These bills, now ready for distribution, include:

- ☐ establishment of a consolidated state-administered pension system;
- ☐ state compensation to local government for state-owned property;
- ☐ preventing and controlling local government financial emergencies;
- ☐ state regulation of local ac-

counting, auditing, and financial reporting;

- ☐ indexation of state individual income taxes;
- ☐ intergovernmental cooperation in tax administration;
- ☐ pooled insurance;
- ☐ public deposits and investments of idle funds;
- ☐ removal of constitutional restrictions on state borrowing;
- ☐ state aid administration;
- ☐ state constitutional restrictions on local borrowing powers;
- ☐ state supervision and assistance to local debt issuances;
- ☐ state budgeting and appropriation of federal moneys entering the state;
- ☐ authorization, disclosure, and restriction of local property tax rates and levies;
- ☐ citizen participation in the budget process;
- ☐ legislative notes on the fiscal impact on local government of state legislative action;
- ☐ repeal of constitutional restrictions on local taxing powers;
- ☐ state mandates; and
- ☐ state review of, and assistance to, local retirement systems.

Efforts are now underway to identify implementation needs and opportunities, to encourage the states to consider various model bills, and to provide assistance in tailoring them to meet state and local conditions. In addition, ACIR will coordinate efforts being undertaken by the National Governors' Association, National Conference of State Legislatures, and the Municipal Finance Officers Association to conduct research and/or provide technical assistance in financial management, using ACIR model legislation as the point of departure.

More information on this project and the bills are available upon request.

ACIR Testifies on Small Cities, State Incentives

Wayne F. Anderson, ACIR Executive Director, testified before the Subcommittee on the City of the House Committee on Banking, Finance, and Urban Affairs, May 16, on ways the federal government can respond to the diverse needs of small cities.

Anderson noted the prevalance of small cities by pointing out that 48% of all municipalities, townships, and special districts have five or fewer employees. Overall, he said, 80% of all local governments (including school districts) employ less than 50 workers apiece. These "small local governments need help," he said. One of the ways to provide that help is through substate regional organizations.

He encouraged the subcommittee to endorse a unified federal aid policy toward substate districts. Such a policy is contained in the *Intergovernmental Coordination Act of 1977*, more popularly known as the Magnuson-Ashley bill. This bill provides that there be a prime regional council in each substate district with the authority to work with other governmental bodies and resolve questions or determine the most efficient means to meet locally derived regional priorities and strategies.

ACIR Assistant Director, John Shannon testified on June 28 before the Senate Intergovernmental Relations Subcommittee considering the Administration's incentive grant proposal to encourage states to develop and implement state community conservation and development strategies.

While not speaking specifically to elements of the incentive grant proposals, Shannon did present recent Commission findings that he felt might prove helpful in the subcommittee's deliberations.

One set of findings dealt with central city-suburban economic disparities across the 27 states containing 85 SMSAs. These figures indicate that the most severe central city-suburban income disparities are found in the states located in the northeast quadrant of the United States. New Jersey was ranked first, meaning it had the largest suburban income advantage over central cities as a percent of adjusted resident personal income. Missouri was second, followed by Massachusetts, Ohio, and Michigan. Thus, said Shannon, if the Congress decided to use such an inditor in its formula for awarding state incentive grants, most of that aid would go to the northeast and northern midwest.

Shannon also presented a scorecard of the states according to the progressivity or regressivity of their state-local tax systems. Only four states are progressive (New York, Idaho, Oregon, and California); seven are what ACIR calls proportionate; 27 are regressive.

A third measure discussed by Shannon involved what is called the fiscal equalizing power of state expenditure programs, based on "equalization" outlays or state expenditures on public welfare, Medicaid, schools, urban aid, and general revenue sharing. Using this measure, Alaska, Hawaii, Delaware, New Mexico, and New York show up as highly equalizing.

ACIR Staff Members Present Papers, Meet with European, Australian Officials

ACIR Executive Director Wayne F. Anderson and Assistant Director David B. Walker presented papers and served as resources recently in Italy and Australia.

Anderson participated in the second World Conference of the Association of Centres for Federalist Studies in Valley of Aosta, Italy, June 27-30.

Walker presented a paper at the fifth national seminar held in Canberra, Australia, May 16, 1978. His topic was "American Local Government in a New System of Intergovernmental Relations: Continuity, Change, and Challenges."

Commission Member News

- ☐ Former South Dakota Gov. Richard Kneip, member of ACIR since 1974, is now U.S. Ambassador to Singapore;
- ☐ Maryland Speaker John Hanson Briscoe has announced his retirement from the legislature;
- ☐ Richard Riley is the Democratic candidate for Governor of South Carolina.

And Briefly: Books

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

The Michigan Single Business Tax: A Different Approach to State Business Taxation (M-114).

How business should be taxed has long been a problem for state and local governments. Since there has never been general agreement on how businesses should be taxed, state and local jurisdictions have imposed a variety of taxes on businesses including corporate income tax, franchise, business property, gross receipts, and sales taxes. Michigan recently replaced its traditional types of business taxes with a single tax: a value added tax (VAT), a levy on the value a business firm adds to goods and services it purchases from other firms. The Michigan VAT is the first comprehensive effort by a state to tax all forms of business on a uniform basis.

This report compares the Michigan VAT with other types of business taxes and discusses its history in Michigan. It concludes that although the Michigan experience represents a bold new approach to business taxes, it is still too early to determine its success.

Categorical Grants: Their Role and Design (A-52)

Categorical grants are the oldest and most prevalent form of federal grant, making up over 75% of the total federal grant system. This report, part of ACIR's series on the intergovernmental grant system, analyzed categoricals as grant devices, traced their history and application, described their use and misuse, and assessed their impact on state and local governments.

The report contains a series of Commission recommendations to reduce the proliferation of categoricals and make them work better. Included in these recommendations are calls for grant consolidation, careful matching of grant device and programmatic purpose, systematic review and assessment of across-the-board requirements such as civil rights and citizen participation, and enactment of sunset legislation to assure effective legislative oversight of grant programs.

Summary and Concluding Observations. The Intergovernmental Grant System: An Assessment and Proposed Policies (A-62).

This is the final volume of ACIR's 14-volume evaluation of the intergovernmental grant system. It reviews the major findings and conclusions of the Commission and lists ACIR's recommendations for improving the intergovernmental grant system.

This report also discusses the impact the federal grant system has had on various issues in intergovernmental relations such as devolution, the structure of local government and state-local relations, and what current trends are likely to influence these issues in the future.

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

Understanding Intergovernmental Relations, by Deil S. Wright, Duxbury Press, 6 Bound Brook Court, North Scituate, MA 02060. $6.95.

This is a basic text on intergovernmental relations. It briefly discusses the history of intergovernmental relations and how the concept has changed and developed during this century. A large part of the book is devoted to a discussion of finance on the federal, state, and local levels and how they are interrelated through state and federal aid programs. The author also describes the role of federal, state, and local officials and their attitudes toward intergovernmental relations. Students beginning a study of intergovernmental relations would find this a useful text.

Congress and the Nation, Vol. IV, 1973-1976, Congressional Quarterly, Inc., 1414 22nd Street, N.W., Washington, DC 20037. $52.50.

Labor-Management Relations in State and Local Governments: 1976 (State and Local Government *Special Studies No. 88*), U.S. Department of Commerce, Bureau of the Census, U.S. Government Printing Office, Washington, DC 20402. (Price not available.)

The Municipal Yearbook, 1978, International City Management Association, 1140 Connecticut Avenue, N.W., Washington, DC 20036. $26.

Congressional Sourcebook Series, 1977, 3 vols., U.S. General Accounting Office, Distribution Section, Room 4522, 441 G Street, N.W., Washington, DC 20548. (Price not available.) Contents: Vol. I: Federal Information Sources and Systems. Vol. II: Requirements for Recurring Reports to the Congress. Vol. III: Federal Program Evaluations.

State and Local Government in a Federal System: Cases and Materials, by Daniel R. Mandelker and Dawn Clark Netsch, Bobbs-Merrill Co., 3 W 57th Street, New York, NY 10019. $19.

Financing State and Local Governments, 3rd ed., by James A. Maxwell and J. Richard Aronson, Brookings Institution, 1775 Massachusetts Avenue, N.W., Washington, DC 20036. Hardcover, $10.95; paper, $4.95.

Federal Funds Budgetary and Appropriation Practices in State Government, by the National Association of State Budget Officers, Council of State Governments, Iron Works Pike, Lexington, KY 40578. $3

Federally Assisted Areawide Planning: Need to Simplify Policies and Practices (GGD-74-24), U.S. General Accounting Office, Distribution Section, Room 4522, 441 G Street, N.W., Washington, DC 20548. Free for government officials, libraries, faculty, and students; $1 for the general public.

State Employee Labor Relations, Council of State Governments, Iron Works Pike, Lexington, KY 40511. $3.50.

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EXEC DIRECTOR
TX LEGISLATIVE COUNCIL
RM 165 STATE CAPITOL
BOX 12128 CAPITOL STATION
AUSTIN TX 78711