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23rd Annual Report

ACIR: THE YEAR IN REVIEW

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## ACIR: The Year in Review

The past year may well come to be recognized as a turning point for American federalism. With the New Federalism proposals and legislative agenda put forward by the Reagan Administration, intergovernmental relations, sometimes called the 'dismal swamp' of federalism, moved from the back burner to the front. At the heart of the changes underway is no less than the transition from a federally dominated form of federalism to what will hopefully be a more balanced intergovernmental system.

### Overview

Much of the ACIR's work which reached fruition and was disseminated in 1981 relates directly to federalism's rites of passage we have witnessed this year. Two companion series, one on the federal role in the federal system and the other on state and local roles, are of particular significance. They examine the question increasingly raised throughout the country in response to the shift of responsibility and the cutbacks in federal aid -- that is, which level of government should be responsible for what function?

The Commission's federal role findings must have touched a responsive chord because they received extensive coverage in the press, from major public interest groups, other research organizations, and in the executive and legislative branches of the federal government. Central

to the Commission's findings is the belief that the federal system has become "overloaded" largely due to the increase in the federal government's activities and influence, and that it needs to be restructured. The Commission focused in 1981 on follow-up activities stemming from its agenda designed to help restore balance to federalism.

The spotlight has shifted in recent months to states and local governments and their capacities to assume additional roles and responsibilities resulting from the Reagan Administration's New Federalism. Thus ACIR's latest work on the states and their localities, completed in 1981, proved both timely and significant. Over the past 20 years the states, the Commission found, had not been overshadowed by the growth of the federal role but had become federalism's resurgent partners. While not all 50 states had made equal progress, and all could use additional improvement, the states had generally strengthened their executive offices, streamlined their constitutions and legislative branches, and reformed their judicial systems to the point where today's states could be termed "transformed." The position of local governments, on the other hand, was not quite as strong. They had become dependent on outside revenues, namely federal and state aid, to the point where their traditional independence was threatened. Improving state-local relations and strengthening local governments may prove to be one of the most important tasks for the 1980s.

Both series formed the basis for setting the Commission's new research agenda. In addition to being a year when ambitious undertakings were completed, several major new projects were launched. These include examinations of federal "tax turnbacks," federal regulation of state and local governments, and state severance taxes on mineral resources.

1981 was also important for the Commission since it saw completion of oversight hearings conducted by the Senate Intergovernmental Relations Subcommittee. In preparation for the hearings, extensive background material was assembled on ACIR's membership and appointments process, agenda setting, recommendations, implementation process and budget. In his testimony Chairman James Watt spoke primarily to the question of independence and his goals for the Commission.

Throughout the year, the Commission remained steadfast in its support of grant reform, sunset review procedures, and fiscal notes detailing the financial impact of federal legislative and regulatory actions on states and localities. Further, the Commission reiterated its support for a payments in lieu of taxes (PILOT) program for federal real property.

#### The ACIR Approach

ACIR is a 26-member national, bipartisan body established by Congress in 1959 to monitor the intergovernmental system and make

recommendations for change. Because it represents the executive and legislative branches of all three levels of government and because of its status as a permanent, independent commission, ACIR is able to follow-up on its recommendations, encouraging and assisting executive and legislative branches of federal, state, and local governments to consider and implement them.

The work of the Commission flows in three stages: staff research undertaken at the direction of the Commission; policymaking by the Commission; and efforts by both the Commission and its staff to facilitate the adoption of the Commission's policy recommendations.

The Commission determines the research agenda, basing its choices on the members' own wide-ranging experiences, observations, and contacts as well as on staff evaluations of alternatives. Once a topic is selected, staff gathers information by a variety of methods including library research, Commission hearings, staff surveys, and field studies.

To assure that all relevant aspects of each subject are reflected in the findings and background sections of a report, the staff conducts "thinkers' sessions" at the beginning of a research project to help define its scope and approach. "Critics' sessions" are scheduled near the completion of a project to avoid errors of omission or bias in the draft prepared for the Commission. Participants in these sessions usually include Congressional staff members, representatives of appropriate government agencies, public interest group spokespersons,

members of the academic community, and representatives of relevant civic, labor, and business associations.

When the background and findings are prepared, they are presented to the Commission along with the appropriate range of alternative policy options. The Commission debates the report at a public meeting and votes on policy recommendations. Subsequently, the report is widely disseminated, appropriate recommendations are translated into model state legislation or Congressional bills, and implementation work proceeds.

The Commission recognizes that, as a permanent body, its mandate is not merely to study the operations of the federal system, but also to seek to improve it. Therefore, the Commission believes that its contributions should be measured largely by its actual achievements in bringing about significant improvements in the relationship between the federal, state, and local governments. For that reason, it devotes a significant share of its resources to encouraging and facilitating the consideration of its recommendations for legislative and administrative action by governments at all levels through draft legislative proposals, technical assistance, and other implementation activities.

#### Oversight Hearings

On October 21, Chairman James Watt was the leadoff witness at oversight hearings on ACIR conducted by the Senate Intergovernmental Relations Subcommittee.

Calling the oversight hearings "a tradition that is older than the subcommittee itself," Subcommittee Chairman Dave Durenberger described how hearings have been held approximately every five years since the Commission's founding in 1959.

He briefly reviewed both the mission and accomplishments of the Commission saying, "Over the past 20 years, ACIR has rightfully earned a reputation as one of the most valuable research and advisory institutions in the federal government."

In his testimony, Chairman Watt said his role as ACIR chairman was "an exciting one because of the special attention the President is giving to federalism and the basic structure of our government." Responding to questions from Senator Durenberger, Chairman Watt stressed the importance of ACIR's independence, saying the Commission was "wisely structured by the Congress to be an independent, bipartisan group that could not be used by any President if he wanted to."

The question of independence has arisen, he said, because of his dual role as cabinet secretary and chairman of ACIR. Yet, he pointed out that many persons "wear two hats" and that while he expected to face some conflicts between the two roles, similar conflicts confront other Commission members in their dual roles as elected officials and ACIR members.

Chairman Watt noted that his appointment was conceived to enhance the status and effectiveness of ACIR. The Reagan transition team studying ACIR concluded that the Commission was an important vehicle for improving intergovernmental relations, he said, and recommended that the President "could best ensure the Commission's success by

appointing a chairman of national stature and by insuring that the three federal executive branch members play an active role in ACIR deliberations. President Reagan has directly followed these recommendations."

He told the Subcommittee that the pluses of his position as a cabinet secretary outweigh the minuses since it provides a built-in mechanism for getting ACIR research and recommendations into the mainstream of presidential and executive branch policymaking.

In choosing Governor Lamar Alexander of Tennessee as vice chair, Chairman Watt said the intent was to share programmatic and staffing decisions that are in the purview of the chairman on a cochairman-type basis, "simply because if you believe in the federal system, the national and state governments ought to work together."

The Subcommittee also heard testimony from two organizations that urged an expansion of ACIR membership to include towns and townships and school board representation.

Barton Russell, executive director of the National Association of Towns and Townships, called representation from the nation's small local governments ACIR's "missing link." "We would like to stress the need for people from all sizes of communities to be fairly represented in the national policymaking process," Russell said. "The concerns and problems of the citizens of thousands of towns throughout the country whose elected officials' views have not been heard are



being unfairly excluded from a vital component of our nation's inter-governmental system." He urged adoption of H.R. 2106, which would amend ACIR's enabling legislation to include three town officials.

Speaking for the inclusion of school board members, Robert Haderlein, president of the National School Boards Association, cited similar reasons, saying that "school district government is the only major universal unit of government whose voice is conspicuously absent from the Commission. Inasmuch as the school districts of America are an integral part of the federal governmental system, we believe that the time is right to amend the law and include school district government representatives on ACIR."

ACIR has traditionally opposed expanding its membership to represent either school boards or townships. ACIR Executive Director Wayne F. Anderson told the Subcommittee that the argument against towns and townships was that they are not universal and are not general governments with substantial functions in most states. The argument against including school board membership is that school boards are not general governments and admission of any single function, even the largest state-local one, would open the door to membership for other single-purpose units and other types of governmental specialists.

In preparation for the hearings, Commission staff developed detailed answers to 32 questions covering the Commission's membership and appointments process, agenda setting and Commission oversight of staff work, extent of public review and participation, recommendations and implementation processes, and budget and appropriations.

Completed Work

In 1981 the Commission substantially completed dissemination of its 11-volume study on the federal role in the federal system as mandated by the Congress in the 1976 renewal legislation for general revenue sharing. A companion series on state and local roles in the federal system, also required by Congress, was readied for publication. In addition to these two major projects, the Commission addressed the problems associated with the fiscal management of federal pass-through grants and made recommendations for streamlining this complicated area of intergovernmental relations.

Staff work was completed on two topics which await the Commission's review: state taxation of multi-national (and multi-jurisdictional) businesses and the representative tax system.

The Federal Role. Consideration of the federal role study, one of the most far-reaching in the Commission's history, has occurred in several distinct stages. Following in-depth staff research, the Commission invited five expert witnesses to testify on the state of modern federalism. The staff research and experts' opinions figured heavily into the Commission's overall findings that "the current network of intergovernmental relations has become dangerously overloaded to the point that American federalism's most trumpeted traits -- flexibility and workability -- are critically endangered. This threatening condition has come about largely as a consequence of a rapid expansion in the overall scope, range of specific concerns, and coercive character of the federal role in the federal system."

To correct major malfunctions in the workings of the system, the Commission devised a six-point agenda for reform. The agenda to restore balance to federalism is headed by a trade-off proposal. The Commission urged, as it has since 1969, federal assumption of the welfare burden -- but, as a result of its federal role findings, expanded the areas of federalization to potentially include other income redistribution programs such as Medicaid -- accompanied by a sorting out of functional assignments in other areas. The sorting-out process would involve, the Commission recommended, reducing substantially the number of federal aid programs through consolidation, termination, or devolution to state or local governments or the private sector.

Other recommendations to improve federalism included: reducing the intrusiveness of federal regulation of state and local governments; strengthening the political parties; preserving and renewing state-local discretionary authority; convening a national convocation on federalism; and, clarifying the constitutional amendment process whereby states can petition Congress for a constitutional convention.

Follow-up activities on the federal role study's findings and recommendations were of paramount importance throughout 1981. The Commission's federalism agenda formed the basis of a variety of endeavors including public interest group policy, the new Presidential Advisory Committee on Federalism's discussions, numerous research undertakings by other organizations, and considerable press attention, public discussion, and Congressional hearings.

- o Specific trade-off packages - At the request of the Commission, staff gave top priority to developing specific proposals to decongest the federal aid system. Four basic trade-off proposals were considered by the Commission at its April meeting. Commission members and staff continued to work throughout the year with the Administration in the development of alternative revenue/tax turnbacks with program tradeoffs (see current activities section).
- o Public interest group response - Both the National Conference of State Legislatures and the National Governors' Association have adopted the Commission's trade-off recommendation as the centerpiece of their policy on federalism. Commission staff has worked closely with these and other public interest groups to estimate the costs and impacts of various approaches that could be used in a serious attempt to decongest the federal aid system.
- o Relationships to other research projects - The use of ACIR's federal role research and recommendations by numerous other research organizations has given the Commission's work added visibility. A good example is the American Enterprise Institute's Rethinking Federalism by Claude Barfield which draws heavily on ACIR's work.

Another recent example was the report prepared by the National Academy of Public Administration at the request of Senator William Roth, Chairman of the Senate Committee on Governmental Affairs. Members of the Commission staff worked closely with NAPA to develop the report, which was to look at ways to reduce the impact of federal aid cuts on states and localities. Many of the Commission's federal role recommendations are incorporated.

State and local roles. The Commission completed its investigation into what are and what should be state and local roles in the federal system. ACIR's work on this subject proved to be particularly timely in light of the Reagan Administration's New Federalism proposals, which place additional responsibility with states and their localities. The question of state capacity was raised again and again throughout the year, and, more often than not, ACIR's research was used to bolster the case for a strong state role. The Commission found that states have generally moved in the direction urged by reformers for the past several decades. The states, in the Commission's view, are now better equipped to be more effective middlemen between the federal government and localities, one of their most important roles as envisioned by the Founding Fathers.

The Commission's appraisal of state government performance was positive on many counts. One area where there was only "mixed progress" involved the states' multifaceted role as source of authority, assistance,

and encouragement vis-a-vis their local governments. To strengthen structural and functional processes of their localities, the Commission urged states to broaden local discretionary authority, establish or supplement standards for local government viability, and require periodic review of the structural, functional, and fiscal relationships of local governments and substate regions. The Commission also called on states to establish a sunset procedure to review state programs, attach fiscal notes to proposed legislation estimating the cost of that legislation to be borne by local governments, and encourage the modernization of county governments.

At its January 8, 1981, meeting, the Commission completed its review of the study on state and local roles in the federal system.

At that time, the Commission recommended that:

- Governors and legislatures review the state regulatory and licensing boards and commissions and eliminate those no longer needed and, in the case of those still necessary, improve their efficiency and effectiveness;
- the state A-95 review and comment process be an integral part of state planning and budgeting; and
- state legislatures maintain current codifications of all rules and regulations in effect and periodic reassessment thereof.

The federal government, the ACIR further urged, should curb its intrusion into state organization and procedures by amending the

Intergovernmental Cooperation Act of 1968 to eliminate any federal assistance condition that requires a single state or local government department, agency, board or commission, or other organizational unit to serve as the administrative focal point of an aided program.

The Commission's recommendations have been widely used by a number of public interest groups over the past several months, notably the National Governors' Association's new working committee on state-local relations. Pursuant to the study on state and local roles, ACIR issued two reports in 1981, Measuring Local Discretionary Authority (M-131) and The Federal Influence on State and Local Roles in the Federal System (A-89). Another volume and an executive summary will be issued early in 1982.

Fiscal Management of Federal Pass-Through Grants. The Commission examined research on the use of OMB Circular A-102 and adopted recommendations to improve its use at its January meeting. The Circular, issued in 1971, provides standard agency requirements in a number of administrative areas, including applications, accounting, reporting and auditing. Six years after its issuance, it was expanded to apply to federal funds "passed through" states to localities or through localities to other subgrantees. With this pass-through role, there was then an opportunity for states and localities to add their own requirements to those already imposed in Washington. And apparently, they did so, although the impetus seems to be related more to their uncertainty as to the degree they would be held accountable than to any desire to further hamstring or to control the various subrecipients.

The Commission also found that:

- the language in Circular A-102 does not make clear which federal requirements are intended to pass through to sub-recipients;
- federal administrative requirements are implemented inconsistently, in part because there has been no authoritative determination when and if federal regulations take precedence over state and local statutes;
- little, if any, review of federal and state agency guidelines exists to determine if uniform requirements and procedures are being followed;
- insufficient communication exists between grantor and grantee agencies concerning the intention of federal management requirements and what constitutes compliance; and
- federal audit standards are rarely complied with below the state levels, unless the federal government assumes the cost for these audits.

In light of these findings, the Commission made a number of recommendations to improve the Circular, including suggesting ways to clarify the intent and meaning and to more effectively communicate that information, urging Congressional effort to help simplify the management of administrative requirements at the federal level, and encouraging federal agencies to reduce administrative confusion and fragmentation. The Commission also urged states to take steps to minimize the differences



between federal and state fiscal requirements issued by state agencies.

A report, entitled Fiscal Management of Federal Pass-Through Grants: The Need for More Uniform Requirements and Procedures, was published by the Commission in 1981.

The Representative Tax System. Staff work was completed this past year on a project designed to develop an alternative measure of fiscal capacity called the representative tax system. The Commission had directed staff to undertake this study at its September 1980 meeting in order to further understanding of overall fiscal disparities among the states and regions. The ACIR has had a long-standing interest in improving measures of state fiscal capacity and in developing the representative tax system methodology.

The ability of a government to finance public services has typically been measured by the per capita income of its residents. However, income actually measures the economic well-being of a state's residents which may substantially differ from the actual resources available to a government as a basis for its tax structure. This is because states tax a wide range of economic factors other than the income of their residents, such as retail sales, property, corporate income, and natural resources. In order to reflect the wide diversity of state tax bases, a multi-factor index can be used to account for those bases which the single factor (per capita income) fails to represent. The representative tax system is an alternative approach to measuring capacity that combines all sources of tax revenue, such as property, income, retail, sales, and minerals, into a composite index of state tax

capacity. The system provides a measure of each state's overall tax base that can be used in federal grant formulas or for research purposes.

The Commission will issue its research on the representative tax system as an information report in 1982.

State Taxation of Multi-national and Multi-state Corporations.

Staff work was also completed on the subject of state taxation of multi-national and multi-jurisdictional corporations. The Commission held hearings on this topic late in 1980 but deferred consideration of the recommendations. At the heart of this study is whether the national interest in "speaking with one voice beyond the water's edge" should take precedence over state tax sovereignty when dealing with international tax conflict. The controversy revolves around the practice of certain states of apportioning a percentage of a corporation's worldwide earnings in order to ascertain taxes due on the basis that only this approach can prevent firms from shifting income so as to minimize taxes. Foreign-owned corporations, in particular, have protested this practice.

This intergovernmental topic is being addressed in a forthcoming General Accounting Office report and is the subject of several cases pending before the Supreme Court. Proposed legislation is also before Congress (S. 655 and H.R. 1983) and the Treasury Department is reportedly in the process of developing Administration policy.

### Implementation Activities

The Commission's policy implementation section encourages the consideration of ACIR recommendations for legislative and administrative action by governments at all levels. At the federal level, implementation activity consists of monitoring intergovernmental policy decisions and transmitting Commission recommendations to appropriate legislative and administrative decisionmakers. At the state and local level, the implementation unit provides technical assistance, distributes Commission publications and maintains a network within the 50 states to monitor fiscal and functional activities. ACIR recommendations for state action also are translated into suggested legislative language for consideration by state legislators. In addition to its information gathering and technical assistance roles, the implementation section frequently undertakes short term study projects dealing with topical intergovernmental issues.

While the majority of these efforts are the responsibility of the policy implementation section, the staff of both research sections as well as the executive director, the chairman, and Commission members participate to varying degrees depending on the nature of the activity. Activities during 1981 are summarized below.

Federal Relations. Commission recommendations for changes at the national level are transmitted to the Congress, the President, or the heads of federal departments and agencies as appropriate. This is frequently followed by Congressional or executive requests

for additional ACIR involvement. Commission members and staff testified frequently before Congressional committees in 1981. Topics covered included the condition of American federalism, grant reform, block grant legislation, payments in lieu of taxes and fiscal notes.

-- Federalism Agenda. Early in the year, ACIR members and staff testified before Senate and House Intergovernmental Relations Subcommittees on both an agenda for intergovernmental relations and the condition of American federalism. On February 25, Black Hawk County (IA) Supervisor Lynn Cutler and Columbus (OH) Mayor Tom Moody outlined for the Senate Intergovernmental Relations Subcommittee issues of the 1980s and ACIR involvement in them. Supervisor Cutler said that the need to "decongest" the federal system will continue to dominate the intergovernmental agenda of the 1980s. Mayor Moody, testifying on behalf of the National League of Cities and as a Commission member, emphasized the need for Washington and states to recognize the cities' ability to deal with local problems and ensure the necessary authority and program flexibility.

On a related front, the federal role in the federal system was the focus of testimony before the House Intergovernmental Relations Subcommittee April 7, when ACIR Assistant Director David Walker addressed

the "unfinished intergovernmental agenda," and highlighted the Commission's prescriptions for restoring balance and discipline to the federal system. On April 30, Dr. Walker was joined by Executive Director Wayne Anderson, and Assistant Directors John Shannon and Carl Stenberg to complete ACIR's testimony.

Also related to an intergovernmental relations agenda, Executive Director Wayne Anderson testified before the Senate Governmental Affairs Committee in May 1981, concerning S. 10, a measure to establish a "Commission on More Effective Government." Anderson transmitted to the Committee ACIR's support for a convocation to address the current malfunctioning of American federalism and to establish an agenda for intergovernmental reform in the 1980s.

-- Federal Grant Reform. Throughout 1981, implementation staff monitored Congress' consideration of omnibus grant reform legislation. Based largely on ACIR recommendations, several bills (S. 807, S. 45, H.R. 4643, H.R. 4465) were introduced to make comprehensive structural and procedural improvements in the federal assistance system. The bills deal with the consolidation of categorical programs, standardization of cross-cutting national policy requirements, streamlining

of financial management practices, and provision of better information of federal aid availability and awards. Virtually all Congressional activity in this grant reform area occurred in the Senate. S. 807 passed unanimously in the Senate Governmental Affairs Committee and was revised in the Senate Rules Committee. The latter Committee had jurisdiction over that section on Title I which created a "fast track" for committee and floor consideration of Presidential grant consolidation proposals. The bill now awaits floor action. In the House, no hearings were held during 1981 on the pending bills.

Grant reform legislation also was the subject of testimony presented before the Senate Intergovernmental Relations Subcommittee on April 22 by Assistant Directors Stenberg and Walker. The two staff members stated that such legislation would "go a long way toward improving the design and implementation of federal assistance and reducing the high overhead costs, paperwork burdens, and administrative headaches that have been associated with grants-in-aid in the past."

-- Block Grants. With the Reagan Administration's block grant proposals, ACIR expertise in this policy area was called upon before Congress, state organizations, and various other groups. ACIR Assistant Director David Walker testified before the Congressional Joint Economic

Committee July 15 on the differences among the three major grant types and on several intergovernmental issues arising out of the use of block grants. He described the block grant as representing "a more nearly cooperative concept of federalism. It recognizes the interdependencies among the levels of government, and it works best when each of the levels of government is capable and committed to different goals in the functional program area addressed by the block grant." ACIR also presented written testimony on the block grant concept to the Senate Subcommittee on Health and Scientific Research and the House Subcommittee on Health and Environment.

-- Intergovernmental Fiscal Issues. ACIR contributed to the discussion in Congress on fiscal capacity, or the revenue generating power of government. Assistant Director Shannon, testifying before the Senate Intergovernmental Relations Subcommittees on May 13, stated that per capita income understates the revenue generating power of the mineral-rich states and overstates the tax wealth of states with relatively high personal income but relatively small property, sales, or mineral tax bases. Although the Commission has taken no formal position on replacing per capita income measures with

a tax capacity indicator, over the years the staff has analyzed and published several reports on state tax capacity measures.

ACIR also submitted written testimony to the House Committee on Rules in support of H.R. 1465, "The State and Local Government Cost Estimate Act of 1981," the "fiscal notes" measure which was signed into law late in the year.

-- Payments in Lieu of Taxes. Based on the ACIR study Payments in Lieu of Taxes on Federal Real Property, Commission member Roy Orr and Executive Director Anderson testified before the Senate Subcommittee on Intergovernmental Relations and the House Intergovernmental Relations and Human Resources Subcommittee. They argued that federal immunity from real property taxation violates the equity principles of public finance which requires that "taxpayers" (in this case institutions) in similar circumstances be treated similarly. Several House bills have been introduced on the subject, although no action has yet been taken.

In addition to its Congressional activities, during the year the staff completed a series of Federal Assistance Roundtables that had been launched at the request of the Office of Management and Budget.



In September, a report on the results of the Roundtables along with appropriate staff recommendations were submitted to OMB. The basic purposes of the Roundtables were two-fold: (1) to present in a timely fashion the issues, problems, and alternative remedial approaches associated with various aspects of contemporary federal assistance policy; and (2) to provide improved access to all major recipient groups in the policymaking process and obtain comments from the affected parties. The subjects covered in the three regional meetings included competition for federal assistance awards, dispute settlement procedures, and the administration of cross-cutting national policy recommendations.

State and Local Relations. The implementation process for ACIR recommendations directed toward state and local governments encompasses a broad spectrum of activities. As noted previously, the major components of the staff's work include disseminating ACIR reports, responding to requests for information and technical assistance, monitoring current events, offering testimony before legislative committees and study commissions, and working with policymakers in specific state and local jurisdictions. Given the basic constitutional and statutory positions of the states in the area of state-local relations, and the limited availability of ACIR staff, the primary focus of the process is at the state level, with particular attention directed toward state legislative activities. While the ACIR implementation efforts primarily are concerned with encouraging the consideration and successful implementation of recommendations, staff also endeavors to cultivate strong working relationships with and promote and maintain a continuing dialogue between and among state and local policymakers.

During 1981, state implementation activities were undertaken in connection with various on-going Commission projects and within the context of ACIR's seven-point state-local relations agenda.

- Regional Monitoring and Assistance. Early in 1981, a regional monitoring system was instituted by the implementation division in order to identify and assess ways in which ACIR can provide input at crucial stages in the states' policymaking processes and to expand its contact with decisionmakers. Staff members have been given specific state assignments, have developed a networking system, and provide monthly reports on activities in their states.
  
- State ACIRs. During 1981, growing interest in state advisory commissions on intergovernmental relations was evident. Implementation staff received numerous requests for information from states which are considering action in this area as well as from existing panels which requested information and assistance with their on-going activities. An Information Report, entitled State-Local Relations Bodies: State ACIRs and Other Approaches was published in early Spring. This document reviews the states' experiences with different types of intergovernmental advisory agencies. The information provided on the organization, financing, work program,

and record of the state organizations kindled state interest in improving the capacity to recognize and consider intergovernmental issues through these mechanisms, particularly in light of the New Federalism initiatives at the national level.

As part of this project, implementation staff has worked closely with many of the state ACIRs and local government commissions. For example, ACIR assisted the South Carolina ACIR with its state growth assembly held in January. Staff also worked closely with the Pennsylvania Intergovernmental Council (PIC) to develop an orientation and training program for their members. The program was held in conjunction with the January 1981 Commission meeting and included the preparation of an orientation "manual", briefings by ACIR staff, and meetings with Commission members. In addition, ACIR provided assistance to the Tennessee ACIR as it recruited and organized its professional staff and embarked upon the first year of full-time operation.

-- Financial Management Capacity Sharing. The Commission's State Initiatives in Local Financial Management Capacity sharing project, initiated in 1978 with funding from the

Department of Housing and Urban Development (HUD), concluded in September 1981. During the project, ACIR provided overall direction and guidance to HUD's efforts to assure that an effective, systematic, coordinated, and comprehensive set of activities were carried out to improve local financial management practices through state action.

- State Urban Policy. As part of a HUD funded project, ACIR staff prepared the 1980 report on The States and Distressed Communities. Additionally, a prepublication copy of the 1981 volume was completed and released; the final version will be printed in early 1982. The report surveyed the actions of the 50 states in assisting their local governments in five policy areas: housing, community development, economic development, fiscal reform, and enhancement of local self-help capabilities. The programs in the report cover a broad spectrum, and overall, provide a reliable indicator of state performance in directing assistance to communities in need. Research on state aid to distressed areas will continue for two more years as part of a joint effort between ACIR implementation staff and the National Academy of Public Administration.

-- State Responses to Block Grants. Implementation staff are following state trends in block grant implementation during the course of regional monitoring efforts. Intergovernmental relationships will be tested, with key decisions expected in the states relating not only to how to spend the block grant dollars, but also how to absorb federal aid cuts and, in many cases, how to deal with reduced state revenues and to modernize state and local institutions and processes.

Most intergovernmental analysts believe that the block grants represent the beginning of an important trend. In the future, the states will be responsible for administering more programs, and with fewer federal dollars. They will have to decide what the appropriate roles will be for governors, legislatures, and administrative agencies. They will be responsible for making program decisions involving the allocation of scarce resources among competing interests, for pinpointing intergovernmental issues which need study, and for resolving conflicts. As the number of federal dollars shrink, state legislatures will need to review the limits they have placed on local governments' revenue-raising capacity, the fiscal impact of state mandates, and the need for greater autonomy for sub-state governmental

units. These issues represent the very core of ACIR's state-local relations agenda.

In addition to tracking the development of state responses, ACIR also has been working with the OMB Intergovernmental Affairs Division in its efforts to assist states with block grant implementation. During the summer, staff prepared state-by-state profiles which were incorporated into the briefing materials for the conduct of eight regional meetings for state and local officials. Several of the regional briefings were monitored by ACIR staff. ACIR is continuing to work with OMB and its "state information network" to help keep state and local policymakers and administrators abreast of developments and decisions related to block grant implementation.

In September, ACIR published Information Bulletin No. 81-3 entitled "Federal Block Grants: The States' Early Responses" that highlighted block grant activities in all 50 states. The material in this publication is being expanded, and updated reports will be issued periodically.

#### Publications and Presentations

Staff members have participated in national meetings and workshop sessions of the National Governors' Association, National Conference

of State Legislatures, National Association of Counties, U.S. Conference of Mayors, and National League of Cities as well as serving as speakers for annual meetings of a number of state and county municipal leagues. Staff from the Commission's two research sections have been similarly involved in raising the level of information in their respective areas of expertise.

During 1981, the Commission published a near-record 17 reports, four issues of Intergovernmental Perspective and one "In Brief." Of the reports, nine contained policy recommendations and eight were information reports. Six were part of the series on the federal role in the federal system; three were reports from a four-part series on comparative federalism. The In Brief summarized the Commission's work on federal payments in lieu of taxes on federal real property. In addition, the Commission produced three Information Bulletins: Urban Enterprise Zones: An Assessment of their Deregulatory Components; State Efforts to Prevent and Control Local Financial Emergencies; Federal Block Grants: The States' Early Responses.

#### Current and Future Activities

The range and diversity of activities described in this report reflects the complexity of our intergovernmental system. The mixture of long and short term research projects integrates the objective of producing quality, in-depth research with that of remaining in step with intergovernmental trends and developments.

In 1982, the Commission will continue to follow-up on its recommendations which stemmed from its study on the federal role in the federal system, concentrating on specific revenue/tax turnbacks and program tradeoff alternatives. The Commission is also scheduled to complete work on its study of federal regulations and their impact on state and local governments.

The Commission's current research agenda further includes a number of other timely topics: State severance taxes on mineral resources, the state of local jails, the role of the courts in intergovernmental relations, financing mass transit in the 1980s, and the federal role in juvenile justice.

Tax turnbacks and decongestion of the federal aid system. ACIR's staff will continue to refine its proposals to streamline the federal grant-in-aid system. At its October 1981, meeting, the Commission directed staff to examine the broadest possible range of tax and program responsibility turnbacks. Commission assistance in the development of tax turnback alternatives was also requested by the President's Cabinet Council Working Group on Revenue Source Return.

In response to the Commission's directive and the White House's request, ACIR staff examined nearly sixty possible combinations of revenue or tax turnbacks and program tradeoffs. Staff research was readied for the Commission's January 1982, meeting and, at the Commission's direction, was made available to members of Congress,



key executive branch officials, and other interested parties. The Commission is expected to consider recommendations stemming from this research at its next meeting.

Regulatory Federalism. Federal "mandating" of state and local government policies and expenditures has emerged over the past two years as a major concern of state and local government officials, and regulatory relief has become a principal objective of the Reagan Administration. Currently, these issues have taken on increased urgency because of fiscal cutbacks affecting government at all levels. The Commission's study "Regulatory Federalism: Politics and Policy" is intended to document and explain the dramatic growth of federal intergovernmental regulation largely over the past 15 years. It will offer recommendations on how many of the new intergovernmental regulatory programs -- including more than 30 major statutes in such fields as environmental protection, health and safety, nondiscrimination, handicapped services, and energy conservation and resources -- can be made less burdensome to state and local governments and, where appropriate, more effective in accomplishing national objectives.

Staff work on this study is scheduled for completion by mid-year. The Commission has taken an active role in reviewing and directing this important study and is expected to comment on work as it progresses.

Severance Taxes. Staff work on the state severance tax study is scheduled for completion by mid-1982. The various ways states derive

revenues from energy sources will be described and future revenues projected. From this data, ACIR staff will assess the likelihood of energy revenues creating large fiscal disparities among the energy-rich vs. energy-poor states over the next several years. The Commission may consider what, if any, the proper federal role should be in two areas: limiting state energy revenues or compensating for interstate fiscal disparities created by unequal state access to energy resources.

Local Jails. The Commission voted to accept a grant from the National Institute of Corrections (part of the Bureau of Prisons within the U.S. Department of Justice) to study the intergovernmental aspects of jail reform. In 1971, ACIR released State-Local Relations in the Criminal Justice System which contained Commission recommendations to upgrade correctional institutions and rehabilitation services. Volume 10 of ACIR's State Legislative Program, Criminal Justice (issued in 1975), sets forth model correction legislation. In the intervening years, little progress has been made in reversing what were then found to be bleak conditions, according to early ACIR "reconnaissance" on the subject. ACIR staff will investigate the current situation and propose possible reform measures. The project is scheduled for completion in September 1982.

Financing Mass Transit in the 1980s. Late in 1981, the Commission decided to accept a grant from the U.S. Department of Transportation's

Urban Mass Transit Administration to study alternative methods of financing mass transit in the 1980s. The present environment of financial constraint at every level of our federal system makes this study particularly necessary. Staff will investigate the effect of increasing user charges, innovative sources of revenue, and the possibilities of consolidating federal categorical grants for transportation into a block grant for state and local governments.

The Role of the Courts in Federal Grant Programs. The explosion in grant-related litigation prompted the Commission to take a closer look at the important role of the courts in determining the scope and impact of federal grant programs. The study, conducted by Professor George Brown of Boston College Law School for the ACIR, is expected to be completed early in 1982.

Other Activities and Publications. In addition to the above research projects, ACIR staff will devote considerable resources to expanding its study on the state role in the federal system, examining the juvenile justice system as it relates to intergovernmental relations, and preparing a number of publications. ACIR will also publish an updated Catalog of Federal Grant-in-Aid Programs to State and Local Governments and will issue its regular poll on public attitudes towards taxes.

Appendix A

ACIR MEMBERSHIP  
(December 31, 1982)

Private Citizens

Eugene Eidenberg, Washington, D. C.  
Robert B. Hawkins, Jr., Sacramento, California  
Mary Eleanor Wall, Chicago, Illinois

Members of the U.S. Senate

David Durenberger, Minnesota  
William V. Roth, Jr., Delaware  
James Sasser, Tennessee

Members of the U. S. House of Representatives

Clarence J. Brown, Jr., Ohio  
L. H. Fountain, North Carolina  
Charles B. Rangel, New York

Officers of the Executive Branch, Federal Government

Samuel Pierce, Secretary of the Department of  
Housing and Urban Development  
James G. Watt, Chairman, Secretary of the Department  
of Interior  
Richard Williamson, Assistant to the President  
for Intergovernmental Affairs

Governors

Lamar Alexander, Vice Chairman, Tennessee  
Bruce Babbitt, Arizona  
Fob James, Alabama  
Richard Snelling, Vermont

Mayors

Margaret Hance, Phoenix, Arizona  
Richard Hatcher, Gary, Indiana  
James Inhofe, Tulsa, Oklahoma  
Joseph P. Riley, Jr., Charleston,  
South Carolina

State Legislators

Fred E. Anderson, President, Colorado Senate  
Ross Doyen, President, Kansas Senate  
Richard Hodes, Majority Leader, Florida House  
of Representatives

Elected County Officials

Lynn G. Cutler, Black Hawk County, Iowa  
Roy Orr, Dallas County, Texas  
Peter Schabarum, Los Angeles, California

Appendix B

ACIR PERMANENT STAFF AS OF DECEMBER 31, 1981

Anderson, Wayne F. (Executive Director)  
Shannon, F. John (Assistant Director)  
Stenberg, Carl. W. (Assistant Director)  
Walker, David B. (Assistant Director)

Adams, Harolyn D. (Secretary)  
Beam, David R. (Senior Analyst)  
Becker, Stephanie J. (Public Information Associate)  
Bunn, Elizabeth A. (Secretary)  
Calkins, Susannah E. (Senior Analyst)  
Colella, Cynthia C. (Analyst)  
Conlan, Timothy J. (Senior Resident)  
Cuciti, Peggy L. (Senior Public Finance Resident)  
Davis, Albert J. (Senior Analyst)  
Ficklin, Kandie, K. (Secretary)  
Fried, Esther (Personnel Officer)  
Gabler, L. Richard (Senior Analyst)  
Galper, Harvey (Senior Public Finance Resident)  
Hahn, Thomas D. (Accountant)  
Jones, MacArthur C. (Duplicating Machine Operator)  
Kirkwood, Karen L. (Staff Assistant)  
Koch, Patricia A. (Librarian)  
McDowell, Bruce D. (Senior Analyst)  
Monical, Carol J. (Analyst)  
Phillips, Ruthamae A. (Secretary)  
Quick, Shari L. (Secretary)  
Richter, Albert J. (Senior Analyst)  
Roberts, Diana M. (Production Manager)  
Roberts, Jane F. (State-Local Relations Associate)  
Ross, Ronald L. (Mail Room Supervisor)  
Roy, Nalini B. (Secretary to Executive Director)  
Schwalje, Lynn C. (Secretary)  
Steinko, Franklin A. (Budget and Management Officer)  
Talley, Martha A. (Secretary )  
Tippett, Francis X. (Statistician)  
Weissert, Carol S. (Information Officer)

Appendix C

Official Consultants

Frank Bane, former chairman of ACIR, Alexandria, Virginia  
John E. Bebout, Wellfleet, Massachusetts  
George C. S. Benson, director, Henry Salvatori Center and President Emeritus, Claremont Men's College, Claremont, California  
Guthrie Birkhead, dean, The Maxwell Graduate School of Citizenship and Public Affairs, Syracuse University, Syracuse, New York  
John C. Bollens, professor of political science, University of California, Los Angeles, California  
George Break, professor of economics, University of California, Berkeley, California  
Alan Campbell, executive vice-president, ARA Services, Inc., Philadelphia, Pennsylvania  
Arnold Cantor, assistant director of research, AFL-CIO, Washington, D.C.  
William N. Cassella, executive director, National Municipal League, New York, New York  
William G. Colman, governmental consultant, Potomac, Maryland  
Charles F. Conlon, Chicago, Illinois  
William L. Day, professor and editor emeritus of "Illinois Issues," Sangamon State University, Springfield, Illinois  
John DeGrove, director, Joint Center for Environmental and Urban Problems, Florida Atlantic University, Boca Raton, Florida  
L. Laszlo Ecker-Racz, consultant, Arlington, Virginia  
Daniel J. Elazar, professor of political science and director, Center for the Study of Federalism, Temple University, Philadelphia, Pennsylvania  
Bernard Frieden, director, Joint Center for Urban Studies, MIT-Harvard, Cambridge, Massachusetts  
Neely Gardner, professor of public administration, University of Southern California, Los Angeles, California  
C. Lowell Harriss, professor of economics, Columbia University; Economic Consultant, Tax Foundation, Inc., New York, New York  
Lawrence Howard, professor of public and international affairs, University of Pittsburgh, Pittsburgh, Pennsylvania  
Victor Jones, professor emeritus, University of California, Berkeley, California

Richard Leach, professor of political science, Duke University, Durham,  
North Carolina  
Eugene C. Lee, director, Institute of Governmental Studies and professor  
of political science, University of California, Berkeley, California  
Arthur Naftalin, professor, School of Public Affairs, University of  
Minnesota, Minneapolis, Minnesota  
Oliver Oldman, professor of law, Harvard School of Law, Cambridge,  
California  
James A. Papke, professor economics, Purdue University, Lafayette,  
Indiana  
Joseph A. Pechman, director of economic studies, The Brookings Institution,  
Washington, D.C.  
Frank Schiff, vice president and chief economist, Committee for Economic  
Development, Washington, D.C.  
James L. Sundquist, senior fellow, The Brookings Institution,  
Washington, D.C.  
George H. Watson, president, Friends World College, Huntington, New York  
Joseph F. Zimmerman, professor of political science, State University  
of New York, Albany, New York

## Appendix D

### Financial Support

From its inception, the Commission has been financed primarily from Congressional appropriations but has generated some additional income from state or local government contributions and from grants to support specific research or other projects. The Commission received about \$150,000 in fiscal 1981 in contributions, honoraria, and reimbursements.

In 1977, ACIR, on the basis of its discussions with the Office of Management and Budget and the House and Senate Appropriations Committees, finalized the reinstatement of its program of soliciting contributions for state governments. The fifth year (1981) of the resumed solicitation program generated 30 state contributions totaling \$78,250.

As a matter of Commission policy, all state, local and miscellaneous contributions are used to supplement and strengthen ACIR services to state and local government. The grant and contract funds from other federal agencies are used for consultants, temporary personnel, and publication costs to carry out specific research projects. The Commission approves the acceptance of all such funds.



Appendix E

Salaries and Expenses Statement

<u>Object Classification</u>	<u>FY 1981 Actual</u>	<u>FY 1982 Estimated</u>
Personnel Compensation	\$1,179	\$1,010
Personnel Benefits	98	95
Travel and Transportation of Persons	36	46
Transportation of Things	8	15
Standard Level User Charges	144	268
Communications, Utilities & Other Rent	160	165
Printing and Reproduction	53	50
Other Services	160	38
Supplies and Materials	35	24
Equipment	4	---
Total Obligations	<u>\$1,877</u>	<u>\$1,711</u>

Appendix F

Publications

Reports Published in 1981

- A-76 Regional Growth: Interstate Tax Competition
- A-78 The Condition of Contemporary Federalism: Conflicting Theories and Collapsing Constraints
- A-81 Intergovernmentalizing the Classroom: Federal Involvement in Elementary and Secondary Education
- A-82 The Evolution of a Problematic Partnership: The Feds and Higher Education
- A-83 Protecting the Environment: Politics, Pollution, and Federal Policy
- A-86 An Agenda for American Federalism: Restoring Confidence and Competence
- A-89 The Federal Influence on State and Local Roles in the Federal System
- A-90 Payments in Lieu of Taxes on Federal Real Property
- A-102 Fiscal Management of Federal Pass-Through Grants: The Need for More Uniform Requirements and Procedures
- M-124 State-Local Relations Bodies: State ACIRs and Other Approaches
- M-125 The States and Distressed Communities: The 1980 Annual Report
- M-126 The Future of Federalism in the 1980s: Report and Papers from the Conference on the Future of Federalism
- M-127 Studies in Comparative Federalism: Canada
- M-128 Studies in Comparative Federalism: Australia
- M-129 Studies in Comparative Federalism: West Germany
- M-131 Measuring Local Discretionary Authority

M-132 Significant Features of Fiscal Federalism 1980-81 Edition

B-5 In Brief: Payments in Lieu of Taxes on Federal Real Property

Intergovernmental Perspective Winter 1981, Volume 7, Number 2  
1980 Spotlights Rebalancing Federalism

Intergovernmental Perspective Spring 1981, Volume 7, Number 2  
From Washington to States and Localities: Decentralization  
Via Block Grants and Revenue Turnbacks

Intergovernmental Perspective Summer 1981, Volume 7, Number 3  
Washington's Regulation of States and Localities: Origins  
and Issues

Intergovernmental Perspective Fall 1981, Volume 7, Number 4  
The Courts As Umpires of the Intergovernmental System



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