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Intergovernmental

# PERSPECTIVE

**1978**  
**The Year**  
**of the New**  
**Propulism**

# View From The Commission



Dear Reader:

I am delighted to have this opportunity to share a few thoughts with you in this issue of *Intergovernmental Perspective*. Over the years, I have looked forward to ACIR's annual attempts to sum up the year's events so I am pleased to preface this 1979 review of federalism.

To no one's surprise, the 1978 assessment is dominated by the mid-year passage of Proposition 13 in California and the repercussions of that measure from Sacramento to Washington, from Texas to Michigan. Yet I want to remind the reader that another state enacted a constitutional measure to slow public sector growth in 1978 before the passage of Proposition 13. That state was Tennessee and the way we chose to slow things down makes a lot more sense to me than the California approach embodied in Proposition 13.

Our measure differs from California's in several important ways. First, the Tennessee measure did not call for a property tax rollback. Tennessee's taxes are nowhere near as high as California's, and our state did not have a massive surplus to throw in the breach.

Secondly, our measure limits the growth in state spending to the growth in personal income in the state with the precise method for achieving this to be determined by the legislature. California's Proposition 13 restricts the growth in government by making it difficult or impossible to enact new or increased taxes. The third and perhaps most important difference concerns how the ceilings can be lifted if natural or economic emergencies require more growth in state spending in a particular future year. In California, if such an emergency required new or higher taxes, a two-thirds vote of the people or a two-thirds vote of the legislature would be required. Under Tennessee's new constitutional provision, the legislature, after fully initiating and weighing the public reaction, could exceed the spending ceiling if it determined that this was necessary.

The Tennessee measure, in my opinion, will hold the growth in spending. I don't believe that a Governor and a state legislature are going to take the heat for allowing state expenditures to exceed the new ceiling unless they have no tenable option. Our approach relies on representative government and entrusts elected officials to make the tough fiscal policy and spending decisions, but it constrains them with this new upper limit and shines a bright spotlight on their deliberations if they feel it necessary to contend for faster growth in state government. By passing Proposition 13, California has turned over to a conservative minority the key to the tax policy door. I, for one, am not

yet willing to turn over such crucial decisions to any minority of the electorate or legislature, be it conservative, liberal, or other.

A second important measure passed in May prohibits the state from enacting new programs requiring local governmental expenditures—without accompanying state reimbursement. While this measure did not receive the attention that the spending lid did, I think it is equally important and is especially welcome to those of us at the local level.

Fiscal issues were not our only concern in Tennessee in 1978. We also took a major step to revamp and modernize our county governments when voters approved a constitutional amendment requiring an elected county executive and setting standards concerning the size and makeup of a county legislative body.

This issue of *Perspective* discusses these and events occurring in the other 49 states and in Washington, DC, during 1978. Although it is much too early to assess the long-lasting impact of actions during 1978, what ACIR calls "the New Populism" appears to have already achieved status as a powerful shaper of what our American government at all levels will be able to undertake and of how they will perform in the years just ahead of us.

A handwritten signature in cursive script that reads "William O. Beach".

William O. Beach  
County Executive  
Montgomery County, Tennessee

# Intergovernmental **PERSPECTIVE**

Winter 1979, Vol. 5, No. 1

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# 1978: The Year of the New Propulism

There can be no doubt that the headliner in the 1978 intergovernmental drama was California's Proposition 13. Not only was it momentous in its impact on fiscal and functional intergovernmental relationships in California, but it had major spillover effects for other states and the federal government as well. It is these spillover effects and certain ironies connected with Proposition 13 that led us to label the movement, "The New Propulism," a term that captures the fact that this new grass roots populist movement is advancing its cause through use of propositions on ballots across the nations.

The New Propulism is more than a citizen revolt over high taxes. In a much larger sense, it is a response to a perceived breakdown of the traditional mechanisms, such as the representational processes and the party system, for discerning public sentiment and forging consensus. At the same time, it illustrates the effectiveness of other channels provided for citizen and interest group access, principally the initiative and referendum, as well as the overall adaptive capacity of the American federal system. Above all, it reminds us that "by and for the people" is more than a constitutional principle—it is a vital operational characteristic of our federal system.

At the outset of 1978, the intergovernmental agenda was dominated by concerns about the worsening condition of the nation's cities. At the national level and in some states, considerable attention was focused on "targeting" funds to distressed communities, and on coordinating governmental policies and programs that impacted on them. President Carter's announcement of a national urban policy in March drew both kudos and complaints. Mayors, civil rights groups, and others were pleased that an attempt had

been made to pull together and define an urban strategy.

On the other hand, some were proclaiming that there was no need for a national urban policy, and that in fact Congress and previous Administrations had already fashioned a very effective system of targeted assistance, characterized by the *Comprehensive Employment and Training* and the *Housing and Community Development Acts*, countercyclical fiscal assistance, the public works jobs program, and even general revenue sharing. Still others were claiming that the nation's cities were no longer "sick," and that many were undergoing an economic and social revitalization featured by the return of young and middle class taxpayers to occupy new or renovated housing within city limits.

By mid-year, these concerns had been effectively eclipsed by the tax revolt. Only a few of the measures proposed by the White House as part of a national urban policy were enacted in 1978. And, as the year ended, it appeared that several key urban programs would be dropped from the 1979 legislative agenda as the mood of fiscal restraint that was part and parcel of the New Propulism seemed to take hold of both the Congress and the Administration.

## The Ironies of Proposition 13

There are at least two overarching ironies associated with the New Propulism, as expressed by Proposition 13 and related tax or spending measures passed in 11 states in 1978.

□ While supporters argued that tax and expenditure limits would help give citizens more control over their government, the reverse effect is likely. Instead of increasing governmental independence, especially at the local level, greater dependence on higher units may well result. As California's experience suggests, when local revenue sources are constricted, localities turn to the state for help. And the accompanying state funds tend to carry with them controls over recipient activities. Furthermore, pressures to increase local aid or assume a larger state fiscal or administrative role in the delivery of certain local services can put considerable pressure on state resources. Thus, both states and local governments can end up turning to Washington for help.

If these developments take place, then more centralization of fiscal decisionmaking and more dependence on outside funds can result from citizen efforts to limit the taxes and expenditures of their governments. In addition, greater state or federal involvement in services performed at the local level may occur. Some previously local activities may even be taken over by state or regional agencies, reducing even further the amount of local control. This is a much different type of urban policy than that which was being developed by the Carter Administration and some states earlier in the year.

□ At a time when more and more state and local governments may be turning to Washington for financial assistance, efforts are underway to reduce federal expenditures. There are strong signs that the rapid growth of federal aid to state and local governments that has marked the past decade will be slowing, as the President and Congress seek to apply the fiscal brakes in order to reduce budgetary deficits and help curb inflation. Federal aid may well be the primary target of executive budget cutters attempting to reduce the federal deficit in fiscal 1980 since it represents one of the few major "controllable" areas of the federal budget.

These national level developments, coupled with the effects

of tax or expenditure limits, could well put some state and local governments in a fiscal strait jacket in the years ahead.

### The Spillovers From Proposition 13

For a variety of reasons, Proposition 13 successfully captured the mood of the country and the attention of the press. Politicians and pundits alike lost little time jumping on the Proposition 13 bandwagon. Thus, it is not surprising that the effects of Proposition 13 extended beyond California's boundaries. Indeed, its "spillovers" are apparent in current or anticipated activities across the country and in the nation's capitol.

One spillover in many states and Washington is a heightened awareness on the part of policymakers that government should somehow be made more efficient and they themselves made more accountable to the electorate. While some states already have installed taxing or spending limitations or will consider doing so in 1979, other approaches to containing government revenue and expenditure increases, reducing and making more equitable individual tax burdens, and relieving jurisdictions of costly servicing commitments also will be seriously considered. The specific mechanisms for achieving these purposes include indexation of income taxes, "truth-in-taxation" procedures, property tax circuit breakers, selective functional reassignments, and governmental reorganization. In the long run, these mechanisms could have a significant effect on relieving tax pressures and ensuring greater public official accountability for revenue and spending decisions.

A second spillover effect of Proposition 13 will be witnessed at the national level, especially if state surpluses dwindle further and local financial conditions deteriorate. There will likely be an increase in vigorous special interest lobbying campaigns in Washington as advocates "circle the wagons" around the more vulnerable programs.

Lobbying efforts on the part of the state and local associations of public officials probably will increase, not only to retain major fiscal relief programs such as general revenue sharing, but to secure the adoption of new or "reformed" big money programs such as welfare and national health insurance. While to the Carter Administration these efforts may have a "budget busting" nature, nevertheless they may be a necessary counter to legislative or citizen-imposed shackles on state and local revenues.

These intergovernmental lobbying efforts could well have serious implications for the federal system:

- they could enhance the regional rivalries between the so-called "Sunbelt" and "Frostbelt" states and renew the "battle of the formulas" that in recent years have been waged in Congress with increasing ferocity;
- they could make attainment of the President's goal to reduce the federal budget deficit to \$30 billion politically infeasible in the coming fiscal year;
- they could generate increased friction among the state, county, and city interest groups over eligibility for federal aid; and
- they could exacerbate the tensions between state and local elected officials and top administrative generalists, on the one hand, and program specialists and their congressional and interest group allies, on the other, as proposals to cutback, reorganize, consolidate, or terminate programs and regulations are considered.

With the citizen pressure for increased governmental efficiency that is explicit in Proposition 13 came still another spillover: renewed interest in curbing governmental regu-

lation, a major source of inefficiency. Intergovernmental concern was focused on the federal aid system. While there has been considerable rhetoric over the past decade about standardizing, simplifying, and streamlining, in reality the number of federal regulations, their penetration into state and local policy areas, and their "compliance costs" have steadily risen. And, in spite of strong executive branch and Congressional interest in curbing the negative aspects of governmental regulation of both the public and private sectors, many of the actions that have been taken to date have been viewed by state and local observers as "band-aid" solutions to a problem that requires major surgery.

Significantly, as the year closed, two national associations representing state elected officials urged the President to intensify efforts to streamline the federal aid system and offered to "trade" their active support for the President's fiscal 1980 budget for relief from federal aid regulations and paperwork burdens.

Finally, a major spillover from Proposition 13 deals with how states will respond to this "era of limits." Actions to limit tax revenues or impose expenditure ceilings present both a challenge and an opportunity to state governments. As the California case shows, under conditions of fiscal restraint, the leadership role of the state as it relates to local units becomes paramount. For example, the state is in a position to:

- take positive action to reduce local fiscal stress by providing increased amounts of state aid or giving these jurisdictions greater authority to raise revenues;
- influence and, if necessary, mandate more fundamental reforms in the governance, fiscal, and service delivery systems at the local and substate regional levels;
- make special districts and public authorities more accountable to general purpose local governments and the citizenry;
- provide a solid justification for a re-examination of the pattern of functional responsibilities among the state, regional bodies, counties, cities, and other local units and to make reallocations that will bring about greater economy, efficiency, effectiveness, and equity in their operations.

These structural and functional reforms have been long overdue in most states, and probably would not be placed on the public policy agenda, let alone be acted upon, were it not for the fiscal pressures generated by tax or expenditure limits and the climate of public opinion that sustains these curbs.

In addition to improvements in local and regional operations, the states have an excellent opportunity to upgrade their own structures and processes. Thus, it would seem that prospects for achieving executive and legislative branch reorganization, fiscal reform, and other changes are now enhanced, thanks to the post-Proposition 13 spirit that pervades much of the country.

Whether the states will rise to the occasion remains to be seen. It appears that many are still reeling from the effects, real or imagined, of Proposition 13-type activity on the part of their citizenry. Others are girding themselves for a tough legislative session where poorly conceived and hastily adopted bills to forestall stringent citizen-initiated measures will probably be the order of the day. But amidst all of the chaos and confusion that has followed in the wake of the New Propulism, it still can be said that the federal system has provided effective channels for citizen dissatisfaction to be expressed, that remedial actions are being taken in response to these feelings, and that the long-term outlook for representative government is not bleak, but may indeed be promising.

# States Tackle Tough Fiscal Issues

The intergovernmental fiscal system—particularly the tax side—was in the spotlight, if not under the gun, in 1978. In the voting booth and in interviews with pollsters, citizens protested that they were paying too much in taxes and getting too little in return. Governments at every level responded by attempting to put the brakes on spending and hold the line on taxes.

The mood of the people and the response by state and local governments dominate this summary of state-local actions in 1978. Not everything that happened during the year was fiscal in nature—but much was. And most other happenings in the intergovernmental arena reported here were due to, or tempered by, fiscal constraints.

The 1978 story begins with the most resounding single state action of the year—the passage of Proposition 13 in California which severely restricted (and will continue to restrict) state and local taxes there. While the fiscal impacts of Proposition 13 were considerable—local governments lost some \$7 billion in anticipated property tax revenues—the governmental structural and functional fallout was significant as well. Because of Proposition 13, California has moved—at least temporarily—toward a more centralized government system with the state assuming more control over local governments and the counties gaining certain controls over special districts.

Proposition 13 was responsible in large measure for the appearance of 15 tax or spending measures on the November ballot in states from Texas to Michigan. Tax reduction and spending limits were the topics of several sessions of state legislatures in 1978 and will likely be the focus of many of the 49 state legislatures meeting in regular session in 1979.

Inflation is clearly the “heavy” in the 1978 intergovernmental drama. Its impact on two mainstays of state-local finance, the property tax and income tax, played a major role in fanning the fires of citizen discontent.

With inflation, property values—and local property tax assessments when assessors keep up to date—generally increase rather dramatically. State income tax revenues, too, rise as inflation pushes taxpayers into higher income tax brackets and erodes the fixed dollar exemptions, deductions, and credits. In 1978 several states acted to alleviate some of inflation’s sting on taxpayers by providing automatic adjustments on fixed income tax code provisions (indexation) and by imposing revenue ceilings on local governments which can be lifted after public notification procedures are followed.

Many localities found themselves in a fiscal bind in 1978 thanks to inflation, Proposition 13 actions or threats, and cutoffs in some key federal programs, including the billion dollar countercyclical aid initiative. A number of states stepped in to aid their localities by:

- increasing broad, statewide financial assistance to local governments;
- targeting state funds to hard pressed urban areas;
- attempting to improve state and local financial and debt management; and
- “playing fair” with localities by reimbursing them for state-imposed mandates and requiring that fiscal notes be made a part of all proposed legislation affecting local governments.

While the year was dominated by fiscal concerns, there were several other noteworthy events and fields in which a number of states acted. One important event was the Pennsylvania Supreme Court decision in *Shapp v. Sloan*, upholding the legislature’s power to appropriate federal funds coming into the state. Voters in the Portland, OR, metropolitan area established the first elected regional body with authorization to perform a variety of direct services and to draw on its own revenue source (with voter approval). A number of states made efforts to assist their distressed communities, and still others worked to improve financial management in areas such as state-local pensions and governmental liability.

Unlike ACIR’s recent annual reviews of federalism, this year’s report leads off with state—not federal—actions. The passage of Proposition 13 and related measures was the most momentous and pervasive happening in 1978 and one which is already affecting Washington. Soon after passage of Proposition 13, Jason Boe, President of the

Oregon Senate, put it this way: "The first bullet has hit local governments and the second bullet may hit state government. But the federal government is the ultimate target, and the third bullet is already on its way to Washington, DC."

Whether the "New Propulism" will have an enduring effect or rather will be a phenomenon of shorter duration cannot yet be predicted. What is clear is, that for the immediate future, the days of accelerating growth in the state and local sector are over and living with limits will constitute a new way of life for many states and local jurisdictions. Increased sensitivity to local fiscal problems, renewed interest in, and demand for, political and fiscal accountability, heightened interest in realigned functional responsibilities, and concern for setting priorities to allow maximum use of limited resources all appear to be beneficial fallouts from the Proposition 13 intergovernmental earthquake. If these concerns—and more importantly, legislative actions to implement them—hold sway for the next few years, then, indeed, the "New Propulism" of 1978 will have made its mark on our federal system. What isn't predictable at this juncture is whether the effects will be mostly favorable or mostly unfavorable.

"To ignore us is political suicide. We the people are still the boss."

Howard Jarvis  
Co-Author of Proposition 13

"If people wanted a revolution, they got it, but I don't think they knew what they were doing when they passed Proposition 13."

Hank Springer, President of the  
Los Angeles Teachers Association

#### CALIFORNIA'S PROPOSITION 13

On June 6, 1978, Californians overwhelmingly voted for Proposition 13—a constitutional amendment rolling back current property taxes and severely limiting future changes in state and local taxation.

Specifically, the initiative: (1) placed a limit on the amount of property taxes that can be collected by a local government to 1% of the 1975 market value; (2) restricted the growth in assessed property values to 2% a year (except new construction or changed ownership); (3) required a two-thirds vote of the legislature to increase state taxes; and (4) authorized local governments to impose certain nonproperty taxes only if two-thirds of the voters approve.

#### State Response

The amendment (now Article XIII A of the state constitution) went into effect July 1—the beginning of the fiscal year in California. In the three weeks between passage and implementation, many decisions had to be made—chief among them, what to do about the potential loss of \$7 billion to local governments. In the campaign preceding the vote, Proposition 13's supporters consistently pointed to the state's \$5 billion surplus as the means to alleviate some of the immediate shortfalls to localities.

It fell to the legislative leadership, working closely with the Governor, to arrive at a solution in a short period of time. The solution was to distribute the surplus on essentially a *pro rata* basis, using 1977 property tax receipts as the base. The lion's share of the money went to public schools—\$2.1 billion. Counties received \$1.48 billion (\$1 billion of this was a state assumption of welfare, food

stamps, and medical costs formerly funded by counties). Cities got \$250 million and special districts, \$125 million. \$900 million was set aside for emergency loans to local governments.

When the dust had settled, California's localities ended up with about 10% less revenue than they would have had if Proposition 13 had not passed. Specifically, California's cities lost about 10.5%; schools, 10.5%; counties, 9.8%; and special districts, 6%.

One result of the state's mid-summer "bail out" was an almost immediate shift in power from localities to the state. For like many federal grants to state and local governments, Sacramento's aid contained some "strings." Expenditures for police and fire services could not be reduced, and salaries for local government workers had to be frozen. Counties were prohibited from disproportionately reducing health services and had to submit their budgets to the state director of health services for review. Local jurisdictions wishing to disregard these provisions were not eligible to receive the state money.

The state's "bail out" involved more than money. Shifts in two functional areas which many reformers had sought for years were accomplished:

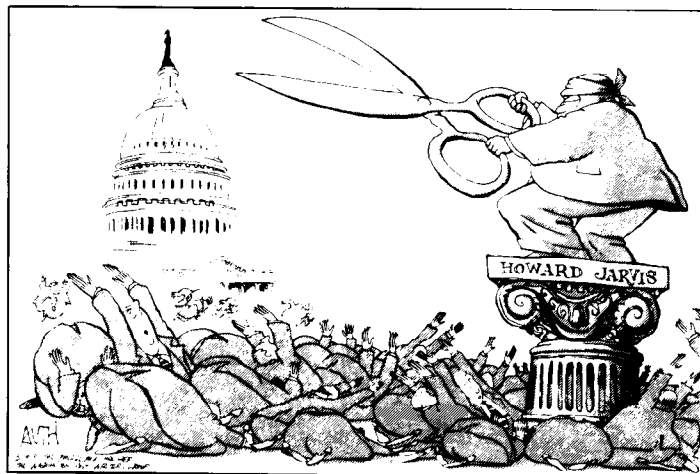
- The state assumed for one year the full burden of paying the cost of welfare, including "MediCal" (California's Medicaid system), Aid to Families with Dependent Children (AFDC), and food stamps. California's counties had been burdened with major welfare costs with little hope of relief—until Proposition 13.
- The enabling legislation formally put special districts under the aegis of counties, by giving counties the responsibility to allocate state money to special districts within their boundaries.

The counties were strengthened in another way. Proposition 13 provides that the property tax is to be collected by the counties and apportioned by law to districts within the counties. The new state law put more teeth in this provision by stipulating that the counties are the only ones that can now levy the tax. Therefore, where there were once over 6,000 units of local governments imposing property taxes, there are now only 58.

#### Local Response

To some extent, local governments could be said to be scapegoats or victims of what *San Francisco Chronicle* columnist Herb Caen called the taxpayers' "evening the score."

For while voters know taxes are high and getting higher, they frequently are not sure who collects the taxes for what



purpose. Indeed, during the campaign preceding Proposition 13's passage, proponents urged voters to "send a message to Sacramento," yet the message went first and foremost to localities. Thomas Hoeber, Sacramento City Councilman, writing in the *Washington Post*, put it this way: "The greatest frustration at the local government level is the sense that the city and its elected officials are accidental victims of mortar shells intended for other targets. Polls, letters to the editor, and constituent calls indicate that the targets were high welfare benefits, schools, busing. . . . But cities in California have no welfare or education programs."

Not surprisingly, many localities rushed to pass new taxes prior to the July 1 implementation of Proposition 13. A *Los Angeles Times* survey of 110 cities, counties, and other local government units (other than school districts), conducted in early July, found that about half of those units had enacted one or more new taxes or fees, or had increased existing ones. Many of the rest said they were considering similar actions. According to a study by the Pacific Telephone and Telegraph Company, the most popular revenue-raising route for local government during that three-week period was to increase the cost of business licenses, followed by raising user fees on water, gas, electricity, telephones, and cable television.

Cutbacks in services and employment occurred as well. A survey of 17 cities conducted by the League of California Cities revealed: 40% reduced or discontinued funding of recreational services and maintenance of park facilities; 40% downgraded public works services including street maintenance and sidewalk repair; 30% deferred capital improvements; 20% reduced library services more than other services; and 20% eliminated human or social services and integrated these services with other programs. There were only a few (about 10%) which shifted responsibility for the delivery of a service to another public jurisdiction or to the private sector or consolidated existing services.

#### Its Day in Court

Proposition 13 was challenged almost immediately in the courts. The main challenges brought in *Amador Valley Joint Union High School District v. State Board of Equalization* were that it (1) violates the equal protection clause of the constitution by treating identical or similarly situated property taxpayers in an unfair and unequal way; (2) embraces more than one subject—putting it in violation of the state's constitution; (3) revises rather than amends the constitution; and (4) constitutes an impairment of contract (specifically involving redevelopment bonds secured by property taxes).

In early October, the California Supreme Court upheld the constitutionality of Proposition 13 saying it, "survives each of the substantial challenges raised by the petitioners." In its decision, the court acknowledged the difficulties Proposition 13 poses for state and local government: "The new article will impose intolerable, financial hardships and administrative burdens in different forms and with varying intensity . . . throughout California. Yet . . . it is our solemn duty 'to jealously guard' the initiative power, it being one of the most precious rights of our democratic processes."

There were several related court cases brought in California regarding violation of existing contracts. A Riverside County court found that the freeze on local salaries imposed by the county as a result of state law violated a previous contract with nurses at the county hospital. A

**“During the campaign preceding Proposition 13's passage, proponents urged voters to 'send a message to Sacramento,' yet the message went first and foremost to localities.”**

similar ruling was handed down by at least one other county court.

In spite of the supreme court ruling and settlement of many related issues, the constitutionality of Proposition 13 may not have been finally determined. First, there is a possibility of an appeal to the U.S. Supreme Court. Secondly, there will probably be other cases brought in California courts as the disparity in taxation between citizens who have recently bought houses and those who have lived in houses since 1975 becomes greater. Yet, for the present, it is part of California's constitution and, surprisingly for many, was implemented without the accompanying massive cutoffs in service and layoffs of employees frequently predicted prior to July 1.

In fact, four months after passage of Proposition 13, the Governor signed into law further tax reductions—this time involving the state income tax. The law called for a one-time \$675 million state income tax rebate and permanent tax credits for senior citizens, welfare renters, and the disabled. It exempted capital gains, up to \$100,000 from the sale of an owner-occupied house on a one-time basis, and called for partial indexation of the income tax (a system of adjusting fixed tax code provisions by the rate of increase in prices).

#### The Post Commission

In mid-summer, shortly after passage of Proposition 13, Governor Brown appointed a "blue-ribbon" citizen commission to make recommendations for long-term changes in fiscal, structural, and functional relationships among the governments in light of passage of Proposition 13. The Commission, chaired by A. Alan Post, former state legislative fiscal analyst, is expected to report in early 1979.

The Post Commission has undertaken a task of considerable proportion, for under its domain falls consideration of major fiscal and functional questions that relate to the essence of intergovernmental relations. These include:

- What is the appropriate state role in providing major financial support to localities? What will happen when the state's surplus runs out? What are the options available to increase local revenues and decrease local government?
- What is the state's responsibility in the area of school finance and how should it be carried out? What about special districts? Does the state have a role to play in setting the ground rules for special district-local government relationships?
- Should the legislature make permanent the one-year takeover of welfare costs from counties? If so, will that then lead to other function shifts from cities to counties?
- Will use of interlocal contracts and joint service agreements increase? Should the legislature encourage such activities? Where will they lead?



□ What about California's regional councils? Many sharply cut their dues payable by constituent governments. Their future appears quite uncertain as local governments, faced with cutting basic services, may decide that regionalism is a luxury. On the other hand, some feel that fiscal stress will help promote regional cooperation as a way for localities to operate more efficiently and effectively.

□ And, finally, will these and other actions lead to further state "intrusion" into the affairs of local government?

The issues raised in these and related questions may well be nearer resolution after the Post Commission report is issued and the legislature has responded. It appears clear, however, that Proposition 13 has prompted California to reassess priorities and ultimately to make decisions regarding basic issues such as the structure and organization of government, service delivery arrangements, and the make-up and impact of the existing state-local tax system.

California Governor Jerry Brown was among the first of the measure's opponents to see the potential in Proposition 13. "It's a great opportunity although it's going to be a painful and difficult process," he said, the day after the vote.

Similarly, Oregon State Senate President Jason Boe, testifying on behalf of the National Conference of State Legislatures before a Congressional subcommittee last summer, maintained that Proposition 13 "has provided both state and federal governments with a rare opportunity to reassess the structure of fiscal federalism in this country."

California's governments have survived and the tax-cutting fever has spread elsewhere. The question remains, however, as to why the tide of Proposition 13 swept past the opposition of almost every elected and appointed official in the state, its newspapers, and powerful groups representing education, civil rights, and public employees.

#### Why Proposition 13?

Californians had considered—and rejected—three proposals to reduce taxes or cut spending over the past 13 years. The most recent attempt, sponsored by then-Governor Ronald Reagan, came closest to enactment, garnering some 40% of the vote.

Yet only four years later, Proposition 13—a more restrictive measure than the Reagan proposal—passed by an overwhelming two-to-one margin. Why?

First and foremost in any answer is the \$5 billion surplus, which could be used to cushion the initial shock of the property tax rollback. The legislature and the Governor can assume some measure of the blame for the size of the surplus, since they had failed to reach agreement over the best way to use the evergrowing largesse in two years of trying. Ironically, perhaps, this inaction can be attributed in part to a previous California reform designed to slow spending that calls for a two-thirds vote of the legislature to enact expenditure bills. Another problem related to accuracy in forecasting the amount of revenue surplus (the amount of the surplus was consistently underestimated).

“California Governor Jerry Brown was among the first of the measure's opponents to see the potential in Proposition 13.”

Other factors also figured in making California a hotbed of taxpayer revolt. California had a well above average property tax burden, unusually rapid escalation in residential property values and property taxes, and a high and rising combined state-local tax burden. More importantly, it also has the direct initiative process—thus making it possible for citizen-sponsored measures to go before the state's voters.

Underlying the ferment was what California Assembly Speaker Leo McCarthy called "an antigovernment feeling—part of a tide of skepticism and cynicism." This feeling, of course, is not unique to California. A nationwide poll, conducted in late June for the *New York Times* and CBS News, found that Americans, by a two-to-one margin, supported a similar measure for their own jurisdictions. The same poll found that a resounding 80% of those polled felt that government wasted "a lot of tax money."

Perhaps even more telling was a *New York Times*-CBS News poll in which three-fourths of those favoring Proposition 13 said they did not think public services would be reduced with its passage.

Obviously, then, the public thinks services can be delivered in a more efficient manner. One way to assure efficiency, they believe, is to force government to live within limits. And efforts to do exactly that were brewing across the country. Organizers of taxpayer groups hustled to collect enough signatures to place some form of taxing and spending limitations on the ballot in those states with direct initiatives. In other states, efforts were made to place measures before the legislatures meeting in 1979. In still other states, Governors called special legislative sessions to consider tax reform.

#### OTHER MEASURES TO REDUCE PUBLIC SPENDING

In November there were tax or spending measures on the ballot in 13 states (see *Table 1* on page 10). These 13 states were very different in many ways from each other—and from California.

Citizens in only two of the 13 (Arizona and Hawaii) were heavily taxed, considering state-local tax revenue as a percent of state personal income. Only two (Michigan and Nebraska) were very heavy users of the property tax. Six were considered low and falling in terms of what ACIR calls "fiscal blood pressure," another measure of state-local tax burden. None—not even Texas with its relatively large surplus—had surpluses anywhere near California's. But they had one thing in common: the direct initiative process. Of the 17 states where the citizens can initiate such constitutional amendments, nine placed them on the ballot in November 1978.

The measures fell roughly into three groups: Jarvis-type property tax reductions or rollbacks; state and/or local spending limits; and measures calling for what ACIR terms "strengthened fiscal accountability."

The rollback and lid approach is best epitomized by California's Proposition 13, which significantly reduced property taxes and made it difficult to increase or enact new taxes in the future. Spending limits impose a ceiling on state and/or local spending which the jurisdiction cannot exceed except through specified means. "Strengthened fiscal accountability" measures are those which focus the spotlight on elected officials and the decisions they make through such means as full disclosure measures requiring public notification and hearings to accompany increases in tax revenues and state reimbursement of certain state-imposed mandates on local governments.

Table 1

## 1978 November Ballot Measures

STATE	CONSTITUTION	STATUTE	PASSED	FAILED	TYPE
Alabama	X		X		Property tax limit.
Arizona	X		X		State spending lid, can be exceeded by 2/3 vote of legislature.
Colorado	X			X	State and local spending lid, can be exceeded by majority vote of people.
Hawaii	X		X		State spending lid, can be exceeded by 2/3 vote of legislature.
Idaho		X	X		Jarvis-type property tax rollback, new local taxes need 2/3 vote of people, and new state taxes, 2/3 vote of legislature.
Michigan					
Headlee Amendment	X		X		State and local spending lid, can be exceeded by majority of voters.
Tisch Amendment	X			X	Property tax and income tax reduction.
Missouri	X		X		Gives legislature authority to rollback property taxes.
Nebraska	X			X	Local spending lid, can be exceeded by majority vote of the people, 4/5 vote of the legislature.
Nevada	X		X		Jarvis-type property tax rollback—new local taxes need 2/3 vote of the people, new state taxes 2/3 vote of the legislature—must pass again in 1980.
North Dakota		X	X		Income tax reduction.
Oregon					
Measure 6	X			X	Jarvis-type property rollback, new local taxes need 2/3 vote of the people, new state taxes 2/3 vote of legislature.
Measure 11	X			X	Major property tax reduction with state assuming 50% property tax bills.
South Dakota	X		X		Any increase in state taxes must have 2/3 vote of legislature or majority of people.
Texas	X		X		State spending lid, can be exceeded if legislature declares an emergency.

Source: ACIR staff compilations.

All three approaches provide for a slowing down of public spending. They differ considerably, however, in the ways they do so. The toughest, by far, is the Jarvis type which severely constrains local expenditures by slashing local revenues and by making the enactment of additional or new taxes difficult at best.

#### Tax Rollback Measures

Facsimiles of California's Proposition 13 were before the voters in three states, Idaho, Nevada, and Oregon. They passed in the first two.

The Idaho measure is identical to Proposition 13 except that its 1% ceiling on assessed value is based on 1978 rather than 1975 values. It provides for the same 2% limit on assessment increases and requires a two-thirds vote of the legislature to adopt new state taxes; any special local taxes need a two-thirds vote of the people. The measure, which will go into effect January 1, is statutory rather than constitutional. Efforts will be made to enact legislation limiting the provision's applicability to residential property.

The Nevada measure is identical to Proposition 13 and is a constitutional amendment. It will go into effect if passed again in 1980.

Oregon voters rejected a proposal to put a 1.5% ceiling on property taxes.

Four states passed November ballot measures calling for tax reductions or limiting tax increases. The measures were:

- an Alabama constitutional amendment limiting increases in property taxes;
- a Missouri amendment allowing the legislature to enact laws requiring local governments to reduce rates of property tax levies;
- a North Dakota statutory measure reducing the individual income tax by lowering rates throughout the brackets, meaning a 35% reduction in state revenues; and
- a South Dakota amendment requiring two-thirds vote of the legislature or of the people to increase state taxes.

Michigan voters turned down a measure to reduce the current assessment ratio and limit annual assessment increases.

#### State-Local Spending Lids

Of the seven measures on the November ballot to set a ceiling on state and/or local spending, four passed—in

**Arizona, Hawaii, Michigan, and Texas.** A spending lid was adopted by Tennessee voters in May.

These spending ceilings vary considerably, with the most important differences being the basis of the ceiling and the means by which it can be exceeded.

The Tennessee and Texas measures are moderate spending lids which restrict growth in state spending to the rate of growth in the state's economy as determined by law. The Tennessee limit may be exceeded by a simple majority vote of the legislature. In Texas, the legislature by a constitutional majority vote can exceed the limit by declaring an emergency.

The Arizona and Hawaii spending lids require a two thirds vote of both houses of the legislature to lift the ceiling. In Arizona, the ceiling is 7% of personal income in the state; in Hawaii, it is the rate of growth of the state's economy.

Michigan's measure comprises the tightest lid enacted in 1978. It applies to state and local governments and can be lifted only when the majority of qualified voters approve. The state ceiling is tied to growth in personal income and the local ceiling to growth in the U.S. consumer price index.

Stringent measures to limit local spending in Nebraska, state and local spending in Colorado, and state spending in Oregon, were turned down.

#### Strengthened Public Accountability

The most moderate approach to controlling public spending involves measures to strengthen the accountability of state and local officials. In 1978, states moved in three directions to improve this accountability by:

- enacting indexation, which adjusts the income tax for inflation;
- adopting variations on the "full disclosure" theme, whereby increases in public revenues above a set figure are preceded by wide dissemination of information and public hearings; and
- calling for state reimbursement to localities for all new state-imposed mandates, thereby introducing greater fiscal discipline into the legislative process.

Activities implementing this approach were both statutory and constitutional in nature.

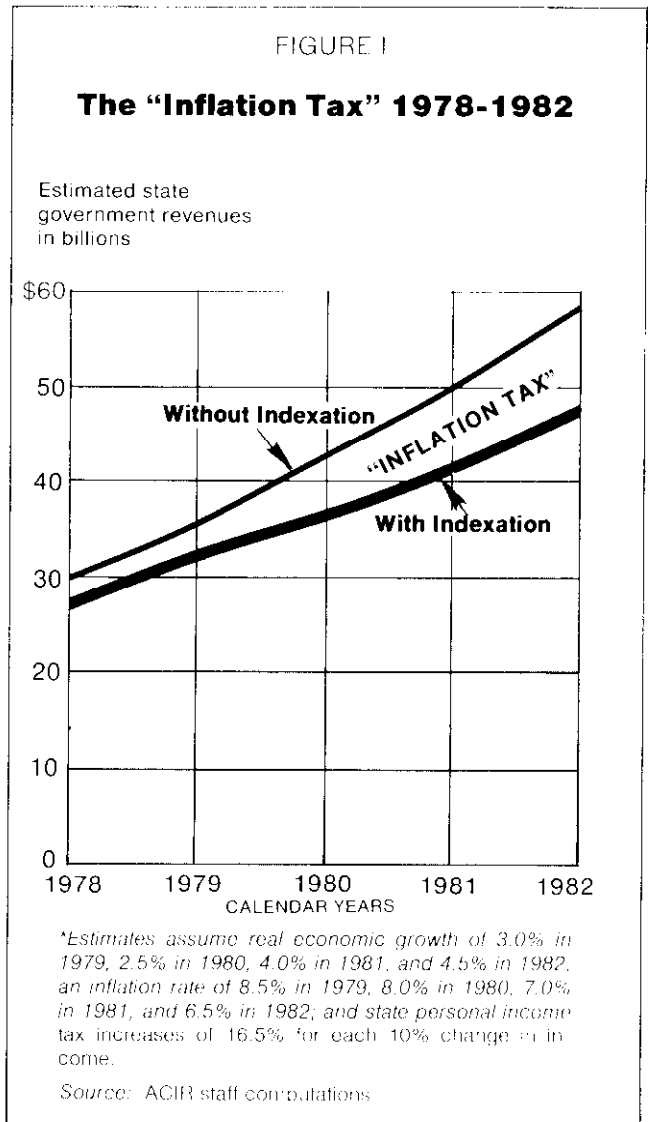
**Indexation.** Probably the most significant development in the state tax arena in 1978 was that three states—Colorado, Arizona, and California—adopted a system of indexation. Under indexation, fixed dollar tax code provisions such as tax brackets, exemptions, credits, and deductions, are adjusted by the rate of increase in the general price level to prevent inflation from automatically raising effective income tax rates. These 1978 laws are the first of their kind in this country.

Colorado's law calls on the General Assembly to determine the annual inflation factor (AIF) which will then be applied to tax rates, tax credits on the first \$9,000 of taxable income, the standard deductions of residents and part-time residents, and the low income allowance. The 1978 inflation factor, determined by the General Assembly was 6%.

The Arizona law indexes for 1978 only. It has as its AIF the ratio of the state consumer price index for the second quarter of the tax year to the state consumer price index for the second quarter of 1977. In 1978, this AIF was 10.1%. This factor is to be applied to standard deductions and personal exemptions, as well as to the credit for property taxes paid by low income senior citizens, and credit for renters. Efforts will be made in 1979 to make indexation permanent. In late summer, after the vote on Proposition 13 and

after the legislature had divvied up the state surplus, the California legislature passed and the Governor signed an indexation measure to be implemented in two phases. For 1978, personal income tax brackets will be indexed by a factor of 5%—to go into effect only if the increase in the state's consumer price index exceeds 3%. Beginning in January 1979, a second phase will be initiated which will index income tax brackets, credits for personal exemptions, low income credits, dependence and blindness exemptions, and the standard deduction.

The heightened interest in indexation in 1979 can be attributed in large measure to the high inflation rates. Figure 1 provides some indication of the magnitude of this inflation tax by comparing, under certain assumptions, the revenue produced by indexed and unindexed income taxes for those states using the personal income tax. In 1978, states can be expected to reap an inflation tax windfall of about \$1.2 billion due to inflation that would not be available under an indexed system (assuming real growth of 4% and an inflation rate of 7.5%). By 1982, this inflation tax would come to \$11 billion assuming varying growth paths for real income and price changes over the five-year period as spelled out in Figure 1.



**Full Disclosure.** Property tax revenues also benefit from inflation particularly, and ironically, when assessments are made on a timely and systematic basis. One way to put the brakes on increasing taxes is adoption of "truth in taxation" or full disclosure procedures which encourage public discussion of local tax decisions before proposed tax and spending plans become final. Under this procedure, localities typically can collect property tax revenues equal to, or slightly greater than they collected the previous year. With the expansion of the property tax base due to new construction, this type of revenue ceiling calls for a rollback in tax rates roughly commensurate with the increase in the assessment. If the governing body wishes to exceed this ceiling, it must advertise its intention and hold a public hearing to give the taxpayers full information and the formal opportunity to react.

In 1978, Texas enthusiastically endorsed the full disclosure idea by making it both statutory and constitutional. The constitutional amendment language, approved by the voters in November, requires that local property taxes can be raised only after formal notice and hearing under legislative directive. The amendment exempts new construction and newly annexed property from the base. The enabling legislation requires notice and public hearing on local tax increases exceeding 3% a year. An unusual provision in the law calls for a listing in the public notice of the names of the elected officials who voted for and against the proposal to raise taxes. The bill also calls for written notice of property owners whose property value has been increased by more than \$100 above its value of the preceding year.

**State Mandates.** A final component of the fiscal accountability package relates to state mandates—state actions that place requirements on local governments without accompanying state funding.

Although state mandates have long been an irritating feature of state-local relations, local governments find unreimbursed mandates particularly burdensome in times of financial stress since they must sometimes sacrifice local needs to satisfy requirements representing state priorities. They particularly object if the mandate will result in considerable expense or if the mandate deals in areas which they consider strictly of local concern—such as the wages, working hours, or benefits of local employees.

Attention to this area has been building over the last few years. In 1977, for example, two of the nation's largest states (New York and Illinois) set up committees to study the system of state mandates and make recommendations. In 1977, California put "more teeth" in its existing system of reimbursement to make it more useful to localities.

In 1978, as part of constitutional revisions connected with state spending limits, three states—Tennessee, Hawaii, and Michigan—enacted state reimbursement measures to apply on proposed new mandates. One state—Florida—provided for reimbursement by statute.

Tennessee's constitution now provides that no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.

According to the Hawaii constitution, the state must "share in the cost of any new programs or increased services which the legislature requires that counties provide."

In Michigan, the state is prohibited from "requiring any new or expanded activities by local governments, reducing the proportion of state spending in the form of aid to local

governments or shifting the tax burden to local governments" without full state financing.

Florida dealt with the problem by enacting a law calling for:

- full state reimbursement for any state general law which requires municipalities or counties to perform an activity or provide a service or facility which requires expenditure of additional funds;
- full state reimbursement if a state law grants an exemption or changes the manner local property is assessed or alters authorization to levy local taxes;
- partial state reimbursement for any state general law which establishes a service or activity which meets both state and local objectives.

There are three ways the Florida legislature can provide the reimbursements: through additional state funds, specific authority to the municipality or county to levy a special tax, or through unspecified "other sources provided by law."

If the reimbursement is by means other than the authority to grant a special tax, the state financing must "bear a reasonable relationship to the actual costs of performing the activity or providing the service or facility and shall not reduce, supplant or adversely affect other state or federal revenue shared with, or granted to, municipalities or counties." The law also states that if subsequent legislation supersedes or modifies provisions in this act, the legislation should so state expressly, including the reasons for legislative deviation from the reimbursement provisions. The law went into effect July 1, 1978.

In addition to New York and Illinois, studies of state mandates are underway in Massachusetts and Virginia. Governor Hunt of North Carolina is on record supporting the principle that state government "should not mandate local government programs without putting up the money to pay for them."

**Fiscal Notes.** One step in the direction of state reimbursement is the provision of fiscal notes on state legislation. Fiscal notes, which estimate costs to localities of carrying out a proposed state program or activity, can serve as a brake on state legislative activity affecting local governments and provide information for both legislators and local representatives on the effect of state law on localities. Fiscal notes can be attached to legislation, executive orders, and administrative rules and regulations.

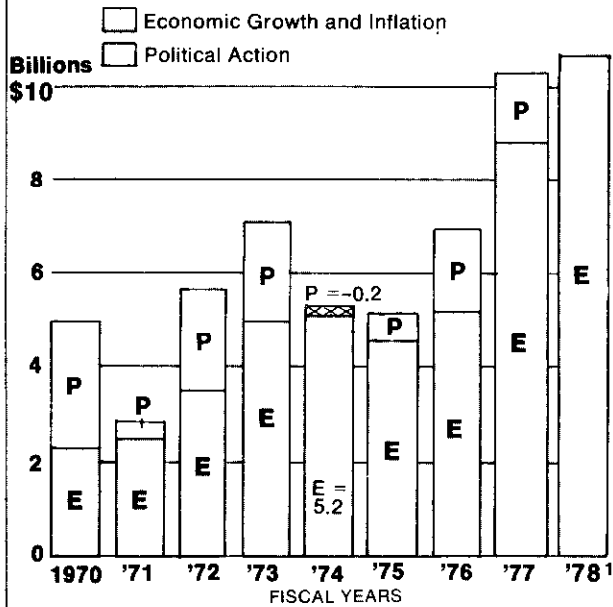
In 1978, four states enacted legislation calling for fiscal notes to accompany legislation affecting local governments: Georgia, Nevada, Rhode Island, and Connecticut. South Carolina established a fiscal note procedure in both houses of the legislature by rule. Wisconsin and Missouri called for fiscal notes to be attached to proposed administrative rules and regulations affecting local governments. In Nebraska, proposed legislation which increases or alters the powers or responsibilities of a state agency or local governmental unit must be analyzed.

In Massachusetts, Governor Dukakis signed an executive order aimed at checking the promulgation of new mandates by agencies under the Governor's control through a procedure similar to a fiscal note.

**Payments in Lieu of Taxes.** A similar reimbursement principle can be applied to state-owned or other public or nontaxed property. In some cities, state and local facilities, schools, universities, and hospitals make up a large chunk of total property in the city and mean a considerable revenue loss to cities. In Boston, for example it is estimated

FIGURE II

**State Government Revenue Growth, 1970-1978**



<sup>1</sup> 1978 political actions to increase taxes were virtually offset by the political actions to decrease taxes.

Source: ACIR staff compilations based on questionnaire returns.

**STATE-LOCAL REVENUE PICTURE**

In 1978, state and local governments collected an estimated \$195.5 billion in taxes. Of this amount, \$114 billion went to states—an increase of \$13 billion over 1977 collections. The net 1978 increase in state revenues—as indicated by questionnaire returns from state tax departments—came wholly from inflation and real economic growth. This does not mean, however, that various political or discretionary decisions were not made, but rather that 1978 political actions to increase taxes were virtually offset by the political actions to decrease taxes (see Figure 2).

The first half of 1978 saw the state-local sector in a "healthy" surplus situation of about \$30 billion (seasonally adjusted at annual rates), nearly a third of which was available for general purpose use. The surplus was not evenly distributed, however, but was concentrated in a handful of state and local governments (California and Texas had the largest surpluses). By the third quarter, the surplus picture had changed drastically. While the overall surplus (including social insurance funds) ran at a seasonally adjusted rate of approximately \$23 billion, the surplus in other funds available for general purpose use shrank to \$2.1 billion. While the full-year figures for 1978 are not yet available, the overall and other fund surpluses for the year will probably not achieve the heights reached in 1977, but rather will be more comparable to the rather low 1974-76 totals—indicating at least indirectly, that fiscal stringency is still the rule for a good share of state and local governments. Using a somewhat different approach, the National Governors' Association reported a similar pattern in its annual fiscal survey of the states. According to its findings, there will be "other funds" surplus of only \$4.3 billion at the end of fiscal 1979, a much smaller total than 1978's figure of \$8.9 billion. Nearly half of this is expected to occur in three states—Alaska, California, and Texas.

that 63% of the city's total real property valuation and 50% of its land area are exempt from property taxes.

In light of these figures, in 1978 the city of Boston sued the Commonwealth of Massachusetts for reimbursement of the revenues it loses on tax-exempt property. The city is asking the court to declare tax exemptions unconstitutional unless the legislature approves a more equitable system of reimbursement.

These institutions initially were granted exemptions because "... their presence would benefit the community," said Boston Mayor Kevin White in describing the city's action. "But... today they are no longer a benefit—they are a burden."

The city estimates that a full assessment on tax-exempted institutions would bring an additional \$100 million in revenue annually to the city. Most of the property in question (81% of the land area) is government-owned.

The 1978 Connecticut legislature expanded an existing program of reimbursing local governments for state-owned tax exempt land to include tax-exempt private higher education institutions and hospitals. The program is designed to provide cities with an amount equal to 25% of the full tax value of the exempt property and will cost the state around \$10 million. The state's three largest cities will receive one-half of the total; New Haven alone will receive one-quarter of the funds. The program is authorized for one year only but is expected to be continued.

Maine voters in November adopted a constitutional amendment requiring the legislature to annually reimburse municipalities for 50% of the property tax losses that result from exemptions or credits enacted after April 1, 1978.

Table 2

**State-Local Surplus 1974-77**

(in billions)

Source:	1974	1975	1976	1977
Total	\$ 7.6	\$ 5.9	\$20.7	\$29.6
Social Insurance Funds	10.5	12.1	15.2	18.0
Other Funds	-2.9	-6.2	5.5	11.5

Source: Survey of Current Business, Various issues.

Table 3

**State-Local Surplus in 1978**

(in billions)

Source:	First Quarter <sup>1</sup>	Second Quarter <sup>1</sup>	Third Quarter <sup>1,p</sup>
Total	\$31.5	\$29.8	\$23.7
Social Insurance Funds	19.9	20.5	21.6
Other Funds	11.5	9.3	2.1

<sup>1</sup>Seasonally adjusted at annual rates  
p—preliminary

Source: Survey of Current Business

Table 4

## Major 1978 Tax Reductions

State	Personal Income Tax			General Sales Tax				Property Tax			Classifi- cation	
	Rate Decrease	Credits	Increased Standard Deduction	Personal Exemption	Rate Decrease	Increased Exemption Food	Drug Medicine	Increased Credit	Homestead Relief†	Circuit Breaker†		Other
Alabama									X			X
Alaska		X										
Arizona							X					
California		X		X			X					X
Colorado		X		X						X		
Connecticut											X	
District of Columbia									X	X		X
Hawaii				X <sup>1</sup>								
Idaho		X <sup>2</sup>								X		
Illinois									X			
Indiana		X <sup>4</sup>		X <sup>3</sup>			X		X			
Iowa							X			X		
Kansas								X <sup>4</sup>		X		
Louisiana							X					
Maine	X			X					X		X	
Maryland							X			X		
Massachusetts									X			X
Michigan							X					X
Minnesota	X	X <sup>3</sup>										
Mississippi			X									
Missouri							X					
Nebraska								X	X			
New Mexico	X	X			X							X
New York	X		X	X						X		
Ohio							X					
Pennsylvania										X		
Rhode Island										X		
South Carolina									X			
South Dakota								X <sup>5</sup>	X		X <sup>7</sup>	X
Tennessee							X		X			
Texas									X			
Vermont	X	X					X					
Virginia							X		X <sup>6</sup>			
Washington						X						
Wisconsin		X										
Wyoming							X	X <sup>5</sup>				

<sup>1</sup>For blind, deaf, and totally disabled.<sup>2</sup>For elderly only.<sup>3</sup>Reduced special credit for those 65 and over, blind, or disabled.<sup>4</sup>For low income elderly.<sup>5</sup>For senior citizens and disabled.<sup>6</sup>At local option.<sup>7</sup>Repealed state personal property tax.

†Homestead and circuit breaker relief program are generally restricted to low income, elderly and the disabled.

Source: ACIR staff compilations based on Commerce Clearing House, *State Tax Review*, various issues; Federation of Tax Administrators, *Tax Administrators News*, Vol. 42, No. 9, September 1978; ACIR questionnaire response.

Nevertheless, few states were fiscally strapped enough to raise taxes in 1978. Indeed for the first time in four years, states in 1978 enacted considerably more tax cuts than increases. Some 21 states cut taxes amounting to around \$2.4 billion, according to the Tax Foundation. Increases enacted in eight states totaled only \$200 million.

Most of the state-enacted cuts in the property tax were in homestead and circuit breaker relief programs—particularly as these affect the elderly, disabled, and the poor. State activity in the income tax area was also plentiful with several states decreasing their rates and increasing various deductions and credits. While changes in rates, general credits, deductions, and personal exemptions affect a broad range of taxpayers, a good deal of the added credits affected the elderly, poor, and disabled. Actions on the sales tax were, by comparison, light.

Three states—**Texas, Alabama, and Massachusetts**—made significant changes in their constitutions relating to taxes. Not surprisingly, the changes involved the property tax.

A **Texas** constitutional amendment approved by the voters in November calls for taxing ranch and farm land on their productivity rather than their market value. It also increases exemptions of resident homesteads for taxes levied by school districts; authorizes the legislature to grant additional exemptions and tax freezes for homeowners over 65 and the disabled; and requires county administration and enforcement of uniform property assessment standards. A special session of the legislature also enacted a law containing changes affecting other taxes including repeal of the sales tax on home utility bills, increased inheritance tax exemptions, and reimbursement to school districts for losses caused by the various property tax changes.

The approach taken by the **Alabama** legislature relies on a system of property tax classification where different types of property can be assessed at differing values. The Alabama constitutional amendment, adopted by the voters in November, also lowered assessment ratios and limited effective property tax rates within four classes of property—farm and residential, utilities, private cars and trucks, and all other. Such a classification system usually aids residential property owners and farmers whose property can be assessed at values lower than that of businesses or other nonresidential property.

The amendment further provides that property may be assessed one of two ways: at a ratio of assessed value to market value (as it formerly was) or at current value. The assessment ratio of farm and residential property law was lowered from 15 to 10%; the assessment of the “all other” category was lowered from 25% to 20%.

While the **Massachusetts** constitutional actions regarding the property tax were not as broad or far reaching as were the Texas and Alabama measures, they are important for two reasons. One, they were “sold” to the public as means to provide property tax relief for homeowners. Without this measure, said proponents prior to the vote, Massachusetts residents would have even higher tax bills and taxes are already “staggering.” Secondly, they are another example of a type of property taxation change which is becoming more and more popular—a classification system similar to Alabama’s. The Massachusetts measure, approved by the voters in November, calls for residential property to be assessed at 40% of fair market value and “open land” at 25%. Commercial and industrial manufacturing property will be assessed at 50% and 55% of their fair market value.

Table 5

### Major 1978 State Tax Increases

Personal Income Tax	Sales Tax
Rhode Island <sup>1</sup>	Rhode Island <sup>2</sup>
Nebraska	South Dakota
	New Mexico <sup>3</sup>
	Nebraska <sup>3</sup>
	Missouri <sup>3</sup>
	Tennessee <sup>2</sup>
	Washington <sup>2</sup>

<sup>1</sup>The Rhode Island move was designed to recoup revenue losses that would otherwise occur because of reductions in federal income taxes.

<sup>2</sup>Extended state rate rather than reverting to previous lower rate.

<sup>3</sup>Authorized increased local sales tax.

Source: ACIR staff compilations based on Commerce Clearing House, *State Tax Review*, various issues; Federation of Tax Administrators, *Tax Administrators News*, Vol. 42 No. 9, September 1978; ACIR questionnaire response.

Two other states—**South Dakota and Michigan**—and the District of Columbia also adjusted or revised their property tax classification schemes during 1978.

#### Other Actions Affecting the Property Tax

Several states enacted legislation calling for temporary freezes or limits on assessment increases. **Kentucky** passed an omnibus assessment bill. **Louisiana** enacted a law calling for uniform assessments. **New Jersey** enacted legislation abolishing election of municipal assessors.

In **Montana**, voters rejected an attempt to repeal a provision in the 1972 constitution which gave the state responsibility for assessing property. The rejected measure would have reassigned the responsibility to counties.

Several states have established interim committees or special commissions to study state and local taxation. Seven have made such efforts in the area of property taxation; while others moved in the broader area of tax reform. **South Carolina** has a commission to study local revenues; **Washington**, a Governor’s task force on tax alternatives. Several states are also using interim committees to study state spending lids.

#### STATE-LOCAL SPENDING

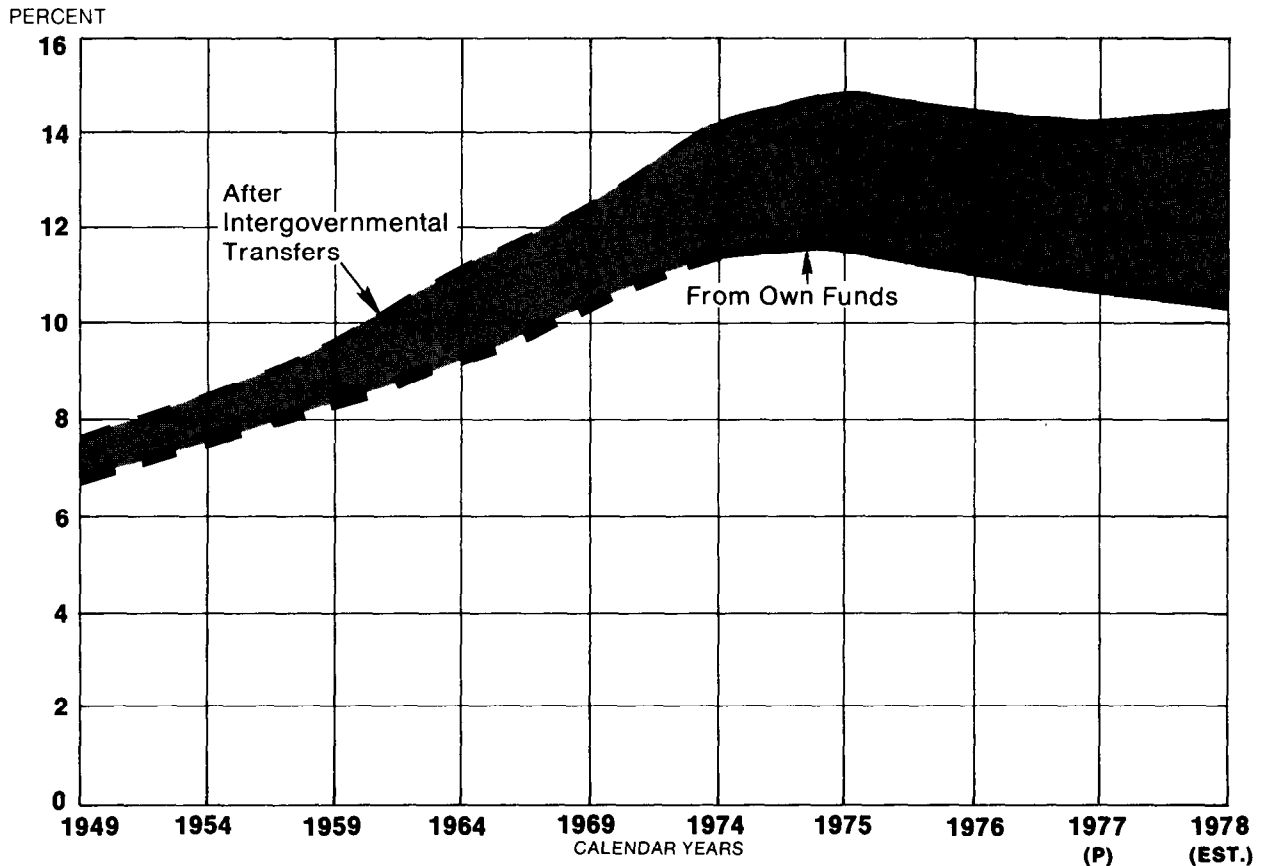
As a study in contrasts in 1978, the actual state-local spending picture did not reflect all the actions to limit spending, which is to say that the new limits and climate had not yet taken effect. In fact, 1978 saw state-local spending advance strongly compared to recent years, with a rate of increase quite comparable to that of the national economy. When the tax cuts, indexation, and other measures of fiscal restraint enacted in 1978 begin to whittle state revenues, however, it appears likely that state spending will taper off. Thus, the growth in state-local spending registered in 1978 may be a benchmark—more reflective of the past than the future.

Own-source spending by state governments (excluding intergovernmental transfers such as federal aid) advanced an estimated 13.6% during 1978. The local sector posted an estimated 11.6% increase. Taken together, then, state-local expenditures rose by an estimated 12.7%—decidedly faster than the 7.6% and 5.2% gains registered in the previous two years and exceeding the 10.8% advance scored in 1975.

When intergovernmental transfers (mainly federal aid) are included in the total expenditures of the recipient gov-

FIGURE III

**State-Local Expenditures As a Percent of  
Gross National Product, Selected Years, 1949—1978**



The National Income and Product Accounts do not report state and local government data separately. The state-local expenditure totals (National Income Accounts) were allocated between levels of government on the basis of ratios computed from data reported by the U.S. Bureau of the Census in the annual governmental finance series.

p = preliminary  
est = estimated

Source: ACIR staff computations based on U.S. Department of Commerce, Bureau of Economic Analysis, The National Income and Product Accounts of the United States, 1929-74, Statistical Tables and Survey of Current Business, various years; U.S. Bureau of the Census, Governmental Finances, annually; Budget of the United States Government, various years; Economic Report of The President, January 1978; and ACIR staff estimates.

ernmental sector, total state-local spending rose 13.1%, far exceeding the spending advances of 1977 and 1976 but somewhat less than the 13.7% increase in 1975.

The 1978 state-local spending growth, in both "real" and monetary terms, was very much in line with the growth in the overall economy. Considering only own source expenditures, the state-local sector accounted for 10.6% of the 1978 Gross National Product, unchanged from a year ago. When intergovernmental transfers are included, the state-local share rises—to 14.2%—almost identical with the 14.1% figure for the previous year, but lower than the 1976 level. Both expenditure series then indicate that, at least for the past three years, the state-local sector is no longer a growth sector, as it was in the 1960s. In the mid-1970s it is a constant if not a slightly declining portion of the national economy.

**State Assistance to Localities**

When California's local governments faced a \$7 billion budget shortfall in mid-1978, they turned to Sacramento for assistance. They got it. Similarly, other local governments looked to their state capitols for financial assistance in 1978. In response, a number of states enacted special programs to aid their local governments. Some were in the form of increased state revenue sharing; others involved state takeover of greater responsibility for the financing of schools, courts, or welfare. Some states attempted ambitious programs which "targeted" moneys to their distressed communities. Others acted to plan for future growth and development of their cities, counties, and regions. Several states worked to improve the financial management and pension systems of local governments (and frequently of the states as well).



## State Aid

Several states revised existing programs of shared taxes, state general aid, and categorical programs to local governments during 1978. Among those states which made changes in their state revenue sharing programs were **Alaska, Louisiana, North Dakota, and Wisconsin**—of these, **North Dakota's** is probably the most noteworthy. In November, voters there approved a statutory initiative calling for 5% of the state's income taxes to be distributed to counties, cities, city park districts, and townships as general revenue sharing.

**Alabama, Alaska, South Carolina, South Dakota, Tennessee, Vermont, and Wisconsin** altered their programs of "shared taxes" with local governments.

At least three states (**Kansas, Massachusetts, and Connecticut**) made significant changes in state aid to local governments.

Beginning in 1979, **Kansas** cities and counties will receive state payments from a new "county and city revenue sharing fund." The new fund will be financed by distributing 3.5% of state sales and use tax collections to each county area based 65% on population and 35% on assessed valuation. Within each county, half of the money goes to cities based on population and half to the county, with all payments made directly by the state.

The 3.5% sharing of state taxes in 1979 will exceed by an estimated \$700,000 the amount which would otherwise be apportioned under the former sharing of the cigarette and liquor enforcement tax, which was discontinued.

The 1978 **Massachusetts** General Court enacted a local aid package of around \$300 million in additional direct local aid through a variety of new aid devices. This is the largest annual increase in local aid ever enacted in the commonwealth. Approximately \$60 million will go to the counties from the local aid lottery formula. Full state funding of local court costs has been set at \$88 million. An improved school aid formula will provide \$150 million to localities.

The **Connecticut** legislature passed a package of aid to that state's localities, consisting of:

- revision of state aid to municipalities in amounts weighted to favor towns with low per capita income,
- grants to all towns for "property tax relief" based on per capita population,
- grants to "distressed municipalities" for 75% of the amount lost in exempting certain manufacturing facilities from the property tax,
- equalization of school construction grants and doubling the funding of the program, and
- a requirement that fiscal notes be attached to all state legislation affecting municipal expenditures or revenues

**Categorical Aid.** States continued to enact categorical aid programs to deal with specific functional problems. State-

**“One of the busiest areas of state-local relations in 1978 was state action to aid distressed local governments and to promote community development.”**

local highway maintenance was the foremost purpose. In addition, **Wisconsin** increased the state share of local mass transit costs and established a program to fund local sewerage plant projects. **Maryland** increased state aid for police protection, education, and libraries. **Wyoming** provided additional grants-in-aid for airports. **South Dakota** enacted programs to aid airports, solid waste disposal, community and rural water systems, and lake preservation.

## State Actions to Assist Distressed Communities

One of the busiest areas of state-local relations in 1978 was state action to aid distressed local governments and to promote community development. Several states stepped up or initiated planning activities relating directly to economic growth and development of urban and non-urban areas. Three states, **Michigan, Massachusetts, and California**, were pioneers in developing broad-gauged community assistance strategies, various components of which were enacted during the year. Other states enacted programs to assist localities in key functional areas; still others focused on needs of their largest cities or rural areas in various stages of "distress."

The approaches pursued varied considerably from region to region. In the west and the south these concerns were aimed at the impact of economic growth on the environment and ways to avoid some of the mistakes made earlier by the more industrialized states. In the northeast and midwest, efforts were geared toward checking the current economic decline and at making better use of existing facilities and resources. Some were comprehensive, long-ranging attempts to define "distressed" and to target funds to needy communities. Most were more in the nature of pilot projects or incremental efforts at solving broader problems common to many localities. Some efforts were aided by federal funds but most were primarily, if not entirely, state backed.

The programs also varied in scope. Activities were primarily in the area of physical development including economic development, neighborhood improvement, community development, and housing finance. Fiscal tools were also used to influence growth and development.

**Economic Development.** During 1978, a number of states undertook economic development initiatives in one or more of the following areas: establishment of a study commission or convening of a conference on state economic development issues; drafting of statewide economic development plans; development of infrastructure (industrial sites, plant facilities, and other capital improvements) to promote economic expansion; expansion of job creation efforts; authorization of local development corporations; and provision of state technical assistance to local development corporations.

In general, state plans and programs stressed the revitalization or creation of local industrial and commercial infrastructures, and the development of comprehensive activities to enhance the self-help capabilities of local jurisdictions. In 1978, key economic development laws were passed in **Louisiana, Massachusetts, New York, and New Jersey**.

**Louisiana** enacted the "Cooperative Economic Development Law," which authorizes the creation of local non-profit development corporations, subject to the approval of local elected officials or the Governor. The new development corporations are empowered to design economic development plans, designate local development areas, and carry out improvement programs. The corporations will enjoy substantial powers, including: the ability to acquire

and dispose of property, the authority to issue tax free revenue bonds, to borrow and invest funds, and the ability to apply for, and receive grants and loans.

In Massachusetts, an economic development package of \$6 billion was enacted, designed to expand local use of tax-exempt industrial revenue bonds, provide tax incentives for innercity job creation, and extend the scope of the state's industrial mortgage guarantee program. The package also created three new state agencies to promote economic development.

New York and New Jersey adopted joint legislation to enable the Port Authority of New York and New Jersey to develop industrial facilities in northern New Jersey and in New York City. The \$1 billion, ten-year program is expected to generate 30,000 private sector jobs in innercity areas. Public-private cooperation is intrinsic to the success of the program. The Port Authority expects to spend \$400 million of its own revenues to acquire and develop industrial sites, while the bulk of the additional \$600 million is to be derived from public sector investment.

In other actions, Michigan and Minnesota expanded programs to strengthen local economic development capabilities. Under the Michigan Economic Development Incentive Concept (MEDIC) program, 11 counties and the city of Detroit have created local "umbrella" development organizations, which in turn are authorized to establish and take the lead in implementing comprehensive area development strategies. The Michigan Office of Economic Expansion provides technical and management assistance to the umbrella organizations, including aid in packaging local proposals for federal and private sector grants and loans.

The Minnesota Community Development Corporation (MCDC) provides extensive assistance to community development corporations in poverty areas. Established as a pilot program in three communities, MCDC was designated a permanent state effort during 1978 and is expanding its program operations to include 17 localities. MCDC provides venture capital and start-up funding to program participants, filling a particularly crucial need for community corporations undertaking economic development.

Neighborhood Improvement and Community Development. A number of states expanded or initiated community development or neighborhood improvement programs during 1978. These programs are diverse, serving both urban and rural areas, with jurisdictions ranging in size from small towns to large cities.

During 1978, several western states mounted promising community development programs centering around the provision of capital improvements to communities experiencing rapid growth and industrial expansion.

In Wyoming, the Community Development Authority was created to provide community development, public health, housing finance, and civic services to local governments, especially those communities experiencing rapid expansion due to coal strip mining activities.

In New Mexico, an appropriation of \$1.5 million was approved to carry out an assistance program for communities affected by expanding mineral and energy development.

Although there was not clearly a "discovery" of neighborhood bodies in 1978—neighborhood groups have existed for years—there was an increasing tendency for states to use these groups to aid revitalization attempts and otherwise improve the urban environment. State efforts utilizing neighborhood groups, however, are relatively limited in scope, are typically confined to a handful of neighborhoods or communities, and are funded very modestly. 1978 devel-

opments in this area included:

New Jersey expanded its Neighborhood Preservation/Housing Demonstration Program from 12 to 39 communities to promote the execution of local preservation strategies. The program received \$1.5 million in state funds during 1978, with local public and private matching investments expected to increase that amount six-fold.

The Pennsylvania Neighborhood Preservation Support System (NPSS) program was expanded to broaden the scope of upgrading activities already underway in five communities across the state. Already active in the home rehabilitation field, NPSS efforts were extended to develop economic improvement and human service delivery activities in recipient neighborhoods.

Iowa established the Iowa Rural Community Development program making communities with populations of under 2,500 eligible for small grants to encourage citizen participation in the formation of local development programs.

In 1978, the New York State Division of Housing and Community Renewal awarded its first grants under the 1977 Neighborhood Preservation Act. The act provides funds for administrative expenses of nonprofit community-based organizations involved in rehabilitating and preserving the existing housing stock. They can receive one-year grants, which can be renewed, of up to \$100,000 to be used for staffing, planning, and other administrative costs.

## New Jersey Community Assistance Exp

Over the last few years, New Jersey has made numerous efforts to address problems of its hard-pressed communities. The state's approach is representative of the local development activities in numerous older, urbanized states of the northeast and midwest in that the emphasis is on revitalization of older city areas through job creation and infrastructure development efforts. It differs from some of its sister states in that it does not have a formal state-local aid strategy, although such a program is being developed by Governor Byrne's Cabinet Committee on Urban Policy.

Recent New Jersey initiatives undertaken to promote community revitalization include:

- A \$400 million industrial facilities development program for central city areas, authorized jointly by the legislatures of New Jersey and New York. The bi-state effort, to be carried out by the Port Authority of New York and New Jersey, is expected to generate some 30,000 jobs over a ten-year period. Public financing will generate an additional \$600 million in private investment, according to program officials.
- The reorganization of the state's manpower training effort, to supplement on-the-job training with vocational classes and thereby provide more qualified labor for economic expansion. The use of classroom or workshop training will enable the state to provide intensive training for larger groups of individuals than is possible using on-the-job techniques alone.
- The development of a statewide housing allocation plan which provides local goals for the construction and rehabilitation of low and moderate income housing.

On-going state activities reflect a similar emphasis on job creation and infrastructure development activities. One such effort is the low interest, long-term loan program for firms relocating to, or expanding within, New Jersey. Established under the direction of the New Jersey Economic Development Authority in 1974, the program uses tax-exempt

**Housing Finance.** The courts validated enabling legislation for state housing finance agencies in **Wyoming** and **South Carolina** during 1978, while **Indiana** enacted such legislation for the first time. These developments brought the number of state housing finance agencies (HFAs) to 42.

At least six states (**Delaware, Iowa, Maine, Tennessee, Vermont, and Wisconsin**) increased the bonding authority of their state HFAs. Also during 1978, five state HFAs (those of **Virginia, Vermont, Wisconsin, Michigan, and Iowa**) developed low interest home rehabilitation mechanisms patterned after the Minnesota Housing Finance Agency home improvement program. Most featured energy conservation activities.

**Fiscal Initiatives.** Fiscal initiatives undertaken by state governments to affect local growth and development patterns have tended toward narrow tax abatement and tax credit policies to influence local private investment patterns. Several actions were taken in 1978 to provide tax credits or abatements for specified development activities.

Three states—**Indiana, Illinois, and New York**—provided incentives for rehabilitating property through increased property tax credits or deductions. **California** voters defeated a similar measure in a June referendum.

Thanks to a November ballot measure, the **Virginia** legislature may now authorize the governing body of any

county, city, town, or regional government to provide partial exemptions for rehabilitated property.

**Ohio** passed an income tax credit for home improvements costing at least \$300. The credit is 5% of the cost up to a maximum of \$65. In addition, its Community Reinvestment Act of 1977 freezes property taxes for 15 years on commercial, industrial, and residential developments in locally designated reinvestment areas.

A 1978 **Minnesota** statute defers for five years property tax increases on apartment buildings whose values have increased through rehabilitation.

In 1978, **Wisconsin** began to implement a new farmland preservation tax credit program. Under the effort, farmers agreeing to preserve agricultural land by complying with restrictive zoning ordinances or by signing farmland preservation agreements are eligible for state income tax credits of up to \$4,200.

An exception to these narrow fiscal initiatives is the comprehensive package to aid localities enacted by the **Connecticut** legislature in 1978, discussed earlier.

**State Community Assistance and Growth Planning Strategies.** During 1978, there was considerable state interest in developing broad community assistance strategies relating to the economic growth and development of urban and nonurban areas. The new state interest in

ce industrial revenue bonds to provide loan capital for the purchase and development of commercial and industrial sites, facilities, and equipment. To date, the authority has provided over \$600 million in financing, which has led to the development of an estimated 39,000 jobs. Funding under the program is reserved for firms whose operations will expand employment opportunities in New Jersey; when feasible, firms are advised to relocate in or near urban areas experiencing high unemployment and industrial declines.

The **New Jersey** Department of Community Affairs is responsible for carrying out a number of promising community development ventures. The Safe and Clean Neighborhoods Program, established in 1973, provides matching grants to 31 cities for crime prevention and community development activities. The pilot Housing Demonstration Program, initiated during 1974, has expanded its operations to 39 communities. Under the effort, state funding is provided to assist localities in the implementation of neighborhood preservation and housing rehabilitation activities; program regulations require that state moneys be supplemented with local public and private contributions.

Although the dominant community assistance programs sponsored by **New Jersey** are for specific functions, the state has also developed structural and fiscal reforms to assist local governments. The Interlocal Services Aid Program encourages structural reforms at the local level by providing financial incentives for the consolidation of services. Under the initiative, local jurisdictions can receive financial and technical assistance for the development of joint service delivery programs for such projects as welfare, public works, and tax collection efforts.

The state's primary fiscal tool to alleviate local distress, the Urban Aid Program, represents an attempt to channel supplemental state moneys to particularly distressed communities. State funds for the program are directed to communities on the basis of a formula weighing population or population density, number of children receiving AFDC

assistance, local tax effort, local property valuations, and public housing. Yet, like similar efforts to target funds at the national and state levels, the **New Jersey** urban aid program has expanded its scope and now provides funds to a larger and more varied constituency. When the program was initiated in 1970, \$12 million in funding was targeted to six communities; today, the \$39 million goes to 31 communities. Thus, the average local grant today is below the 1970 average, and the 31 communities participating in the program demonstrate considerable diversity in location, size, and demographic composition. The inclusive nature of the effort is underscored by the 1978 enactment of the Rural Aid Act, which distributes additional state revenue to needy rural jurisdictions on the basis of a similar needs formula. Again, the **New Jersey** experience with targeting is reminiscent of those of the other industrialized states.

Finally, **New Jersey's** community assistance initiatives reflect the nationwide trend toward the use of public moneys to leverage additional private sector investments for socially beneficial purposes. The \$400 million in public funding authorized under the Port Authority initiative is expected to leverage an additional \$600 million in private industrial development funding. Similarly, the **New Jersey** Economic Development Authority provides favorable loans for expansion on the promise of stimulating additional private job creation, and the Housing Demonstration Program uses state moneys to generate additional private financing for neighborhood upgrading. Thus, public funding is used to create a market incentive for socially desirable private investment patterns, a use of public financing long advocated by economic analysts.

Admittedly, many of **New Jersey's** community aid initiatives are still in the developmental stage: the relative brevity of much of the state's activities makes program plans far more ambitious than program achievements. Still, **New Jersey's** local assistance endeavors appear to represent a broad-gauged effort to address the declining community problems faced by an older, industrial state.

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community assistance strategies derives at least in part from recent actions at the federal level including the 1978 White House Conference on Balanced National Growth and Economic Development, President Carter's urban policy, and various new federal spending initiatives including incentive grants to states to implement comprehensive strategies to assist distressed communities.

The three most comprehensive state strategies were developed in Massachusetts, Michigan, and California.

The Massachusetts *Growth Policy Report*, released in 1977, encouraged the use of growth management planning to contain metropolitan sprawl and revitalize urban areas. The report emphasized the use of state permit and purchasing powers to encourage urban revitalization and recommended a variety of new state initiatives, a number of which were enacted in 1978.

The Michigan urban policy strategy, set forth in a January 1978 report of the Governor's Urban Action Group, proposed the reorganization of state service departments to better coordinate economic and community development activities, urged the creation of a state development cabinet, and recommended the use of fiscal incentives to encourage urban job development and commercial rehabilitation. A number of efforts recommended in the report were also implemented.

The California urban policy, released in February and developed by the state's Office of Planning and Research, contained 45 specific actions to be taken as "first steps" toward implementing urban policy goals. In March, Governor Brown directed all state agencies and departments to "conform" their policies, actions, and programs to the urban strategy. Since passage of Proposition 13, however, implementation of some parts of the strategy—particularly elements requiring new spending—has been abandoned. Yet some components, including urban renovation, may be aided since Proposition 13 has reduced some of the costs associated with housing rehabilitation and increased those associated with new development. Additionally, the new austerity could foster a greater interest in local government planning—a major element in the state's urban policy.

In May, Governor Ariyoshi signed into law the Hawaii state plan which sets forth the basic goals, objectives and policies for that state in the development of its human, physical, economic, and development program activities.

A primary theme of Arizona's August 1978 planning study, entitled *Toward A State Growth Strategy*, is the need to balance the requirements of economic expansion against the goal of environmental conservation.

In North Carolina, two state bodies, the Local Government Advocacy Council and the State Goals and Policy Board, working closely with state agencies, are developing criteria for designating local growth centers and setting regional balance targets. Once these criteria are completed and approved by Governor Hunt, local governments will be asked to apply for the growth center designation and to help establish the proposed regional balance targets. The State Goals and Policy Board in mid-1978 issued a preliminary report entitled *A Balanced Growth Policy for North Carolina* and sponsored a statewide conference on economic growth and development.

In other developments, Connecticut revised its state plan to encourage the targeting of resources to distressed urban centers and to discourage sprawl. Maryland and Delaware developed comprehensive state economic development plans. Wyoming announced a nine-point housing improvement strategy.

At least 13 states held conferences or issued reports on local growth and development issues in 1978. The content of these conferences, reports, and strategies varied considerably and reflected the needs of various sections of the country.

For example, the Idaho Governor's Conference on Growth and Economic Development, held in February 1978, considered the likely effects of various rates of economic growth and explored the possibility that extended economic growth would impair the quality of life.

In sharp contrast, the New Jersey Governor's Conference on Economic Priorities for Job Creation, held in March 1978, dealt wholly with the need to encourage industrial expansion and new employment in the state, especially in the older declining urban centers.

#### School Finance

In dollar terms, the largest way in which states assist local governments is by providing aid for local schools. Over the past decade, this aid has increased substantially, due in large measure to various types of legal challenges to the basic fairness of state funding programs.

During 1978, two lower state courts ruled that existing systems were unconstitutional and the high courts upheld an earlier decision on a related case. Several states enacted new aid programs to respond to current or potential court rulings.

Ohio's First District Court of Appeals ruled in early September that Ohio's public school funding system was unconstitutional, sustaining a lower court ruling that the grossly disparate educational opportunities in Ohio's 617 school districts violated the state's equal protection clause. The court held that education is a fundamental right under the state constitution and rejected the interest advanced by the state in preserving local control as an insufficient reason for discriminating against students.

"The constitutional responsibility to provide for education rests with the legislature," the court said, "and we cannot perceive any compelling state interest in local control which in effect thwarts the legislature in the exercise of this responsibility."

While this case is being appealed, Governor Rhodes has proposed a \$1.1 billion school aid program that would freeze property taxes while giving schools more to spend through 1983. If state revenues are higher than present projections, state aid could exceed \$1.1 billion.

Under the proposal, small school districts with high property taxes due to school construction costs could spend debt retirement money to pay operating costs and the state would pay bond retirement debts.

Property taxes would be frozen at 1977 levels with the state committed to pay the difference to local governments. The provision is a variation of the state's present tax rollback and tax freeze laws, both of which have been criticized by various school and legislative officials. The state's "equal yield" formula, based primarily on local property taxes approved by the voters, will most likely be changed to take into account the difference in operating costs in various districts.

The Governor is also expected to propose a state constitutional amendment that would require the state income tax and state lottery revenues to go to the schools.

In June 1978, a New York court handed down a decision that the state's system of financing public schools was unconstitutional due to inherent discrimination against poor school districts. The case was initiated in 1974 by the Levittown school district and was joined by 27 suburban

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and rural school districts and four cities (New York, Rochester, Buffalo, and Syracuse). The suit specifically challenged the 1974 New York school aid statute for the provision of operating aid and contended that great disparities in property tax revenues among school districts has led to unequal educational opportunities.

The most controversial element of the suit was the argument made by the lawyers representing the four cities that these jurisdictions suffered from what they called “municipal overburden.” They challenged the school aid formula as it applied to them because it failed to recognize costly special needs and problems which they said drain urban school districts, even those which appear to be property rich. Thus two communities with equal property wealth might well have very unequal education buying power for their revenues.

The court concluded that the urban districts were, indeed, denied state aid in proportion to their need, thus violating the equal protection clause of the state constitution.

Prior to the June decision, the legislature repealed the 1974 formula and enacted a new formula which is weighted toward less affluent districts and urban districts with many poor and handicapped. The 1978 school finance package comes to \$2.5 billion—\$230 million over the 1977 aid to education.

With the repeal of the 1974 act, the impact of the court decision is somewhat in question. The court withheld judicial intervention to afford the legislature the time and opportunity to take “appropriate action.” The question remaining is whether the new law fully meets the court’s approval. And the Levittown decision will likely be appealed to the state’s highest court, the Court of Appeals, which will involve several more years before a final decision is reached.

Washington’s Supreme Court has upheld a 1977 lower court decision that the state’s current school finance system is unconstitutional. The court held that the state had failed to provide the “ample” education specifically mandated by the state constitution and that the system of relying heavily on voted levies was unconstitutional.

The court rejected the state’s position that the state constitutional provision that the state make “ample provision” for education of all resident children was a mere statement of policy and held instead that it is a substantive provision imposing a judicially enforceable affirmative duty on the state.

Regarding the authorization of local governments to raise special excess levies, the court held that it was unconstitutional to have the basic program determined by the whim of the voters and that special levies could be used only to fund an enrichment program over and above the basic education requirement of the constitution.

The case arose when the Seattle voters defeated two attempts by the school district to supplement state funds

for education with special levies. When forced to rely solely on state funds, the school district cut back its budget for books, supplies, and staffs, with programs and physical facilities suffering as a result.

Prior to the September 28 decision, the legislature acted to define basic education and approve the spending of an additional \$971 million for education from 1977 to 1981. Although the lower court had ordered a deadline of 1979, the high court said the legislative timetable of 1981 was more realistic.

In Connecticut, a 25-member “blue ribbon” commission has recommended that the state nearly double its spending for education by raising \$38 million a year in revenues for each of the next five years. The commission further recommended that the state mandate minimum levels of spending for each student—a way of assuring that poor school districts do not simply cut property taxes with the new state aid.

The legislature is under court mandate to adopt a new system by May 1, 1979, to meet the 1977 *Horton v. Meskill* decision recently upheld by the state supreme court. In it, the court held that the state’s system of financing public school education mainly through property taxes was unconstitutional because it gave educational advantages to children in wealthier communities.

In California, the state supreme court upheld the state’s education finance reform law enacted in 1977. The law establishes an equitable base level of financial support for elementary and secondary public schools and equalized tax efforts for low to moderate income school districts. Yet, a constitutional amendment is still necessary to make the allocation formula permanent.

In 1978, the Maine legislature repealed the uniform statewide property tax—a tax which was raised locally and used to equalize education. Under the new system a total basic education appropriation will be calculated by the legislature and divided in half to determine the state share. The ceiling on local government spending has been removed, and local governments do not have to levy a determined mill rate.

The 1978 Massachusetts General Court enacted a new school aid formula providing an additional \$150 million in aid. The new formula is weighted to take into account the relative wealth of communities as well as the number of special, vocational, bilingual, and regular educational students they have.

While the new formula gives a greater percentage of state educational funds to the poorer communities, not every city gets fiscal relief under the new program, according to the Massachusetts League of Cities and Towns. The league has filed a suit in the Massachusetts Supreme Judicial Court challenging the constitutionality of the state’s property tax-based method of funding elementary and secondary education.

**Other Functional Areas.** Several states assumed responsibility for functions once performed by local governments in areas other than education.

For example, California now pays \$1 billion in Medicaid expenses formerly paid by counties. Maryland also took over the counties’ share of Medicaid expenses in a 1978 action.

New York picked up the nonfederal costs of Supplemental Security Income (SSI) for local social services districts. Based on the January 1978, caseload data, annual costs to the state will rise \$107.4 million. New York City alone will save \$75.8 million.

In Iowa, the state has assumed the administration of the food stamp program. In Massachusetts, the state has assumed the costs of the county court system. In Wisconsin, the state is now fully funding circuit courts.

#### FINANCIAL MANAGEMENT

Far less interesting to the statehouse press corps and their audience is another area of state-local finance which received considerable legislative attention in 1978: financial management.

#### Governmental liability

The once rather mundane area of public employee and agency liability became an area of intense legislative interest in 1978 as state legislators and local officials worked in concert to devise alternatives made necessary in several instances by court decisions.

The concept of sovereign immunity of state and local governments, once a well respected tenet of law, has been on shaky legal ground in state courts over the past few years. In 1978, abrogation of governmental immunity moved into the federal court arena with two U.S. Supreme Court rulings that held that local governments are liable for their actions in certain areas in which immunity had previously been upheld (*City of Lafayette, et. al., v. Louisiana Power and Light* and *Monell v. Department of Social Services of New York City*).

Three state supreme courts (in Kansas, Pennsylvania, and Wyoming) also issued rulings abrogating sovereign immunity doctrines which had been in place in those states. The Pennsylvania case involved only state government liability; local government immunity already had been eliminated in a 1973 state court decision.

State legislatures have responded to these and other court decisions by enacting laws to redefine governmental liability and immunity. The approaches vary considerably. Some states have adopted "close ended" laws which continue governmental immunity from suit except in certain instances (usually those addressed in the court decision). Others have adopted "stop-gap" measures to respond to the courts and are considering more comprehensive solutions. Still others have taken the major step of providing a broad, wide-ranging solution to what many view as a nagging problem.

Actions taken in five states in 1978 illustrate the three courses of action.

Following a year long study by the State Municipal League, the 1978 Oklahoma legislature passed what has been termed a "model" tort claims act. Under the act, liability is "open ended" which means that the government is liable except in specified instances generally relating to essential governmental functions such as legislative, judicial, and executive actions, taxing, inspections, and licensing. Liability of employees and the government is merged in the act; the governmental unit must defend the employees and pay any judgment if the employee was acting within the scope of his or her powers. The law also limits the amount of liability, establishes procedures for bringing claims against a government, and authorizes broad powers for governmental units to insure themselves against liability cases.

The approach adopted in Missouri is known as "close ended," extending governmental immunity from suit except in certain instances. In this case, the new law says governments are immune except for damage caused by a public vehicle or a dangerous condition on public property

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—the two areas dealt with in a 1977 state supreme court decision. The law also places limits on the amount of liability.

A 1978 Massachusetts law retains immunity in most cases, with the exceptions generally relating to automobile accidents, lack of street repair, and other dangerous conditions on public property. It also places dollar limits on liability.

In response to a court decision, the Pennsylvania legislature quickly passed a law to limit state liability except in certain areas such as damage caused by public vehicles and highways. However, the legislation to establish the bounds of local liability (abrogated by the courts in 1973) has not yet been enacted.

The Kansas law essentially froze immunity as it existed prior to the 1978 state court ruling with the exceptions granted by the court for one year (until July 1, 1979) to allow time to work on more comprehensive legislation. The legislative council is conducting an interim study on the subject.

The growing debate over the liability issue resulting from these court and legislative actions has led to a tightening of the commercial liability insurance market and an increase in the importance of risk management as a component of financial management. In many instances, commercial coverage has become unavailable or premium costs have skyrocketed. Instances of insurance premiums doubling in one year even though no claims were filed in the previous year are not uncommon. In response, state legislatures have enacted laws providing broad powers to local governments to protect against liability judgments through authorization to develop risk management programs, purchase commercial insurance, self-insure, and adopt pooled insurance arrangements among groups of local governments or in cooperation with the state.

In 1978, at least six states adopted legislation allowing local governments to self-insure or develop interlocal insurance pools (Missouri, Iowa, Ohio, Oklahoma, Virginia, and Wisconsin). A 1978 New Mexico law requires all local governments (except Albuquerque) to insure against all areas of liability through a state-operated self-insurance fund. To insure local government participation and payment of concomitant fees, the state will refuse to approve local budgets which do not include insurance fee set asides. Albuquerque must also demonstrate adequate coverage to have its budget approved.

A number of states are conducting studies of governmental liability and arrangements to protect against liability judgments. Such studies are underway in Kansas, Missouri, Louisiana, Maryland, South Dakota, and Virginia.

#### State-Local Pensions

Another key area of 1978 state action and study was the solvency of state and local employee retirement systems.

## The Oklahoma Political Subdivisions Tort Claims Act

In April 1978, Oklahoma became one of the first states to adopt a comprehensive tort reform statute that provides relief for victims of governmental action, and, at the same time, protects the taxpayers who ultimately pay the cost of any liability judgment.

*The Oklahoma Political Subdivisions Tort Claims Act* prescribes the areas and limits of local government tort liability, establishes procedures for bringing claims against governmental units, grants local governments flexibility in protecting against liability judgments, and, for the first time in Oklahoma, provides comprehensive protection for individual governmental officers and employees from liability claims arising out of normal exercise of their duties.

As passed, the act (S.B. 586) applies to all cities, towns, counties, and school districts in the state and their agencies, employees, and agents with the exception of independent contractors. The liability of local governments, under the act, is "open ended," meaning local governments are liable for losses resulting from their actions or the actions of their employees performing their normal public duties, with the exception of certain specified functions or instances. Nearly all the bill's 19 specified exceptions are essential governmental functions or conditions beyond the control of the governmental unit, including losses resulting from the exercise of legislative, judicial, and quasi-judicial functions; execution of a lawful court order; performance or failure to perform any discretionary function; civil disobedience; temporary or natural conditions caused by weather; natural conditions on unimproved property; entry upon property where entry is authorized by law; assessment and collection of taxes; licensing; and inspections.

To balance the increased liability exposure of local governments, the act places limits on the amount of money which can be recovered. Ceilings of \$25,000 for property damage, \$50,000 for all other claims, and \$300,000 for all claims from any one accident or occurrence are established. Punitive or exemplary damages, including loss of service or support claims, are prohibited.

Probably the most novel aspect of the act is the protection accorded to local government employees. Under the act, individual liability is merged with that of the governmental unit. All suits are to be brought against the local government, and the local government is liable for any employee's action that was within the scope of employment and not the result of fraud or corruption. The local government must defend and pay any judgment against an employee as long as the employee reasonably cooperates in his/her defense. Any judgment or settlement of a claim against the government constitutes a complete bar to further proceedings against the individual employee whose act gave rise to the original claim.

The act even goes so far as to assist employees in suits brought against them under federal civil rights laws where the U.S. Supreme Court had previously held that only the employee, and not the governmental unit, could be sued.\* Local governments must reimburse an employee for any defense costs or judgments incurred for violating U.S. civil

rights laws provided that the employee's actions were within the scope of employment and he/she reasonably cooperated in defense against the claim.

The new tort claims act also substantially broadens the actions local governments can take to protect themselves and their employees from the consequences of liability judgments. Local governments are authorized to insure themselves and their employees for all areas of liability established under the act as well as the costs of defending against all claims. Such insurance may be provided through self-insurance (with or without reserve funds), or the purchase of commercial insurance. In addition, any two or more local governments may enter into an agreement, under the state's interlocal agreements act, to self-insure or to purchase commercial insurance without coming under the purview of the state insurance regulation laws.

Judgments against a local government may be paid from a commercial insurance policy, a self-insurance reserve fund, or a tax levy. Rather than requiring that the judgment be paid in three years, as prescribed elsewhere in Oklahoma law, the court may, after reviewing evidence concerning existing tax levies and indebtedness and the tax levy necessary to pay the judgment, extend the payment period to ten years with interest on the judgment at 6%.

The bill grew out of a year-long study of municipal liability and insurance needs conducted by the Oklahoma Municipal League (OML) and assisted by a grant under the federal government's *Intergovernmental Personnel Act* (IPA).

Based on a review of national and state legislative and judicial trends and a survey of insurance practices among Oklahoma cities, the OML study reached two major conclusions:

- Oklahoma cities and towns were in need of greater legislative flexibility and substantial technical and legal assistance in designing and implementing comprehensive risk management programs.
- The state laws on tort liability and risk management were often confusing or incomplete, contained serious inequities, and needed substantial reform.

Even though legal changes were not originally envisioned as a major part of the initial phase of the OML project, it soon became apparent that little could be accomplished without a wholesale reform of the tort liability and risk management statutes. Legislation was drafted by the OML project staff which worked under the guidance of an advisory committee of municipal, employee organization, and insurance industry officials, and in close cooperation with the Oklahoma Legislative Council, the local government committees of the legislature, and other local government associations. The legislature made only minor amendments to the proposed law and very few dissenting votes were cast against it. Much of the legislative success is attributed to the early involvement of all parties involved.

The Oklahoma Municipal League plans to continue its risk management project under a continuation of its IPA grant. In the next year, major emphasis will be given to expanding its training and technical assistance program in all areas of risk management, and designing and implementing a comprehensive insurance program. Alternatives being considered included establishing a statewide voluntary self-insurance and risk management service pool, or procuring group liability coverage in the commercial market and providing other risk management services through a pooled arrangement.

\*Note that the act was passed prior to the U.S. Supreme Court's 1978 *Monell* decision which held that governmental units may also be sued for a civil rights violation if the violation occurs in carrying out an official policy or custom of the local government.



Table 6  
State-Local Financial Management Efforts

	Mandate Reimbursement	Fiscal Note Required on Legislation Affecting Local Government	Insurance Pooling Authorized <sup>10</sup>	Local Government Investment Pools	Permanent Pension Review Commission
United States	10	25	17	11	14
Alabama		X <sup>6</sup>	X		
Alaska	X <sup>1</sup>	X <sup>7</sup>			X
Arkansas		X			
California	X	X	X	X	
Colorado		X	X		
Connecticut		X		X	
Delaware		X			
Florida	X <sup>2</sup>	X	X	X	
Georgia		X			
Hawaii	X				
Idaho		X			
Illinois			X	X	X
Indiana		X			
Iowa		X	X		
Kansas		X			
Kentucky		X <sup>7</sup>	X		
Louisiana	X <sup>3</sup>				X
Maine	X <sup>4</sup>				
Maryland		X			
Massachusetts				X	X
Michigan	X		X		
Minnesota		X <sup>7</sup>			X
Missouri		X	X		
Montana	X <sup>2</sup>	X		X	
Nebraska		X			
Nevada		X			
New Jersey		X <sup>7</sup>		X	
New Mexico			X <sup>11</sup>		
New York					X
North Dakota		X			
Ohio		X <sup>7</sup>	X		X
Oklahoma			X		X
Oregon		X	X	X	
Pennsylvania	X <sup>5</sup>	X	X		
Rhode Island		X			X
South Carolina		X <sup>8</sup>			X
South Dakota		X <sup>7</sup>			X
Tennessee	X	X			X
Texas		X	X		
Utah		X		X	
Virginia		X <sup>9</sup>	X		
Washington		X <sup>7</sup>			
West Virginia				X	X
Wisconsin		X	X	X	X

<sup>1</sup>Acceptance by local voters required.

<sup>2</sup>Reimbursement or taxing authority required.

<sup>3</sup>Acceptance by local voters or reimbursement required.

<sup>4</sup>Reimbursement for 50% of revenue loss from new property tax exemptions only.

<sup>5</sup>Reimbursement of sales and property tax exemptions only.

<sup>6</sup>Senate only.

<sup>7</sup>Permissive, but not required or strictly complied with.

<sup>8</sup>House only.

<sup>9</sup>On books, but not implemented.

<sup>10</sup>Other states may authorize pooling under a general purpose inter-local contracts or agreement statute.

<sup>11</sup>Local governments must insure through state public liability fund.

Source: ACIR staff compilations.

As in the past, much of the legislation was designed to improve the information available on public pension systems and their financial status and to force state and local officials to estimate and fully fund the costs of retirement benefits granted in the future. In 1978:

- Missouri voters approved a constitutional amendment requiring an actuarial evaluation of the cost of all proposed changes in state or local retirement systems prior to adoption.
- Kentucky adopted a law requiring an actuarial review of all locally administered systems every three years.
- Colorado enacted legislation requiring local governments to make contributions to local police and fire systems sufficient to pay the full normal costs of the system and amortize prior unfunded liability in 40 years, and creating a two-year legislative study of the feasibility of a statewide system for local police and fire personnel.
- In South Carolina, voters approved a constitutional amendment providing that increased benefits under a retirement or pension system funded in whole or in part by public funds shall not be paid unless funds for the increase are available or can be obtained in a fiscally sound manner. It also requires annual appropriations to meet the obligations of the state employee retirement system and prohibits use of the money in a publicly funded retirement system for purposes other than paying obligations to members of the systems. The measure must now be ratified by a majority vote of both houses of the legislature.
- A Georgia constitutional amendment, defeated in November, would have directed the General Assembly to establish minimum funding standards for local retirement systems.
- Oklahoma and Rhode Island established permanent legislative committees to provide continuing review and evaluation of existing systems and to evaluate the financial impact of proposed changes in benefits.
- State and local retirement systems and benefits are the subject of legislative studies in Arkansas, Colorado, Kansas, Louisiana, West Virginia, and Idaho.

Two states—Louisiana and Wisconsin—consolidated some state and local systems in 1978.

Louisiana enacted legislation directing the boards of trustees of three state systems for local school employees to undertake the steps necessary to consolidate the administration of those systems and authorized the trustees of the state employees and police pension systems to undertake similar steps. It also adopted a uniform method of computing "final average salary" and uniform disability requirements, procedures and benefits for all systems in the state.

The Wisconsin legislature consolidated most local police and fire systems into the statewide Wisconsin retirement fund and granted flexibility to local governments in computing credits for prior service as a means of easing entry into the statewide system for other employees.

#### Cash and Debt Management

Increased attention has been focused on the most efficient use of idle public dollars in recent years. One way to improve the chances of maximum yields from these dollars is to provide a variety of choices for investment or to lift some of the restrictions on allowed deposits. During 1978, Indiana, Minnesota, Maryland, Tennessee, and Virginia

passed laws to liberalize local government investment opportunities.

West Virginia created a local government investment pool for local governments which desire to pool their money into a state-operated investment mechanism. Eleven states now have such a pool. A bill establishing a pool was vetoed in Maine, and a constitutional amendment authorizing one was defeated in Missouri.

Studies of state and/or local cash management are underway in Idaho, Indiana, Kentucky, and Louisiana.

Several states and the District of Columbia acted to link the investment of state funds to the promotion of in-state lending, investment, and economic development. The California State Teachers Retirement System became the first entity in the country to adopt a social responsibility criteria to govern its investments. Under the policy, the system will attempt to avoid situations in which its investments would condone, promote, or facilitate the "undermining of basic human rights."

Greater flexibility in the issuance of their debt was afforded to local governments in Alaska, Arizona, Georgia, Hawaii, Louisiana, Kansas, and Missouri. On the other hand, two states, Alabama and Pennsylvania, increased

their restrictions on issuance of local government debt.

Four states—Florida, Kansas, Minnesota, and Maryland—adopted legislation relating to the accounting, auditing, and financial reporting requirements for local governments. The auditor general in Rhode Island issued uniform reporting standards for local governments there.

Numerous states have chosen to study the broad area of financial management and its component parts. Studies of state and/or local cash or debt management are underway in seven states. Six states are studying retirement systems; seven governmental liability and insurance.

#### "Rainy Day" Funds

In 1978, South Carolina voters approved a constitutional amendment setting up a state general fund reserve (or "rainy day" fund) of an amount equal to 5% of the general fund revenue of the completed fiscal year. The General Assembly is authorized to appropriate funds from the reserve when approved by two-thirds vote of the membership of both houses.

Delaware enacted legislation limiting state spending to 98% of all state revenues during the next fiscal year. The other 2% of revenues may be used only in case of emergencies.

## The Nation's 16th Largest City Defaults

On December 15, 1978, Cleveland, Ohio, became the first major American city to default since 1933. Two weeks later, at the end of the year, Cleveland's financial situation was still unclear as political leaders pinned their hopes on a February 27 vote of Clevelanders to raise their income taxes by 50%.

Cleveland went into fiscal default when it failed to pay \$14 million in short-term loans to six local banks and to make a \$2.7 million payment to its firefighters and police pension fund. It failed to make another \$4.9 million payment to pension funds due December 31 and has some \$25 million in payments coming due in 1979.

Cleveland's financial difficulties have been compounded by political altercations between the Mayor and city council. As the year ended, a compromise between the Mayor and council was forged whereby they agreed to let the voters decide two issues: one, whether to sell a city-owned utility; and most importantly, whether to increase the city's income tax from 1% to 1.5%. While there will be considerable pressure on voters to adopt the increase, three previous attempts in the past eight years have been soundly defeated. In addition, Clevelanders have never voted to tax their own incomes.

The banks of the city have agreed to allow the city to withhold payment until after February 27.

Obviously there are some similarities between the Cleveland default and New York City's near-default three years ago. But there are more differences.

Like New York and other big cities, Cleveland has lost part of its economic base and has suffered recent cutoffs of federal programs such as countercyclical aid. Like New York, Cleveland has for many years depended on the accelerating use of short-term borrowing to finance current operations.

One key difference between the two situations is the amount of money involved. Cleveland's shortage of not quite \$20 million pales in light of New York's near-failure to pay \$1.6 billion in 1975. Unlike New York, Cleveland

owes its money to six banks—not to thousands of individuals.

And finally, there is a key difference in response to the situation from state and federal governments. In New York, the state worked closely with city officials to come up with a solution. In Ohio, offers of assistance from Columbus were apparently rejected in Cleveland.

The most likely form of state assistance would be the formation of a commission to provide fiscal management assistance to Cleveland. Representative Harry Lehman, chairman of the Ohio House Judiciary Committee, has offered a proposal to set up such a commission, called an emergency financial advisory board, which, on request by a city that declares a financial emergency, could:

- approve and prescribe financial plans for the city;
- approve and disapprove the city's current expenditures;
- advise the city on long-term debt obligations.

Rep. Lehman's proposal also would permit the requesting city to increase its income tax by up to one-half of one percent without voter approval.

While there has been some question raised concerning the ability of the state to "intervene" in the operations of a chartered city such as Cleveland, several state experts feel the formation of an advisory board would not violate the state's constitutional home rule provisions.

There were a few attempts made to seek federal assistance for Cleveland, including advance payments of general revenue sharing funds. However, the city's attitude was primarily one expressed by Jack M. Schulman, Cleveland's director of law. "We're fully prepared to solve our own problems here," he said. "It's not essentially a financial problem but it's a political problem."

Likewise, federal officials have been less than eager to help Cleveland out of its difficulties. One reason for the unwillingness may be the view that Cleveland's problems could have been avoided. Cleveland "had no good reason" to default, said Donald Haider, deputy assistant secretary of the Treasury.

"The default in Cleveland is a political disgrace but not an economic tragedy," said Felix C. Rohatyn, outgoing chairman of the Municipal Assistance Corporation of New York City.

In 1978, Michigan authorized local governments (cities, villages, and townships), by a two-thirds vote of the governing body, to establish a budget stabilization or "rainy day" fund consisting of surplus revenues in the general fund. The size of the fund cannot exceed the lesser of 15% of the most recent general fund budget or 15% of the average budget for the last five years. The fund may be used to cover general fund deficits revealed by audits, prevent a service or employee cut because of a shortfall in revenues, or cover expenses associated with natural disasters. A state "rainy day" fund was established in Michigan in 1977.

Several states acted in 1978 to strengthen state oversight and involvement to alleviate and prevent local financial emergencies. The case for such oversight was significantly improved when the New York Supreme Court upheld the constitutionality of New York's act involving the state in the resolution of New York City's financial circumstances. Related activities during 1978 include:

Ohio's enactment of legislation allowing state assumption and control of school district financing in certain circumstances and providing for greater state oversight of school district finances; and

Louisiana's new statute requiring local governments to notify the state if a debt service payment is late.

It appears likely that at least one state will grapple with the issue of its responsibility in local financial emergencies in 1979. As the nation's attention turned to Cleveland's fiscal distress in December 1978, so may well the citizens of that city look to Columbus for short or long-term assistance. At least one proposal has been suggested for establishment of a state advisory board to aid Cleveland and other Ohio cities upon their request.

#### STRUCTURAL AND FUNCTIONAL REFORMS

State actions to significantly revise or extend powers, functions, and structures of local government have long been the backbone of intergovernmental relations. Yet, unlike many fiscal reforms and activities, developments in this field are slow in coming and have a low salience to the public and the media.

Many states have taken initial steps to provide localities with the option of adopting a charter or have granted them a means by which they can assume increased responsibility for a variety of functions. Once these actions have been taken, refinements must be made to assure the efficient workings of the system. It is these refinements that dominated state action in this area in 1978.

The exception to the incremental refinement scenario was activity in two states during 1978 to reform the structure of counties. Tennessee and Kentucky mandated an elected county executive form of government throughout their states.

There were also several new state-local commissions formed in 1978 to study structural, functional, and fiscal problems affecting both levels of government. One state advisory commission on intergovernmental relations was established (Rhode Island).

#### County Reforms

Two states made significant strides in reforming their county governments in 1978: Kentucky and Tennessee.

Kentucky enacted a package of legislation specifying functions of the county and defining powers and responsibilities of the county legislature and executive. The statute

defining the role of counties was a response to a 1977 Kentucky Supreme Court decision which invalidated the state's "county home rule aid" as an unconstitutionally broad delegation of shared powers to county government. Rather than granting broad home rule powers, the legislature enumerated more than 80 functional areas in which counties may act. The law also defined the method for the county to exercise its authority by establishing the use of, and specific procedure for, enactment of county ordinances.

Under the new law, the county's legislative body, the fiscal court, can enact local laws, issue regulations, levy taxes, borrow money, appropriate county funds, and employ personnel.

The county chief executive officer—the county judge or executive—is granted the primary responsibility for the preparation of the budget and estimation of revenues, under a 1978 enactment. The law also requires the judge or executive to prepare (and the fiscal court to approve) an administrative code as a guide to the administrative procedures and responsibilities of county government. The 1978 action further defines the roles and responsibilities of the executive, clearly separate from all judicial functions of county government as required by a 1978 constitutional amendment.

Thus Kentucky, in recent years, has completed these major steps in the modernization of county government: (1) delegation of authority to perform almost all local govern-

“ Two states made significant strides in reforming their county governments in 1978: Kentucky and Tennessee. ”

ment activities; (2) separation of the executive, legislative, and judicial functions; and (3) creation of procedures for the passage of ordinances. Much of this reform was an outgrowth of the recommendations of, first, the Special Advisory Commission on County Government (1976) and, then, the County Statute Revision Commission (1977).

The County Statute Revision Commission, in order to simplify and control special districts and to make them accountable to the public and general purpose local government, recommended a proposed uniform act to standardize the procedures for formation and dissolution, merger, board appointments and composition, powers, and budgeting. The legislature, however, failed to pass these recommendations, although special districts will continue to be a subject of study for the Local Government Statute Revision Commission.

The Tennessee electorate approved a constitutional amendment in May, authorizing several major changes in county government. Counties are now required to elect a county executive for a four-year term and to establish a county legislative body of not more than 25 members with no more than three from any one district. The General Assembly also has authority to provide alternative forms of county government, including the authorization to adopt a charter. Following adoption of these constitutional amendments, the legislature passed implementing legislation establishing county legislative bodies of nine to 25 members

**“ The top story of 1978 regarding metropolitan reorganization took place in Portland, OR, where voters approved creation of the first elected regional council in the country.”**

granting the county executive veto power over legislative resolutions and the budget as a whole, but not line items. In this session, the General Assembly chose not to establish alternative forms of government, however, the issue is expected to be before the legislature again in 1979.

In addition, measures on the November ballot in two states related to county modernization. One was successful.

Iowa's new constitutional provision provides counties with the authority to exercise any power not inconsistent with the laws of the General Assembly. This power does not extend to taxing power which must be specifically authorized. In addition, the new provision says the legislature may provide for the creation and dissolution of joint county-municipal corporation governments and may provide for the establishment of charters in county or joint county-municipal corporation governments.

In Florida, voters defeated revisions to a local government article which would have allowed counties without special charters to elect county commissioners either on a district or at-large basis. County voters would have determined which system would be used after every ten-year census.

#### **Functional Reforms**

New York and New Hampshire produced developments in the area of programs authorizing functional transfers. The legislature in New Hampshire enacted a comprehensive interlocal agreements statute. This act enables municipalities and counties to cooperate with one another, providing services based on mutual advantage.

In New York, the state court of appeals upheld the right of the counties to replace civil service employees by contracting work to private concerns. The Civil Service Employees Association has recommended that the fight to prohibit contracting out be continued in the courts and in the political arena.

In two states, constitutional amendments dealing with functional reallocation were rejected.

Florida voters defeated a constitutional amendment spelling out a system of transferring power or contracting for transfer from a county to a city or vice versa, or contracting between counties and cities. Such transfers can be authorized by statute, however.

A Georgia constitutional amendment to improve the delivery system in Atlanta-Fulton County and nine smaller municipalities was also defeated in November voting. The Georgia amendments would have implemented recommendations of an Atlanta-Fulton County Study Commission including the shifting of responsibilities for library services and tax assessment to the county, transfer of responsibility for the water sewage treatment to Atlanta, and establishment of a countywide water system with uniform rates. Also proposed was creation of county taxing and service

districts in urbanized unincorporated areas of the county. The package of amendments passed the legislature during 1978 and passed in Fulton County but failed statewide.

#### **Metropolitan Reorganization**

The top story of 1978 regarding metropolitan reorganization took place in Portland, Oregon, where in May voters approved creation of the first elected regional council in the country. The new three-county metropolitan service district (MSD) merges three existing regional bodies: the Columbia Regional Association of Governments (CRAG), the Metropolitan Service District, and the Tri-County Metropolitan Transportation District. The new MSD will service the urban areas of Multnomah, Washington, and Clackamas Counties.

In addition to overall planning and A-95 review and comment on federal aid applications, the new body may also perform direct services including water supply, human services, regional parks, cultural and sports facilities, correctional facilities, and libraries, if voters approve a tax base (limited to no more than 1% business and personal income tax). Until June 30, 1978, the new MSD will be financed from the revenue sources of the old MSD, mainly fees and user charges connected with the zoo and solid and liquid waste disposal and assessing local governments for land use planning services. Thus the success of the MSD, particularly its ability to expand into the designated regional services, will depend in a large measure on voter approval of new taxes. Failure of the new MSD to receive an alternative revenue source could induce the legislature to amend the law.

In November, 12 members of the MSD board were selected on a nonpartisan basis from single-member districts. This board will have the power to enact and enforce ordinances and rules to carry out the functions of the MSD. An executive director was also elected with the power to enforce ordinances, hire personnel, and otherwise administer the MSD.

In preparation for the inauguration of the new MSD, the existing CRAG staff developed, and the board adopted, a process for sorting local and regional functions including recognition of criteria against which functions and their aspects can be measured to identify regional needs. The 18 criteria deal with policy or service provisions, standards or framework setting, coordination, and monitoring and include such questions as: do the benefits of funding extend beyond one jurisdiction; is there a need for standards or uniformity on an areawide basis; and is it in the region's interest to allocate scarce resources? By clear articulation of what is regional, CRAG hopes to "create a decision-making focus, provide for better coordination, and establish more realistic expectations."

A related move—to establish an elected metropolitan council in Denver—has not, thus far, fared as well as in Portland. An effort to collect signatures to get a proposal on the November ballot was not successful.

City-county consolidation efforts suffered defeats as well in 1978. Measures were defeated in November votes in Knoxville-Knox County, Tennessee; Salt Lake City-Salt Lake County, Utah; and Morristown-Hamblen County, Tennessee. Moreover, the Arizona legislature earlier rejected a proposal to consolidate Tucson and Puma County.

Nevertheless, efforts were underway in two areas to consider possible consolidation. A study concerning consolidation of Montgomery City and County, Alabama, was completed in 1978. A study regarding possible consolidation of Las Vegas and Clark County, Nevada, is also underway.

### State-Local Relations Commissions

One state, **Rhode Island**, enacted legislation setting up a permanent intergovernmental commission during 1978. The **Indiana** legislature set up a local government study commission to study organization, financing, and administration of localities by statute. Other states set up state-local commissions by executive order.

The **Rhode Island** Intergovernmental Relations Council is composed of local officials, state executive and legislative representatives, and citizens and will address such concerns as state-local planning and policy developments, local governmental structural and fiscal patterns, state delivery of services, and the impact of federal aid programs on Rhode Island.

**Indiana's** new local government commission was established by the legislature to review and make recommendations for revision of Indiana's laws governing localities. The 20-member bipartisan commission will submit an interim report to the Governor and legislature in early 1979. A final report is scheduled for the 1981 legislative session.

In **Vermont**, the Governor established a conference on state-local intergovernmental relations, under the direction of a 15-member committee composed of state and local executive and legislative officials, and private citizens. The conference is studying the decisionmaking and problem-solving capacities of state, regional, and local units and will report to the Governor with recommendations in January 1979.

In **Louisiana**, the Governor's Commission on Intergovernmental Relations was reestablished by the legislature following a "sunset" review. The legislature also broadened the powers of the Joint Legislative Commission on Intergovernmental Relations to hold public hearings and investigations and to establish advisory committees to study federal actions which affect the state. In addition, the state Senate has created its own committee on intergovernmental relations, chaired by the Senate president.

**Virginia's** Local Government Advisory Council, established by executive order in 1977, was made statutory in 1978. Twenty-two of the Council's members are elected officials appointed by the Governor from the state's 22 planning districts. Four *ex officio* members on the Council are the Governor, who serves as chairman, the lieutenant governor, and the director of the state's two local government associations. The council has been divided into six committees to correspond to the state's executive branch departments with which they expect to work closely in addressing "major issues affecting localities."

**Kentucky** has established the Local Government Statute Revision Commission for the 1978 and 1979 fiscal years. Its purpose is to study and review the laws of local governments and to survey the needs of local government with the purpose of revising state statutes. It will give consideration to evaluating the jurisdictional conflicts between cities and counties (particularly double taxation), designing a comprehensive review of the fiscal condition of Kentucky's local governments to evaluate alternative structuring of state and local financial resources, and evaluating statutory options for reorganization of local governments in metropolitan areas. The Commission, which will continue the work of the County Statute Revision Commission, must present its recommendations to the Governor and General Assembly by August 1, 1979.

### STATE ORGANIZATION AND PROCESSES

In common with structural and functional activities in the state local relations arena, state actions concerning

state organization and procedure were generally not very significant in 1978.

While there was some activity in legislative review of agency applications for federal funds and in "sunset" legislation, in only one area was there an event of considerable impact to intergovernmental relations during 1978. In a landmark case, the Pennsylvania Supreme Court ruled in *Shapp v. Sloan* that the state legislature had the right to appropriate federal funds.

### Legislative Oversight of Federal Funds

In a July decision, Pennsylvania's highest court upheld a lower court's ruling in *Shapp v. Sloan* that there was "no legal basis" for the assumption that federal funds are not subject to the General Assembly's appropriation power.

*Shapp v. Sloan* was initiated in 1976 with passage of legislation requiring federal funds to be deposited in the state's general fund and thus subject to appropriation by the legislature. A second bill specifically appropriated all federal funds coming into the state for that fiscal year. The court challenge arose when the state's treasurer refused to release federal funds for a special prosecutor's office because there was no legislative appropriation for that office.

The state supreme court, in upholding the validity of the two acts noted: "The framers (of the state constitution) gave to the General Assembly the exclusive power to pay money out of the state treasury without regard to the source of the funds. In contrast, nowhere in our constitution is the executive branch given any right or authority to appropriate public moneys for any purpose. . . . The constitution says 'no money' shall be paid without an appropriation. We think the constitution means what it says."

The plaintiffs in the case had argued that legislative appropriation of federal funds violated the separation of powers doctrine and encroached on the duties of the executive. The court disagreed, saying, "it is the General Assembly, not the executive branch, which has been given the constitutional power to determine what programs will be adopted in our Commonwealth and how they will be financed. The executive's function is to carry out these programs authorized by legislation."

To the plaintiff's charge that the law violated the supremacy clause of the U.S. Constitution, the court responded that there was "no clear and direct conflict" between state and federal law.

The court considered at some length the nature of the federal grant. Plaintiffs argued that the legislative action violated a contract between the federal grantor agency and state grantee agency. The court, however, determined that "the federal funding system is, in essence, one of a voluntary cooperative effort between two governments to provide needed services for their citizens. The federal government supplies the funding while the state government plans and administers the programs. This cooperative venture is not based upon those rights and duties of an obligatory nature, enforceable in a court of law, which characterize a contractual relationship."

The case has been appealed to the U.S. Supreme Court. The court will decide in early 1979 if it will accept the case (now called *Shapp v. Casey*).

A related issue of concern in at least two states during 1978 was legislative authority to appropriate federal funds during periods when the legislature is not in session. While several states use an interim committee to accomplish this, the courts in other states have called such action an unconstitutional delegation of legislative authority.

In **Alaska**, a court case, *Kelley v. Hammond*, was par-

tially decided by the superior court when it held that all federal receipts must be appropriated by the legislature. However, the court refused to allow the state's budget and audit committee to perform the appropriating function in concert with the Governor during the interim. A petition by the Governor for a review of the first part of the decision was denied. An agreement by the parties that the second part should be decided by the people in a constitutional amendment vote in November led to dismissal of the case. In November, the voters rejected the amendment which would have provided the interim authority of a legislative committee, working with the Governor, to deal with budget amendments when the legislature was out of session.

A November vote on interim legislative appropriations during the interim was also defeated in Montana. This proposal would have authorized a joint interim committee of the legislature to approve or reject budget amendments to spend funds not appropriated during the preceding session. Like Alaska, the Montana amendment was precipitated by a court decision (*Montana ex. rel. Judge v. Legislative Finance Committee*, 1975). Unlike the Alaska proposal, the Montana measure did not include a state gubernatorial role.

Several states attempted to come to grips with state agencies' applications for federal aid during 1978. Vermont instituted a requirement that approval for all federal grants must be obtained from a joint legislative fiscal committee. South Carolina enacted a requirement that state agencies must get prior approval for seeking federal funds, and delegated authority to a permanent joint appropriations review committee to approve or disapprove a grant request when the legislature is not in session. Louisiana passed a law providing for review of grants by the Governor, the budget committee, and legislative fiscal office.

A 1978 Illinois law requires all agencies under the governor to submit all applications for federal aid to the bureau of the budget for approval. A Missouri enactment requires all state agencies to supply the fiscal affairs and appropriations committee of both houses of the legislature with monthly reports on expenditures of federal and state matching funds.

#### Legislative Oversight of the Executive Branch

Activity in legislative oversight was not limited to federal funds during 1978. Several states provided for legislative review of administrative rules and regulations prior to their promulgation. Idaho enacted provisions for legislative review of rules and regulations when the legislature is out of session. An Alaska measure, passed over the Governor's veto, empowers the Administrative Regulation Review Committee to suspend regulations adopted when the legislature is out of session.

Implementation of a 1978 South Carolina law requiring legislative approval of rules of practice and procedure issued by the state supreme court has been delayed until March 1979. The extension gives the legislature and the state supreme court time to come to an agreement on the controversial issue.

Iowa eased requirements for legislative oversight of administrative rules and established a legislative oversight bureau with subpoena power and access to all records. Wisconsin expanded the membership of a joint committee to review administrative rules. Kentucky created a legislative program review and investigations committee.

In Pennsylvania, the Governor must present budget information to the legislative leadership prior to formal submission, and the legislature there is now to be given periodic revenue estimates.

In Colorado, the supreme court invalidated a 1977 veto of a legislative office to determine if the rules are within the agencies rulemaking authority.

Maryland voters approved a constitutional amendment to give the legislature increased power over the Governor. This measure will require the Governor to provide in his proposed annual budget for the funding for specified programs in the amount specified by the legislature.

Sunset. Passage of sunset legislation still appears to be popular in the states, although evidence of its usefulness in states where it is operating is far from overwhelming.

Five states—Vermont, Kansas, South Carolina, Maryland, and Arizona—enacted sunset laws in 1978. In addition, two bills were enacted in Delaware which contained sunset provisions. Virginia enacted a mandatory agency review measure, but without a sunset termination mechanism. Sunset measures were vetoed in Mississippi and West Virginia.

#### Executive Branch Organization and Administrative Activities

Nearly every state acted in some fashion to reorganize its executive branch although only two—Connecticut and New Mexico—implemented comprehensive reorganizations enacted in 1977. In Tennessee, a comprehensive reorganization package was defeated.

In most cases state action was neither comprehensive nor major—due perhaps to the fact that in many states the Governor was ending rather than beginning the term and the fact that activity in this area had been extensive in previous years.

In Kentucky, the Governor created an office of inter-agency relations as well as a 14-member state regional council patterned after the federal regional council. Five offices have been set across the state to help facilitate exchanges among agencies, regional, and local governments. In May, Pennsylvania voters approved a constitutional amendment for an elected attorney general.

Several Governors initiated efforts to strengthen their executive department fiscal procedures. At least two states (South Dakota and Arizona) have joined the ranks of those states utilizing a zero-based budgeting (ZBB) system, while North Dakota is undertaking a trial run with ZBB. In Louisiana, the legislature exempted higher education, the public school minimum foundation program, and social service payments from that state's ZBB system.

In Kentucky, the Governor expanded and strengthened the role of the state's budget and planning agency, with an emphasis on evaluating the performance and management of agencies. And in Rhode Island, Governor Garrahy appointed a full-time "implementation director" to focus on the actions taken on the 283 recommendations for strengthened state agency operational effectiveness and service delivery made by a state management task force.

#### Judicial Reform

About a third of the states were engaged in some type of successful judicial reform activity. Efforts in at least two states (Vermont and Tennessee) failed.

A court merger in Connecticut was implemented during 1978. "Missouri Plan" measures, calling for a nonpartisan appointive selection of judges, failed in Florida and Oregon. Court unification was passed in New Hampshire. An intermediate appellate court was created in Wisconsin and in Arkansas. In Missouri, a major modernizing overhaul was completed, integrating the total state court system.

Lower courts were the subject of several actions: circuit courts have replaced city and justice of the peace courts in Utah; a general revision of the municipal court system was enacted in West Virginia; and New Jersey citizens approved the incorporation of county courts into the superior court.

In North Dakota, an interim legislative committee is working on the implementation of a new judicial article approved in 1976, with final action expected next year.

#### **Constitutional Revisions**

Voters in three states considered major constitutional revisions during 1978—two resulting from constitutional conventions, one from a constitutional revision commission. In two, the majority of amendments was passed. In one, everything went down in defeat.

Tennessee's constitutional vote was held in early May with 12 of the 13 measures receiving voter approval. The proposals were the result of a limited constitutional convention convened in 1977 to consider specific sections of the constitution including the Governor's term of office, the judicial article, the legislative session, and the provisions for the elections, terms, and removal of county officers.

The proposal which netted the most public attention nationwide was the state's spending limit, tying growth in state spending to the rate of growth in the state's economy. In addition to changes in the county structure and increased homestead exemptions, the ballot included provisions to:

- allow the Governor to serve two consecutive terms;
- extend the time of the Governor to approve, veto or allow bills to become law;
- change certain voter requirements of age and residency; and
- change the method of filling legislative vacancies.

An article to significantly revise the state's judicial system was defeated, in part due to a controversial provision that judicial rules of procedure established by the supreme court be approved by the legislature.

In November, Hawaiian voters adopted a complicated set of amendments presented to them by a 1978 constitutional convention. There were a total of 116 amendments combined into 34 sections.

In addition to the state spending ceiling and mandate reimbursement provisions discussed earlier, the new Hawaii constitution gives taxpayers a refund or credit whenever the general fund balance is more than 5% of general fund revenues for two years in a row and prohibits deficit spending unless the Governor says the public health, safety, or welfare is threatened.

In the legislative article, the voters chose to open to the public all decisionmaking meetings of legislative committees, and to make certain procedural changes, including staggering senatorial terms and imposing a deadline for all bills to be introduced. The article now also requires appointment of a legislative salary commission to serve in 1978 and every succeeding eight years.

The constitution now groups units with similar purposes and functions in the same executive department and limits the Governor and lieutenant governor to two consecutive terms. It also:

- established a new intermediate court of appeal, set a limit on the time courts can take to finish cases, gave the supreme court more power to discipline judges, and established a judicial discipline commission.
- established a tax review commission to evaluate the state's tax structure and recommend revenue and tax policy;

- granted counties the exclusive power to exercise all functions, powers, and duties relating to the taxation of real property; and
- required the state and its counties to plan and manage the growth of the population except that each county may plan and manage its growth in a more restrictive manner than the state.

Florida voters turned thumbs down on all eight proposals submitted to them by a state constitutional revision commission. Included in the rejected measures were attempts to eliminate the six elected cabinet officer positions and replace them with gubernatorial appointments; institute a "Missouri Plan" in the selection of circuit and county judges; and provide certain homestead and personal property tax exemptions for individuals, and tax breaks in the corporate income tax affecting business.

#### **CONCLUSION**

Proposition 13 and related measures—part of what we have labeled the New Propulism—may well be replaced in the coming years with another front-burner item capturing attention of the press, public, and governmental policy-makers alike. Yet its importance in 1978—and anticipated impact in 1979—registers high on an intergovernmental Richter scale.

The most obvious impact of Proposition 13 was this: Seven states will enter 1979 with statutory or constitutional limits on state spending. Others begin the year with new tax limits on both the state and its localities.

Some aftershocks of Proposition 13 are more difficult to enumerate. One which appears apparent in many state actions in 1978 is increased state responsibility for local governments. In 1978, states took over larger shares of local school costs as well as taking over expensive health and welfare expenses in several key states; provided assistance to distressed communities, urban and rural; attempted to strengthen financing of too-long-ignored public pension systems; and made attempts to curb or reimburse localities for state-imposed mandates.

Another impact, even more difficult to quantify, involves increased citizen involvement in state and local tax and spending decisions. 1978 was not the first year when initiatives involving taxing and spending were on the ballot. It was the first year that so many passed. The taxpayers' ability to express their opinions was not limited to initiatives, however. In federal, state, and local elections across the country, candidates pegged as "big spenders"—many of them incumbents—lost. Numerous candidates—many in the same race—ran on platforms calling for slashed taxes, reduced spending, and smaller government.

Such trends are easily described, more difficult to assess in terms of long-term impact. Yet there is little doubt that events occurring in states and localities in 1978 had an impact on current intergovernmental relations. The question remaining is how lasting that impact will be.

# In Washington: Not Many Answers

The growing public restiveness with rising taxes and ineffective programs at the state and local level described in the preceding section also was manifested at the national level in 1978. The inability of the President and the Congress to deal effectively with major public policy concerns such as inflation, the budget deficit, and the slowdown in economic growth led to calls for ways citizens could make their own laws through national initiatives and to a further drop in public confidence in the ability of our governmental institutions to solve domestic problems. Bureaucracy was a target of citizen dissatisfaction as well. Protests of too much government regulation and red tape and too little performance continued to mount.

It was against this background of increasing economic pressures and public anxiety and activism that the Carter Administration and the Congress dealt with a broad range of public policy issues—some more successfully than others—which directly affected intergovernmental processes, policies, and programs in 1978.

This summary focuses on the most important intergovern-

mental actions and events—efforts to aid the nation's urban areas, reorganization of the federal government, reform of the federal grant system, and highlights of significant cases decided by federal courts. It also considers the intergovernmental impact of such issues as inflation, reductions in government expenditures, balancing the federal budget, and Proposition 13.

## **Proposition 13, Inflation, and Federal Aid**

While clearly not impacting on Washington with the same force as in California and elsewhere across the nation, the Proposition 13 earthquake did, nevertheless, cause numerous aftershocks along Pennsylvania Avenue.

"The 2-to-1 margin of approval by the California people to restrain public spending and taxation is obviously a message that's been well received and observed by all of us throughout the country," President Carter said the week after California's vote.

"The antitax sentiment that surfaced in California is sweeping across the nation from west to east, posing challenges to government at all levels," said Representative Henry Reuss, chairman of the House Committee on Banking, Finance and Urban Affairs as he introduced hearings on Proposition 13 in July.

The effect of Proposition 13 and related measures on the nation's capitol was primarily two-fold. First, the possibility of granting immediate federal assistance to California's localities facing severe revenue cutbacks was considered. Bills were introduced to assure that California received no less federal aid than it did before Proposition 13. Other bills would have prohibited the use of federal dollars to perform services which might be cut back as a result of Proposition 13. None of these bills passed.

The second area, and considered more serious in Washington, concerned the potential shift in the attention of the electorate from state fiscal issues to federal taxing and spending policies. An immediate response from the White House came in the form of restrictions on hiring by federal executive agencies. In the Congress, a measure to cut federal spending by 33% over three years, sponsored by Senator William Roth, Jr. (DE) and Representative Jack Kemp (NY) was debated in both houses. A related measure, sponsored by Senator Sam Nunn (GA), proposed to cut taxes \$142 billion between 1980 and 1983, if the government met stringent targets for holding down spending. The Nunn bill was passed by the Senate in the waning days of the 95th Congress but did not survive the conference committee. Similarly, a "sunset" measure providing for the automatic termination of government spending programs every ten years, unless specifically reauthorized, was passed by the Senate but was not considered by the House.

## **Inflation**

By the end of 1978, however, the attention of Washington was concentrated on inflation. In October, President Carter announced a major new anti-inflation program. Under the plan, employers were asked to hold wage increases to 7% and to limit price increases during the coming year to half of a percentage point below the 1976-77 average. In a surprise move, the President also proposed a tax rebate to workers who observe the wage guideline if the inflation rate exceeds 7%.

The White House urged state and local officials to observe the voluntary guidelines in setting salaries for themselves and their employees. There also has been some discussion of tying compliance with the guidelines to the receipt of general revenue sharing funds, but no White House policy or proposal has been announced.



## Federal Aid and the Budget

Federal aid will exceed an estimated \$85 billion in fiscal 1978—an increase of nearly \$12 billion over 1977 aid totals. Moreover, this new spending appears to be mainly in the form of specific, narrow categorical grants rather than in programs offering considerable discretion to states and localities. With this increase in aid has come predictable increases in the reliance of state and local governments on that aid. ACIR estimates that federal aid to state governments in fiscal 1978 will amount to 38.8% of the revenue the states generate on their own (see *Table 1*). Federal and state aid will account for over 76% of the total revenues raised solely by local governments.

At the same time, it appears that 1978 well may represent the last of the big time federal aid spending. In an October session with state officials, Office of Management and Budget (OMB) Director James McIntyre, Jr., cautioned: "The time is right for a slowdown in federal spending. Public opinion favors reduction in federal spending more than tax cuts at this point, and we plan to reduce the federal deficit as much as we are able to." McIntyre added that all federal aid programs are undergoing a careful review for the purpose of identifying programs which could be cut or consolidated, or their growth reduced.

Indeed, in the closing days of 1978, speculation abounded as to what programs would be cut as the Administration sought to reduce the federal deficit to \$30 billion. Initially, the White House announced that no cuts would be made in the defense area, thus forcing greater reductions in many domestic programs—perhaps by as much as \$12 billion according to some federal budget officials. However, the White House has backed away from this position stating that "no aspect of the government will be sacred or sacrosanct" during the development of the budget.

President Carter personally repeated this message in a speech at the National League of Cities annual meeting in November, warning that the federal budget "will disappoint those who do not take inflation seriously. . . . And it will disappoint those who expect constantly expanding numbers of federal programs and agencies." The President pledged that "wholesale, arbitrary spending cuts" would not be made, and that useful programs would not be "starved." While he cautioned that "there will be little new money for new initiatives," the President reaffirmed his promise "that the cities will bear no more and no less than a fair share of budget restraint."

In December, two national organizations representing state elected officials proposed a "trade" with the Administration, saying they would back proposed cuts in domestic programs if the Administration actively would pursue consolidation and reform of federal grants-in-aid. The National Governors' Association and the National Conference of State Legislatures asked the President to consolidate and simplify programs and procedures, "to insure that at least part of the reduction in federal spending comes out of the bureaucratic costs of running programs and not merely out of services to the public." In response, they pledged, "We will deliver more services for less money."

However, some of the initial appeal of the state officials' proposals for grant reform was tempered by the sharp response of many of the nation's big city Mayors. In an 11th hour appeal made directly to the President, the Mayors termed the state officials' support for budget cuts in return for grant reforms as "just another way to get control of the funds at the (state) level." Boston Mayor Kevin White cautioned: "I'd fight that almost as much as

I'd fight the cuts."

Cuts in federal aid programs also may put further strain on the relationship between Frostbelt and Sunbelt governments. As Alan Beals, executive director of the National League of Cities, noted at the opening of the NLC annual session: "The debate between the regions has always existed. But it was subdued because the federal aid pot kept expanding. Now the pot is being limited, so the debate is more intense." Specifically at issue are the eligibility criteria for the major aid programs which might tend to favor one region over another.

In addition to the austerity moves by the Administration, many observers expect that the 96th Congress will perpetuate the "budget-cutting mentality" demonstrated in 1978. While the Administration to some extent may be bound to its commitments in such areas as the urban policy and welfare reform, the Congress has no such commitments. Some believe that many program authorizations—particularly those which have been targets in the past—may very well fall victim to the budget-cutting axe.

## Revenue Sharing

One such target may well be general revenue sharing that will be up for reauthorization in 1979. While the public interest groups have established reenactment as their major legislative goal, it would appear that the combat lines are forming.

Table 2

### The Growing State and Local Dependency on Outside Aid, Selected Years 1948-1978

(Dollar amounts in millions)

Fiscal Year	Federal Aid to States		State and Federal Aid to Local Governments	
	Amount	As a Percent of State General Revenue from Own Sources	Amount	As a Percent of Local General Revenue from Own Sources
1948	\$ 1,643	21.9	\$ 3,501	44.5
1954	2,668	21.5	5,933	43.5
1959	5,888	32.4	8,739	42.2
1964	9,046	32.1	13,829	45.7
1969	16,907	34.1	26,082	56.9
1970	19,252	33.5	29,525	57.5
1971	22,754	37.1	34,473	60.0
1972	26,791	37.9	39,694	60.6
1973	31,361 <sup>1</sup>	39.0	47,866 <sup>1</sup>	67.9
1974	31,632 <sup>1</sup>	35.5	54,752 <sup>1</sup>	71.3
1975	36,148 <sup>1</sup>	37.3	61,975 <sup>1</sup>	73.5
1976	42,013 <sup>1</sup>	39.1	69,746 <sup>1</sup>	74.8
1977	45,938 <sup>1</sup>	37.9	76,948 <sup>1</sup>	75.4
1978 est.	53,000 <sup>1</sup>	38.8	85,500 <sup>1,2</sup>	76.8

<sup>1</sup>Includes the following federal general revenue sharing payments (in billions): 1973—state \$2.2, local \$4.4; 1974—state \$2.0, local \$4.1; 1975—state \$2.0, local \$4.1; 1976—state \$2.1, local \$4.1; 1977—state \$2.3, local \$4.4; 1978—state \$2.3, local \$4.5.

<sup>2</sup>The \$85.5 billion of intergovernmental aid received by local governments in 1978 can be broken down as follows: \$20.5 billion direct federal aid, approximately \$15 billion indirect federal aid (passed through the state—estimated on basis of 1967 data, latest available), and \$50.0 billion direct state aid.

Source: ACIR staff compilation based on U.S. Bureau of the Census, *Governmental Finances*, various years, and ACIR staff estimates.

The program never has been an overwhelming favorite of Capitol Hill, and this next year is not expected to be an easy time for those who are seeking reauthorization. An ominous note was struck when the somewhat similar countercyclical program renewal was defeated late in 1978. And, it would appear that the various legislative actors in the drama already are signaling their intentions. For example, Representative Henry Reuss, who chairs the House Banking Committee, has stated that the renewal of general revenue sharing should have some new conditions. Specifically, Chairman Reuss wants the program linked to the "willingness" of state legislatures "to do more for their cities." The chairman has iterated his long-standing belief, for example, that in order to receive funding, states should be requested to adopt long-range plans for broadening their cities' revenues bases and for modernizing local governments.

There also is a question about the Administration's position concerning the reenactment of general revenue sharing. President Carter was against states participating in the program when he served as Governor of Georgia. Both OMB and the Department of the Treasury have been exploring alternatives to the reenactment of general revenue sharing. And there is some talk of using revenue sharing as a possible trade off for welfare reform. More optimistic observers cite a statement by a top White House aide in October before a task force of city officials that she "couldn't even conceive of anything less than total reenactment" of general revenue sharing being proposed by the White House.

At a year-end strategy session, one city official observed: "We are now in a game where we have to give things up, and we should toss out the ones that are less likely to work." From all indications, it would appear that this observation aptly describes the "sorting out" process in which officials will be engaged as they weigh the public policy options for 1979 against the hard realities of inflation and a strong public sentiment favoring reductions in government spending.

## THE QUEST FOR A NEW PARTNERSHIP

### Urban Policy

One of the most important events of intergovernmental significance in 1978 was the announcement in March of President Carter's urban policy. The policy, called "A New Partnership to Conserve America's Communities," was made up of more than a dozen new program initiatives plus a pledge to reorient and revise over 150 existing programs. The "partners" were all levels of government, the private sector, and neighborhood and voluntary organizations.

In his message to Congress, President Carter explained that the policy was designed to encourage states to redirect their resources to support urban areas more effectively and equitably and to encourage local governments to streamline and better coordinate their activities. He outlined proposals to "make federal actions more supportive of the urban policy effort and develop a process for analyzing the urban and community impact of all major federal initiatives." He also described incentives to the private sector to make new investments in economically depressed communities and called for the involvement of citizens, and neighborhood and voluntary organizations in meeting the economic and social needs of their communities.

An underlying constraint of the policy was that comparatively little "new money" was to be earmarked for the

**“Some—including the President—felt that program revision and redirection well might prove to be the most important component in the urban policy.”**

urban programs, with a budget authority of \$4.4 billion recommended for fiscal 1979. This was a matter of particular concern to state and local interest groups. Instead, the Administration emphasized targeting, coordination, and streamlining programs. In light of the rather limited funding and the significant nature of the programs designed for revamping, some—including the President—felt that program revision and redirection well might prove to be the most important component in the urban policy.

**Legislative Action.** The basic set of legislative and appropriations requests presented to Congress through June included a range of programs from investment and employment tax credits for businesses in urban areas to a "livable" cities initiative for cultural programs; from a restructuring and reauthorization of criminal justice assistance programs to an urban parks and recreation measure.

Of particular intergovernmental significance were these five proposals:

- a four-year, \$11 billion annual reauthorization and restructuring of the *Comprehensive Employment and Training Act (CETA)*, with a new private sector demonstration program and with clearer distinctions between structural and cyclical unemployment programs;
- a \$3 billion, three-year "labor intensive" public works programs;
- a \$1 billion a year renewal of the antirecession fiscal assistance (ARFA) program for a two-year period, modified to provide aid only to localities, not to states;
- \$400 million over two years for incentives to states to develop plans to aid their distressed communities; and
- a new national development bank jointly administered by Commerce, Treasury, and HUD to provide loans and grants for investments in distressed areas.

The only one of these proposals to pass in 1978 was the CETA reauthorization. The labor intensive public works and countercyclical proposals both died amid heavy debate in committees about their fundamental objectives. The other two measures—the state incentive program (described by the Administration as being "very critical to the overall success of the urban policy") and the national development bank (identified by a top White House aide as the "centerpiece" of the private sector initiatives)—received only cursory review and stalled in committee. The other measures—such as employment and tax credits, urban intermodal transit programs, and housing rehabilitation—fared better, with most of the program and money requests passed in at least some form.

**Executive Initiatives.** Where the Administration could act on its own, the results appear to be more encouraging. For example, a status report issued by the White House in August detailed a number of actions taken to improve existing federal programs impacting upon urban areas. The improvements centered around targeting formulas and reorienting programs to urban and community needs, in-

tensifying intra and interagency coordination, and streamlining administrative processes and procedures. Many of the improvements were the result of a review of about 40 programs during the initial development of the urban policy. These programs represent about \$30 billion — or over 70% of all funds going to urban areas—according to the report.

Among the other significant developments affecting urban communities are the following:

- The Environmental Protection Agency (EPA) established a \$15 million Urban Resource Recovery Project Development Grant Program to aid areas overcome the financial barriers impeding project planning and development activities.
- The Farmers Home Administration (FmHA) will target its resources toward assisting disadvantaged persons and distressed communities and will accelerate its efforts to develop close working relationships with other development agencies and institutions.
- The Department of Housing and Urban Development (HUD) announced awards of 701 program "incentive grants" to nine states and to ten regional planning organizations which have taken the lead in assisting distressed areas. The \$2.8 million program is being viewed as a "trial run" for the urban policy's state incentive grant initiative.

The President also initiated action in four other areas by executive order. Two of the orders dealt with federal procurement and facility location practices. Under provisions of the directives, priority is to be given to the location of federal facilities in central business and surrounding urban areas, while federal procurements are to be targeted to areas of high unemployment.

A third order established a new internal management process in the form of "urban and community impact analyses." Under the procedure, OMB and the White House Domestic Policy Staff will coordinate federal agency analyses of the impact of proposed programs and policies on cities, counties, and other communities. An interim process was implemented as part of the fiscal 1980 budget cycle and focused only on new proposals and significant changes in existing programs. A full-scale assessment process is anticipated for the fiscal 1981 budget. HUD also has developed a \$500,000 demonstration program for ten areawide planning agencies to design ways for incorporating urban impact analyses into the OMB Circular A-95 review process.

The final order created the Interagency Coordinating Council (IACC), chaired by Jack Watson, Jr., assistant to the President for Intergovernmental Affairs. The council, composed of 16 department and agency representatives, began operation in May, although its status was not formalized until the executive order was signed in August. According to a White House fact sheet, the IACC "functions as a direct arm of the President and raises coordination to a high level of priority." Thus far, the council has begun to address and assist with a number of interagency projects such as the new EPA and Department of Transportation joint guidelines for air quality and transportation planning; the development of linkages between housing, crime prevention, and parks in a new "neighborhood strategy area" program; and a joint application for HUD's urban development action and Commerce's EDA programs.

One of the most notable efforts of the council was overseeing the development of a three-agency (FmHA, HUD, and Labor) plan to redirect about \$1.2 billion in funds flowing into rural and small communities programs in

North Carolina. Under an arrangement worked out with the state, these moneys will be coordinated and spent in ways consistent with the state's balanced growth plan. Under the plan:

- Funds from FmHA, the state, and the private sector are to be targeted on statewide rural investment project priorities. This "coordinated investment strategy" will be supported by a planning grant to the state to develop services for communities under 10,000 population.
- North Carolina also will be one of two sites (the other is Washington) for a HUD demonstration project aimed at eliminating barriers faced by rural areas in obtaining housing and community development funding.
- HUD also will finance a two-year capacity building effort directed to regional and local governments, and has selected the state to receive a grant under the land title demonstration system to develop model land title recording systems in two rural counties.
- And lastly, the Labor Department has begun negotiations with the state for rural employment development projects in targeted localities.

North Carolina Governor Jim Hunt has described these efforts as "a real breakthrough in our relationship with the

## "We Won Some And We Lost Some"

The fates of the Administration's *Comprehensive Employment and Training Act* (CETA) and countercyclical aid (ARFA) proposals submitted to the 95th Congress are indicative of the mixed results for state and local governments during 1978. Both proposals constituted renewals of major aid programs, and both were part of the President's urban policy. Only one of the proposals—CETA renewal—was enacted.

### CETA

According to one Senate staffer: "In light of Proposition 13 and the President's new inflation program which is going to put a tremendous squeeze on the federal budget in the next year or two, there are going to be limited resources. So it was the feeling in Congress that we should target those resources at people with the greatest need." Such was the attitude confronting the supporters of the CETA program that provided 725,000 public service jobs and was funded at \$11.4 billion in 1978.

In addition to the more fiscally conservative attitudes in Congress, many members raised questions about the effectiveness of the program, specifically calling attention to examples of mismanagement and abuses which have occurred.

The President's reauthorization proposal, submitted early in the year, offered several changes to the program. For example, the Administration's bill stressed targeting programs more specifically to the economically disadvantaged; provided for a permanent, triggered countercyclical public service employment program; and proposed a major initiative to encourage private employers to hire and train long-term unemployed and low income individuals.

What emerged in the final hours of the 95th Congress was

federal government." A second round of negotiations already has been initiated for similar coordinative arrangements in other program areas.

**In Retrospect.** "We won some and we lost some" said John Gunther, executive director of the U.S. Conference of Mayors, "but the truth is that most of us in the urban lobby realized that much of the President's new program would not be enacted this year." Less positive observers have opined that the proposals simply got lost in the shuffle, not only in Congress but in the Administration as well, in part because of the quantity of other domestic and foreign policy issues on their agendas. For some of the proposals—particularly the state incentive program and the national development bank—it was in part a question of timing. Neither proposal was sent to Capitol Hill until fairly late in the session; and neither ever had the complete and unified backing of the public interest groups or key members of Congress.

While a number of the urban policy proposals were in fact enacted by Congress or are being implemented by the executive branch, most urban analysts have been critical and pessimistic about the President's program. They note:

- the policy failed to specify how the myriad of individual programs actually would be coordinated, despite the President's intention to do so;

a considerably tighter program, incorporating many of the Administration's proposals but scaled down from the existing program level. Among its provisions, the reauthorization calls for:

- 625,000 public service jobs, and funding at about \$11 billion;
- a new distinction between programs for the structurally unemployed (stressing training rather than public service jobs) and the cyclically unemployed (offering jobs during declines in economic conditions);
- a new trigger mechanism that will provide CETA jobs for one-fifth of the unemployed when the national unemployment rate exceeds 4%, and for one-fourth of the unemployed when the rate hits 7%;
- new limitations on the length of time persons may hold CETA jobs;
- new restrictions on wage levels;
- greater emphasis on on-the-job training effort by local businesses; and
- new authority for the Secretary of Labor to monitor the program and to take corrective actions where appropriate.

The new CETA program is the first major initiative to recognize and implement the full employment policy embodied in the Humphrey-Hawkins bill. Some analysts also consider it a forerunner for a welfare jobs program if welfare reform legislation is passed, given the greater emphasis on economically disadvantaged persons. Another battle over funding levels for CETA is expected early in 1979 during the consideration of the President's federal budget proposals.

#### **Countercyclical Aid**

State and local government officials, however, were not successful in obtaining the renewal of the \$1.5 billion per year antirecession fiscal assistance (countercyclical aid) program that expired in September. As part of the urban policy, the President had proposed a "supplementary fiscal assistance program" that would have extended the program for two years at a level of \$1 billion annually. How-

- while the President's policy stressed coordination, it neither eliminated nor consolidated a single program;
- while the key role of states was given considerable attention in rhetoric, under the President's plan, states were singled out for only a small incentive grant; and
- what began as a policy with a "big city" bias developed into a thinly spread effort to aid "distressed communities" of all types.

Another problem faced by the President's proposal had nothing to do with the makeup of the policy, but was related to Congress and its ability to deal with an area as broad as an urban policy. Of particular concern is the fact that Congress simply is not organized to deal effectively with such packages of interrelated proposals, especially those which cut across committee jurisdictions. Questions also have been raised about Congress' low level of resistance to special interest groups which work to scatter federal dollars among too many classes of recipient communities.

An added factor that is gradually impacting upon Congress' willingness to focus on urban issues in the future is reapportionment. Given the out-migration patterns from cities to suburbs and nonmetropolitan areas, there may be fewer central city spokesmen in the halls of Congress in future sessions.

ever, this plan would have eliminated the states from the program, and would have provided the aid to localities with high unemployment; or with disproportionately slow growth in employment, population, and per capita income. The program would have funded about 16,000 local governments.

In the final hours of the Congressional session, the countercyclical program fell victim to a variety of objections raised by the program's House opponents. The Senate earlier had passed a bill that would have provided about \$485 million in fiscal 1979 to both states and local governments with unemployment over 6%. The House opponents argued, among other things, that the recession that previously had provided the justification for the program was over; that inflation was a more critical problem; that unemployment rates were not an adequate index of a locality's fiscal distress; and that the Administration's proposed formula to include factors other than unemployment did not target the funds, but rather it substantially increased the number of recipients.

In an 11th hour attempt to move the legislation to the House floor, the city lobby worked to get a ruling from the House Rules Committee, even though the House Intergovernmental Relations Subcommittee (that had substantive jurisdiction) had voted against the bill. The local officials were successful, but according to the U.S. Conference of Mayors "... a bipartisan group of House members used dilatory tactics on the floor of the House which threatened the energy bill, tax bill, and the rest of the legislative package pending House action. The result was that in the waning hours of the 95th Congress the countercyclical program was sacrificed."

The outcome of this action was an immediate financial impact on states and local governments of all sizes. For example, New York City (population 7.5 million) had anticipated about \$35 million, while Lancaster (PA)—population 57,000—had counted on about \$140,000. It is expected that countercyclical legislation will be high on the public interest groups' priority list for the 96th Congress.

## The 1979 Outlook

Of key interest to many public officials will be the fate of those proposals in the President's "New Partnership" which were not successful in the last Congress. Currently, the major "leftovers"—state incentives, a national development bank, a labor intensive public works program, and countercyclical assistance—are undergoing White House reassessment, particularly in light of the current economic and federal budget situation. While it is expected that at least the countercyclical and national development bank proposals will be reintroduced in some form—and probably scaled down from their original levels—the Administration is continuing to warn that the nation's distressed communities will have to depend less on federal help and more on their own resources. At a year-end session of the Conference Board, for example, a Treasury official cautioned business leaders that many communities will face the need for "innovation amidst scarcity" in light of less federal aid, a slowing national economy, and dwindling state surpluses.

The success of the remaining urban initiatives will depend in great measure upon the degree of coordinated support they receive from the state and local government and private sectors. The lack of such support largely explains the failure of several of these measures during 1978. A blow, for example, was dealt to the national development bank proposal when the National League of Cities membership declined by about a 2-to-1 vote to endorse the proposal at its November meeting.

## THE CONTINUING SEARCH FOR REFORM

### Reorganization

During 1978, the Carter Administration made efforts to "make government work better" on a number of fronts. The record was mixed, however, with far-reaching achievements matched by major disappointments.

The Administration's primary reorganization tool, the President's Reorganization Project (PRP), was responsible for many of the President's plans calling for executive-level restructuring and consolidation. Among its recommendations in 1978, the PRP urged reforms in civil service, civil rights, emergency preparedness, immigration and customs, and education. PRP task forces also put the finishing touches on major proposed revisions affecting economic and community development and natural resources programs.

The Administration was not successful in its attempts to win Congressional acceptance for a new cabinet-level department of education and to consolidate the immigration and customs bureaus. Despite these setbacks, however, plans for reforming and restructuring civil service, civil rights, and emergency preparedness met with a favorable reception.

**Civil Service.** Civil service reform is cited by many as President Carter's major domestic policy achievement. While his predecessors had sought similar changes, President Carter was the first to do so successfully. The result will be the first overhaul of the federal service since the establishment of the merit system 95 years ago.

Reform of the civil service system was accomplished in two phases. The initial phase was completed under a reorganization plan that replaced the U.S. Civil Service Commission with two new agencies—the Office of Personnel Management (OPM) and the Merit Systems Protection Board (MSPB). The next step was achieved through passage of implementing legislation later in the year—the *Civil*

"OH, SPIRIT— I WILL MEND MY WAYS AND BE THE MOST TIGHT-FISTED SCROOGE YOU EVER SAW!"



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**Service Reform Act of 1978.** The new law calls for:

- delineation of OPM's personnel management and MSPB's employee grievances and appeals functions;
- creation of a Senior Executive Service of top managers who would be eligible for bonuses based upon exemplary work but who would not enjoy the job security of other federal employees;
- establishment of a pay system for employees in upper grades based upon performance;
- codification of labor rights, which formerly existed only by executive order; and
- creation of a Federal Labor Relations Authority to deal with complaints about unfair labor practices.

Proponents of the reform measures believe that these actions will help create a more efficient federal government, improve the management of federal programs, and serve as an example to state and local governments which are contemplating changes in their own personnel systems and practices.

**Civil Rights.** The civil rights reorganization plan constituted a major step toward consolidating equal employment opportunity enforcement functions. Under the plan, the Equal Employment Opportunity Commission has become the principal fair employment enforcement agency through the transfer of a number of related functions from other agencies. In addition, the responsibility for ensuring contractor compliance with equal employment standards, that had been spread among 11 agencies, now has been consolidated in the Department of Labor. The Department

of Justice's mandate for assuring state and local government compliance with equal employment laws also has been reinforced.

**Emergency Preparedness.** The consolidation of a number of emergency preparedness functions into a new Federal Emergency Management Administration reportedly will save an estimated \$10 to \$15 billion annually. Under the new organization, for the first time, a single agency is accountable to the President and the Congress for all federal agency emergency preparedness and response activities and serves as a single contact point for state and local governments. The goals of the new agency are to resolve the jurisdictional disputes among the affected agencies and to improve the efficiency of the delivery of disaster relief services.

**FRC Study.** In 1978, the White House continued its review of the ten Federal Regional Councils (FRCs) and their operations and organization. The FRCs have been under scrutiny by the Administration for the past two years. In mid-1977, Presidential Assistant Jack Watson recommended that the FRCs be replaced by regional coordinating councils comprised of no more than five representatives of the major domestic agencies. At the time, Watson argued that the FRCs were functioning poorly, had no accountability, and lacked a clear mission. The FRCs were placed on a year's "probation" during which their performance would be evaluated and possible alternatives would be weighed. An OMB staff study of the FRCs recently was forwarded to OMB Director McIntyre for his review and transmittal to the White House. There has been no indication of when final decisions on the FRCs will be forthcoming.

**The 1979 Outlook.** The Carter Administration will, no doubt, resubmit its plan to create a cabinet-level department of education. In addition, it is expected that other recommendations for agency overhauls will be forthcoming, though considerable attention will be paid to the political ramifications of such proposals before they are presented to Congress.

Reportedly under consideration are two major proposals: to create a new department of natural resources as an enlarged and renamed Department of the Interior; and a renaming and transformation of HUD into a much broader department of development assistance that would include Commerce's EDA programs with a new job creation focus. Other reorganization efforts which will be considered include the consolidation of the customs and immigrations bureaus, the reorientation and restructuring of the LEAA program which were initially proposed in 1978, and a consolidation of highway and mass transit programs into a single surface transportation administration.

#### **Grant Reform Efforts**

Both the White House and the Congress continued their efforts to reform the burgeoning federal grant system in 1978. The more successful were those undertaken by the President, but legislation introduced in the Congress holds promise for future advances.

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

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

**“ Both the White House and the Congress continued their efforts to reform the burgeoning federal grant system in 1978. ”**

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

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

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

As a result of the order, OMB Circular A-85—administered by ACIR—has been rescinded. The demise of A-85, the major vehicle by which state and local officials were consulted prior to the issuance of new regulations having an intergovernmental effect, raised concerns about what opportunity public officials now will have to comment early in the regulatory review process. However, in a memo to agency and department heads announcing the rescission and requesting the development of implementing procedures, the President cautioned that "... nothing in this memorandum shall be construed as in any way diminishing the affirmative obligation of the executive departments and agencies to actively seek out, encourage, and facilitate the submission of state and local comments in the development of federal regulations."

Implementation of an earlier Presidential memorandum on streamlining the federal grant system also proceeded in 1978. The September 9, 1977, memo called for improvements in management practices and less paperwork in application, reporting, and planning requirements; financial management practices; audit procedures; and development of regulations. In issuing the memo, the President asked the ACIR to evaluate agency compliance with these reforms and to make recommendations for further ways to streamline federal aid administration.

**ACIR Monitoring Project.** In December 1978, a panel assembled by ACIR to evaluate the implementation of the reforms issued its report to the President. The panel, composed of state and local administrators who deal with federal aid first hand, found the record of departmental and agency compliance with the memorandum "mixed but disappointing."

To encourage better agency compliance with the memorandum's provisions, the monitoring panel recommended to the President that:

- the grant reform memorandum be reissued as an executive order;
- a formal communication mechanism for comment by state and local officials on the development of new or revised federal regulations be established;
- the grant application process be standardized and simplified by permitting the submission of a single set of assurances as part of an annual jurisdictional certification for requirements which are generally applied to grant programs; and
- advance appropriation proposals be implemented to provide assistance to state and local governments.

Throughout their discussions, the panel members emphasized that an adequately staffed, authoritative central management arm is a prerequisite for any sustained improvement in intergovernmental grant management.

In November, OMB requested agencies to establish "compliance reviews" of their implementation of initiatives contained in the President's grant reform memorandum. The results of these reviews are to be incorporated into the agencies' regular quarterly progress reports to OMB on their paperwork reduction activities.

**OMB Studies.** Uneven implementation also was found to be a problem with still another grant administration device—OMB's Circular A-95. The circular is a process by which state, regional, and local governments and others review, evaluate, and coordinate federal programs which impact upon their jurisdictions. In a report issued in May, the Office of Management and Budget called A-95 a useful mechanism whose potential is far from being realized. The study attributed this shortcoming to the uneven implementation record of federal agencies and noted that "much of the poor performance is due to inadequate understanding of A-95 and the processes and procedures it sets in motion."

OMB made several recommendations to improve A-95, including that the process should be streamlined and simplified; the Administration should express its "strong support" for improving federal implementation efforts; OMB should develop appropriate training programs and informational materials for all those who participate in the process; the circular should be amended to *require* federal agencies to designate substate comprehensive planning agencies to carry out such planning, except where statutorily prohibited, in order to reduce the proliferation of such agencies now in existence; and further study should be given to ways to finance the operations of A-95 clearing-houses.

OMB conducted two other studies in 1978 related to the management of the federal aid system. One focused on improving the distribution of information about federal aid. The other dealt with the delivery of that federal aid. Section 9 of the *Federal Program Information Act of 1977* required OMB to study ways in which the distribution of federal aid program information could be improved. Of major concern to the act's sponsors was the need for greater timeliness and availability of grant information—particularly for smaller jurisdictions.

OMB completed its year-long study of the program information system in late 1978. Generally, the study found that there were no major deficiencies or problems, and that while most federal policies are adequate, many require better enforcement. The study also concluded that several

“ Congress, too, demonstrated an increasing interest in federal grant reform in 1978. ”

of the needed improvements could be made with existing resources.

Among OMB's recommendations to Congress were the need for a greater commitment from OMB to improve both the timeliness and availability of program information, including the development of a specific plan of action to accomplish this; more frequent and complete updating of the *Catalog of Federal Domestic Assistance*; greater agency compliance with existing policy circulars; and exploration of the use of computer systems to store information which could be utilized by state and local governments.

The other OMB study is to focus on three primary areas: detailed descriptions of the alternative delivery systems for federal assistance and the circumstances in which they would be appropriate; a complete inventory of the characteristics and applicability of the myriad of federal program requirements and conditions; and recommendations for actions which should be taken to improve federal assistance efforts. The study, mandated in the *Federal Grant and Cooperative Assistance Act of 1977*, is to be submitted to Congress by February 1980.

**Congressional Initiatives.** Congress, too, demonstrated an increasing interest in federal grant reform in 1978. Hearings were held on three bills which called for extensive changes in the administration and makeup of the federal grant system. One also called for consolidation of categorical grants in the manner recommended by ACIR.

The "Federal Assistance Paperwork Reduction Act" (S. 3267) contained a number of provisions to help reduce the complex and burdensome procedures associated with federal aid. Specifically, it called for: standardizing and streamlining across-the-board federal rules and regulations; providing greater certainty to state and local aid recipients through advance appropriations; and extending and strengthening the joint funding process. The bill also would encourage provision of more complete, accurate, and timely information about grants; minimize delays in disbursement of federal dollars; reduce federal intrusion into state-level administrative relationships and procedures; and establish a standard maintenance-of-effort requirement.

S. 3267 was developed by the Senate Intergovernmental Relations Subcommittee and ACIR staff, working with OMB and White House staffs, and representatives of public interest groups.

A companion measure, the "Federal System Reform Act" (S. 3266), called for the establishment of a White House intergovernmental relations office to coordinate federal assistance programs and to administer a proposed program offering incentives to states to examine their policies toward local governments and to take steps to provide more resources to distressed communities.

A third bill, the "Small Communities Act" (S. 3277), contained provisions for the consolidation of categorical grant programs in similar functional areas. ACIR testified

in support of these provisions, citing the unnecessary costs, confusion and inefficiency in the existing, proliferating categorical grant system. The bill also would have streamlined grant provisions for localities under 50,000 population.

On the House side, hearings were held by the Subcommittee on the City to review how the federal government could help small cities meet their needs. In testimony at the hearings, ACIR cited the role of substate districts in aiding these smaller jurisdictions and encouraged the adoption of a unified federal policy toward substate districts such as that contained in the "Intergovernmental Coordination Act" proposal. That measure, commonly referred to as the Magnuson-Ashley bill, calls for existing areawide planning agencies to develop comprehensive development guides and required federal aid programs to be consistent with those guides. No action was taken by the House on this measure or on any other aspect of grant reform.

While these initiatives to remedy pervasive problems in the federal grant system did not come to fruition, there were other actions proposed, and in some cases implemented, focusing on the reform and redirection of specific programs. For example:

- The "Justice System Improvement Act" was the product of compromise between the Administration and Senator Edward Kennedy (MA) to restructure and reauthorize the Law Enforcement Assistance Administration (LEAA). The major elements of the proposal are designed to cut paperwork and red tape through a new three-year application process and the decategorization of existing planning and program funds; to increase citizen participation; and to limit expenditures for administrative, construction, and equipment costs. While a role for the states is retained, the proposal recognizes local program priorities of major local jurisdictions through a new direct entitlement provision. The bill was introduced mid-year, although no final action was anticipated until 1979, when the current authorization expires.
- *The Quiet Communities Act of 1978*, signed in November amends a 1972 noise control statute to strengthen state and local program efforts. Unlike other environmental legislation, this measure imposes no specific regulations on local jurisdictions but rather directs the Environmental Protection Agency (EPA) to shift its emphasis from standard-setting to assisting state and local governments. It also calls for more attention to the economic impact of noise on localities.
- *The Agricultural Credit Act of 1978* makes major changes in the administration of rural development grant and loan programs. Among its provisions are a higher ceiling on grants (from 50% to 75% of project costs), maintenance of the 5% interest rate on rural development loans, and an increased authorization for waste and water disposal grants. It is expected that major improvements in the type and amount of rural development programs will result from this enactment.
- A five-year extension of the *Elementary and Secondary Education Act* was approved that authorizes over \$50 billion for education programs. Two provisions of particular interest to state and local officials are incentive grants for states which already have their own compensatory education programs and a program to aid areas with high concentrations of low income students.
- *The Older Americans Act Amendments* provide a num-

ber of changes in the 13-year-old program. Annual planning has been replaced by a three-year planning cycle, state plans now must be based on local agency plans, the role of locally elected officials is strengthened, the three service titles (for social services, nutrition, and senior centers) are consolidated into a single title with a special emphasis on outreach activities in rural areas, and the nonfederal match is increased over a three-year period from 10% to 15%, with the increase being absorbed by the states, but not the localities.

- In November, Transportation Secretary Brock Adams formally recommended grant consolidation for highway construction and mass transit aid programs to be administered by a new surface transportation administration. The first step toward program consolidation was achieved when Congress combined funding into a \$51 billion, four-year authorization for highways and mass transit in October. Adams indicated that the next step to achieve consolidation logically would be to combine the programs at the administrative level. Two alternatives are under consideration: submission of specific legislation or incorporation of the consolidation into a Presidential reorganization plan. The purpose of the consolidation would be to achieve coordinated highway and transit planning and to provide "one-stop" grant approval for state transportation projects seeking combined funding. The transportation lobbies appear to be very leary of the plan, as do many on Capitol Hill. The proposal is expected to draw considerable attention and be the subject of intense debate during the coming months.

**The 1979 Outlook.** The area of grant reform well may be the brightest item on the intergovernmental horizon in terms of possible Congressional action in 1979. In a time of austerity and cutbacks, interest in making programs more efficient can be heightened. And a great deal of Congressional campaign rhetoric was voiced that an efficient and streamlined government will be a goal of many members of the new Congress.

As 1978 ended, there was considerable attention being paid to the need for reform of the grant system, much of it stemming from the National Governors' Association and National Conference of State Legislatures' position that they would support the President's efforts to reduce domestic spending only if the Administration actively pursues the consolidation of federal grants and efforts to reduce paperwork and red tape in the administration of those grant programs.

**“ The area of grant reform well may be the brightest item on the intergovernmental horizon in terms of possible Congressional action in 1979. ”**



Still another concern voiced by these state officials relates to the costs of generally applicable federal program requirements imposed upon state and local governments for which there is no reimbursement. For example, Barry Bosworth, director of the Council on Wage and Price Stability, estimates that the new government regulations expected to be issued over the next year or so would cost business, governments, and consumers as much as \$35 billion a year. In addition, according to Bosworth, "Government regulations add about three-quarters of a percent annually to the rate of inflation." Among the regulation "horror stories," state and local officials point to such costs as:

- the \$600-\$850 million that localities will have to spend to implement clean water requirements;
- the \$1.8 billion over the next dozen years that will be required to alter public transportation facilities in order to guarantee access by the handicapped; and
- an additional \$700 million a year that it will take to implement the new antipollution standards for new or modified coal-fired power plants.

Kentucky Governor Julian Carroll, for example, estimates that it will cost his state alone over \$50 million to implement requirements to remove architectural barriers to the handicapped in public buildings.

#### Other Legislation of Note

Several other measures affecting state and local governments were enacted during 1978.

The first is a much watered down version of the Humphrey-Hawkins full employment bill that sets 4% unemployment and 3% inflation rates within five years as the goals for the national economy. Unemployment is given priority attention, with provisions for an automatic public service jobs program. Also included is a mandatory annual review and a minimum of four hours of Congressional floor debate on national economic goals. The President is required to submit an annual report outlining the Administration's economic targets in such areas as employment and unemployment, prices, productivity, and real income—the first of which is due early in 1979. The Federal Reserve Board also must include an analysis of how its policies would relate to the Administration's goals in its annual report.

The second measure is the *National Energy Act* that was passed after nearly a year and half's debate, although in substantially different form from that originally proposed by the President. In actuality, the act is comprised of five pieces of legislation. Of particular intergovernmental interest are provisions for matching funds to local governments and various institutions for energy conservation programs; planning, land acquisition, and development grants to communities anticipating employment expansion in coal and uranium industries of over 8% in four years; and repeal of federal excise taxes on intercity, local, and school buses, and their fuels and parts.

Another intergovernmentally significant measure aims to reduce cigarette bootlegging. The bill, that was recommended by ACIR, provides, for the first time, federal enforcement assistance to state authorities attempting to eliminate the contraband cigarette problem. The legislation limits federal jurisdiction to single shipments of 60,000 cigarettes or more. It also applies antiracketeering statutes to such shipments and provides for five-year prison terms, fines of \$100,000 and losses of shipments to those convicted under the law. The underlying theme of the legislation is

“ Still another concern voiced by these state officials relates to the costs of generally applicable federal program requirements imposed upon state and local governments for which there is no reimbursement. ”

the development of a strong federal-state cooperative effort in combating the problem of bootlegged cigarettes. State revenue losses attributed to bootlegging have been estimated at about \$400 million annually—with a substantial portion of those moneys being funneled into organized crime activities. The new statute does not preempt state action or responsibility but rather augments those enforcement activities already being conducted in many jurisdictions.

In 1978, Congress also agreed to extend long-term federal support to New York City by guaranteeing up to \$1.65 billion in city bonds. The loan guarantee plan is part of a complex financial agreement that includes both the City and New York state government, banks, and city and state employee pension funds.

Among the federal "strings" attached to the aid plan are: annual audits of city books; guarantees allowed only for bonds purchased by city and state employee pension funds; state and private lending institution participation in the city's financial plan; and guarantee authority that is spread over four years, with the provision for a House or Senate veto in the second and third year.

While Congress did act favorably on these and other measures of importance to state and local governments, it did not act in a number of other fields. The 1978 "not passed" list included: welfare reform, airport development and planning, hospital cost containment, social services amendments (that included a new role for locally elected officials in state Title XX planning processes), and an expanded (nearly double) authorization for EDA Title IX (economic development) programs.

#### INTERGOVERNMENTAL DECISIONS BY FEDERAL COURTS

##### Federal Aid

Federal court decisions again played a key role in the intergovernmental arena in 1978. Lower court opinions dealing with the constitutionality of the 10% minority contracting provision of the 1977 *Public Works Employment Act*, for example, are of particular note.

In September, in the first action since the Supreme Court's *Bakke* reverse discrimination case announcement, the Second U.S. Circuit Court of Appeals upheld the minority contracting requirement as a valid exercise of congressional authority. In its *Fullilove v. Kreps* ruling, the circuit court stated: "It is well established that the government's interest in overcoming the effects of past discrimination in employment justifies remedies requiring the use of racial preferences." The minority provision also has been upheld by the third and sixth circuits.

By contrast, the U.S. District Court for Central California iterated its position that the requirement was unconstitutional in October. A year earlier, in November 1977,

the district handed down its first ruling in the case *Associated General Contractors of California v. Secretary of Commerce*. Immediately thereafter, all of the parties appealed the decision directly to the Supreme Court. The Court vacated the judgment and remanded the case to the district court requesting it to "consider the question of mootness." The federal government had contended that the moneys already had been awarded to local grantees and that a prospective injunction would really have no effect—thus rendering the case moot. In citing "an established line of Supreme Court decision," the district court found both factors of "capable of repetition yet evading review" to be present, and thus concluded that the case was not moot. With respect to the merits of the case, the court stated "... the court reiterates its views that the 10% of race quota was not a continually acceptable means of promoting the Congress' legitimate interest in furthering employment in the construction industry among minority group members."

In another action, the Fifth U.S. Circuit Court of Appeals ruled that general revenue sharing funded projects must comply with the requirements under the *Uniform Relocation Act*. That court's decision in *Goolsby v. Blumenthal* potentially has far-reaching implications for state and local jurisdictions which frequently mingle general revenue sharing funds with their own revenues. The fifth circuit's decision is in apparent conflict with an earlier ruling by the fourth circuit in *Carolina Act v. Simon* that held that the requirements of the *National Environmental Policy Act* did not apply when the only federal moneys involved are general revenue sharing funds. The current general revenue sharing statute does not specifically mention either the relocation or environmental laws. The Department of the Treasury has filed a petition for a rehearing in the *Goolsby* case.

**“ Federal court decisions again played a key role in the intergovernmental arena in 1978. ”**

#### State and Local Powers

Overall, it would appear that states fared slightly better than localities in the more than two dozen U.S. Supreme Court cases which impacted upon their powers, responsibilities, and flexibility. Both state taxing and regulatory powers were given boosts by the Court with an affirmation of taxing authority in three cases. In *Multistate Tax Compact v. U.S. Steel*, the Court upheld the constitutionality of the compact and its ability to coordinate the taxation of interstate corporations even though Congress had not given its approval of the compact (the basis of U.S. Steel's challenge). The Court held that Congress only must give its approval to compacts which heighten state powers in relation to federal power.

In a second case, the Court overruled two earlier decisions (in 1937 and 1947) and upheld Washington's power to tax interstate business operating in that state. Previously, the Court had viewed such state taxation as an unconstitutional burden on foreign and interstate commerce. The Court's action in upholding the Washington tax on stevedoring followed a 1977 ruling that supported state taxes on the privilege of doing business in a state.

**“ Overall, it would appear that states fared slightly better than localities in the more than two dozen U.S. Supreme Court cases which impacted upon their powers, responsibility, and flexibility. ”**

And finally, the Court upheld the states' "wide latitude" in determining their taxation formulas. The case involved a challenge to Iowa's "single factor" method for determining what portion of an interstate company's income is taxable in that state. Most states utilize a three-factor formula—payroll, property, and sales—for allocating income, but the Court found that Iowa's allocations on the basis of sales only are constitutional. The Court stated "that states have wide latitude in the selection of apportionment formulas and that a formula-produced assessment will only be distributed when the taxpayer has proved by 'clear and cogent evidence' that the income attributed to the state is in fact 'out of all appropriate proportion to the business transacted in that state' . . . ."

State regulatory powers were upheld in about 60% of the major cases to reach the Court. Of particular note here were favorable rulings for:

- a New York law requiring its state troopers to be citizens;
- the right of states to control the use and allocation of water within their boundaries, even against federal reclamation project and national forest claims;
- a New York City landmark preservation law—and implicitly the similar laws in all of the states and over 500 cities; and
- Montana's right to assess higher fees for nonresidents who want hunting licenses.

In November, the Court also upheld a 70-year-old Alabama law that permits a municipality to extend its governmental powers to nonresidents who live nearby but who cannot vote in municipal elections. The case involved a challenge to the City of Tuscaloosa's power to engage in such activities as establishing building codes, regulating traffic, and requiring various business and professional licenses beyond its city limits. The decision has broad implications in that over 30 other states have statutes authorizing localities to exercise a number of sanitary, police, and licensing powers beyond their corporate limits.

While all government officials lost some degree of immunity from litigation, local governments were the biggest losers. Early in the year, the Court, in a 5-to-4 decision, declined to extend to cities the immunity that states have had in antitrust suits. The case, *City of Lafayette, et al., v. Louisiana Power and Light*, involved a suit by a privately owned electric company against two competing city-owned utility systems. The Court ruled that merely being a subdivision of the state does not exempt cities from antitrust laws unless the state has specifically directed an anti-competitive practice in furtherance of a state policy of displacing competition. In his dissent, Justice Stewart recognized the potential impact of the Court's action, citing the "staggering costs" which could place severe strain on municipal treasuries. The total judgment in the

case could reach \$540 million, or about \$28,000 for each family of four in the affected areas.

In June, the Supreme Court handed down its opinion in *Monell v. Department of Social Services of the City of New York*, a ruling that will ease procedures for plaintiffs in civil rights claims against local governments. The decision reversed a rule of law in effect for over 15 years that established that "municipalities were not persons" subject to suit under provisions of the *Civil Rights Act of 1871*. The case was a result of alleged discrimination against women in employment practices. Specifically at issue was a city policy that required pregnant women to take unpaid leaves of absence prior to the time the leaves were medically necessary. The city altered its policy after a complaint was filed; however, the plaintiffs continued their action, seeking backpay for their unpaid leaves. The case simplified procedures and could lead to an increase in the number of civil rights suits brought against municipalities.

The Second U.S. Circuit Court of Appeals also has ruled that a municipality can be held liable for the acts of its employees who violate the civil rights of an individual "if it can be shown that the municipality is itself a wrongdoer." The case involved the promotion of a West Haven, CN, policeman who earlier had been convicted of using excessive force against an individual. That person contended that the promotion sanctioned the unconstitutional use of excessive force. The appeals court did not rule on the merits of the case, but remanded it to the district court for a determination of whether or not the case met the test of an official sanction of unconstitutional acts by employees.

#### The 1979 Outlook

Of particular concern in 1979 will be possible U.S. Supreme Court action in the Pennsylvania case focusing on the state legislature's ability to appropriate federal funds, *Shapp v. Sloan* (now called *Shapp v. Casey*). The case was appealed to the nation's highest court shortly after the Pennsylvania Supreme Court announced its decision supporting the legislature's authority to so appropriate those funds in mid-1978.

A coalition of 32 organizations representing higher education, public schools, minority groups, and labor has filed an *amicus curiae* brief urging the Court to hear the case. Additionally, the Court has asked the federal government to file a brief. The Solicitor General has sought suggestions from departments and agencies dealing with federal aid, including ACIR.

If the Court agrees to hear the case, it must deal with many of the issues which go to the heart of federalism in this country. Most notably, it must consider whether the federal government can circumvent the states to impose its will, even if by so doing, the federal government significantly alters the allocation of power between the states' executive and legislative branches. The stakes are high, and the Court's ruling as to jurisdiction will be the first step in what might well be a major intergovernmental event of 1979. A ruling on the appeal is expected early in the year.

# And Briefly: Books

During 1978, the Advisory Commission on Intergovernmental Relations published five policy reports, one information report, one volume of its annual poll on governments and taxes, and two reports in a new "In Brief" series.

Single copies of these reports are free from the Advisory Commission on Intergovernmental Relations, Washington DC 20575.

## **Countercyclical Aid and Economic Stabilization (A-69).**

In this volume, the Commission considered the effect of the national economy on state and local government, the effect of state and local government actions on the national economy, and the desirability of federal aid to state and local governments to offset one or both effects.

On the inflation front, the Commission recommended that the President, in cooperation with state and local government officials, develop a cooperative anti-inflation policy. To deal with recession, the Commission recommended an "accordion" aid program that automatically expands to provide federal aid to a large number of jurisdictions as unemployment rises and automatically contracts to provide aid to a smaller number of jurisdictions as unemployment rates fall.

## **The Adequacy of Federal Compensation to Local Governments for Tax Exempt Federal Lands (A-68).**

Compensation for federally owned land has been a controversial issue for many years, particularly in the west where most of the national forests and public lands are located.

Until 1976, the federal government reimbursed counties in an amount equal of 25% of the receipts obtained from the national forest lands. In 1976, the Congress enacted legislation providing a minimum 75¢ per acre payment for national forest and several other types of public land.

ACIR examined both the earlier and current federal reimbursement

programs in this volume and concluded that the pre-1976 level of compensation, based on receipt sharing, was generally adequate to offset any adverse effect of federal land ownership, but that since the 1976 compensation was not of sufficient magnitude to elevate federal land counties into a fiscally advantaged class, the current federal compensation program should be retained.

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

This volume, part of the 14-part series entitled *The Intergovernmental Grant System: An Assessment and Proposed Policies*, analyzes categorical grants as grant devices, traces their history and application, describes their uses and misuses, and assesses their impact on state and local government.

This report contains a series of Commission recommendations to reduce the proliferation of categorical grants and make them work better.

## **Summary and Concluding Observations (A-62).**

This is the final volume summarizing the results of ACIR's study of the grant system.

This report contains the 60 recommendations developed by the Commission and describes the five-part overall strategy that evolved from these recommendations.

## **State Mandating of Local Expenditures (A-67).**

State mandates have been used in a wide range of local government activities to provide for more uniform service levels, higher professional standards for public personnel, and other objectives of statewide interest. This report discusses arguments for and against mandates and makes recommendations to ensure fairness toward local interests. The results of a survey conducted by the Commission with the cooperation of various national associations of state and local officials are also included.

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

State and local jurisdictions impose a variety of taxes on businesses including corporate income tax franchise, business property, gross receipts, and sales taxes. In an innovative move, the state of Michigan recently replaced its various taxes on business 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 ACIR information report compares the Michigan VAT with other types of business taxes and discusses its history in Michigan.

## **Changing Public Attitudes on Governments and Taxes (S-7).**

The seventh annual survey of public attitudes on major intergovernmental fiscal issues reveals that there is little credence in the notion that people are getting fed up with property taxes.

In answer to the question, "Which do you think is the worst tax," there was only a margin of 2% between those who answered the property tax (32%) and the federal income tax (30%).

Other questions concerned which level of government gave them "the most for their money," whether the federal government exercises too much or too little power, whether special federal aid should be provided to needy central cities; and the ability of state and local governments to deal with problems.

In addition, two "In Briefs" were published in 1978 summarizing and highlighting recent Commission studies. They were:

**In Brief—The Intergovernmental Grant System: An Assessment and Proposed Policies (B-1).**

**In Brief—State Mandating of Local Expenditures (B-2).**

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

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