

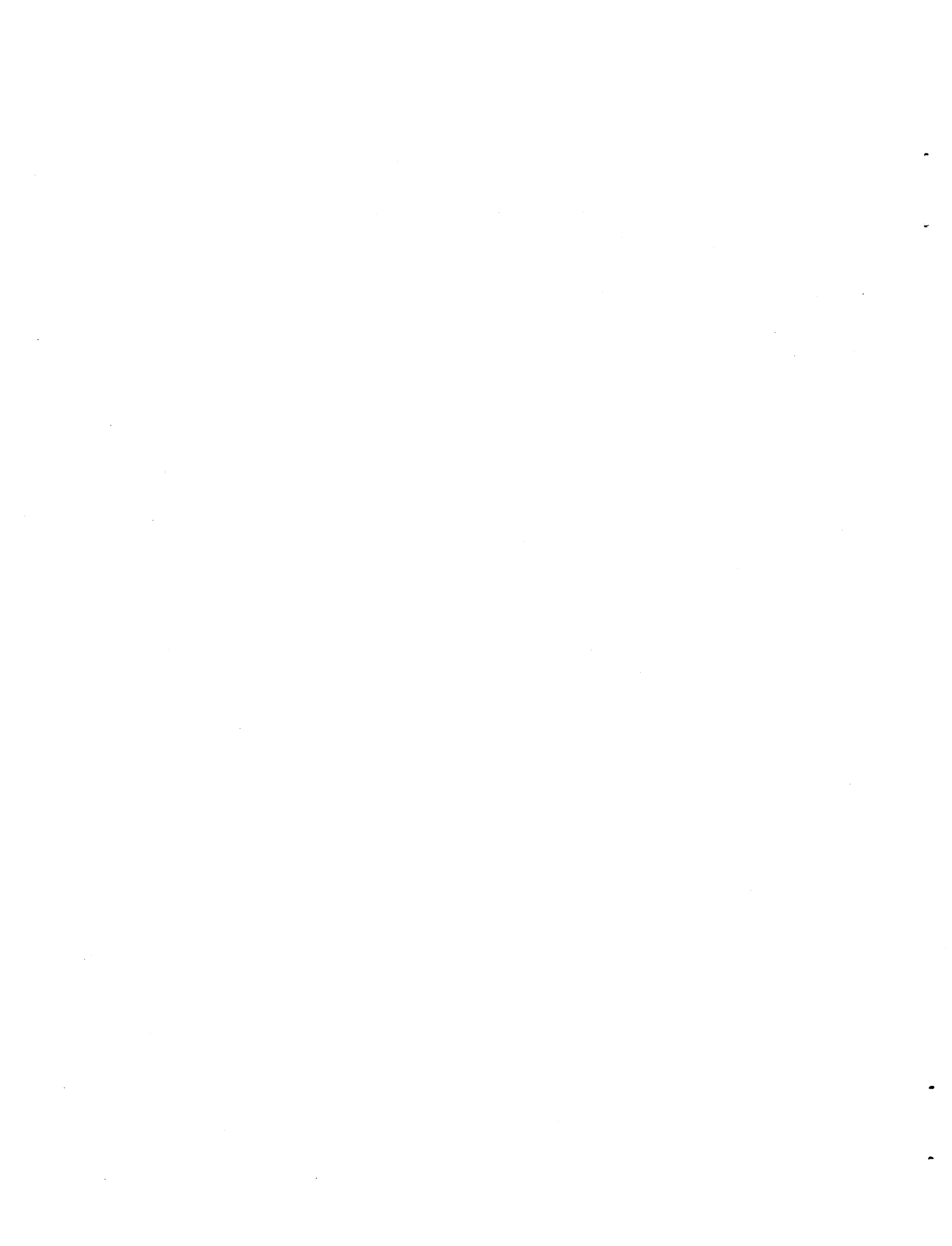
26th Annual Report

ACIR: THE YEAR IN REVIEW

Advisory
Commission on
Intergovernmental
 Relations
Washington, D.C.

26th Annual Report

ACIR: THE YEAR IN REVIEW



Within the intergovernmental system, 1984 offered relatively few opportunities for major initiatives as policymakers awaited clearer signals from the voters and the economy. As an institution, the Advisory Commission on Intergovernmental Relations continued its program of research and analysis, but it also engaged in some retrospection, using its 25th anniversary as an appropriate benchmark to give attention to its past actions and their importance to contemporary and future federalism.

OVERVIEW

In fiscal terms, state and local governments appear to have weathered the fever of tax revolt and the crash diet of recession. The improved economy--more robust in some regions than in others--generally allowed greater budget flexibility to state and local officials. In the past, the Commission has frequently urged states to structure their tax systems to achieve greater balance, reduce intrastate disparities, and minimize regressive impacts. In response, a growing number of states are taking steps in this direction, particularly with tax commissions. Efforts to increase public sector productivity also show results with constantly improving management at all levels. The underlying necessity of having a thriving private sector has been widely acknowledged for years; 1984 saw this recognition translated into more systematic economic development strategies, encompassing a range of tools: financial, administrative, and educational. The linkage between the quality of public education and jobs gained widespread appreciation in many states.

For the most part, however, the past year found many public officials pausing and then taking a deep breath before plunging into the next serious national dialogue: how to cope with the federal deficit and the prevailing sentiment that the national income tax system should be changed. The conclusions reached in 1985 will have far-reaching consequences on the intergovernmental fiscal system and on the means by which public services are supplied.

The Commission, recognizing the questions and difficult choices posed by the deficit, examined the implications of several would-be revenue-increasing measures in terms of their impact on state and local revenue systems. It concluded, specifically, that a national general consumption tax, such as a value-added tax, should be opposed. The Commission also initiated research into the implications of the various tax reform proposals which were under active discussion at year's end.

The 25th anniversary of ACIR gave impetus to several activities. For the first time in its quarter century, the Commission systematically reviewed a body of prior recommendations on the basis of their current validity and importance. The Commission also sought more widespread participation in shaping its perspectives:

- ° It conducted a series of five regional hearings to explore in detail the nature of current intergovernmental relationships, both in policy and operating terms.
- ° It organized an invitational retreat in Annapolis, with papers prepared by leading scholars of federalism and constitutional law, to foster a fruitful exchange between academia and practitioners.

- ° It held a 25th anniversary dinner in Washington to celebrate its accomplishments and to honor various persons who have been instrumental in achieving them.

Another opportunity to review ACIR's achievement and future direction came with congressional oversight hearings. Held by the House Subcommittee on Intergovernmental Relations and Human Resources and the Senate Subcommittee on Intergovernmental Relations, the extensive hearings elicited a large number of observations and suggestions about the Commission's ongoing and future efforts.

This progress report for 1984 explains the Commission's approach to issues, its research practices, and its implementation efforts at the federal, state, and local government levels. Activities of the past year are described; research projects and publications for 1985 are also cited. Personnel and budget data are presented in appendices.

The ACIR Approach

ACIR is a 26-member national, bipartisan body established by Congress in 1959 to monitor the intergovernmental system and to make recommendations to improve it. Because the Commission represents the executive and legislative branches of all three levels of government and because of its status as a permanent, independent commission, it can encourage changes on a consistent and long-term basis.

The work of the Commission flows through three stages: staff research undertaken at the direction of the Commission, policymaking by the Commission, and efforts by the Commission and its staff to have other groups adopt the ACIR's policy recommendations.

The Commission determines its own research agenda, basing its choices on the members' wide-ranging experiences, observations, and contacts as well as on staff evaluations of the alternatives. Once a topic is chosen, the staff gathers information by a variety of methods including: reviewing the literature, holding hearings, conducting special surveys, and undertaking 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 the project's scope and approach. "Critics sessions" are scheduled near the completion of a project to minimize errors of omission or bias in the draft prepared for Commission action. Participants in these sessions usually include congressional staff members, representatives of appropriate government agencies, public interest groups' spokespersons, members of the academic community, specialists in the substantive area of the report, and representatives of relevant civic, labor, research, and business organizations.

Background information and findings are presented to the Commission along with an appropriate range of alternative policy options. The Commission debates the report at a public meeting and votes on policy recommendations. Subsequently, the report is published and widely disseminated, with appropriate recommendations translated into draft state legislation or bills for consideration by Congress.

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 them. The Commission believes that it should be measured largely by its actual achievements in bringing about improvements in the relationship between the national, state, and local governments. For that reason, it devotes a significant share of its resources to encouraging and facilitating consideration of its recommendations by governments at all levels, using draft legislation proposals, technical assistance, and other implementation techniques.

Completed Work

In 1984, the Commission considered and made recommendations on three major research projects and substantially updated three others. The major studies were on the implications the federal revenue system carries for state and local taxes, municipal antitrust liability, and the transformation of state government. The updated studies were on local financial emergencies, cigarette tax evasion, and intergovernmental agreements to provide local public services.

In addition, the Commission carried out an active program in conjunction with its 25th anniversary. Five hearings, each on a separate aspect of federalism, were conducted throughout the country. A two-day retreat in Annapolis drew on the experience and judgment of leading scholars and a U.S. Senator.

Both the Commission and staff continued to participate actively in meetings, conferences, and seminars dealing with federalism and intergovernmental issues. The staff systematically monitored legal developments at the federal, state, and local levels.

Opinion survey. In September, the Commission published the results of its 13th annual survey of public attitudes toward government and

taxes. The survey showed public belief that both local and state governments--the latter for the first time--provide more for the money than does the federal government.

Intergovernmental Public Finance. A major study concerning broad issues of tax policy, Strengthening the Federal Revenue System: Implications for State and Local Taxing and Borrowing, was completed in 1984 and will be published in early 1985. In this work, the Commission scrutinized how changes in federal tax law influence the inter-governmental system.

The Commission affirmed that state and local government officials should be consulted extensively before major national tax policy changes are made. Specifically, the Commission asked Congress not to increase federal selective excise taxes or to enact a new national consumption tax. Excise and sales taxes are so important to sub-federal governments that a national effort in this direction would ultimately curtail financial support for state and local public services.

The federal revenue picture could be improved, ACIR concluded, by building on the reforms incorporated in the Tax Equity and Fiscal Responsibility Act of 1982, which ended the most serious abuses of private-purpose tax-exempt financing. The Commission recommended against placing any new federal volume caps on these bonds but instead advocated a range of measures to deal with specific abuses of industrial development bonds.

The Commission reaffirmed its longstanding support for indexation of federal income taxes. It also endorsed the principle of a balanced federal budget.

Municipal Antitrust Liability. The Commission's interest in this subject stems from a series of Supreme Court decisions which have substantially exposed cities, counties, towns, and their officials to litigation based on federal antitrust laws. These decisions have spawned serious uncertainty among state and local officials as to how the states can provide clear immunity to their localities, a condition that is allowed under current Court decisions.

Because of prevailing uncertainty, the Commission urged Congress to amend federal antitrust laws to establish broad guidelines for states to extend the present "state actions exemptions" to their localities when these governments act under the authority of state laws and within their governmental capacities.

In addition, ACIR recommended that immunity be provided rapidly and in accordance with a number of substantive principles that would deal with the issue's complexities.

The States' Role. The Commission reviewed a substantial number of long-standing recommendations for state action and reaffirmed those that continue to be relevant in light of changing conditions. These recommendations include those intended to reduce fiscal imbalance between localities, to provide greater flexibility and authority to local governments, and to extend opportunities for intergovernmental efforts within both states and regions. One cluster of recommendations, designed to improve the

operation of state legislatures, urged them to review their policies and rules in regard to openness, electronic media coverage, ethics, and legislative compensation.

Financial Emergencies. During 1984, research was conducted to update ACIR's 1973 report, City Financial Emergencies. The Commission approved the new report in December. The study entailed a searching review and found that local governments are not experiencing increased financial emergencies at present, nor are they likely to in the future. Between 1972 and 1983, only three instances of general-purpose government bankruptcy filings were found and there was only one long-term general obligation bond default. With the notable exception of the Washington Public Power Supply System, defaults of revenue bonds and notes involved small dollar amounts. Other financial emergencies not involving defaults or bankruptcies were, for the most part, dealt with by the governments themselves or by state intervention.

The study found, as in 1973, that the major cause of financial emergencies continues to be unsound financial management and that the use of short-term borrowing is a potential cause of serious financial emergencies in local government. In approving the report, the Commission noted that it focused on financial management practices and did not deal with the current fiscal condition of local governments.

Cigarette Taxes. In 1983, the House and Senate Committees on Appropriations directed the Commission to develop current estimates of cigarette tax revenue losses, particularly those attributable to organized interstate

smuggling, and to recommend what actions by the federal or state governments would reduce those losses. An earlier ACIR study in 1977 had been followed by passage of the 1978 Cigarette Contraband Act, making smuggling a federal crime.

The updated study, Cigarette Tax Evasion: A Second Look, found that the magnitude of organized interstate smuggling has declined dramatically since the 1970s due, in large part, to the legislation and its implementation. Since 1980, the tax rate disparities between states have widened, suggesting the need for a continued federal law enforcement presence to prevent a resurgence of cigarette smuggling.

The latest report also found an estimated net loss of \$255 million in cigarette taxes in FY 1983 by state and local governments. An overwhelming share of the loss occurred through tax-exempt sales on military bases and Indian reservations.

The Commission's recommended actions included: active law enforcement at both federal and state levels, with continued congressional support for the efforts of the Bureau of Alcohol, Tobacco, and Firearms; closer cooperation between military, federal, and state officials to reduce the incidence of bootlegging on military installations; and renewed efforts by states to reach agreements with Indian leaders for collecting the cigarette tax on sales in reservations.

Intergovernmental Agreements. As early as 1961, the ACIR expressed its interest in encouraging intergovernmental approaches to public service delivery. The study completed in 1984 updates previous ACIR work on

service contracts, joint service agreements, and service transfers between local governments. It reflects heightened interest in ways to ease local financial pressures, including possible alternatives to delivering services with local public employees.

The report, Intergovernmental Service Arrangements for Delivering Local Public Services: Update 1984, revealed a strong trend during the past decade to make such agreements easier, both legally and operationally. Although states made progress in providing localities with greater authority for joint agreements, the legal requirements for transfers of functions were tightened.

The study found that over half of the cities and counties provide services through intergovernmental contracts and joint service agreements with other governments. At the same time, in the past 11 years, the percentage of cities with intergovernmental contracts declined slightly, due to such factors as increased reliance on private contractors, joint service agreements, and the expanded role of counties as providers of urban services.

25th Anniversary. The Commission observed its 25 years of existence with several events: a series of hearings on aspects of contemporary federalism, a two-day retreat with scholars, preparation of a formal history of ACIR, and a dinner in December to commemorate the contributions of the organization and its past commissioners.

The regional hearings, held in Phoenix, Boston, Seattle, Denver, and Indianapolis, dealt with finance and tax issues in the 1980s; government reform; and state-local relationships from the perspective of states,

counties, and cities. Extensive testimony was presented by state and local officials, business executives, representatives of the nonprofit sector, and groups interested in government performance and accountability. A summary of the hearings will be published in 1985.

The ACIR retreat at Annapolis provided the Commission and staff with insights from U.S. Senator Richard Lugar--a former mayor and ACIR member; Dr. Alice Rivlin, former director of the Congressional Budget Office and at one time an ACIR staff member; and four distinguished scholars. Their presentations will be published in 1985. This publication will also include a speech by author Neil Peirce which he presented at the December 7 dinner which formally observed ACIR's anniversary.

To document more fully ACIR's role in contemporary federalism, a history was commissioned and completed in 1984; it also will be published in 1985.

Implementation Activities

The Commission encourages governments at all levels to implement ACIR recommendations through both legislative and administrative actions. At the national level, implementation activity includes monitoring intergovernmental policy decisions and transmitting Commission recommendations to appropriate legislative and administrative decisionmakers through testimony, formal and informal briefings, and draft legislation. At the state and local levels, the implementation staff provides technical assistance, distributes Commission publications, and maintains a monitoring network within the 50 states. ACIR recommendations for state action also are translated into suggested legislative language for consideration by state legislators. The implementation staff often undertakes short-term studies dealing with timely intergovernmental issues.

In 1983, the Commission formed a committee charged with directing and assisting implementation activities. By this means, the Commission hopes to retain its traditional role as an unbiased and nonpolitical arbiter of intergovernmental issues while enhancing its ability to revise and market its positions. The committee is chaired by Governor Scott Matheson; members are ACIR Chair Robert B. Hawkins, State Senator David E. Nething, County Board Chairman Gilbert Barrett, and White House Assistant for Intergovernmental Affairs Lee Verstandig.

The objectives set for the implementation committee in 1984 include:

- ° Organizing a process to allow ACIR to review and revise the large body of policy which has been recommended, and in many cases implemented, during the past 25 years.
- ° Advising ACIR staff on the effectiveness of publications and distribution lists.
- ° Interacting with the staff on federal legislation of interest to ACIR including that being prepared by the staff.

The committee reviewed recommendations aimed at state governments and will be active in giving broad exposure to the Commission's views in 1985.

Federal Relations. Commission recommendations for changes at the national level are transmitted to the Congress, the President, and the heads of federal departments and agencies as appropriate. This dissemination is often followed by congressional or executive requests for additional ACIR participation. Commissioners and staff members testified before, or prepared written comments for, congressional committees in

1984 on issues of concern to ACIR, such as regulatory reform, municipal antitrust immunity, and countercyclical assistance.

--Oversight Hearings. On July 25, 1984, joint hearings were held by the House Subcommittee on Intergovernmental Relations and Human Resources and the Senate Subcommittee on Intergovernmental Relations to review and evaluate the Commission's performance. In addition to witnesses who testified in person, written statements were received from federal officials, officials of state and local governments, professional and other organizations, and members of the academic community.

In introductory remarks, Rep. Ted Weiss, chairman of the House subcommittee, indicated that the hearings would seek answers to questions regarding:

- ° The quality and quantity of the Commission's work.
- ° The Commission's independence and bipartisan balance.
- ° The criteria used to evaluate new research projects, and their importance to the focus of ACIR's recent work.
- ° The merits of expanding ACIR membership to accommodate changing intergovernmental relationships.

Senator Dave Durenberger, chairman of the Senate subcommittee, agreed on the broad purpose of the hearings. He urged witnesses to address their comments specifically to how ACIR could best structure itself to meet the challenges that are likely to arise shortly, such as the federal tax code and entitlement programs.

The Commission submitted detailed written responses to the committees' questions concerning the structure, processes, and activities of the ACIR. In his oral testimony, Chairman Robert Hawkins spoke to the broader

question of ACIR's future role, particularly during a period of inter-governmental transition. To meet future challenges, he stated, requires re-examination of the fundamental theory and practice of federalism.

Recommendations: The House subcommittee's recommendations were approved by the full Government Operations Committee and reported October 11, 1984. The recommendations encompassed the composition, management, research, and implementation activities of the Commission.

The report stressed the need to maintain the independent character of ACIR's staff and research procedures. It emphasized that implementation activities undertaken by the Commission must be strictly educational.

--Municipal Antitrust. Based on policy adopted by the Commission, Executive Director S. Kenneth Howard submitted written testimony to both Senate and House committees which considered bills addressing the issue. ACIR's recommendations call attention to two basic factors: (1) states must play a pivotal role in providing immunity to federal antitrust statutes, and (2) a variety of specific conditions should be remedied by any legislative solution.

Hearings were held before the House Judiciary Subcommittee on Monopolies and Commercial Law on March 29 and the full Senate Judiciary Committee on April 24. Important legislative relief came with passage of the Local Government Antitrust Act of 1984, signed by President Reagan October 11.

--Single Audits. Embodying previous ACIR recommendations, the Uniform Single Financial Audit Act of 1984 became law October 19. The measure

is intended to simplify and standardize financial auditing requirements for federal grants and other assistance programs.

--Infrastructure. Among the Commission's 1984 recommendations for action on the issue of public physical infrastructure were proposals that federal programs balance both capital and maintenance needs, that Congress permit flexibility in construction standards, and that emphasis be given to relevant research and development. These recommendations were published in the report Financing Public Physical Infrastructure. Although a major Commission finding was that uniform construction standards would not reflect the different physical infrastructure requirements in localities, that view was not adopted in the Public Works Improvement Act of 1984. ACIR will monitor actions of the National Council on Public Works Improvement, established by the Act, in dealing with uniform standards.

--Industrial Development Bonds. Among the provisions of the Tax Reform Act of 1984, Congress imposed restrictions on the use of industrial development bonds, a policy previously opposed by ACIR at its March 1984 meeting. Rather than enact volume caps for new IDBs, Congress should build, ACIR said, on reforms contained in the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) by eliminating tax-exempt financing for projects that do not merit federal assistance or do not contribute to economic development.

The 1984 Act limits each state's total volume of IDBs to \$150 per capita annually, with a minimum allocation of \$200 million per state. The legislation mandates that each state's volume cap be divided between state-level agencies and local issuing authorities.

--Regulatory Reform. On March 8, Senator Durenberger, a Commission member, introduced the Intergovernmental Regulatory Relief Act of 1984 incorporating several of the Commission's recommendations based on its study of regulatory federalism. ACIR testified at hearings of the Senate Subcommittee on Intergovernmental Relations. Despite extensive interest in the subject, the measure failed to pass before Congress adjourned.

--Taxation of Multinationals. The Treasury Department's working group on Worldwide Unitary Taxation completed its work, drawing extensively on ACIR materials and staff. Three Commissioners, Chairman Hawkins, Governor Matheson, and Senator Nething, participated as members of the panel. Under a compromise agreement, the group recommended that states pledge to apply the unitary tax method only to the domestic operations of multinational corporations. At the same time, the national government would help states by both strengthening its audits of multinational firms and by providing states with much more detailed information on the domestic operations of those firms.

--ACIR's Membership. Legislation to increase the membership of ACIR failed to pass Congress after differing House and Senate versions could not be reconciled before adjournment. The measure introduced by Rep. Weiss, a Commission member, to increase membership from 26 to 37 passed the House by voice vote. The Senate-approved version differed on which categories of membership should be added or expanded.

The ACIR reaffirmed its long-standing objection to expanding its membership and changing its composition. The Commission believes that the greater number would diminish the effectiveness of the Commission as a

deliberative body. It also believes that proposed membership changes do not meet congressional criteria set in 1959: balance among levels of government, bipartisan balance, membership restricted to elected officials except for those federal executives who are "political" policymakers, and representation of only those general governments which are universal, or nearly so, throughout the nation.

--Other Federal Activities. ACIR's expertise was sought by Congress during consideration of legislation of significance to states and localities: the Interstate Compact Act of 1984 and the Bankruptcy Reform Act of 1984. ACIR staff also testified at oversight hearings on countercyclical assistance. In addition, Congress considered several proposals to provide payments to compensate jurisdictions for the loss of tax revenues associated with tax-exempt federal property. In 1980, the Commission recommended that Congress enact such a program.

State and Local Relations. Implementing ACIR recommendations directed toward state and local governments encompasses a broad spectrum of activities: disseminating reports, responding to requests for information and assistance, monitoring current events, offering testimony before legislative committees and study commissions, and working with policymakers in specific jurisdictions. Given the central constitutional and statutory position of the states in the area of state-local relations, and the limited availability of staff, ACIR's work concentrates on the state level, with particular attention directed to state legislative activities.

A significant portion of staff time was devoted to attending and participating in meetings of state and local associations and professional organizations. All national conferences of the public interest groups were covered, as were many of their regional meetings. In several instances, staff members made presentations and served as resource persons. In addition, staff members visited a number of states to confer with state and local officials on issues and developments of mutual interest. This "networking" is a major component of a successful state-local monitoring and implementation process, and it is an effective means of informing officials -- particularly newly elected or appointed ones -- of ACIR and its work.

ACIR staff participated in national meetings and workshops of the National Governors' Association, National Conference of State Legislatures, National Association of Counties, U.S. Conference of Mayors, National League of Cities, and the National Municipal League as well as serving as speakers for annual meetings of many state organizations which represent municipal and county officials.

Significant intergovernmental developments throughout the country are followed by ACIR staff and reported regularly in the "Intergovernmental Focus" section of Intergovernmental Perspective. The winter 1985 issue of Perspective, the issue that annually reviews important intergovernmental developments, will discuss: 1984 election results, particularly the results of referenda and initiatives; actions by Congress, the Executive Branch, and the Supreme Court that carry intergovernmental implications; state-local actions on finance, economic development, and service delivery; and a review of the relative fiscal positions of the federal and state governments.

--Block Grant Implementation. ACIR staff members continue to observe block grant implementation, especially how states are allocating block grant funds; the effect of federal aid cuts; procedural and regulatory changes that states make in implementing block grants; and, executive-legislative relations and court decisions.

The nine block grants passed in 1981 and the job training bill adopted in 1982 are important efforts at decentralizing government. States continue to determine the appropriate roles for governors, legislatures, and administrative agencies in allocating scarcer resources among competing interests, in pinpointing intergovernmental issues that need further study, and in resolving conflicts. As federal dollars decline relatively, state legislatures will need to review the limits that have been imposed on local governments' revenue-raising capacity, the fiscal impact of state mandates, and the need for greater autonomy among sub-state governmental units. These issues represent the core of ACIR's state-local relations agenda.

In 1984, ACIR published an Information Bulletin on state implementation of the new block grants.

--State ACIRs. State ACIRs and comparable organizations have become increasingly important vehicles in recent years for discussing and studying state-local issues and for proposing solutions to statewide problems.

Interest in state-level ACIRs continued at a high level in 1984. Most significantly, the South Carolina ACIR was given a statutory base and an annual appropriation, and a new commission was established in Connecticut. The Ohio intergovernmental body was reactivated.

In March, ACIR sponsored a meeting of state intergovernmental advisory groups in Phoenix. Members of the Pennsylvania Intergovernmental Council were briefed by ACIR staff members in Washington in December.

--Special Briefings. In July, the Commission hosted a delegation from West Germany composed of members of the Bundesrat's Permanent Advisory Council. In August, more than a dozen visiting scholars met with Chairman Hawkins and staff members while attending the American Political Science Association conference. In December, staff members met with two ranking local administrators from Brasilia.

--Assessors' Award. In September, ACIR became the first organization to receive the Property Tax Achievement Award of the International Association of Assessing Officers (IAAO). ACIR was recognized for its research on, and active encouragement of, the circuit breaker concept which shields low-income homeowners and renters from property tax "overload" situations.

Publications and Presentations

During 1984, the Commission published seven reports, four issues of Intergovernmental Perspective and two Information Bulletins. Three of the reports contained policy recommendations: on regulatory federalism, jails, and infrastructure financing. The four informational reports presented data and findings on subjects which ACIR regularly monitors: public attitudes toward government and taxes; fiscal disparities between central cities and suburbs; significant features of fiscal federalism, and a catalog of federal grant-in-aid programs. The two information bulletins summarized current information on block grant implementation

and tax increment financing of redevelopment projects. In addition, the Commission published a working paper on tax burdens for families living in the largest city in each state.

Current and Future Activities

ACIR's current and future research agenda reflects the complexity of our intergovernmental system. The mixture of long- and short-term projects is intended to support a continuing effort to produce quality, indepth research while also providing more timely information on intergovernmental trends and developments.

During 1985, the Commission will publish its research findings and recommendations from four studies approved in 1984: strengthening the federal revenue system, municipal financial emergencies, interlocal agreements, and cigarette bootlegging. Ongoing research expected to result in publications in 1985 includes: the implications of tax reform proposals on state-local finances, nationalizing political institutions, financing mass transit, local revenue diversification, and state aid to distressed communities. The catalog of state programs of assistance for distressed communities, to be available in early 1985, will be one of the most detailed on the subject; it will summarize 20 categories of assistance in each of the 50 states.

Specific Activities. Tracking intergovernmental fiscal trends is one of ACIR's most important activities. Significant Features of Fiscal Federalism, the Commission's annual compendium of tables and graphs on federal, state and local taxing and spending, will be published again in 1985. An update of the composite index, the Representative Tax System,

will be included in an updated report, Tax Capacity of the Fifty States: Methodology and Estimates. The index, developed by ACIR, measures fiscal capacity within each state. ACIR's poll of public attitudes on taxes and government spending will be conducted for the 14th consecutive year, with results to be issued next fall.

Implications for State-Local Governments of Federal Tax Proposals.

The Commission in December noted that its completed study on strengthening the federal revenue system had been undertaken to assess various proposals to reduce the federal deficit by changing the tax code. Meanwhile, the national policy debate moved toward the issue of tax reform. As a result, the Commission directed the staff to perform a similar analysis of potential impacts of various tax reform proposals. This study should be completed in March 1985; it will carry no recommendations, and will be released as a source of pertinent information. The concept of a flat tax on earnings, with deductions eliminated or sharply modified and all types of income treated alike, carries great significance for state and local governments in two areas: (1) the deductibility of state and local taxes, and (2) tax exemption of interest on state and local bonds.

Two other tax studies are being conducted by ACIR under contract with the Office of State-Local Finance of the U.S. Treasury Department as a result of provisions in the legislation renewing General Revenue Sharing. The first, a study on the deductibility of state and local taxes in calculating federal income taxes will be completed in early 1985. The other study deals with turning back revenue sources and program

responsibilities from the national to state governments. This ACIR research is part of a broader Treasury Department study of federal, state, and local fiscal relations.

Nationalizing Trends in American Politics. The Commission continues its consideration of how nationalizing trends in American politics affect federalism. One major concern is the changing role of U.S. political parties, because decentralized parties were historically viewed as integral to a decentralized system of government.

This extensive study, which assesses the current status of political parties, also examines the rise of competing institutions and politically influential participants, especially mass media and interest groups. The Commission is expected to hold hearings on this research in different parts of the country during 1985.

Financing Mass Transit. As part of a grant funded by the Urban Mass Transit Administration, the Commission has closely examined mass transit in 56 metropolitan areas. The Commission reviewed staff findings, and a committee of Commissioners, chaired by Mayor Hudnut, is evaluating options to prepare policy recommendations for the full Commission. Alternative recommendations on local financing, intergovernmental aid, and the roles of the private sector and labor are under consideration.

Future Research Agenda. The Commission, at its December meeting, approved preliminary recommendations of its research committee which identified 12 areas for possible future projects. Refinement of the agenda will take place before the March 1985 meeting, at which time the research agenda will be adopted in detail.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575

Private Citizens

Robert B. Hawkins, Jr., CHAIRMAN
Sacramento, California (Rep.)
James S. Dwight, Jr., Washington, D.C. (Rep.)
Kathleen Teague, Washington, D.C. (Rep.)

Members of the United States Senate

David Durenberger, Minnesota (Rep.)
William V. Roth, Delaware (Rep.)
James R. Sasser, Tennessee (Dem.)

Members of the U.S. House of Representatives

Barney Frank, Massachusetts (Dem.)
Robert S. Walker, Pennsylvania (Rep.)
Theodore S. Weiss, New York (Dem.)

Officers of the Executive Branch, Federal Government

William P. Clark, Secretary, U.S. Department of
the Interior (Rep.)
Raymond J. Donovan, Secretary, U.S. Department of
Labor (Rep.)
Lee L. Verstandig, Assistant to the President for
Intergovernmental Affairs (Rep.)

Governors

Scott M. Matheson, Utah (Dem.)
John H. Sununu, VICE CHAIRMAN, New Hampshire (Rep.)
Richard L. Thornburgh, Pennsylvania (Rep.)
Vacancy

Mayors

Ferd Harrison, Scotland Neck, North Carolina (Dem.)
William H. Hudnut, III, Indianapolis, Indiana (Rep.)
Robert Martinez, Tampa, Florida (Rep.)
Joseph P. Riley, Jr., Charleston, South Carolina (Dem.)

State Legislators

Miles "Cap" Ferry, President, Utah State Senate (Rep.)
David E. Nething, Majority Leader, North Dakota
State Senate (Rep.)
William F. Passannante, Speaker Pro Tem, New York
State Assembly (Dem.)

Elected County Officials

Gilbert Barrett, Chairman of the Board,
Dougherty County, Georgia (Dem.)
William J. Murphy, County Executive,
Rensselaer County, New York (Rep.)
Sandra R. Smoley, President, National Association
of Counties, Sacramento, California (Rep.)

Appendix B

ACIR PERMANENT STAFF AS OF DECEMBER 31, 1984

Howard, S. Kenneth (Executive Director)
Shannon, F. John (Kestnbaum Fellow)
Hunter, Lawrence A. (Research Director)

Bunn, Elizabeth A. (Secretary)
Clark, Wayne A. (Senior Analyst)
Calkins, Susannah E. (Senior Analyst)
Colella, Cynthia C. (Senior Analyst)
Conlan, Timothy J. (Senior Analyst)
Dickerson, Dorothy J. (Federal Relations Associate)
Fensterman, Jerold P. (State-Local Relations Associate)
Fried, Esther (Special Assistant to the Executive Director)
Henderson, Lori M. (Analyst)
Hahn, Thomas D. (Accountant)
Jones, MacArthur C. (Duplicating Machine Operator)
Kirkwood, Karen L. (Staff Assistant)
Kleine, Robert J. (Senior Analyst)
Koch, Patricia A. (Librarian)
Lawson, Michael W. (Analyst)
McDowell, Bruce D. (Senior Analyst)
Menchik, Mark David (Senior Analyst)
Nathan, Harolyn D. (Secretary)
O'Bier, Lori A. (Secretary)
Phillips, Ruthamae A. (Secretary)
Preston, Arlene (Secretary)
Richter, Albert J. (Senior Analyst)
Roberts, Jane F. (Senior State-Local Relations Associate)
Rollocks, Cynthia R. (Receptionist)
Ross, Ronald L. (Mail Room Supervisor)
Simms, Michelle B. (Secretary)
Steinko, Franklin A. (Budget and Management Officer)

Appendix C

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 \$100,000 in fiscal 1984 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 from state governments. The eighth year (1984) of the resumed solicitation program generated 33 state contributions totaling \$82,000.

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 D

Salaries and Expenses Statement (in thousands)

<u>Object Classification</u>	<u>FY 1984 Actual</u>	<u>FY 1985 Estimated</u>
Personnel Compensation	\$1,058	\$1,305
Personnel Benefits	117	131
Travel and Transportation of Persons	75	71
Transportation of Things	9	9
Standard Level User Charges	251	252
Communications, Utilities & Other Rent	138	155
Printing and Reproduction	89	65
Other Services	205	132
Supplies and Materials	54	33
Equipment	<u>60</u>	<u>---</u>
<u>Total Obligations</u>	\$ 2,056	\$2,153

