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The States and Distressed Communities

The 1981 Report

ACIR Information Report

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What is ACIR?

The Advisory Commission on Intergovernmental Relations (ACIR) was created by the Congress in 1959 to monitor the operation of the American Federal system and to recommend improvements. ACIR is a permanent national bipartisan body representing the executive and legislative branches of Federal, State, and local government and the public.

The Commission is composed of 26 members – nine representing the Federal Government, 14 representing State and local government, and three representing the public. The President appoints 20 – three private citizens and three Federal executive officials directly and four governors, three State legislators, four mayors, and three elected county officials from slates nominated by the National Governors' Association, the National Conference of State Legislatures, the National League of Cities, U.S. Conference of Mayors, and the National Association of Counties. The three Senators are chosen by the President of the Senate and the three Congressmen by the Speaker of the House.

Each Commission member serves a two year term and may be reappointed.

As a continuing body, the Commission approaches its work by addressing itself to specific issues and problems, the resolution of which would produce improved cooperation among the levels of government and more effective functioning of the Federal system. In addition to dealing with the all important functional and structural relationships among the various governments, the Commission has also extensively studied critical stresses currently being placed on traditional governmental taxing practices. One of the long range efforts of the Commission has been to seek ways to improve Federal, State, and local governmental taxing practices and policies to achieve equitable allocation of resources, increased efficiency in collection and administration, and reduced compliance burdens upon the taxpayers.

Studies undertaken by the Commission have dealt with subjects as diverse as transportation and as specific as State taxation of out-of-state depositories; as wide ranging as substate regionalism to the more specialized issue of local revenue diversification. In selecting items for the work program, the Commission considers the relative importance and urgency of the problem, its manageability from the point of view of finances and staff available to ACIR and the extent to which the Commission can make a fruitful contribution toward the solution of the problem.

After selecting specific intergovernmental issues for investigation, ACIR follows a multistep procedure that assures review and comment by representatives of all points of view, all affected levels of government, technical experts, and interested groups. The Commission then debates each issue and formulates its policy position. Commission findings and recommendations are published and draft bills and executive orders developed to assist in implementing ACIR policies.

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Introduction

This *1981 Report* on *The States and Distressed Communities* grew out of a feasibility study initiated in 1979. At that time, there was an increasing recognition, although not a widespread awareness, of the potential and actual role of State governments in aiding distressed communities. The 1979 preliminary report and *The 1980 Annual Report* documented many of the programs which the States were providing to their local governments. These reports provided important factual information about the nature and extent of State activities.

Nevertheless, until recently the States' roles in assisting local governments and managing Federal aid were often downplayed or misunderstood by national policymakers. In 1981, however, conditions changed dramatically. The election of Ronald Reagan as President and his initiatives to "rebalance federalism" by reducing the role of the Federal Government and decentralizing responsibility and authority led to a new focus on State government. The Administration's budget cuts and block grant proposals rekindled the debate over the competency and sensitivity of the States to respond to urban and community needs. The changes in Federal-State-local relations created strong anxieties among local officials, and conflict between the Governors and Mayors.

At issue in discussions between the statehouses and city halls was whether the two could align to survive new fiscal pressures. To Governor Richard Snelling of Vermont, President of the National Governors' Association, State legislators and municipal leaders have common interests which offer reasons to link together toward mutual goals.

> To the extent that the Mayors and the county officials are concerned about the relationships which they have with their Governors and their State legislatures, it seems to me that the Governors and the legislators. . . have a very great duty to explore those problems, and instead of assuming that because the links don't work that we should do away with them, the alternate course is to find out what the common interest is and how the links might better work. One of the surprises of the ACIR. . . is that we generally don't have discussions in which the Governors are on one side and the county officials or the Mayors are on another side. Generally we find that there's a considerable degree of community of interest built at least in part upon the fact that we learned very quickly that counties are very different creatures in some parts of this country than they are in others. And the relationship between States and cities is quite different in some States from what it is in others.[1]

To Governor George Busbee of Georgia, past president of the National Governors' Association, a State-local alliance would demand that city halls gain new trust in their statehouse. Busbee acknowledges the mistakes States have made in the past regarding aid to localities.

> You might think that a State-local alliance would be the most natural thing imaginable, and in fact I do think our differences on national issues have been somewhat exaggerated. Still, the anxiety expressed by so many local officials over the new authority of the States in administering block grants is an indication of a sad reflection on State-local relations when so many Mayors and county officials seem to trust an anonymous Federal bureaucrat on the other end of a telephone line, more than they trust their own elected State officials. . . . In part, I believe that this deterioration of trust and communication can be attributed to mistakes the States made in the past in looking after the needs of our cities and towns.[2]

From the Mayors' perspective, Mayor Richard Fulton of Nashville, representing the United States Conference of Mayors, suggests that despite past failures, recent State efforts to assist cities are encouraging signs for future cooperation.

> We recognize that some States have made much progress in the past few years in addressing the needs of central cities. At the same time, many States still do very little in a wide range of important program areas . . . . However, we recognize that the trend of statehouses is in the right direction. We are optimistic that State and local governments can work cooperatively to ensure that the recently enacted block grants are implemented effectively and to minimize the harm caused by the FY '82 budget cuts.[3]

Finally, Mayor Margaret Hance of Phoenix suggests a more pessimistic outlook after reflecting upon past State-local relations.

> . . . in response to some of the Governors. . . we are told to come to the statehouse; we have been there frequently. We're also told to have a happy attitude. . . we're all for a happy attitude. The only problem is

[1] Governor Richard Snelling at Presidential Advisory Commission on Federalism, Washington, DC, June 23, 1981.

[2] Governor George Busbee at the National Governors' Association National Meeting, Atlantic City, NJ, August 11, 1981.

[3] Mayor Richard Fulton at the National Governors' Association National Meeting, Atlantic City, NJ, August 10, 1981.

that happy attitudes in the past have not buttered our parsnips. And so our concerns are great.[4]

Much of this debate has been conditioned by political philosophy and fiscal pragmatism rather than empirical evidence. The purpose of this report is to add substance rather than fuel to the current debate. By presenting an annual "scorecard" of State actions to aid distressed communities,[5] we hope to inform policymakers of the variety of local cleanup programs which the States have initiated. We view State legislators and executives as a primary audience for this document. By cataloging the actions of the 50 States, it is our hope that additional States will adopt targeted assistance programs based on the precedents established by their peers.

This volume reviews the progress the States are making in housing, economic development, community development, fiscal reforms, and local self-help programs. Within these five areas, 19 indicators of State performance are explained.[6] These were developed by polling State and local officials.[7]

The survey findings uncovered a consensus as to the most important actions that States might take to aid distressed local units. Thus, the indicators represent the core of a policy agenda that would prove acceptable to a wide variety of State and local officials.

It should be recognized that there are numerous ways in which States can aid their localities which extend beyond the 19 indicators contained in this report. It should also be noted that because of the diversity of conditions existing across the 50 States, we would not expect each and every State to place equal priority on these 19 indicators. In a later section of the report, the regional diversity among the States in providing local assistance is explained.

Before describing the individual indicators, it is important to review the overall role of State governments in the Federal system, and to highlight the current environment in which the States are operating.

[4] Mayor Margaret Hance at the Presidential Advisory Committee on Federalism, Washington, DC, June 23, 1981.

[5] Distressed communities are defined as any areas (various types of general units of local government including rural, urban, and suburban places) which are declining or in need in relation to other areas of the State.

[6] *The 1980 Annual Report* contained 20 indicators. We have dropped "local creation of redevelopment agencies" from this year's report. Each of the 50 States now provides that authority to their local governments.

[7] See *The 1980 Annual Report* for a full discussion of the survey and methodology used to develop the list of indicators.

The Role and Condition of State Government

Federal assistance to distressed communities is well chronicled. Most citizens are aware of Federal employment and training, economic development, housing, and community development programs. Some may recognize the acronyms of CETA, EDA, CDBG, and UDAG. Local assistance programs cannot be undertaken by the Federal Government alone, however. They are intergovernmental enterprises which, because of their legal, fiscal, administrative, and programmatic powers vis-a-vis local governments, depend heavily on the States to be successful.

States have an important role to play in assisting their local jurisdictions, particularly those experiencing economic hardship, physical decay, and fiscal stress:

- They determine local boundaries and are the source of authority enabling local governments to tackle their structural, functional, and fiscal problems.
- They can intervene and direct localities to act in certain ways or to end interlocal impasses.
- They serve as mediators between local units and the Federal Government and between their local jurisdictions and other States.

At the same time, it should be recognized that because of their legal position vis-a-vis local units, the States have the opportunity to play a negative role. For example, their powers may be used to obstruct, undermine, and even veto various intergovernmental programs.

State and Federal Assistance Compared

The prevailing attitude among Federal and local officials has been that State governments provide little assistance to their cities, and that many local governments — particularly large central cities — are more dependent upon the Federal Government than upon their State for funds. Such attitudes are due in part to an inadequate understanding of the intergovernmental system. The failure to recognize the significant differences between the roles of the State and national governments often results in comparisons between State and Federal assistance that are misleading and erroneous.

The national government is essentially the "banker" of the Federal system. The Federal Government provides few direct domestic services; its main domestic function is to raise revenues and finance programs carried out by State and local agencies. Almost 75 percent of all Federal grants go directly to, or are channeled through, State governments. State governments act as bankers to some degree, but they play a far more varied assistance role in relation to their local jurisdictions.

- They can provide fiscal relief to cities and counties by sharing State revenues or reimbursing local units for the costs of mandated services.
- They can provide services themselves directly to local residents, or assume responsibility for the costs of services that were once borne by local units.
- They can authorize their cities and counties to adopt sales or income taxes or to establish new fees or charges.

The failure to recognize the potential ways in which the State governments can assist their localities leads many to understate the extent and scope of State aid. On the aggregate basis, a comparison of the Federal and State roles as "bankers" of local government shows the dominance of the States. Excluding Federal pass-through dollars (Federal aid received by the States and passed on to local governments), in 1977, the net Federal aid to local government was $28.8 billion, while the net State aid to local government was $48.0 billion.[1]

The amount of fiscal aid to localities varies widely across the 50 States, but State-local revenue sharing is often substantially greater than Federal General Revenue Sharing. For example:

> In 1980 Minnesota localities will receive $91 million in Federal revenue sharing. These same localities will receive $243 million in State-local shared revenues. Wisconsin localities will receive $107 million in Federal revenue sharing in 1980, but they will receive $474 million in State revenue sharing. Michigan communities will receive $196 million in Federal revenue sharing, but here too the Federal contribution is exceeded by State revenue sharing of $425 million.[2]

With respect to fiscal aid to distressed cities, the comparative performance of the Federal and State governments is mixed. In terms of the 55 "hardship" cities identified by Richard Nathan and Charles Adams,[3] 32 of these cities receive a larger amount of fiscal aid from the Federal Government than from their States. Yet, of the ten most distressed cities on that list, six receive more State than Federal funds.[4]

State Capacity

The recent congressional debate over block grant legislation, particularly the proposal to place the responsibility

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[1] Advisory Commission on Intergovernmental Relations (ACIR), *Significant Features of Fiscal Federalism, 1979-1980 Edition*, M-123, Washington, DC, U.S. Government Printing Office, October 1980, Table 106.
[2] ACIR, *The State of State-Local Revenue Sharing*, M-121, Washington, DC, U.S. Government Printing Office, 1980, p. 2.
[3] Richard P. Nathan and Charles Adams, "Understanding Central City Hardship," *Political Science Quarterly*, Vol. 91, No. 1, Spring 1976, pp. 47-62.
[4] Charles R. Warren, "What Do States Do For Distressed Cities?," unpublished paper, May 1980.

for the small cities, nonentitlement portion of the Community Development Block Grant program in the hands of the States, has led many to question the commitment, competence, and capacity of State government to manage urban related functions. While States vary greatly in their political cultures, administrative ability and fiscal resources, it is clear that the stereotypical view which many hold toward State governments as weak, ineffective, anachronistic institutions is no longer valid.

A 1981 ACIR study on the States' role and capability documents the significant transformations and improvements that have taken place in State legislatures, Governors' offices, courts, executive board structures, management and personnel practices, and fiscal systems. The report concludes that, on balance, and despite the need for further improvements:

> The States emerged as transformed entities, retooled and capable of undertaking an expanded role in the Federal system. . . . It can be reliably reported, nonetheless, that, far from being consigned to the graveyard, States are alive and well and serving as arch supports of the Federal system.[5]

Exemplifying the improvements in State capacity are the dramatic contrasts between the prevalent State institutional pattern of 1960 and that of 1980.

- Only five State constitutions had been overhauled (including the newly enacted ones in Alaska and Hawaii) during the years 1930-60, compared to 11 between 1960 and 1980.
- Fifteen States in 1960 still saddled their Governors with two-year terms, as against only four [in 1980], and 16 prohibited their chief executives from succeeding themselves, compared to five in 1980.
- While two decades ago 31 legislatures operated primarily on a biennial session basis, [in 1980] only 14 functioned in this fashion and these frequently were called into special session in the second year.
- Standing committee structures were a proliferating phenomenon in 1960 with the median combined figure for both houses standing at 48, but [in 1980] three-fifths of the State senates had 20 standing committees or less.[6]

State Economic and Fiscal Conditions

While the capacity of State governments may have improved dramatically, their ability to provide greater community assistance has been constrained by the nationwide tax revolt and the poor performance of the U.S. economy. Difficult political and economic conditions coupled with Federal budget reductions may greatly inhibit further growth in State-local aid during 1981 and 1982. In Fiscal Year 1980, Federal aid accounted for 31.7 percent of State-local receipts from own sources. By Fiscal Year 1982, it is estimated that that percentage will decline to 24.3 percent.[7] To the extent that the States decide to make up that gap in Federal spending, the funds available for local aid probably will be diminished.

A number of States have been forced to either cut spending or raise taxes, and some have done both, in order to avoid State budget deficits. In 1980, 18 States enacted tax increases, including seven States that boosted sales or income taxes. Reports from some individual States are grim:

- **Connecticut** faces a $110 million revenue shortage in fiscal 1982.
- Governor James Thompson of **Illinois** proposed $220 million in cuts from the 1982 budget.
- **Iowa** cut its fiscal 1981 budget by 4.6 percent.
- **Michigan** has cut its spending by 6 percent and reduced State employment by 4,300 jobs.
- **Minnesota** faces a $500 million revenue shortage in the upcoming biennium.
- In **Oregon,** Governor Victor Atiyeh proposed a package of cuts totaling $260 million along with new taxes of $240 million.

In contrast, "energy-rich" States like Alaska, Texas, Louisiana, and Montana, whose revenues have been swollen by higher oil prices and various severance taxes, are financially healthy.[8] In this picture of mixed fiscal fortunes, it is noteworthy that those States which have adopted most of the community assistance programs included in our report — Michigan, Connecticut, Illinois, and Massachusetts, for example — are being hardest hit by fiscal problems.

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[5] ACIR, *State and Local Roles in the Federal System*, Washington, DC, U.S. Government Printing Office, Chap. 3, (forthcoming).

[6] David B. Walker, "The States and the System: Changes and Choices," *Intergovernmental Perspective*, Vol. 6, No. 4, Washington, DC, ACIR, Fall 1980, p. 7.

[7] Dan Balz, "State Governments Facing Financial Crunch: Slack Economy, Tax Revolt Cited," *The Washington Post*, May 10, 1981, p. A1+.

[8] *Ibid.*, A6.

State Urban Strategies

As this report indicates, there are numerous actions and programs that States can undertake in support of their local communities. In addition to these community assistance efforts, an important role States can assume is that of a coordinator and integrator of State and Federal aid. A number of State governments are developing and implementing comprehensive policies or strategies to deal with the problems faced by their communities. These "State urban strategies" or "community conservation policies" were the subject of a series of case studies prepared during 1979 by the National Academy of Public Administration.[1]

The Academy defined a "State urban strategy" as "an explicit policy framework containing a set of articulated goals and policies with identified programs and activities which can address issues of growth, development, or decline affecting the State's communities." Eight States were recognized as having or preparing community-oriented policies which met this definition: California, Connecticut, Florida, Massachusetts, Michigan, North Carolina, Oregon, and Pennsylvania. The executive summary of that report is reprinted in the appendices.

In the Spring of 1981, Academy staff conducted a follow-up survey of these eight States to determine what progress was being made in further implementation of these urban strategies. To provide further information on the State role in community assistance, this section summarizes the "strategy" activities underway in those States.

California

The full impact of Proposition 13 was felt by the State and its local governments in 1980. Local capital improvement projects have been cut back substantially because of the lowered property tax levels. Local governments in California are having difficulty floating general obligation bonds and their bond ratings have gone down. Cities are finding it impossible to undertake tax increment financing because a ceiling has been placed on the amount of set-aside revenues that can be captured from property improvements.

The California Urban Policy remains in force but the reduction in State revenues and a growing reluctance in the State legislature toward using State funds to upgrade urban areas has stalled implementation of many of its components. The greatest progress has been made in the area of housing – a problem which has reached crisis proportions in the State. A $100 million housing program was enacted in 1979, and in May 1981, the Democrats in the assembly introduced a package of 24 bills to reduce housing costs and cut through bureaucratic red tape in the housing industry.[2]

Connecticut

The Connecticut Urban Strategy is one of the most comprehensive packages of community assistance formulated by a State. Developments during 1980-1981 include:

- implementation of the capital development impact process to ensure that State facility investments are made in accord with urban goals;
- adoption of a reverse commuting program to enhance employment opportunities for the urban poor;
- a technical assistance program by the Department of Economic Development directed to urban businesses;
- continued use of the "Urban Jobs Program" which provides a combination of tax credits, abatements, and grants and is credited with creating 6,827 jobs during its first year; and
- development of a draft policy on shopping malls to discourage them in areas where market forces and population growth do not justify their locations.

Florida

The Florida Community Conservation Strategy was developed in 1979 under Governor Reubin Askew and implemented further under the leadership of Governor Robert Graham in 1980 and 1981. A number of urban policy legislative measures were enacted by the Florida Legislature in 1980:[3]

- restructuring of the State's regional planning council system to strengthen the councils' coordinating abilities, to require regional comprehensive policy plans, and to integrate and streamline growth management laws;
- creation of the State Housing Finance Agency;
- an economic revitalization job creation credit against the State's corporate income tax for businesses that create new jobs in slum and blighted areas and employ residents of such areas;
- the Community Improvement Act of 1980 which allows businesses that make contributions to community development corporations to receive a 50 percent credit on their State corporate income tax;

[1] Charles R. Warren, *State Urban Strategies: Case Studies and Comparative Analysis*, Washington, DC, U.S. Government Printing Office, September 1980.

[2] "The Crisis in Housing: Toward a Solution," The Assembly Democratic Program, Office of the Speaker, Sacramento, CA, May 13, 1981.

[3] Bob Krantz, "Miami Riot Situation and Subsequent Legislative Action," *Florida Environmental and Urban Issues*, Vol. VIII, No. 1, October 1980.

• a $5 million fund to provide grants for administrative expenses to community development corporations and interest free loans to CDC's to assist in establishing businesses in their communities;

• an act enabling charter counties to establish a community revitalization advisory board. The members of the board would be appointed by the Governor and would make recommendations on the rehabilitation and revitalization of distressed areas; and

• a $1 million appropriation for the Florida Youth Conservation Corps., which predominately employs young people from low income areas.

Massachusetts

Despite a change in Governors, the urban strategy developed during the Dukakis administration continues to exist. Governor King is a strong supporter of economic development within the Commonwealth. Significant programs in 1980-81 include:

• the CARD program which empowers local governments to float industrial revenue bonds for economic development projects for which $90 million in bonds have been issued and 100 local areas approved for the program;

• the Economic Benefits Bill, which provides State funding of up to 40 percent of local water and sewer projects to support economic development;

• a 1980 housing appropriation of $178.5 million for family housing, elderly housing, and purchase of condominiums for the elderly; and

• continued encouragement of balanced growth policies at the local level and State promotion and monitoring of fair share housing in localities.

Michigan

A number of legislative and administrative actions and executive orders have been issued to implement the Michigan Urban Strategy, yet the depressed economy of the State has caused serious fiscal problems. Still, the Equity Package for Detroit has been continued to support activities used by non-Detroit residents (libraries, art institute, history museum, and streets). This payment totaled $28.4 million in 1981. Significant urban actions include these:

• A State siting policy was developed requiring State agencies to locate in downtown business districts whenever possible. The Office of Intergovernmental Relations will monitor compliance.

• A tax increment financing law passed in 1981.

• Effective January 1, 1981, State economic development and community development activities were merged within the Department of Commerce.

• Urban Land Assembly Fund legislation passed in 1980, and funds were appropriated to establish a land bank and write down land costs for developers.

• The Governor's State of the State Message proposed use of State surplus lands for economic development. Implementation plans are being developed.

• The Neighborhood Assistance Act was passed in 1980 to provide incentives for private sector and neighborhood groups in urban revitalization.

• The Governor appointed a task force on small and rural communities.

North Carolina

North Carolina's Balanced Growth Policy (BGP) was adopted by the legislature in 1979. Since that time, the Governor has appointed a 30-member BGP board to devise recommendations for implementation of the policy. The board includes city and county elected officials. The BGP has three major components: (1) designation of communities as "growth centers," (2) establishment of "regional balance" measures, and (3) development of State plans and programs consistent with local needs.

Growth center designation criteria were approved in 1979, and, in 1980, 181 cities were designated. As a class, growth centers have been awarded priority distribution of State and Federal funds. The State transportation agency is targeting funds for highways, rail and airport development to communities, and the Department of Natural Resources and Community Development is providing assistance. According to a State official, cutbacks in Federal and State funds "will probably put a serious dent in the Balanced Growth Policy," although in 1981, the legislature was considering a major bond issue for infrastructure development.

Oregon

Oregon enacted one of the strongest and most comprehensive growth management laws in the Nation in 1973. The legislation established a framework for the creation of State growth management goals within which the actions of State agencies and the comprehensive plans and programs of local governments were to conform. The system mandates the drawing of urban growth boundaries within which all urban development is confined, and regulates all other land for exclusive farm, forest, or other rural use. Among the 14 State goals are housing and economic development. These goals coupled with urban boundaries constitute an urban strategy as well as a growth management policy.

As of 1981, 103 local jurisdictions had their plans approved by the State agency responsible for managing the policy, and an additional 35 plans are under review. Since 1977, State agencies have been required to coordinate their programs with the State policies and with approved local plans. State highway programs and environmental reviews are being coordinated with the strategy. The State is also requiring local zoning ordinances to explicitly reflect the local housing needs identified in local plans.

Pennsylvania

"Choices for Pennsylvanians" is the title of the State's communities strategy which has been prepared under Governor Thornburgh. The policy document was developed over an 18 to 20-month period through some 30 public meetings around the State and a public television program broadcast statewide. The policy focuses heavily on economic development and job creation. Actions to date include these:

- The Governor's 1980-81 budget guidelines, executive orders, and legislative program were developed consistent with the strategy policies and supported increased funding for urban assistance and community conservation.
- A small business council was formed to develop recommendations to aid small business development.
- The Economic Development Committee of the cabinet was given responsibility for encouraging firms to expand and locate in the State; responding to private sector initiatives for public-private cooperation; and channeling State and Federal monies to community projects.
- New legislation was enacted to target the activities of the Pennsylvania Industrial Development Authority toward aiding small business in areas of high unemployment.
- The Neighborhood Assistance Act which provides tax credits for neighborhood revitalization was rewritten to emphasize community conservation.

The State strategies reflect a determined effort by a handful of States to integrate assistance across policy areas and aid their communities in a more comprehensive approach. The next section reviews State actions in individual policy areas.

State Actions

Five of the most important policy areas in which the States can aid their distressed communities are: housing, economic development, community development, fiscal assistance, and the enhancement of local self-help capabilities. This section examines 19 specific programs within these five categories. The importance and method of operation of these programs is explained in some detail. In addition, a number of case studies are provided to illustrate how the programs are actually working in the individual States. A State-by-State breakdown on each of the 19 program areas is provided in the *Appendices* of the report. The matrix in *Table 1* should be consulted for a State-by-State overview for all program indicators.

Only those State funded programs which are "targeted" to distressed areas or communities are included. Programs which are made available to communities without regard to their relative need have been excluded. *Exhibit 1* lists the criteria which were used to determine whether a State program is targeted.

Exhibit 1

Target Criteria

I. Housing

State program must be directed primarily to persons with low or moderate incomes, or to communities or neighborhoods with substantial concentration of low-income families or substandard dwellings.

II. Economic Development

State program must be directed primarily to communities with (a) substantial outmigration of population or industry, (b) above-average unemployment or underemployment, or (c) an insufficiently diverse economic base.

III. Community Development

State program must give priority (a) to communities or neighborhoods where public facilities are obsolete, lacking, declining or underdeveloped, (b) to areas which are experiencing rapid industrial and population growth, and (c) to areas where capital or community development needs exceed financing and maintenance capabilities.

IV. Fiscal and Financial Management Assistance

State programs must seek to alleviate revenue and expenditure burdens of fiscally pressed communities where the tax base is inadequate and the per capita income is below the State average.

V. Enhancing Local Self-Help Capabilities

State legislation/authorization must assure that substate general purpose governments are legally equipped to address the fiscal and development problems of distressed communities.

Housing Programs

Recessionary economic conditions and a reassessment of the Federal role in domestic affairs signal a period of transition in the States' involvement in housing policy. On the housing finance front, high interest rates and new Federal mortgage loan rules have severely impaired targeted State programs and housing construction in particular. In Iowa, for example, a housing rehabilitation program traditionally targeted to low income people has been transformed into a redevelopment program in which persons earning $26,000 annually may participate. Meanwhile, reports in New York and Connecticut show "that housing construction levels were lower in 1980 than they have been in more than 20 years, with those in Connecticut at the lowest level since World War II."[1]

At the Federal level, President Reagan's and Congress' budgetary and programmatic actions will challenge State policymakers to either begin new housing initiatives or leave the void created by Federal program cuts vacant. For example, President Reagan's cuts in Section 8 assisted housing and Federal loans and loan guarantees may force some States to increase aid for multifamily and rehabilitation housing programs. Moreover, in Congress, the consideration of a housing block grant proposal suggested that the relationship of the Federal and State governments to housing policy might be redefined. The Federal Government's role would be limited to establishing national goals, providing technical assistance, and monitoring in general. The States would be responsible for administering and implementing the housing programs that replace the Federal presence.[2]

Despite fiscal and programmatic uncertainties, most States continue to maintain their housing programs to assist low income people. Generally, the housing programs – particularly the rehabilitation policies – are located in the eastern and central regions.

Single-Family Programs: 45 States

The States' record in single-family housing has been impressive. State Housing Finance Agencies (HFA's), a principal vehicle for single-family programs, have been established in 47 States, and 45 States actually have authorized or initiated the housing programs. A single-family housing program usually is oriented to provide low interest rate mortgage loans to finance housing for low and moderate income citizens. In 1981, however, the States' single-family programs were seriously hampered by Congressional passage of the *Mortgage Subsidy Act of 1980*, which set a State cap on mortgage bond issues and also made the bonds less profitable to issue. The State cap

[1] "State Reports: Connecticut/New York," *Journal of Housing*, Vol. 38, No. 5, May 1981, p. 279.

[2] "Housing Block Grants Supported at Senate Subcommittee Hearing," *Housing and Development Reports*, Washington, DC. Bureau of National Affairs, Vol. 8, No. 48, April 27, 1981, p. 1002.

Table 1

Targeted State Programs to Aid Distressed Communities

Indicator	Number of States With Program
Housing	
1. Single-family home construction	45
2. Multifamily home construction	8
3. Housing rehabilitation grant or loan	14
4. Housing rehabilitation tax incentive	17
Economic Development	
5. Industrial or commercial site development	6
6. State financial aid for industrial or commercial development	16
7. Customized job training	3
8. Small business development	11
9. Industrial revenue bonds	11
Community Development	
10. Capital improvements	16
11. Local neighborhood improvement efforts	14
Fiscal Reform	
12. State revenue sharing	23
13. Education finance reform	18
14. Assumption of local public welfare	25
15. Reimbursement of State-mandated programs	14
16. Improving local governments' access to credit markets	35
Enhancing Local Capabilities	
17. Local use of tax increment financing	24
18. Local sales or income taxing authority	36
19. Local discretionary authority	16

Region	State	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
New England	Connecticut	•	•	•	•		•		•	•	•	•		•	•		•	•		•
	Maine	•											•				•			•
	Massachusetts	•	•	•	•		•	•	•	•	•	•	•		•	•	•	•		
	New Hampshire	•											•				•	•		
	Rhode Island	•	•		•										•	•	•			
	Vermont	•													•		•			
Mideast	Delaware	•										•			•		•		•	•
	Maryland	•		•			•		•						•		•	•	•	•
	New Jersey	•		•	•	•	•		•	•	•	•					•		•	
	New York	•	•	•	•		•		•			•	•				•		•	
	Pennsylvania	•	•	•	•	•	•		•		•	•					•		•	•
Great Lakes	Illinois						•			•			•	•	•	•	•	•	•	•
	Indiana	•			•	•	•		•			•		•				•	•	
	Michigan	•		•			•					•	•	•	•	•	•	•	•	•
	Ohio				•		•		•								•	•	•	
	Wisconsin	•		•	•					•		•	•	•				•	•	
Plains	Iowa	•		•	•					•				•				•	•	
	Kansas													•	•			•	•	•
	Minnesota	•		•	•		•	•				•	•				•	•	•	
	Missouri	•								•		•		•	•	•	•		•	
	Nebraska	•		•							•							•	•	
	North Dakota	•									•			•			•	•		
	South Dakota	•									•				•			•	•	
Southeast	Alabama	•				•									•				•	
	Arkansas	•											•		•			•	•	
	Florida	•					•		•	•		•		•		•	•	•	•	
	Georgia	•										•	•				•		•	
	Kentucky	•													•		•		•	
	Louisiana						•		•				•		•		•		•	•
	Mississippi	•																		
	North Carolina	•															•		•	•
	South Carolina	•											•	•	•					•
	Tennessee	•				•				•	•		•	•		•	•		•	
	Virginia	•			•								•			•	•		•	•
	West Virginia	•									•				•		•			
South West	Arizona	•											•	•		•	•		•	
	New Mexico	•									•			•			•	•	•	
	Oklahoma	•			•								•		•		•		•	•
	Texas	•					•			•				•	•		•		•	•
Rocky Mountain	Colorado	•		•	•						•			•				•	•	
	Idaho	•													•	•				
	Montana	•			•						•			•		•	•	•		
	Utah	•									•		•				•	•	•	
	Wyoming	•									•		•		•				•	
Far West	California	•	•	•	•			•	•			•		•	•	•	•	•	•	
	Nevada	•											•				•	•	•	
	Oregon	•	•		•		•			•			•					•		•
	Washington					•	•				•		•		•	•			•	
	Alaska	•	•								•		•		•		•		•	•
	Hawaii	•		•									•		•	•	•			

Table 2

Targeted Housing Programs

State and Region	Single-Family Housing	Multifamily Housing	Rehabilitation Grant or Loan	Rehabilitation Tax Incentive
United States	45[1]	8	14	17
New England				
Connecticut	x	x	x	x
Maine	x			
Massachusetts	x	x	x	x
New Hampshire	x			
Rhode Island	x	x		x
Vermont	x			
Mideast				
Delaware	x			
Maryland	x		x	
New Jersey	x		x	x
New York	x	x	x	x
Pennsylvania	x	x	x	x
Great Lakes				
Illinois				
Indiana	x			x
Michigan	x		x	
Ohio				x
Wisconsin	x		x	x
Plains				
Iowa	x		x	x
Kansas				
Minnesota	x		x	x
Missouri	x			
Nebraska	x		x	
North Dakota	x			
South Dakota	x			
Southeast				
Alabama	x			
Arkansas	x			
Florida	x			
Georgia	x			
Kentucky	x			
Louisiana				
Mississippi	x			
North Carolina	x			
South Carolina	x			
Tennessee	x			
Virginia	x			x
West Virginia	x			
Southwest				
Arizona	x			
New Mexico	x			
Oklahoma	x			x
Texas	x			
Rocky Mountain				
Colorado	x		x	x
Idaho	x			
Montana	x			x
Utah	x			
Wyoming	x			
Far West				
California	x	x	x	x
Nevada	x			
Oregon	x	x		x
Washington				
Alaska	x	x		
Hawaii	x		x	

[1] Arizona, Hawaii and North Dakota have authorized, but not issued single-family bonds.

Source: ACIR staff compilation.

hit particularly hard, since it limited the total number of bonds which could be issued within a State by State, local, or independent agencies.

While the cap significantly reduced the volume of State bonds issued, the *Mortgage Subsidy Act* limited the States' bond capacity even more severely by requiring that the effective rate of mortgage interest not exceed bond yield by more than one percentage point. State revenues generated by the bonds were thus reduced to a level insufficient to cover the costs of issuing the bonds. In Delaware, for example, the State Housing Authority argued that for each $100 million issue marketed, about $30,000 in surplus revenues would be generated to pay the agency's operating expenses, an amount not enough to cover the cost of operation.[3] While the full impact of the *Mortgage Subsidy Act* cannot be fully assessed, only a single bond issue has been able to come to market between the time the legislation became effective and August 1981.
market between the time the legislation became effective and August 1981.

When single-family mortgage bonds are issued, they generally are targeted to income level, and, in some cases, to a geographic area. The following examples illustrate different targeting techniques:

- The **Arkansas** Housing Development Agency single-family bond issue of $110 million in August 1980 used the following program restrictions: income limit of $24,000; purchase price limit of $60,000; 20 percent of funds to be targeted to rural areas and 10 percent targeted to economic development areas.
- The **Iowa** Housing Finance Authority single-family bond issue of $150 million in March 1979 limited participants' income to $17,300 (with adjustments), purchase prices to $55,000 and mortgages to $55,000 (VA); designated urban revitalization districts were targeted to receive $7 million of the bonds.

[3] "Feasibility of Single Family Projects Financed by Tax-Exempt Bonds in Overton," *Housing and Development Reports*, Washington, DC, Bureau of National Affairs, Vol. 8, No. 40, March 2, 1981, p. 806.

A Closer Look at a Home Rehabilitation Loan Program

Amidst rising interest rates, accelerating housing maintenance costs, and decreasing housing starts, the **Wisconsin Housing and Neighborhood Conservation Program (HNCP)** serves as an excellent example of an established State program providing low cost loans for housing rehabilitation to Wisconsin homeowners.[7] The program was enacted in 1978 to enable low and moderate income residents to finance the high costs of home improvements they no longer could afford to make. The loans also were intended to reverse deterioration in the State's housing stock, particularly among older homes, and contribute to improving the quality of neighborhood environments. A further goal was to improve the energy efficiency of homes and thereby reduce costly and unnecessary energy consumption by Wisconsin communities.

Program Design and Scope

The Department of Development (at the time called the Department of Local Affairs and Development) was assigned the task of administering the program in the enabling legislation. Within the Department, The Bureau of Housing and Neighborhood Conservation was created to certify loans and develop rules for implementing the loan program. The bureau makes grants to sponsoring public agencies which, in turn, approve deferred payment loans. It also authorizes private lending institutions to make low interest installment loans. To finance the loans, the legislature authorized the issuance of $25 million in bonds for the installment loan program and appropriated $4.5 million in general program revenues for the deferred loan program.

During the 16-month period from August 1979 to December 1980, approximately 4,200 loans totaling $24.6 million were made to low and moderate income homeowners in every county in the State. More than 540,000 residential units in Wisconsin are potentially eligible.

Participants in the Program

HNCP provides services to a substantial number of elderly and low to moderate income homeowners, and has created incentives for making improvements that otherwise might have been delayed or left undone. While borrowers ranged in age from 20 to 84, the average age of the participant in the program is 38. The deferred payment program serves an older clientele. Persons over 60 years of age received 43 percent of the total number of loans made through this program. The average deferred loan borrower is 54 years old.

Most participants in the installment loan program have what would generally be considered moderate incomes. Of the total number of borrowers, 64 percent fall within the $12,000 — $20,000 income range. The average installment loan borrower has an annual income of $15,206. Deferred loan recipients generally have lower incomes than participants in the installment loan program. An average borrower has an annual income of only $5,852. Significantly, 89 percent of the participants in this program have incomes less than $10,000.

[1] The material in this section is from: "Housing Conservation for Wisconsin – A Challenge for the 80's, An Evaluation of the Wisconsin Housing and Neighborhood Conservation Program," Wisconsin Department of Development, Jan. 1, 1981.

• The **New Mexico** Finance Authority single-family bond issue of $43,650,000 in October 1980 targeted only on the basis of an income limit of $23,000 and a purchase price limit of $57,000.

Because of the Federal restrictions on mortgage bonds, new State activity in the single-family housing programs was significantly less than in 1980. Nevertheless, some related 1981 housing actions did take place.

• In late 1980, **Alabama, Florida, Louisiana,** and **Mississippi** created housing finance agencies. Only four States – Washington, Kansas, Ohio, and North Dakota –are still without some form of housing finance agency.

• In **Arizona,** the Housing Finance Review Board received authority to issue bonds in April 1981 for single family housing.

• In the next five years, **Connecticut** will start to invest $25 million of its State employees' and teachers' pension fund in home mortgages. The pension fund would finance a package of mortgages on dwellings that are owner occupied and house one to four families. Initially the program will be targeted to State workers, teachers and other participants in the pension fund.

• In **Florida,** the Supreme Court validated the City of Pensacola's single-family mortgage revenue bonds for the purpose of revitalizing the city's downtown blighted area.

• In **New Hampshire,** the functions of the Housing Finance Agency and the New Hampshire Housing Commission were consolidated into a single agency, the New Hampshire Housing Finance Authority.

• In **New York,** Governor Hugh L. Carey consolidated housing programs administered by the State

Program Impact

Responses to a questionnaire of program participants suggest that HNCP has been successful. When asked how important the loan was in making their homes safer, 30 percent said it was "very important" and 14 percent described it as "somewhat important." Increasing the liveability of the housing unit was very important to 63 percent of the respondents and somewhat important to 14 percent. Describing the effect of their improvement on the value of the property, 60 percent of the homeowners claim that the value went up more than the cost of the improvement. Additionally, almost all of the participants reported that they were satisfied with the performance of the lender/sponsor (98 percent), with more than 83 percent expressing a high level of satisfaction. Satisfaction with contractor performance was only slightly lower. More than 90 percent of borrowers said that they were generally satisfied with their contractor's work, though a smaller percentage (57 percent) expressed high levels of satisfaction.

To assess the borrowers' personal feelings about the program, one question on the survey asked them to identify the single thing they liked most and least. Almost half of the respondents cited low interest rates as the aspect of the program they liked the most. The largest percentage of respondents (60 percent) cited no aspect of the program they disliked. The most frequently cited complaint (15 percent) referred to paperwork and time delays, and a few participants were not satisfied with the limits on the money they could borrow and the improvements they could make.

An evaluation of HNCP using a cost-benefit analysis indicated that for every dollar of local and State tax revenue used to fund this program, $1.35 will be returned to the State treasury. Additionally, as a result of the nearly $22 million worth of improvements, an estimated $332,804 in local property tax revenue will be generated annually. The installment loan program cost the State $6.4 million to operate, but generated $8.7 million for a surplus of $2.3 million.

Transferability

The Wisconsin rehabilitation program, according to its evaluation report, appears to be working successfully. The legislature is expected to authorize a second bond issue in 1981 to finance new projects. Still, when considering the program's transferability to other States, Wisconsin officials point to potential implementation problems.

Because of budget limitations, ongoing monitoring of funded projects is not possible, thus allowing the possibility for abuse in grant use. While in Wisconsin this has not been a major problem, officials recommend that pre-loan inspections and technical assistance be included in the program's budget. Again, without extensive funding, the State may not be able to pay lenders enough to make issuance of loans profitable. One result is that certain areas of the State cannot be effectively reached by the program. Another abuse may result if loan recipients seek rehabilitation funding for relatively new housing. Wisconsin recommends that restrictions be put on the age of property to be improved.

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within the State's Division of Housing and Community Renewal (HCR).

- The State of **North Carolina,** using proceeds from the State pension fund, bought $53 million in mortgage-backed bonds from the North Carolina Mortgage Investment Corporation (NCMIC). NCMIC was set up by the State to sell mortgage-backed bonds to capital markets.

Multifamily Programs: 8 States

State multifamily housing programs generally have been aided by Federal Section 8 financing assistance. Under the Section 8 rent subsidy, "households are eligible if their incomes are under 80 percent of the median in their area; the family pays 15-20 percent of its income in rent; and HUD pays the owner the difference between that and an agreed upon rent."[4] The partnership between the States and the Department of Housing and Urban Development in the Section 8 program has accounted for the occupation of 927,000 units from 1974 to July 1980. The Reagan administration's 1981-82 budget, however, restricted the number of new federally subsidized units of rental and public housing to about 153,000, a cut of 40 percent from former President Carter's recommendation of 260,000 units and fewer even than the 175,000 units that President Reagan initially proposed. Obviously, any significant Section 8 reductions will seriously impair State multifamily housing programs. Currently 35 State multifamily programs are more than 70 percent funded from Section 8 monies, while only nine programs receive less than 50 percent Federal funds. (*See Table 3.*)

Like the single-family housing loans, the multifamily programs generally are targeted by income. In addition to these programs, some States operate non-HFA housing assistance that generally receive no Section 8 funding. These programs may focus on easing land and predevelopment expenditures for low and moderate

[4] Geneva Overholzer, "The States and the Housing Crunch," *State Legislatures*, Denver, CO, National Conference of State Legislatures, Vol. 7, No. 4, April 1981, p. 7.

Table 3

Section 8 Funding as a Percent of State Multifamily Housing Programs

State and Region	100% Sec. 8 Funded	90-99% Sec. 8 Funded	70-89% Sec. 8 Funded	Under 50% Sec. 8 Funded	No Sec. 8 Funding-HFA Administered	No Sec. 8 Funding non-HFA
United States	20[1]	11	4	1	1	7
New England						
Connecticut			x			x
Maine		x				
Massachusetts		x				x
New Hampshire	x					
Rhode Island		x				x
Vermont	x					
Mideast						
Delaware						
Maryland			x			
New Jersey		x				
New York				x		x
Pennsylvania		x				x
Great Lakes						
Illinois			x			
Indiana						
Michigan	x					
Ohio						
Wisconsin		x				
Plains						
Iowa	x					
Kansas						
Minnesota		x				
Missouri			x			
Nebraska						
North Dakota						
South Dakota	x					
Southeast						
Alabama						
Arkansas	x					
Florida						
Georgia	x					
Kentucky		x				
Louisiana	x					
Mississippi						
North Carolina	x					
South Carolina	x					
Tennessee	x					
Virginia		x				
West Virginia		x				
Southwest						
Arizona						
New Mexico						
Oklahoma	x					
Texas						
Rocky Mountain						
Colorado	x					
Idaho	x					
Montana	x					
Utah	x					
Wyoming						
Far West						
California		x				x
Nevada	x					
Oregon	x				x	
Washington	x					
Alaska						x
Hawaii	x					

Source: ACIR compilation from Council of State Housing Agencies 1980 Survey of State Housing Finance Agencies and derived from ACIR 1981 telephone survey.

[1] Georgia and Hawaii have authorized but not issued multifamily bonds.

income units or they may be directed toward groups with specialized housing needs such as the elderly, handicapped, or farmworkers.

- In **California,** the Farmworker Housing Grant Fund provides up to 50 percent matching grants for developing new or rehabilitated housing for low income agricultural employees.
- In **Connecticut,** grants are provided to local housing authorities and nonprofit groups for congregate housing and rental housing for the elderly.
- In **Rhode Island,** the Housing Seed Money Fund promotes construction and rehabilitation of low and moderate income single and multifamily housing. Financial loan assistance is made available to nonprofit sponsors at no interest for pre-mortgage expenses.

State activity in multifamily housing policy in 1981 was limited to Alaska, where Governor Jay Hammond signed into law a bill appropriating $150 million for the State's low interest home loan program. The money, to be administered by the Alaska Housing Finance Corporation, includes $4.5 million for a special program for multifamily housing in rural areas, as well as $133 million for housing loans and $12.5 million for mobile home loans. The program, however, is not targeted by income and, in fact, is the only State program providing low interest loans for all income groups.

Housing Rehabilitation Programs (Grant or Loan): 14 States

Housing rehabilitation programs are intended to improve, rather than raze, a distressed community's housing

supply. The Bureau of National Affairs defines rehabilitation as the following:

> Rehabilitation refers to the repair or structural alteration of buildings. It is more than the routine or minor improvements that are part of the normal process of property maintenance. In most instances, the need for rehabilitation is a direct result of past neglect of such property maintenance because funds were not available to support periodic repairs. Rehabilitation may include cosmetic improvements, but generally the term is not used to refer to cosmetic improvements alone.[5]

As such, housing rehabilitation policies should be distinguished from neighborhood conservation programs – to be discussed later in the report – which refer to a more comprehensive plan to improve a neighborhood's housing supply and infrastructure.

The 14 existing State housing rehabilitation programs are administered and financed in a variety of ways.

- In **Colorado,** the Housing Development Grant Program, administered by the Colorado Division of Housing, finances grants (deferred loans) through local sponsors for the construction, rehabilitation, or acquisition of housing for low income households.
- In **Hawaii,** a program administered by the Hawaii Housing Authority provides rehabilitation and renovation loans of up to $10,000 to low income families.
- In **New Jersey,** the Housing Demonstration Program is administered by the Department of Community Affairs with State funding matched by localities and the private sector.

Housing rehabilitation programs also are targeted differently. They target by income or geographic area (programs financed through State HFA's tend to employ the former), or in some cases to homes specifically needing improvement in energy efficiency.

- **Iowa's** homesteading program is targeted to slums or blighted areas.
- **Maryland's** Housing Rehabilitation Program operates through local housing authorities to make below-market interest rate loan monies available for low and moderate income families. Funds are distributed on the basis of the percent of local population below the State median income.
- **Nebraska's** Mortgage Finance Fund provides below-market interest loans for low to moderate income families with funds used for homes needing improvements in energy conservation capabilities.

The following are 1981 activities in the housing rehabilitation policy area:

- The **Connecticut** Department of Housing developed a low interest rehabilitation loan program that can be made available to qualified residents of towns that are usually too small to have community development rehabilitation loan programs. The program also is available to urban areas.
- In **New York,** a special office charged with overseeing the implementation of energy conservation measures in State-assisted housing and with administering various energy assistance programs was created within the State Division of Housing and Community Renewal in New York City.

Housing Rehabilitation Programs (Tax Incentives): 17 States

States offer property owners tax incentives for rehabilitation of housing in areas where property taxes or other conditions have discouraged additional private investment. The financial incentives include property tax abatements, corporate tax credits, homeowner tax credits and abatements for historic preservation. The tax abatement has been particularly popular, as a report released by the Council for Urban Economic Development explains.

> Abatements are attractive to developers because they free up some cash during the initial stages of a project, and stabilize the developer's tax payment schedule. A city, for its part, could choose to abate only the *increase* in taxes the improved property would generate. It would thus receive the same taxes from the property as it did before the development and suffer no decrease in tax revenue.[6]

The housing rehabilitation programs – currently established in 17 States – vary not only in the type of financial incentive employed, but often in the level of government at which the programs are administered.

- **Florida's** Community Improvement Act of 1980 allows corporations to take tax credits of up to $200,000 against the corporate income tax for funds contributed to approved community development projects in State-designated blighted areas. Housing rehabilitation projects are a designated activity.
- The **Indiana** Tax Abatement Program allows a ten-year partial abatement of property taxes on building construction or rehabilitation in communities where development needs to be encouraged.

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[5] "Housing Rehabilitation and Neighborhood Conservation," *Housing and Urban Development Reference File,* Washington, DC, Bureau of National Affairs, October 10, 1977, p. 9.

[6] *State Development Program: A Catalogue,* National Council for Urban Economic Development, Washington, DC, February 1981, p. 20.

A Closer Look at a Local Housing Rehabilitation Project

The Westside Federation for Senior Housing in New York City is a nonprofit group organized in 1976 to create and maintain housing for elderly and handicapped people. The group, a 14-member coalition, includes a housing development corporation, a synagogue, a church, and several neighborhood associations. The Federation's efforts to convert an old hotel to house elderly and handicapped individuals with funding in part by a $30,000 grant from the **New York State Neighborhood Preservation Companies Program (NPCP),** authorized in 1977, exemplifies a local group's utilization of State grant money for a rehabilitation project. Specifically, the NPCP funds were used for the Federation's administrative and planning costs associated with the housing rehabilitation project. The grant was for one year with an option to obtain additional contracts for the following two years.

The Federation, in its application for funds, met the following eligibility requirements:

- The project for which funds were needed was a housing and neighborhood preservation-oriented activity specifically designed to assist occupants to improve their housing accommodations.
- The Federation had been in existence for at least a year and had an administrative board composed of neighborhood residents and persons with an interest in the neighborhood.
- The Federation was located in a neighborhood which needed active intervention for its preservation, stabilization and improvement.
- The Federation had outlined to the NPCP administrator in the Division of Housing and Community Renewal the steps by which it would become economically self-sufficient.

Rehabilitating Housing for the Elderly and Handicapped

To rehabilitate and provide Section 8 assisted housing for the neighborhood's elderly and handicapped residents, the Federation combined its resources with a for-profit contracting firm to purchase the hotel and begin its restoration. The partnership agreement required that all proceeds and tax advantages associated with the hotel ownership be equally shared.

From the Federation's perspective, the partnership provided both contracting expertise and financial support. Additionally, by owning the hotel, the Federation could move toward its goal of financial self-sufficiency. The Federation retained full responsibility for tenant selection, management of the building, and delivery of social services. For the for-profit firm, the partnership offered not only financial gains, but a chance to assist the neighborhood and improve its community image.

Besides purchasing the hotel with the contracting firm, the Federation used its NPCP grant monies to hire a project coordinator, architect, and general counsel. To meet NPCP rules, the Federation was required to report monthly on the project's progress to the NPCP administrator; later reports were necessary only on a quarterly basis.

Assessing the NPCP Program

Success with the hotel rehabilitation project has netted the Federation NPCP grant monies for two additional years for $36,000 and $36,900.

The Federation's relationship with NPCP was a satisfying one because of the assistance and understanding of the program administrators. In particular, Federation leaders noted that the administrators provided technical assistance for bookkeeping and accounting, and were very collegial in their dealings with the community groups. They streamlined and made as simple as possible their reporting procedures. Finally, in transmitting grant funds to the Federation, the administrator placed the grant in a savings account selected by the Federation thus beginning a stable relationship between the community group and the local bank.

Given the Westside Federation's success with assistance from NPCP, the Federation plans other efforts in the future to renovate buildings in the community for elderly and handicapped residents. The NPCP assistance and the initial partnership agreement with the for-profit organization, led Federation leaders to believe the group can become both financially self-sufficient and make even greater use of the community for contracting and managing projects.

- The **Iowa** 1979 Urban Revitalization Act gives cities the authority to designate certain areas as revitalization areas. Improved residential property is eligible for an exemption based on actual value added by the improvements for a period of ten years; the exemption is equal to a percent of the actual value added by the improvements, up to $20,000.
- **Ohio** provides for property tax abatements for residential rehabilitation in designated community reinvestment areas. Abatements are to facilitate historic preservation or renovation in areas unsuited for new construction.
- **Wisconsin's** Homestead Tax Credit provides tax credits for housing improvements based partially on homeowner income and rent or property taxes paid.

Economic Development Programs

State government policymakers continue to be interested in economic development – defined in this study as interrelated policies of industrial development, job training, small business, and industrial revenue bonds, all targeted to distressed areas. Unfortunately, many State governments which have economic development policies are not as successful in steering the new industrial activity toward a distressed geographic area as they are in attracting new business to the State initially. A report published by the Council of State Planning Agencies highlights this problem:

> the majority of State officials appear to consider it beyond their power and purview to guide development to needy areas and restrict it in "super-heated" localities. . . .[The] prevailing view. . . [is] that industry goes where it wants and government's only role is to help industry implement its decisions.. . . [7]

State officials cite several disadvantages with the policy. For example, targeting may have negative political consequences since voters may resent the State government serving selected communities, rather than all jurisdictions; targeting to specific geographic areas may fail to recognize that communities in the State are linked economically; targeting may favor larger cities rather than smaller and rural communities; and, targeting to extremely blighted areas rather than marginal communities may reduce the economic or social return of a policy.

Strong arguments also can be made in favor of targeting economic development policies. Targeting, especially of expenditure policies, may represent the most efficient method of improving conditions relatively quickly;[8] some targeting actions, such as directing State procurements to certain areas or businesses, may be implemented by Executive Order alone; targeting may help reduce the possibility that State fiscal, regulatory, or expenditure policies will have the unexpected and undesired side effects that accompany more expansive policies.

Amidst the debate over the utility of targeting, the events of 1981 suggest an even greater State role in creating, administering, and financing economic development policies in the future. For example, the significant reduction in the budgets of the Economic Development Administration (EDA) and the Urban Development Action Grants (UDAG) program signal a shift in Federal economic development policies and a need for additional State assistance.

Ironically, changes in Federal economic development policies may result in a new emphasis on targeting. For example, a chief complaint about EDA was that "so many areas of the country [were] eligible for EDA assistance – about 80 percent – that the money [could not] be concentrated where it [was] most needed."[9] This argument, coupled with the general fiscal condition of the States, suggests that targeted economic development policies may receive greater emphasis in the future.

Economic development policies exist throughout the country, although the methods of assistance vary in different regions. In a report by the Council of State Community Affairs Agencies (COSCAA), some regional economic development techniques and trends are outlined:

- The States within the south central and south Atlantic regions are becoming increasingly aware of the assets which make them attractive to both domestic and foreign investors. They have used these assets – low tax rates, available land at reasonable costs, and an emerging labor force – effectively to overcome their historic position of lagging behind the northeast and midwest in terms of industrialization.
- The western mountain States are responding to the double-edged sword of economic growth spurred by exploitation of energy resources. On the one hand, State officials view the potential for development and job creation as a boon. This is balanced, however, by the realization that rapid growth can severely alter the lifestyles within, and social fabric of, communities in affected areas.
- The northeast and midwest States, as expected, are concentrating on redevelopment, acknowledging that many of the assets that provided them with a locational advantage throughout the past 100 years (e.g., closeness to markets, proximity to seaports) are no longer the determining factors in location decisions by major industrial firms. Yet, there is considerable optimism concerning the prospects of reindustrialization, on a different level – small versus large business or high technology versus textiles.
- The farm States of the central United States are faced with the dual mission of maintaining the infrastructure necessary for agriculture and aiding ventures to provide employment for residents who do not work in agriculture.[10]

[7] Neal R. Peirce, Jerry Hagstrom, Carol Steinbach, *Economic Development: The Challenge of the 1980s*, Washington, DC, Council of State Planning Agencies, 1978, p. 30.

[8] Examples of advantages and disadvantages of targeting are primarily from: Peirce, Hagstrom, and Steinbach, *Economic Development: The Challenge of the 1980s*, Washington, DC, Council of State Planning Agencies, 1978; "Economic Development – The States' Perspectives," Washington, DC, Council of State Community Affairs Agency, January 1981; and "The State's Role in Urban Economic Development: An Urban Government Perspective," *Urban Consortium Information Bulletin*, Washington, DC, U.S. Department of Commerce, 1980.

[9] Rochelle Stanfield, "Economic Development Aid – Shell Game or the Key to Urban Rejuvenation?", *National Journal*, Washington, DC, Government Research Corp., March 21, 1981, p. 497.

[10] Compiled from "Economic Development – The States' Perspectives," Washington, DC, Council of State Community Affairs Agencies, January 1981, p. I-O.

Table 4

Targeted Economic Development Programs

State and Region	Site Develop-ment	Financial Aid	Job Training	Small Business	Industrial Revenue Bonds
United States	**6**	**16**	**3**	**11**	**11**
New England					
Connecticut		x		x	x
Maine					
Massachusetts		x	x	x	x
New Hampshire					
Rhode Island					
Vermont					
Mideast					
Delaware					
Maryland		x		x	
New Jersey	x	x		x	x
New York		x		x	
Pennsylvania	x	x		x	
Great Lakes					
Illinois		x			x
Indiana	x	x		x	
Michigan		x			
Ohio		x		x	
Wisconsin					x
Plains					
Iowa					x
Kansas					
Minnesota		x	x		
Missouri					x
Nebraska					
North Dakota					
South Dakota					
Southeast					
Alabama	x				
Arkansas					
Florida		x		x	x
Georgia					
Kentucky					
Louisiana		x		x	
Mississippi					
North Carolina					
South Carolina					
Tennessee	x				x
Virginia					
West Virginia					
Southwest					
Arizona					
New Mexico					
Oklahoma					
Texas		x			x
Rocky Mountain					
Colorado					
Idaho					
Montana					
Utah					
Wyoming					
Far West					
California			x	x	
Nevada					
Oregon		x			x
Washington	x	x			
Alaska					
Hawaii					

Source: ACIR staff compilation.

Site Development Activities: 6 States

Generally through their Departments of Community Affairs (DCA's) or similarly titled agencies, States are initiating industrial development programs providing technical assistance and State designation of industrial sites. Currently, six States – Alabama, Indiana, New Jersey, Pennsylvania, Tennessee, and Washington – offer site development programs.

According to a 1981 report by the Council for Urban Economic Development, States have traditionally concentrated their technical assistance efforts on smaller local governments.

> [the technical assistance] programs have been almost exclusively directed to smaller units of government (under 25,000 population), which often have part time officials and lack financial resources. These programs have necessarily dealt with the rather elementary aspects of public management. Only recently have States begun to deal with the more sophisticated needs of larger cities and to recognize the special discipline of economic development. State technical assistance programs specific to economic development are still in the formative stages.[11]

In many States, their focus on small communities rather than the major urban areas is because the cities often "have larger staff than the corresponding State agency" and have developed relationships directly with Federal agencies rather than with the State.[12]

The targeting criteria for site development assistance programs reemphasize the States' desire to concentrate on smaller local governments and rural communities in economic distress.

[11] *State Development Programs: A Catalogue*, Washington, DC, National Council for Urban Economic Development, February 1981, p. 17.

[12] *Ibid.*, p. 10.

• In **Alabama,** sites in cities of 20,000 or less are developed to attract industries. Site preparation includes providing adequate water, sewer, and power facilities and convenient transportation systems.

• In **Tennessee,** an Economic Preparedness Program operated by the State Department of Economic and Community Development offers technical assistance, principally targeted to small towns and rural jurisdictions, in developing industrial sites. The aid includes preliminary engineering surveys, site planning assistance, and development of financing packages necessary to sell completed sites.

While most programs are targeted to small local governments and rural areas, some States are beginning programs to assist the development of industrial parks in urban areas. Here technical assistance is generally tied to some financial aid.

• In **New Jersey,** the Economic Development Authority has undertaken a full range of industrial park development activities including land assembly, acquisition, site preparation, marketing and financing.

• In **Pennsylvania,** the Pennsylvania Industrial Economic Authority provides loans to industrial development agencies to finance industrial projects in redevelopment areas or critical economic areas.

State activities during 1981 in the area of industrial site development policy include these:

• **Indiana** initiated the Rural Development fund to provide grants to aid the economic growth of rural areas with populations of less than 10,000. The program is designed to create jobs and help municipalities meet needs for site development.

• In **New York,** the Office of Urban Revitalization was created to coordinate the efforts of State agencies and public benefit corporations in finding solutions to problems in distressed urban areas. The office will provide technical and financial assistance to local community agencies and organizations.

State Financial Aid for Industrial or Commercial Development: 16 States

States targeting financial assistance to distressed areas for industrial or commercial development have used a variety of tools. These have ranged from the creation of State development credit corporations and/or State industrial finance authorities to authorization for local governments to issue bonds to finance industrial construction. Generally, the States' record in this policy area has been excellent for both targeted and nontargeted areas. For example, for 23 States, State industrial authorities, as of April 1980, have made or insured loans and issued bonds totaling nearly $3.3 billion.[13] And the States have not been alone in this regard. Communities in the States for which information is available have, as of January 1980, issued or authorized bonds totaling almost $38 billion.[14]

State-financed industrial development programs utilize a variety of targeting criteria and administrative techniques. Programs may be targeted to high unemployment areas as in Illinois, Massachusetts, and Pennsylvania, to areas with a large poverty population as in Minnesota, to areas with economic underdevelopment as in Texas, or to blighted areas as in Florida. Additionally, financing (generally appropriated or acquired through bond issues) may be directed by designated local governments as in Ohio, by a local bonding authority as in Massachusetts, by local special districts as in Pennsylvania, by community development corporations as in Minnesota, or by local industrial foundations as in Texas.

• In **Illinois,** the Industrial Development Authority has the power to make loans and grants to new and expanding industry in most areas of the State. The Authority's Revolving Loan Program provides loans to industries in designated areas as well as some on a nontargeted basis. Targeting is based on unemployment levels. Loans are made through the issuance of tax exempt debt and repayments into the revolving fund.

• In **Michigan,** the Commercial Redevelopment Districts Act allows tax credits for renovating or building new commercial facilities in declining business or redevelopment areas.

• **Minnesota's** Area Redevelopment Act is targeted to areas with unemployment over 6 percent or above the State's average unemployment, areas experiencing population decline and areas in which per capita income is below the State average. Some funds, however, are used in areas which do not meet these criteria. Funds can be directed to new businesses, existing businesses, or local development authorities.

In 1981, several States considered proposals to create "urban enterprise zones." The enterprise zone concept, drawn from British and congressional legislation, would target a distressed geographic area for financial incentives to spur development efforts. Legislation creating enterprise zone legislation was enacted in Connecticut, Louisiana, and Maryland.

In State development actions in 1981:

• In **Connecticut,** the legislature passed a bill authorizing the Commissioner of Economic Development to designate distressed parts of six Connecticut cities as an enterprise zone. In the zone, business enterprises and residential property owners are eligible to receive the

[13] "Tax Incentives and Financing Assistance for Industrial Location," Bureau of Business Research, Department of Commerce, State of New York, *Research Bulletin No. 49,* August 1980, p. 3.

[14] *Ibid.*, p. 4.

benefits of a variety of economic incentives including: employment training vouchers, venture capital loans, corporate business tax credits, property assessment deferments, job incentive grant increases, sales tax suspension on replacement parts, and a commission to study regulatory and licensing policy.

- In **Florida,** the legislature amended its industrial development financing act, broadening the definition of industrial development to include commercial projects in blighted downtown areas. Additionally, Florida initiated two programs targeted to distressed areas which provide tax credits for new jobs and new or expanded businesses.
- In **Indiana,** the Industrial Development Fund Loan Program was enacted to provide low-interest, direct financing to municipalities for economic development and job creation.
- In **Louisiana,** an enterprise zone bill was enacted that provides a different set of tax incentives for businesses in rural and urban areas. The act is intended to encourage economic growth in rural areas and retention of existing businesses in urban areas. In rural areas, businesses are eligible for benefits including a $2,500 credit against State income and franchise tax liability for every new job they create. Other benefits in both rural and urban areas include an exemption from sales and use taxes on capital expenditures. Twenty-five percent of the State's census divisions will be declared to be enterprise zones. The program will be administered by the Department of Commerce.
- In **Maryland,** the legislature authorized the Governor to provide tax incentives to firms located in distressed areas. Although the legislation is based on the enterprise zone approach, it does not define what constitutes a zone, but allows the Governor to reduce or eliminate payments a company makes to workers' compensation and unemployment insurance funds. Payments of personal or corporate State income taxes may also be reduced or waived by the Governor.
- In **New York,** the Industrial Recycling Program was established to provide technical assistance and limited financial assistance to localities in economically distressed areas for study of re-use alternatives and for implementation of a re-use program.
- In **Ohio,** the Economic Development Financing Act, allowing a certain percentage of State liquor store profits to be given to "local economic need areas," was ruled constitutional by the Ohio Supreme Court.

Customized Job Training: 3 States

The difference in the number of customized job training programs listed in the 1980 distressed communities report and the current edition reflects not only a rethinking of the definition of such programs – non-CETA funded policies – but also the changing relationship between the Federal Government and job training programs. Under a customized job training program, "State governments prepare labor pools to meet the specialized needs of growing or incoming industries, thereby offering an inducement for firms to expand or relocate within the State."[15] In addition to generating employment growth, a well designed training program offers other important advantages.

> The State benefits from additional job creation and an expanded tax base. The worker benefits from an increased income. The firm benefits by reduced start-up costs and a shorter period required to realize a profit. Customized training has been able to reduce training time before a new start-up by as much as 75 percent.[16]

Many State job training policies, including a majority of those listed in the 1980 report, are tied to programs financed by the Federal *Comprehensive Employment and Training Act* (CETA) which targets aid to the unemployed, underemployed, and economically disadvantaged. While programs using CETA funds restrict program eligibility to the economically disadvantaged, State administered and financed programs developing new opportunities for industry have not required that job training programs be targeted to the disadvantaged. If CETA-supported State policies are not counted, State customized job training programs number only three, California, Massachusetts, and Minnesota; and yet, given the dramatic cuts in Federal aid for targeted job training programs – including the termination of the public service employment program and Young Adult Conservation Corps – States may need to add new job training programs or substitute for the loss of Federal aid in existing programs. Perhaps, portending the future, Massachusetts began in 1981 a $3 million job training program.

And yet, while Massachusetts has added a training policy, Minnesota's Indian Vocational Program may be in trouble. The Minnesota program provides $1 million in State funds for training, of which only 7 percent comes from Federal vocational education monies. While the training program is principally a State effort, its existence depends on a CETA program in Minnesota that provides educational stipends to Indian students. Without the CETA monies, the Indian students could not afford to enroll in the schools and thus, take advantage of the State's policy. Therefore, significant program cuts in CETA may seriously hamper the State's effort.

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[15] "The State's Role in Urban Economic Development: An Urban Government Perspective," *Urban Consortium Information Bulletin*, Washington, DC, U.S. Department of Commerce, 1980, p. 49.

[16] *State Development Programs: A Catalogue*, Washington, DC, National Council for Urban Economic Development, February 1981, p. 11.

Small Business Development: 11 States

Development of small business enterprises continues to gain recognition as a key ingredient to revitalizing a distressed area. Analyses show "that of all new jobs created in the United States, no less than 66 percent are created by firms with fewer than 20 employees – and 52 percent of the total are due to small, independent companies, rather than branches of other concerns."[17] Unfortunately, States have been hesitant to aid the development of small business because of their high failure rate, diverse locations, and special characteristics.

> The high failure rate of small business makes such efforts risky and expensive. Small businesses are scattered statewide, raising administrative costs associated with specialized assistance. Similarly, small businesses often require sophisticated technical assistance which requires expertise and financing beyond the capabilities of many State economic developmentstaffs.[18]

Again, however, Federal budget cuts may necessitate an increased State role in small business development for distressed areas. The Reagan administration reduced the direct loan level for the Small Business Administration from $367.5 million to $230 million for FY 1981. Additionally, the administration eliminated $1.2 billion from $4.52 billion in FY 1981 authorized loan guarantee commitments.

The 11 States with targeted small business programs tend to direct them toward geographic areas.

- In **Florida,** the Community Development Corporation Support and Assistance Fund provides grants and loans to community development corporations to assist in the establishment of a new business or in the purchase of an existing venture in a designated blighted area.
- In **Massachusetts,** the Community Development Finance Corporation invests money in business enterprises sponsored by community development corporations in economically depressed areas.
- In **Pennsylvania,** the Pennsylvania Minority Business Development Authority makes loans or loan guarantees to those minority business persons who have demonstrated that they are economically disadvantaged and unable to obtain financing through traditional channels.

State small business actions in 1981 include these:

- In **Indiana,** the Corporation for Innovation

[1] Material in this section is from a report to the California Legislature, December 1980, on the California Worksite Education and Training Act, prepared by the Employment Development Department within the Health and Welfare Agency.

A Closer Look at a Customized Job Training Program

The California Worksite Education and Training Act (CWETA), signed into law September 29, 1979, is based on the twin concepts that employers know best their own training needs and that employees learn best on the job.[1] The program offers an excellent example of an established State customized job training policy. CWETA requires that employers participate in designing and operating a training program. The program borrows heavily from the experience of apprenticeship, and some projects include formal apprenticeship plans. But all projects typically include both classroom training, often after working hours, and employer-sponsored on-the-job training.

CWETA recognizes that employers must play a major role in selecting those to be trained, whether the program is intended to upgrade current employees or train new, entry level workers. In exchange for creating a CWETA program for an individual employer, the employer must agree to hire all new employees who successfully complete the training and to link the training to a regular upgrade plan that will provide workers with an opportunity for upward mobility. If the CWETA training itself is an upgrade program, the employer must agree in advance to promote those who successfully complete the training. In a training program involving employees organized by a labor union, the union and its representatives must participate in the CWETA program.

The Employment Development Department, in cooperation with the Department of Industrial Relations, the Department of Education, the Chancellor's Office of the Community Colleges and the Department of Rehabilitation, administers a $25 million fund to pay extra costs incurred by employers and schools in providing the training.

One of the major objectives of the program is to foster job training that demonstrates a new approach to classroom and on-the-job instruction for the economically disadvantaged, youths, displaced workers, the disabled, and others with obsolete or inadequate job skills by providing assistance and funds for development of training projects.

Another goal is to improve the link between on-the-job training and vocational and technical education to assure that people are properly trained for jobs that remain unfilled even during periods of high unemployment. This will be accomplished by involving schools and employers in the design and operation of programs that teach the specific skills demanded in today's labor market.

The program is also intended to involve employers in

[1] Material in this section is from a report to the California Legislature, December 1980, on the California Worksite Education and Training Act, prepared by the Employment Development Department within the Health and Welfare Agency.

employment-based training through active participation in the planning, development and operation of training programs. This participation includes curriculum design and selection of trainees, and may include providing instructors and on-site space for instruction.

Finally, CWETA seeks to develop job training that recognizes the importance not only of entry level training, but also of career-oriented upgrading of skills. This is accomplished by funding only entry level training projects with career advancement opportunities, and funding upgrade training projects which allow workers to keep their jobs and continue to work while they increase their skills.

Accomplishments

More than 100 employers are participating in 42 projects under CWETA. Training for 4,145 people has been authorized at an average cost of $2,297 per trainee. Of the total trained, 2,193 persons will receive training for entry level jobs with career advancement opportunities and 1,952 will receive upgrade training to improve their skills and gain promotions to better paying, more responsible jobs. CWETA's initial programs have begun to train nurses and workers for the electronics and aerospace industries, areas in which labor force shortages have been acute. Training programs also have been launched for automotive mechanics, restaurant chefs, farmworkers, drafters, and others.

All CWETA projects are developed through a local cooperative project development process involving employers, local educators, representatives of the cooperating State agencies, appropriate employee organizations, CETA prime sponsors, and other local providers of employment and training. Building on its local comprehensive planning process, the Employment Development Department has designated its local field offices as the focus for development of CWETA projects. To further program planning, an interagency planning system was established with cooperating State agencies, and regional and State interagency advisory committees were set up to review proposals.

Characteristics of CWETA Participants

CWETA has funded 1,145 job training positions in 42 separate projects. CWETA programs are targeted to the economically disadvantaged, to youths, displaced workers, disabled people, and others with obsolete or inadequate job skills. The Act assists many whom other job training programs have not been able to help. People in occupations with little or no hope of advancement, seasonal workers unable to find permanent, full-time employment, workers displaced by factory closings or changes in the economy, single parents who cannot afford to quit work and go to school to earn themselves a promotion, all participate in CWETA training. Sixty-two percent of the current participants are women, and 57 percent are members of minority groups. A quarter of the participants are youths and 70 percent have no more than a high school education. Thirteen percent were receiving public assistance grants before entering training. Five percent are disabled.

Development, a private corporation, was empowered by State law to grant up to $5 million in tax credits to generate private venture capital for investment in innovative small business enterprises.

- In **New York,** the Job Development Program was created to provide capital financing to small businesses in distressed areas of the State for investment in real property and equipment.
- In **Ohio,** the Ohio Financing Commission has been charged with encouraging the establishment and expansion of minority business enterprises, stabilizing the economy, providing employment, and assisting in the development of industrial and commercial projects.

Industrial Revenue Bonds: 11 States

1981 has been the year of the industrial revenue bond (IRB) controversy. Industrial revenue bonds are tax exempt bonds that State and local governments issue to provide financing for private firms. Thus, IRB's serve as a State instrument for attracting business investment by reducing a company's capital costs. The debate over the utility of IRB's "pits those who see these widely used development tools as a new and effective way to help firms expand their operations and to create jobs against those who consider them a flawed mechanism that lets thriving companies siphon off public subsidies that ought to go elsewhere."[19]

In Congress, the debate has narrowed to whether a cap should be instituted on the number of IRB's and industrial development bonds (IDB's) issued.[20] The cast of characters in the controversy include an impressive array of policymakers and groups. Some involved in the 1981 IRB debate were:

- The Congressional Budget Office (CBO), which issued a report in 1981 studying small-issue industrial revenue bonds. The study "estimated that sales of IRB's grew from $1.3 billion in 1975 to $8.4 billion in 1980, that the current Federal revenue loss due to such

[19] Lawson Brooks, "The Industrial Revenue Bond," *Nation's Cities Weekly*, Washington, DC, National League of Cities, Vol. 4, No. 12, March 23, 1981, p. 5.

[20] IDB's are similar to IRB's, but are guaranteed by the issuing government entity.

sales amounted to around $700 million, and hinted that something ought to be done about it, namely restricting their sales, although the CBO made no policy recommendations."[21]

- Charles Rangel (D-NY), the House Ways and Means oversight subcommittee chairman who "told Treasury officials in April, 1981, that a rule limiting the use of tax exempt small-issue industrial development bonds could be included in the first tax bill Congress considers [in 1981]."[22]
- Paul A. Volcker, Chairman of the Federal Reserve Board, who during testimony before the House Ways and Means Committee said that "logic points in the direction of tightening up" rules on IDB's.[23]
- Senator Howard Metzenbaum (D-OH), who, in late February, 1981, called "for some restrictions on [IDB's] as a way of restoring some of the budget money cut from social programs."[24]

By the August legislative recess, though, little chance existed that Congress would place any limits on local issues of IRB's.

The States, of course, as the issuers of the IRB's and IDB's, remain at the center of the controversy. For example, critics of the bonds argue that large firms (including McDonald's and K-Mart) overutilize the bonds. Additionally, some question the effect of IRB's on other forms of municipal borrowing, and whether they create unnecessary competition between cities or States.[25]

One suggestion for restricting the use of IRB's and IDB's is to require that they be targeted to distressed areas. While 47 States authorize the use of IRB's, only a handful target the bonds. In its report on small-issue IRB's, the CBO stated:

> At present, small issues have little if any effect on investment location decisions because the bonds are almost universally available. If they were available only in distressed areas, they might stimulate some additional investment in areas that most need it, but probably only if used in combination with other local, State and Federal programs. . . . The argument against targeting IRB's to blighted or distressed areas is that at the Federal level the criteria for defining them

[21] "Benefits of Small-Issue IRB's Seen Outweighing Revenue Loss," *The Weekly Bond Buyer*, New York, NY, Vol. 223, No. 4593, April 27, 1981, p. 3.
[22] "Rule Limiting IDB Use May Be Part of First Tax Bill, Says Rangel," *The Weekly Bond Buyer*, New York, NY, Vol. 223, No. 4591, April 13, 1981, p. 944.
[23] "Volcker Tells Ways and Means to 'Tighten Up' Use of IDB's," *The Weekly Bond Buyer*, New York, NY, Vol. 222, No. 4587, March 16, 1981, p. 3.
[24] Frank Gresock, "Ohio Senator Urges Linking IDB Limits to Budget Plan," *The Weekly Bond Buyer*, New York, NY, Vol. 222, No. 4588, March 23, 1981, p. 6.
[25] Lawson Brooks, p. 5.

A Closer Look at a Program Growing in Response to Fiscal Crisis

Massachusetts established the **Bay State Skills Corporation (BSSC),** a $3-million quasi-public corporation, in 1981. The BSSC exemplifies a State program begun with a relatively high funding level, to respond to serious State government fiscal constraints. The corporation, a joint public-private venture, is intended to train individuals looking for skills that lead to permanent jobs in high-growth industries. BSSC will award grants-in-aid only to training institutions that match each dollar of State money with a dollar of private sector money. By linking business, government and education, the BSSC hopes to serve the interests of all three groups and provide training that will lead to jobs for program participants.

The BSSC's mandate is to collect and disseminate information on present and future employment needs, as well as information on the availability of skills training and education. After determining employment needs, the corporation will provide grants-in-aid to educational institutions to fund needed training programs. These grants must be matched with equal private sector financial support. That BSSC has also been directed to accept public and private donations for skills training and to conduct conferences and studies which will explore employment needs of Massachusetts.

The corporation will be funded with a State appropriation of $3 million of which 5 percent will be used for administrative purposes, 5 percent will be used to publicize the need for occupational/skills training programs, and 90 percent will be used for direct grants-in-aid to institutions for skills training programs.

Each grant-in-aid awarded by the corporation must be matched by equal private sector support. The plan is that the $3 million in State appropriations will be matched by $3 million in private contributions for a total of $6 million to be spent on skills training in the Commonwealth. While the job training program will aid all segments of Massachusetts' population, it will give priority to displaced homemakers, women, the elderly, minorities, people seeking to get off welfare, and unemployed municipal workers.

Responding to Fiscal Change

The BSSC is an outgrowth of the Bay State Skills Commission, which was created in 1980, after legislation to establish a job training corporation failed. Its initial funding of $500,000 was to cover 15 training programs. The next year, though, the more extensive BSSC program was approved by the legislature to replace the Commission and respond to both the passage of Proposition 2½,

which could cut local revenues by as much as $500 million, and reductions in federally financed job training programs.

According to a report by the Executive Office of Economic Affairs, BSSC will respond at least in part to the loss in Federal and municipal funding for Massachusetts' two major job training programs – the Federal Government's CETA program and the State's adult education programs.[1] The loss of funds, coupled with the layoffs that will come because of the passage of Proposition 2½, will put even greater demands for training on a dramatically shrinking training system.

While final estimates on Federal cutbacks and the impact of Proposition 2½ are not yet in, preliminary estimates offer a grim prospect. While the 1980 CETA allocation to Massachusetts of $117 million made it possible to train 27,000 persons, the projected 1982 allocation of $50 million may permit the training of only 10,000-12,000 individuals.

Conservative estimates indicate that between 15,000 and 17,000 people who had been enrolled in CETA training programs will no longer have any place to go to obtain job skills. In addition, the CETA-funded Public Service Employment Program (PSE) will be cut in its entirety, leaving approximately 7,000 people unemployed and looking for training programs.

Current estimates are that between 15,000 and 20,000 individuals will be laid off from their present jobs as a result of Proposition 2½. While some of these individuals will find jobs on their own, a conservative estimate is that half of this group will need retraining programs to become employable in a new career.

Evening programs and some vocational education programs will also be affected because of both Federal and municipal funding cuts. These cuts will mean that from 25,000 to 30,000 individuals who had been enrolled in education and training courses will no longer have programs available. It is assumed that 50 percent of this group will be in serious need of training, and an estimated 12,000 to 15,000 individuals will be looking for job training programs.

In summary, the number of people looking for training programs will be acute. While the Bay State Skills Corporation is not designed to train all these numbers of individuals itself, it is intended to work to pull business and industry and education together in order to meet this urgent and growing need.

[1] This section is compiled from information prepared by the Executive Office of Economic Affairs in March 1981: "The Bay State Skills Training Initiative: The Corporation Proposal and the Commission Experience."

are difficult to specify and often generate time-consuming and unproductive debate.[26]

Eleven States already target IRB's. For example,

- In **Iowa,** pursuant to the Urban Revitalization Act of 1979, local units may issue IRB's for commercial and residential projects in locally designated urban revitalization areas.
- In **Wisconsin,** commercial facilities, including shopping centers, office buildings, motels and hotels financed by IRB's must be in or adjacent to blighted areas, or undertaken pursuant to a locally approved urban redevelopment or renewal plan.

In 1981, IRB's were in the news in several States.

- In **California,** IRB use was authorized for the first time, although they are not targeted.
- **Florida** began a program where commercial facilities (including restaurants, lodging, retail establishments) may be financed only if they are located in blighted areas.
- **Missouri** authorized the cities of Kansas City and St. Louis to sell revenue bonds to finance commercial development in blighted areas.
- In **Oregon,** the IRB program was criticized sharply by the Audit Division of the Oregon State government. According to *The Weekly Bond Buyer*, the report found that the IRB program has issued far more bonds than the legislature contemplated when it created the program in 1975, and that "the State has no assurance or evidence that the bonding program is achieving its goal of improving Oregon's economy. In response, legislation was introduced to restrict IDB's to, among other things, companies that would create jobs in distressed areas.[27]
- In **Rhode Island,** the requirement that IRB's be targeted to downtown revitalization areas was rescinded.
- In **Texas,** the Texas Industrial Commission reported that IRB's have financed more than $334.7 million in projects creating an estimated 6,300 new jobs.[28]

[26] The Congressional Budget Office, "Small Issue Industrial Revenue Bonds," Washington, DC, U.S. Government Printing Office, April, 1981, pp. 61-62.

[27] For more information, see *The Weekly Bond Buyer*, New York, NY, Vol. 222, No. 4577, January 5, 1981, and Vol. 222, No. 4590, April 6, 1981.

[28] For more information, see *The Weekly Bond Buyer*, New York, NY, Vol. 222, No. 4577, January 5, 1981.

A Closer Look at the Ingredients of a Small Business Program

The **Maryland Small Business Development Financing Authority (MSBDFA)** assists socially or economically disadvantaged persons in business to obtain adequate working capital to continue and complete projects under government contracts. MSBDFA, created in 1978, provides both direct loans and loan guarantees for working capital, which includes supplies, materials, labor, or equipment that become part of the product or service to be delivered under a government contract. To be eligible for assistance, an applicant must: (1) have been awarded a Federal, State or local government contract; (2) be unable to obtain adequate business financing on reasonable terms through normal lending channels; and/or (3) have a business which is 70 percent owned by socially or economically disadvantaged persons. Since the program's inception, the State has made approximately 30 loans amounting to $2.4 million.

Administering the Program

The typical MSBDFA applicant inquires by phone about MSBDFA services; receives information over the phone and is then sent a MSBDFA brochure. After collecting the required financial data, the applicant presents a financial package to one of the loan administrators for an analysis. The loan administrator makes any necessary suggestions to the applicant, who then fills out a MSBDFA loan application. When this is submitted, the loan administrator prepares a loan overview with financial analysis report for qualifying candidates for consideration at the next Authority meeting. Factors in qualifying for a loan include: the financial strength of the business, the stability of the government contract, the business' potential economic impact on the community, and the company's credit.

The Authority meets monthly to approve or disapprove loans and to discuss MSBDFA business.[1] The Authority's current policy is not to make a direct loan for the maximum allowable amount of $150,000, or to guarantee more than 90 percent of a loan through a financial institution. The minimum amount of a loan has been set at $4,000 on a contract of at least $8,000. The August 1981, interest rate for a MSBDFA direct loan is 15 percent which is the highest rate the Authority has imposed, because of the present high prime interest rate. Should the prime rate fall below 15 percent, MSBDFA will make loans at the prime rate, but never at a rate lower than 6 percent.

When the Authority approves a loan, the loan is disbursed in the MSBDFA office approximately nine working days later. In the interim, the successful applicant has been notified by telephone and in writing via a commitment letter. The applicant executes an Assignment of Claim agreement and has his contractor execute a Notice of Assignment. With these documents, the applicant agrees to assign contract proceeds to MSBDFA and the applicant's contractor agrees to the assignment and to forward the proceeds payable to MSBDFA and the contractor directly to the MSBDFA office.

On the day of disbursement, an attorney from the Department of Economic and Community Development answers the applicant's questions. The applicant may also have a personal attorney present. A promissory note, loan and security agreement, and any additional documents, such as a certified copy of the Board of Directors' resolutions are executed at this time. Financial statements must be filed with the Department of Assessments and Taxation and with the county in which applicant's principal place of business is located. The applicant is responsible for the filing fees and must submit a check for them at the time of closing. When these requirements are met, the applicant receives the loan disbursement check.

The applicant's payments for work completed on the government contract are sent to MSBDFA by the contractor. After MSBDFA notifies the applicant that it has received the check, it either endorses and relinquishes the check, or holds it and relinquishes it in exchange for loan payments that are due.

A Small Business Perspective

To small businesses, the Maryland loan program provides money essential for increasing their volume of labor and equipment. For example, the Capital Steel and Construction Company in Maryland received loans of $25,000 and $140,000 to hire new personnel for projects on government contracts. From the company's perspective, neither the paperwork requirements nor other eligibility standards were troubling compared to the program's benefits. The firm's only suggestion for improving the program was that the present 11-12 month payback schedule should be extended to a longer term.

[1] MSBDFA consists of seven members, appointed by the Governor, two of whom are ex-officio: the Maryland State Treasurer and the Assistant Secretary for Economic Development.

Table 5

Targeted Community Development Programs

State and Region	Capital Improvements	Neighborhood Improvement
United States	16	14
New England		
Connecticut	x	x
Maine		
Massachusetts	x	x
New Hampshire		
Rhode Island		
Vermont		
Mideast		
Delaware		x
Maryland		
New Jersey	x	x
New York		x
Pennsylvania	x	x
Great Lakes		
Illinois		
Indiana		x
Michigan		x
Ohio		
Wisconsin		x
Plains		
Iowa		
Kansas		
Minnesota		x
Missouri		x
Nebraska	x	
North Dakota	x	
South Dakota	x	
Southeast		
Alabama		
Arkansas		
Florida		x
Georgia		x
Kentucky		
Louisiana		
Mississippi		
North Carolina		
South Carolina		
Tennessee	x	
Virginia		
West Virginia	x	
Southwest		
Arizona		
New Mexico	x	
Oklahoma		
Texas		
Rocky Mountain		
Colorado	x	
Idaho		
Montana	x	
Utah	x	
Wyoming	x	
Far West		
California		x
Nevada		
Oregon		
Washington	x	
Alaska	x	
Hawaii		

Source: ACIR staff compilation.

Community Development

Community development policies – in this report encompassing capital improvement and neighborhood conservation programs – for years have been associated with the Federal Community Development Block Grants (CDBG). That program has included among its objectives:

> The elimination of slums and blight and the prevention of blighting influences and the deterioration of property and neighborhood and community facilities of importance to the welfare of the community, principally of low and moderate income.[29]

Funds – \$3.66 billion in FY 82 – are provided directly to local governments, which are accorded relatively wide discretion in targeting them to their community development needs. As such, the combined Federal and local government roles in the community development field have dominated the States' efforts.

The Reagan administration, however, supported shifting administration of the small cities CDBG program to the States on an optional basis. States that choose to administer the program would be requested to consult with local officials, provide a 10 percent match, and furnish technical assistance to local governments. Additionally, no more than 2 percent of the Federal funds could be used by States for administrative expenses, with a 50 percent State match required. The plan reflects both the administration's desire "to reduce the impact of the Federal Government" in State and local affairs as well as

[29] *Community Development Block Grant Program – Staff Report*, Subcommittee Housing and Community Development, Committee on Banking, Finance and Urban Affairs, U.S. House of Representatives, 95th Congress, Washington, DC, U.S. Government Printing Office, February 1977, p. 5.

its belief that "States are more likely to know local needs than HUD."[30]

On the neighborhood preservation front, the Reagan budget proposals also signal a change in Federal attitude toward neighborhood policy, although their impact on State neighborhood conservation activities remains uncertain. For example, the administration eliminated the position of the HUD Assistant Secretary for Neighborhoods, Voluntary Associations, and Consumer Protection (NVACP). Cuts were made in several of the NVACP programs, as well, including the neighborhood self-help development program, housing counseling service, and others. Advisors to the Reagan administration have nevertheless indicated strong support for neighborhood revitalization. For example, a task force on neighborhoods recommended that "neighborhood groups and private investors should have a greater role in shaping neighborhood revitalization programs."[31]

Generally, State capital improvment programs are spread across the Nation with some concentration in the Rocky Mountain States. The neighborhood assistance policies are located in the Eastern and Central States.

Capital Improvement Programs: 16 States

For distressed areas, the maintenance and improvement of the community's infrastructure traditionally have been caught in a tug-of-war between long range planning and short-run crisis management. While local officials surveyed by ACIR/NAPA in 1979 named the capital improvement indicator first as a priority, competing pressures often have required that local policymakers shift attention to other policy concerns. Funds targeted for capital improvements are redirected because "capital expenditures have typically been used as a buffer whereby shortfalls in revenues or unforeseen current expenditures can be financed by deferring capital outlay."[32]

In 1980 and 1981, the number of local capital improvement programs surged upward. For example, a 1981 study prepared for the Congressional Joint Economic Committee examining the fiscal condition of cities reported:

> It appears that city government officials have come to recognize that maintaining and rehabilitating their capital plant is a vital step in the economic process.[33]

Table 6

General Government Capital Outlay Financing Percentage Composition by City Size

	1979	1980	1981a
Small Cities (n=108)			
1. Short-term Debt	5.5%	5.7%	3.2%
2. Long-term Debt	13.5	17.6	17.5
3. State Aid	5.2	3.3	5.0
4. Federal Aid	24.4	20.8	19.1
5. Current Revenues	33.4	35.2	38.6
6. Carryover Balance	15.8	16.1	15.3
7. Transfer from Enterprise	2.1	1.3	1.3
Total	100.0%	100.0%	100.0%
Medium Cities (n=50)			
1. Short-term Debt	5.7%	9.9%	6.3%
2. Long-term Debt	11.9	15.1	22.1
3. State Aid	6.5	8.6	3.5
4. Federal Aid	24.4	20.3	19.6
5. Current Revenues	32.2	27.6	25.8
6. Carryover Balance	19.1	17.6	22.0
7. Transfer from Enterprise	0.3	0.9	0.8
Total	100.0%	100.0%	100.0%
Large Cities (n=48)			
1. Short-term Debt	3.6%	3.1%	0.0%
2. Long-term Debt	23.9	22.3	31.6
3. State Aid	5.2	16.0	18.6
4. Federal Aid	36.5	26.2	23.1
5. Current Revenues	19.7	21.1	16.7
6. Carryover Balance	10.4	10.3	9.8
7. Transfer from Enterprise	0.7	1.0	0.3
Total	100.0%	100.0%	100.0%
Largest Cities (n=29)			
1. Short-term Debt	6.1%	8.0%	4.3%
2. Long-term Debt	31.9	32.1	32.4
3. State Aid	7.2	5.9	5.4
4. Federal Aid	27.8	29.4	31.8
5. Current Revenues	22.0	18.6	18.3
6. Carryover Balance	4.3	5.6	7.7
7. Transfer from Enterprise	0.7	0.6	0.3
Total	100.0%	100.0%	100.0%
All Cities (n=235)			
1. Short-term Debt	5.3%	6.3%	3.4%
2. Long-term Debt	17.5	20.2	23.5
3. State Aid	5.7	7.2	7.4
4. Federal Aid	27.0	23.0	21.9
5. Current Revenues	29.2	28.5	28.5
6. Carryover Balance	14.0	13.7	14.5
7. Transfer from Enterprise	1.3	1.0	0.9
Total	100.0%	100.0%	100.0%

1981a = budgeted or anticipated amounts for Fiscal Year 1981.

The case of Cleveland, OH, which faces a backlog of some $700 million in basic improvements in its infrastructure system, attests to the serious need for capital improvement programs. Additionally, in New York, between 1974 and 1978, annual capital appropriations fell by nearly 70 percent as a result of budgetary pressures.[34]

[30] "Proposed Administration Bill Makes Substantial Changes in CDBG, UDAG" and "State Small Cities Program Not Necessarily an Improvement, Pierce Says," *Housing and Development Reporter*, Washington, DC, Bureau of National Affairs, Vol. 8 No. 48, April 27, 1981, pp. 985 and 992.

[31] "Reagan Neighborhood Task Force Wants More Local Control, Private Investment," *Housing and Development Reporter*, Washington, D.C., Bureau of National Affairs, Vol. 8, No. 32, January 5, 1981. p. 651.

[32] Trends in the Fiscal Conditions of Cities: 1979-1981," prepared for the Joint Economic Committee, U.S. Congress, 97th Congress, May 1981, p. 33.

[33] *Ibid.*, p. 7.

[34] For more information on infrastructure systems, see the Urban Institute series *America's Capital Stock*, 6 Vols., The Urban Institute, Washington, DC, 1979.

Capital improvement financing, however, has largely been the responsibility of local governments, which combine their resources with Federal aid. For example, estimated 1981 State aid accounts for a mere 7.4 percent of financing for urban capital improvements as compared to 21.9 percent from the Federal Government, 28.5 percent for the cities' current revenues, and 23.5 percent from long-term debt financing *(Table 6)*.[35] While 16 States currently are responsible for capital improvement programs, reductions in Federal assistance may require an increased State role in providing targeted programs for water, sewer, street, and other structural repairs.

State programs have offered an impressive array of targeted techniques ranging from assistance to communities with rapid population or energy growth to small rural or urban communities to geographically distressed areas.

- **Alaska** has a Rural Development Assistance Program providing grants of up to $40,000 per year to small cities and villages for construction projects to help generate community development.
- **Nebraska** provides additional financial aid to school districts which have suffered rapidly expanding enrollments due to population influxes associated with power plant construction.
- **South Dakota** uses its mineral severance tax revenues to offset energy development related impacts.

1981 State actions in the capital improvement area include:

- In **Alaska,** Governor Jay Hammond directed the Division of Budget and Management to study ways to speed the flow of capital improvement projects. The Governor also asked the Division of Internal Audit to conduct a full management audit of the capital improvement financing process.
- In **New Jersey,** an $85 million community development bond act to target assistance to urban communities was authorized in the November 3, 1981, election. The act would assist corporations in sponsoring industrial projects, assist local governments in construction in distressed or depressed urban areas, and create and develop urban industrial parks.
- In **North Dakota,** last year's Coal Impact Fund was redesigned to aid rapid energy development regions including coal and gas production areas. The program has been renamed The Energy Development Impact Fund.

Neighborhood Development: 14 States

Neighborhood conservation is a complement to capital improvement programs and housing rehabilitation programs. For example, where capital improvement policies maintain and upgrade water and sewer systems in a variety of geographic areas, the neighborhood programs improve municipal services and facilities and also rehabilitate buildings exclusively within the neighborhood community. Additionally, a conservation program can be directed at improving a neighborhood's general economic development, creating local job opportunities, and increasing the number of local businesses.

> Neighborhood conservation policies are also similar to housing rehabilitation programs. "While rehabilitation is linked to buildings, conservation is linked to neighborhoods. Housing rehabilitation refers to the repair of deteriorated buildings. Neighborhood conservation or neighborhood rehabilitation refers to the general improvement of an area, including housing repair but going beyond just that one activity."[36]

While neighborhood programs generally have been left to local governments and community groups to develop, finance, and implement – with assistance from the Federal Government – the State role in neighborhood development is becoming more visible. For example, in an article published by the Conference on Alternative State and Local Policies, several reasons for State activity are suggested:

> States. . . have resources and authorities beyond what is available to local communities. States also have flexibility to a much greater degree than the Federal Government in developing programs tailored to specific needs of their cities and neighborhoods. Thus, States potentially can be a major resource for the neighborhood conservation movement.[37]

In the 14 States with neighborhood assistance programs, the varying policies incorporate tax incentives to aid neighborhoods and community-based organizations in administering and implementing projects, and technical assistance to encourage neighborhood housing rehabilitation.

- In **Florida,** the State aids community development corporations (CDC's) by providing grants for their

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[35] Compiled from Table 9, "Trends in the Fiscal Conditions of Cities: 1979-1981," prepared for the Joint Economic Committee, U.S. Congress, 97th Congress, May 1981.

[36] "Housing Rehabilitation and Neighborhood Conservation," *Housing and Urban Development Reference File,* The Bureau of National Affairs, Washington, DC, Oct. 10, 1977. p. 9.

[37] Maureen Ferris Pepson, "Neighborhoods Come of Age," *Ways and Means,* Conference on Alternative State and Local Policies, Vol. 3, No. 5, Washington, DC, September-October 1980, p. 3.

A Closer Look at a Unique Community Assistance Financing Source

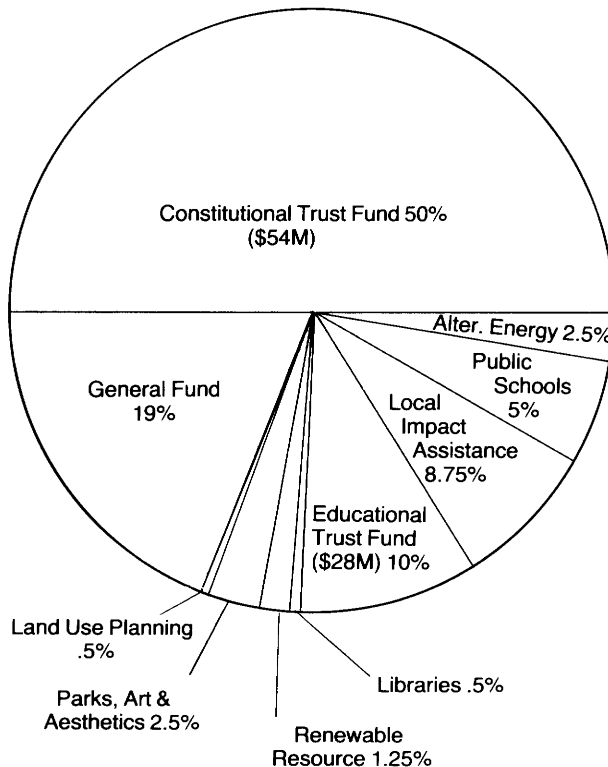
The Montana coal severance tax, upheld as constitutional by the U.S. Supreme Court in July 1981, has become a major capital improvement funding source for local governments in the State. The **Montana Local Impact Assistance Grant Program** is intended to assist local governments which have been required to expand public services as a consequence of large-scale coal development. From January 1976 to December 1980, the severance tax generated $32 million for local community assistance.

Montana currently divides its coal severance tax revenues (generated from a 20-30 percent tax rate) among a variety of interests, including 19 percent to the general fund, 0.5 percent to libraries, 10 percent to an educational trust fund, 5 percent to the public schools, and 8.75 percent for local impact assistance (See *Exhibit 2*). The latter program was enacted in 1975 and began operation in January 1976 to assist counties, towns, school districts, and other governmental units which have had or expect an estimated population increase of at least 10 percent during any three years since 1972 as a result of coal development.

The program is administered by a seven-member coal board which is appointed by the Governor and attached to the Department of Commerce. Two members of the Coal Board are required to have expertise in school matters and two others must reside in areas affected by coal development. To obtain a grant, the local government must demonstrate an increase in governmental services and/or a 10 percent increase in population strictly attributable to coal development. Funds are granted for specific purposes, for example, improvements to a specific public building or the purchase of a specific piece of equipment.

Exhibit 2

Montana's Severance Tax Distribution Formula



Severance Tax Income Projections

	FY 81	FY82	FY 83
Total	**$80,251,710**	**$106,565,070**	**$129,376,980**
Const. Trust 50%	40,125,855	53,282,535	64,688,490
Gen. Fund 19%	15,247,825	20,247,363	24,581,626
Local Impact 8.75%	7,022,025	9,324,444	11,320,486
Edu. Trust 10%	8,025,171	10,656,507	12,937,698
Pub. Schools 5%	4,012,586	5,328,254	6,468,849
Alt. Energy 2.5%	2,006,293	2,664,127	3,234,425
Ren. Res. 1.25%	1,003,146	1,332,063	1,617,212
Parks 2.5%	2,006,293	2,664,127	3,234,425
Planning 0.5%	401,259	532,825	646,885
Libraries .5%	401,259	532,825	646,885

Source: Montana Office Budget Program Planning.

A Closer Look at New Jersey's Capital Improvement Program

The **Safe and Clean Neighborhoods Program** has for many years been active in improving the quality of neighborhoods throughout New Jersey's urban centers. [1] The program exemplifies an established State capital improvement policy. To qualify for the program, a municipality must be eligible for funding under New Jersey's State Urban Aid Program. The following factors determine eligibility:

1) The municipal population must exceed 15,000, or the municipality must have a population density in excess of 10,000 per square mile.

2) The municipality must have at least one publicly financed dwelling unit for low income families.

3) The municipality must have enrolled in school at least 350 resident children who came from families that participate in the Aid to Families of Dependent Children Program.

4) The municipality must have an above average real property rate of taxation.

5) The municipality must have a below average base from which to develop the municipal tax income per person.

The program provides both financial and technical assistance to 37 "urban aid" municipalities in New Jersey for two related purposes. First, the aid is intended to raise the visibility of police protection by increasing the number of police officers who act as a deterrent to crime by walking in high crime neighborhoods. In this way, the police help restore citizen confidence about safety on the streets of their neighborhoods and improve police-community relations.

The program's second purpose is to provide resources to upgrade urban neighborhoods by effecting visible improvement there. These changes enhance the overall appearance and living conditions of the qualifying municipalities and, as a result, public safety as well.

In 1980, the State of New Jersey's appropriation of $14.6 million was matched in accordance with the law, by an equal municipal share for a total appropriation of $29.2 million. Approximately 67 percent of the total program costs were utilized for the salaries and equipment expenses of 775 "walking" police officers and their supervisors.

The "Safe" Component

By walking an average of 28,000 hours per week on 392 neighborhood posts, the Safe and Clean Neighborhoods Program police officers made an impact in New Jersey by their visibility in shops, businesses, malls, street corners, and residential areas. Their direct contact with residents, merchants, and, most importantly, juveniles is key to defeating crime and improving the community's relationship with the police department.

The "Clean" Component

In 1980, Clean Neighborhood component funds were utilized in 209 neighborhoods, providing the salaries of 340 full-time and 136 seasonal personnel. Funds, which assisted municipalities in "pay-as-you-go" capital expenditures, provided for the demolition of 145 substandard buildings, the construction or restoration of 35 parks and recreational facilities, the purchase of 28 pieces of heavy duty motorized maintenance equipment, the planting of 642 trees and the installation of 253 litter baskets. Funds also provided for resurfacing of streets and construction of curbs and sidewalks.

In an effort to integrate community development resources with anticrime efforts, 21 of the municipalities upgraded their street lighting from low to high density. Reports show a reduced criminal activity in the areas where lighting was improved.

Projects

- In Perth Amboy, a beautification program in the southeastern area of the city was initiated in 1980. This included the removal of trees obstructing traffic signs, repair of sidewalks and curbs, installation of litter baskets, and the hand sweeping of streets. Previous accomplishments include the refurbishing of Sadowski Park, the constructing of recreational facilities at Patten Center and landscaping at Caledonia Park.
- A "Clean Jersey City" campaign was begun in 1980 with the help of Safe and Clean Neighborhoods Program funds. The program provided vehicle support, 37,500 plastic litter bags and also 30 concrete litter boxes. Among other projects, 20 unsafe buildings were demolished and 200 new trees planted.
- In Trenton, nine streets were resurfaced in 1980 by two "clean" maintenance crews using 1,700 tons of asphalt. Over 20,800 hours of street sweeping, 8,060 hours of sanitation inspection and cleanup activities, 7,280 hours of tree planting and maintenance which visibly improved the neighborhoods and 2,080 hours of work by "clean" neighborhood personnel on sign replacement and installation were paid by the program.

[1] Material in this section was provided by the New Jersey Department of Community Affairs, Division of Local Government.

• In Newark, a neighborhood lot cleanup program has continued to be effective. Also, a revitalization program was begun to improve the area around Symphony Hall. Furthermore, funds were spent to provide the necessary personnel to perform cleanup activities in the city's neighborhoods.

• Four neighborhood parks were constructed in 1980 and will be maintained by volunteer neighborhood block associations in Camden. A restoration project in the Bergen-Lanning neighborhood included the replacement of sidewalks, the repair of streets and curbs, the planting of 75 trees, the laying of 1,100 yards of topsoil in vacant lots, and the demolition of 14 buildings.

• In Long Beach, a citywide cleanup and beautification program begun in 1980 included landscaping, the planting of trees and flowers, and litter pickup. More than 15,000 plastic bags, 250 lbs. of grass seed, 3,000 lbs. of fertilizer, and many hours of work were funded.

• In Elizabeth, 120 summer jobs for youth were funded. These high school students were employed to clean the city's streets and sidewalks of litter and to plant trees and shrubbery. Other "clean" neighborhood activities included the upgrading and expansion of various recreational facilities throughout the community and the repair of street damage caused by a severe winter.

• Phillipsburg cleaned up and beautified a vacant lot which had been occupied by dilapidated housing. Another project was to reduce vandalism by youth, a continuing concern of the residents of certain neighborhoods. In this project, vandal-proof fixtures were installed – replacing fixtures which had been vandalized – under three railroad underpasses, known as troubled areas.

A Closer Look at a Community Development Program Threatened by State Fiscal Troubles

Set within a larger program to revitalize and conserve urban areas, the Connecticut **Urban Act Joint Funding Program** is a $2.85 million bond-funded interagency effort designed to link individual categorical programs into a comprehensive coherent strategy for community development.[1] While the program has been relatively successful, it faces extinction because initial bond monies have been entirely obligated and the legislature is unable, in the present fiscal climate, to appropriate new funds.

Connecticut is representative of several fiscally troubled States which must reassess aid to cities and towns. The Connecticut Conference of Municipalities reported that local government aid in the 1981-82 State budget totals $480.1 million after reimbursements for State-mandated tax exemptions, pass-throughs, and prior year obligations are netted out. This figure is $40.7 million less than recommended by the Governor and only a 3.6 percent increase over last year's appropriation of $463.2 million. Because the budget increase falls short of even the inflation rate, several urban programs, including the Urban Act Joint Funding Program, received no new State funds and face termination.

While the Urban Act Joint Funding Program may end after ongoing projects are completed, the program's interdepartmental components suggest an innovative and comprehensive approach to community assistance. The program is a part of the Connecticut Urban Act, an act that, in addition to its many purposes, provided $12 million in bond funds to five State agencies "for the purpose of redirecting, improving and expanding State activities which promote community conservation and development and improve the quality of life for urban residents of the State. . . ."

Beginning in January 1980, the five agencies designated in the Urban Act – the Departments of Economic Development, Environmental Protection, Housing, Human Resources, and Transportation – agreed to set aside $2.85 million for joint funding to assist local community development projects.

Project Implementation

After initial proposals were solicited and workshops provided potential applicants with additional explanation about the program, the five funding agencies and the Connecticut Office of Policy and Management selected 12 projects that warranted further consideration. The applicants were requested to provide additional information and to consider certain revisions to their proposals. Representatives of the five agencies considered this material, interviewed officials of some applicant towns, and then selected six projects to receive about $1.9 million in Urban Act funds. Projects ranged from construction of pedestrian walkways and bus shelters to park modifications to community center renovations.

A Revitalization Project

One project that was funded was to revitalize a heavily blighted area in Norwalk. Funds from four State agencies are financing the project: $200,000 from the Department

[1] The material in this section is compiled from reports from the Connecticut Comprehensive Planning Office of Policy and Management including a January 1981 program evaluation titled: "Urban Act Joint Funding: Program Description and Evaluation."

of Transportation (DOT), $155,000 from the Department of Housing (DOH), $100,000 from the Department of Economic Development (DED), and $8,000 from the Department of Environmental Protection (DEP).

DOT funds will pay for a mini-transit mall on Washington Street, the commercial core of the neighborhood. The mall will increase capacity and safety for buses, other vehicles and pedestrian traffic. Bus usage should double to 700 riders a day by the end of the program's first phase. The mall will feature curb cuts, prominent bus stops, benches and shelters, landscaping, transit information displays, and bus turn-out lanes. The city has planned a full range of street improvements on Washington Street to support the transit mall and commercial rehabilitation around it. DOT may fund improvements to the South Norwalk rail station as one of its single-purpose Urban Act grants. The station borders this neighborhood but serves the entire community.

DEP dollars will enable the city to lease a triangular parcel from DOT on the corner of Washington and Main Streets to develop a small park. A vacant building on the site will be renovated as a visitor information center. The park will anchor one end of the Washington Street Commercial Historic District and provide a link to the future rail station improvements.

DED and DOH funds will be an integral component in a Secondary Financing Loan Pool to cover mixed commercial, office and residential rehabilitation.

Evaluating the Program

According to an evaluation by the Office of Policy and Management, both grant recipients and agencies liked the program. For participants, the policy offered the kinds of activities they were looking for in a flexible format they could tailor to their own needs. The two-phase application process saved the towns and participating agencies time and money by requiring full applications only for those proposals which might be funded.

According to the evaluation, the agencies also were firmly behind the joint funding approach. The "one experience has aroused [the agencies'] enthusiasm for coordinating funding," it was noted.

The benefits of the program were varied. For example, joint funding increased cooperation among the State agencies and enhanced their understanding of how their activities can interact. Pooling of resources resulted in a better product and increased economies for the agencies. The process itself contributed to the creation of better proposals, as the agencies negotiated cooperatively with the towns to iron out funding combinations or adjust the elements of a proposal to get a better "mix." In some cases, this resulted in reduced expenditures or increased effectiveness for the dollars spent. Finally, joint funding was remarkably successful in enhancing the leveraging capacity of the towns.

Nevertheless, the program had its problems as well. More consultation and technical assistance was needed from State agencies during the proposal phase. The use of existing categorical programs with Urban Act financing was confusing and awkward for both the towns and the agencies. The program moved smoothly through the selection phase and then ground to a halt as the agencies began to crank the proposals through their categorical program requirements. While the agencies' request for proposals had asked towns to combine creatively the planning elements of the proposals, existing grant regulations compelled the agencies to break the proposals apart to process them. Existing categorical programs have many inflexible requirements that make it difficult to use them in combination (matching shares, public hearing requirements, timing and content of resolutions, separate bank accounts, etc.
bank accounts, etc.)

The Office of Policy and Management evaluation report suggests that joint funding provides a unique interagency approach to urban and community development problems. And yet, as noted earlier, the program's fate rests not on its own merits, but on the State's ability to cope with its fiscal difficulties.

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administrative expenses not to exceed $100,000 as well as loans not to exceed $3 million to any CDC establishing businesses in blighted communities.

- In **Georgia,** the Department of Community Affairs Downtown Development Program provides technical assistance for the revitalization of commercial areas and declining neighborhoods.

- In **Michigan,** a 1980 program allows corporate tax credits for contributions to neighborhood preservation activities.

- In **New Jersey,** the neighborhood Preservation Program provides loans and grants for housing rehabilitation to local governments. The program is very flexible in that funds can go to homeowners directly or to whole neighborhoods.

Fiscal and Financial Management Assistance

In 1981, because of impending Federal budget cuts and tightening State fiscal conditions, State and local governments began to take stock of their respective fiscal and functional responsibilities and capabilities. At the State level, policymakers could do little to prepare for Federal program changes until congressional action. By the time Congress passed the budget with its block grants and significant funding cutbacks, most legislative budget sessions had long ended. In those States which began analyzing the Reagan economic proposals early, the evaluations were necessarily tentative and predictive. For example, in an analysis of the potential impact of the Reagan budget on California programs, the California Legislative Budget Office warned that important questions would have to be answered before any comprehensive assessment could be conducted. Such questions included: What would be the exact regional distribution of Federal spending cuts? Would the increased defense spending for procurement be allocated by type of weapon or geographic area of the country? Exactly what would the $74 billion of unspecified 1983 and 1984 Federal spending reductions be comprised of? [38]

Coupled with the difficulties of adequately assessing or responding legislatively to the Reagan proposals, many States had to consider their own fiscal and programmatic troubles. For example, in Massachusetts, State legislators faced serious fiscal constraints caused by the passage of Proposition 2½, the $1.5 billion tax cutting package that reduced property tax collections by 75 percent in Boston and by 30 percent in more than 100 other communities. Additionally, in California, Connecticut, Michigan, Oregon, Wisconsin, and other States, significant budget reductions were passed.

At the local level, policymakers had to assess the impact not only of shifts in Federal policy, but of State program changes as well. As States evaluated their financial condition in light of recessionary conditions and other pressures, local governments were attempting to protect their aid package, often without success. For example, Connecticut localities received $40.9 million less than anticipated from the legislature, and in New Hampshire, State budget actions cost municipalities $19 million over the next two fiscal years.

As in last year's distressed communities report, the State fiscal reform measures considered are those policies that equalize fiscal differences between communities with aid in the areas of revenue sharing, education finance, and public welfare expenditures as well as functioning mandates reimbursement programs and local credit market policies. State programs were considered targeted to distressed communities when the programs sought to alleviate revenue and expenditure burdens of fiscally pressed communities, specifically those communities with an inadequate tax base and a below average per capita income.

This criterion assumes that most fiscal and financial management assistance programs are statewide. Additional criteria were developed for each indicator to reflect specific equalizing reforms. For example, to be included in the list of programs, State revenue sharing programs must distribute 50 percent or more of the total revenue according to equalizing factors consisting of population, per capita rates, and funds distributed in inverse proportion to tax capacity effort. Education finance reforms must reduce disparities between local governments in per pupil expenditures. For the public welfare category, the State must assume 90 percent or more of the local government's costs. Any State mandate reimbursement program or local credit market policy also is recognized. Both programs improve the local municipalities' ability to manage and allocate their money more efficiently. As in the 1980 report, most fiscal reform actions have taken place in the Western and Central States.

Revenue Sharing: 23 States

State-local revenue sharing can be defined as money given to localities – primarily counties, townships, cities, and villages – to be spent as the localities themselves determine. The amount and method of allocating aid is determined by the State legislature. This broad definition of revenue sharing includes a whole range of State payments, including distributed tobacco and alcohol taxes, State payments for exempted business and personal property tax bases, and revenue equalizing programs with formulas as elaborate as the Federal revenue sharing formula. This definition of State-local revenue sharing excludes categorical aids to all local governments and most payments to school districts and special districts since such districts generally must spend all aid in their particular functional area. The definition also excludes piggyback taxes where there is a local option to tax or to determine the local tax rate.

States have four principal reasons for instituting sharing programs; primary reasons and methods vary from State to State. State-local revenue sharing originated in many States as a way of compensating localities for property exempted from local taxation or removed from the tax rolls. Examples of such programs include State payments for public utilities, government property, and personal property such as household goods, financial assets, business machinery and inventory, and farm animals.

A second rationale for State-local revenue sharing has been to harness the superior revenue raising ability of State tax systems to the local need for revenue sources that

[38] "The Potential Impact of President Reagan's Economic Plan on California: A Preliminary Report," California Legislative Analyst, April 1981, p. 15.

Table 7

STATE ACTIONS TO PROVIDE FISCAL RELIEF TO DISTRESSED COMMUNITIES

State and Region	State-Local Revenue Sharing[1]	Education Finance Reform[1]	Welfare Cost Assumption	Mandates Reimbursement	Credit Market Access
United States	23	18	25	14	35
New England					
Connecticut		X	X		X
Maine	X				X
Massachusetts	X		X	X	X
New Hampshire	X				X
Rhode Island			X	X	X
Vermont			X		X
Mideast					
Delaware			X		X
Maryland			X		X
New Jersey					X
New York	X				X
Pennsylvania					X
Great Lakes					
Illinois	X	X	X	X	X
Indiana		X			
Michigan	X	X	X	X	X
Ohio					X
Wisconsin	X	X			
Plains					
Iowa		X			
Kansas		X	X		
Minnesota	X				X
Missouri		X	X	X	X
Nebraska					
North Dakota		X			X
South Dakota			X		
Southeast					
Alabama			X		
Arkansas	X		X		
Florida		X		X	X
Georgia	X				X
Kentucky			X		X
Louisiana	X		X		X
Mississippi					
North Carolina					X
South Carolina	X	X	X		
Tennessee	X	X		X	X
Virginia	X			X	X
West Virginia			X		X
Southwest					
Arizona	X	X		X	X
New Mexico		X			X
Oklahoma	X		X		X
Texas		X	X		X
Rocky Mountain					
Colorado		X			
Idaho			X	X	
Montana		X		X	X
Utah	X		X		X
Wyoming	X				
Far West					
California		X	X	X	X
Nevada	X				X
Oregon	X				
Washington	X		X	X	
Alaska	X		X		X
Hawaii	X		X	X	X

[1] No new data is available since the 1980 report to update the number of States with revenue sharing and education finance equalizing formulas.

Source: ACIR staff compilation.

are more diversified, economically responsive, and easily administered. This fiscal strategy allows both for preservation of decentralized authority, and, unlike new local taxing authority, also for the extension of significant help to a large number of local governments whose small size, administrative capacity, and lack of wealth in a new tax base might make new taxing authority ineffectual.

Closely related to the second reason is the need for property tax relief. When shared funds are used by local governments to hold down or decrease property taxes, the aid to governments also becomes relief for individual property taxpayers.

A final reason for State sharing is the gap between some local governments' need for revenue and their ability to raise it. Given the disparities that often exist between central cities and suburbs, this problem is often most serious in major metropolitan areas. State-local sharing can be designed to provide additional aid to localities with above average public service needs and below average local resources.[39]

In 1978, 49 States shared over $6.8 billion with localities. This amount represents over 10 percent of total State aid and is the third largest type of State aid after education and public welfare funding. When the Federal pass-through component of State aid is not counted, State-

[39] This introductory section is from: ACIR, *The State of State-Local Revenue Sharing* (M-121), Washington, DC, U.S. Government Printing Office, December 1980, p. 2.

local revenue sharing is second in size to education aid. More specifically, between 1958 and 1978, State-local revenue sharing increased nine-fold – from $687 million to $6.819 billion. Even after inflation is considered, this is still a 331 percent increase.

Despite their impressive record, States may begin to slow the steady upward trend in funding levels. In the next year or two, States must reassess their revenue sharing programs in light of the elimination of Federal-State revenue sharing, limitations on State spending, revenue shortfalls, and general fiscal conservatism. In the last year, for example, Minnesota and Wisconsin had to impose across-the-board cuts in spending, including revenue sharing, as a result of personal income tax indexation and recessionary economic conditions. In Connecticut, a major revenue sharing source – Urban Aid Grants, providing $24 million to municipalities – was eliminated because of budget tightening. In New Jersey, funding for urban aid and revenue sharing programs was not increased despite inflation. Meanwhile, in Michigan, the State-local revenue sharing program increased to $471.1 million, approximately $72 million below the amount projected a year earlier. Of that loss, $52 million resulted from revenue collections that fell below original projections.

Still, all State-local revenue sharing programs are not in trouble. For example, in New York, the budget for FY 1982 provided a slight increase in aid to localities. And, in the severance tax States, provisions for revenue sharing attached to that tax as well as the tax's growth potential may offer greater fiscal security to localities.

Education Finance: 18 States

As reported in the 1980 annual report, 25 States enacted school equalization finance plans during the period 1970-77. While each plan attempts to reduce within-State disparities in per pupil expenditures, the success of those reforms is unclear. For example, in reviewing research analyzing the impact of school finance modifications, the Education Commission of the States reports:

> Numerous studies of individual States have been completed. Typically, these charted the progress of school finance systems over time; however, few studies have compared the States to one another. Those studies that did compare the States found that greater progress was made in reducing the relationship between school district expenditure levels and school district wealth than in reducing the disparity among districts in their expenditure levels. This may simply reflect the fact that in the early part of the 1970's a primary objective of policymakers was to deal with property tax related problems. Studies have also shown that school finance reform led to increased expenditures for education in general and most of the new funds were not used to increase teacher salary levels. Finally, school finance reforms directed funds to districts with special needs, such as large proportions of pupils in need of compensatory education.[40]

While school finance reforms continue to be evaluated, the most recent data identifies 18 reform States as having education finance policies where within-State discrepancies in per pupil expenditures have declined.

As States continue to reform their education finance systems, they also have had to adjust their education aid mechanisms to account for State fiscal constraints and Federal educational policy changes. For example, in 1981 several States had to adapt to tight budget conditions.

- In **Kentucky, Michigan, Massachusetts, Ohio** and **Oregon,** revenues for education decreased in real terms. In response several States are trying to reduce their funding for categorical programs. In Kentucky, $44.3 million was cut from the education budget for the 1981-82 school year.
- In **Massachusetts,** the $466 million loss in property tax revenues for municipalities resulting from Proposition 2 ½ will have a long-term impact on the State's education policy.
- In **Michigan,** for the first time in 40 years, the State legislature will appropriate fewer dollars for education for the current year than in the previous year. According to the Education Commission of the States, school officials are expecting at least a 14 percent cut in direct school aid and a reduction in categorical funding to approximately two-thirds of the level for the prior year.

At the Federal level, the education block grants, as passed by Congress, will require States to adapt their educational systems to meet new Federal requirements and efficiently allocate block grant monies to school districts. Specifically, Title I of the *Elementary and Secondary Education Act* program was authorized at $3.48 billion each fiscal year 1982 through 1984. The Title I authorization is not part of the block grant. Thirty relatively small education programs, however, were consolidated into a $589 million block grant for FY 1982, 1983, and 1984.

From the States' perspective, Title I remains a program focusing on economically disadvantaged children. Additionally, while citizen participation requirements and Federal regulations have been reduced, local districts still must meet maintenance of effort requirements and use Federal aid only to "supplement and not sup-

[40] Allan Odden and John Augenblick, "School Finance Reform in the States: 1981," Denver, CO, Education Commission of the States, Report No. F81-1, January 1981, p. 41.

Table 8

State-Local Tax Revenue Sharing Program Characterized by Ability to Equalize Interlocal Fiscal Disparities, by State, 1977[1]

State	Percent Program Revenues Distributed According to Equalizing Factor(s)	Major Distribution Factor(s)
Alabama	31.00	Local origin
Alaska[2]	50.50	Per capita tax rates
Arizona[2]	52.26	Population
Arkansas	67.74	Population
California	33.90	Property tax reimbursement
Colorado	0	Not specified
Connecticut	28.17	Local origin; property tax reimbursement
Florida[2]	.09	Local origin; other
Georgia	83.86	Various need measures
Hawaii	100.00	Tax capacity; inverse distribution
Idaho	18.08	Property tax reimbursement
Illinois	100.00	Population
Indiana	11.14	Property tax reimbursement
Iowa	13.18	Property tax reimbursement
Kansas[2]	39.59	Property tax reimbursement
Kentucky	0	Property tax reimbursement
Louisiana	71.41	Tax capacity; inverse distribution, other need measures
Maine	77.40	Tax capacity; inverse distribution
Maryland	21.94	Local origin; property tax reimbursement; other
Massachusetts	58.52	Tax capacity; inverse distribution
Michigan	65.22	Population; tax capacity; inverse distribution
Minnesota	82.59	Tax capacity; inverse distribution
Mississippi	.90	Local origin
Missouri	0	Local origin
Montana	0	Local origin
Nebraska[2]	14.26	Property tax reimbursement
Nevada	86.10	Population
New Hampshire[2]	18.4	Property tax reimbursement
New Jersey	10.62	Property tax reimbursement
New Mexico[2]	0	Local origin
New York	70.00	Various need measures
North Carolina[2]	15.10	Local origin
North Dakota[2]	18.74	Local origin; property tax reimbursement; other
Ohio[2]	0	Local origin; property tax reimbursement; other
Oklahoma[2]	83.68	Population
Oregon[2]	61.41	Population
Pennsylvania	0	Local origin
Rhode Island[2]	30.59	Property tax reimbursement
South Carolina[2]	77.86	Population
South Dakota	47.50	Other nonequalizing factors
Tennessee[2]	67.02	Population
Texas	0	Local origin
Utah	100.00	Population
Vermont	0	Local origin
Virginia	98.50	Population
Washington	65.18	Population
West Virginia[2]	0	Local origin
Wisconsin	72.80	Population; tax capacity; inverse distribution; local origin
Wyoming	86.39	Population

[1] Some States do not have a formally titled revenue sharing plan. However, several States are included as having State revenue sharing plans if State revenues are collected and distributed to local governments. For example, Nevada and Washington are included because both collect selected sales taxes and distribute the revenues to municipalities.

[2] The most recent data reporting the actual percentages of program revenues according to equalizing factors are from the *1977 Census of Governments.* This data is used in this report to indicate those States with equalizing revenue sharing programs; however, according to research conducted by the Center for Governmental Research, Inc., 16 States have in the past four years enacted new or more equalizing formulas. Specific percentages are not available.

Source: ACIR staff compilation based on State legislative data derived from U.S. Bureau of the Census, *1977 Census of Governments: State Payments to Local Governments,* Vol. 6, No. 3, Washington, DC, U.S. Government Printing Office, 1978.

Table 9

Estimated Revenue Receipts for Elementary and Secondary Schools, By Governmental Source, by State: 1980-81

State and Region	Revenue Receipts by Source (in millions) Total	Federal	State	Local and Other	Percentage Distribution of Receipts, Total: Federal	State	Local and Other	Excluding Federal: State	Local and Other
United States	$102,268	$9,158	$50,798	$42,311	9.0	49.7	41.4	54.6	45.4
New England	6,269	414	2,264	3,592	6.6	36.1	57.3	38.7	61.3
Connecticut	1,526	88	525	912	5.8	34.4	59.8	36.5	63.5
Maine	477	43	233	201	9.1	48.8	42.1	53.7	46.3
Massachusetts	3,265	228	1,263	1,774	7.0	38.7	54.3	41.6	58.4
New Hampshire	374	17	25	332	4.6	6.7	88.7	7.0	93.0
Rhode Island	409	24	159	227	5.9	38.7	55.4	41.2	58.8
Vermont	218	13	59	146	6.1	27.0	66.8	28.8	71.2
Mideast	21,938	1,332	9,171	11,435	6.1	41.8	52.1	44.5	55.5
Delaware	319	40	210	68	12.6	66.0	21.5	75.4	24.6
District of Columbia	314	38	—	276	12.0	—	88.0	—	100.0
Maryland	2,125	161	844	1,120	7.6	39.7	52.7	43.0	57.0
New Jersey	4,136	150	1,631	2,355	3.6	39.4	56.9	40.9	59.1
New York	9,420	465	3,955	5,000	4.9	42.0	53.1	44.2	55.8
Pennsylvania	5,624	478	2,531	2,615	8.5	45.0	46.5	49.2	50.8
Great Lakes	19,164	1,542	7,889	9,733	8.0	41.2	50.8	44.8	55.2
Illinois	5,552	539	2,262	2,750	9.7	40.8	49.5	45.1	54.9
Indiana	2,216	121	1,322	772	5.5	59.7	34.8	63.1	36.9
Michigan	4,886	392	1,750	2,744	8.0	35.8	56.2	38.9	61.1
Ohio	4,217	347	1,711	2,160	8.2	40.6	51.2	44.2	55.8
Wisconsin	2,294	144	844	1,307	6.3	36.8	57.0	39.2	60.8
Plains	7,818	617	3,385	3,816	7.9	43.3	48.8	47.0	53.0
Iowa	1,437	106	619	712	7.4	43.1	49.5	46.5	53.5
Kansas	1,105	75	504	527	6.8	45.6	47.6	48.9	51.1
Minnesota	2,255	143	1,234	878	6.4	54.7	38.9	58.4	41.6
Missouri	1,836	186	678	972	10.1	36.9	52.9	41.1	58.9
Nebraska	646	51	158	438	7.9	24.4	67.7	26.5	73.5
North Dakota	253	20	115	118	7.9	45.4	46.6	49.4	50.6
South Dakota	285	36	77	172	12.6	27.0	60.4	30.9	69.1
Southeast	19,371	2,437	11,027	5,907	12.6	56.9	30.5	65.1	34.9
Alabama	1,205	145	845	215	12.0	70.1	17.8	79.7	20.3
Arkansas	786	114	425	247	14.6	54.0	31.4	63.3	36.7
Florida	3,450	300	2,000	1,150	8.7	58.0	33.3	63.5	36.5
Georgia	2,059	266	1,138	655	12.9	55.3	31.8	63.5	36.5
Kentucky	1,327	155	935	237	11.7	70.5	17.9	79.8	20.2
Louisiana	1,541	230	851	460	14.9	55.2	29.9	64.9	35.1
Mississippi	859	207	456	196	24.1	53.1	22.8	69.9	30.1
North Carolina	2,240	300	1,465	475	13.4	65.4	21.2	75.5	24.5
South Carolina	1,210	174	711	325	14.4	58.8	26.9	68.6	31.4
Tennessee	1,549	233	749	567	15.0	48.3	36.6	56.9	43.1
Virginia	2,331	222	954	1,155	9.5	40.9	49.6	45.2	54.8
West Virginia	815	92	499	225	11.3	61.2	27.6	68.9	31.1
Southwest	9,682	1,062	5,019	3,601	11.0	51.8	37.2	58.2	41.8
Arizona	1,219	146	495	577	12.0	40.6	47.3	46.2	53.8
New Mexico	669	90	453	126	13.4	67.7	18.9	78.2	21.8
Oklahoma	1,392	160	825	407	11.5	59.3	29.2	67.0	33.0
Texas	6,402	665	3,246	2,490	10.4	50.7	38.9	56.6	43.4
Rocky Mountain	3,259	232	1,502	1,525	7.1	46.1	46.8	49.6	50.4
Colorado	1,478	90	606	782	6.1	41.0	52.9	43.6	56.4
Idaho	382	32	235	115	8.4	61.5	30.1	67.2	32.8
Montana	410	37	198	175	9.0	48.3	42.7	53.1	46.9
Utah	712	54	384	273	7.6	53.9	38.4	58.4	41.6
Wyoming	277	18	79	179	6.7	28.6	64.7	30.6	69.4
Far West[1]	13,856	1,406	9,838	2,612	10.1	71.0	18.8	79.0	21.0
California	10,345	1,092	7,798	1,456	10.6	75.4	14.1	84.3	15.7
Nevada	297	23	154	120	7.8	51.7	40.5	56.1	43.9
Oregon	1,335	130	480	725	9.7	36.0	54.3	39.8	60.2
Washington	1,879	161	1,407	311	8.6	74.9	16.6	81.9	18.1
Alaska	467	61	325	81	13.1	69.6	17.3	80.1	19.9
Hawaii	444	55	378	11	12.3	85.1	2.6	97.1	2.9

[1] Excluding Alaska and Hawaii

Source: Compiled by ACIR staff from the National Education Association, *Estimates of School Statistics, 1980-81* (copyright 1981 by the National Education Association, all rights reserved).

plant'' State and local education efforts. The $589 million block grant, however, requires that States designate 80 percent of the Federal funds to local districts for purposes including basic skills training, support services, and special projects. The block grant is not effective until October 1982.

Interestingly, some States anticipated Federal block grant action by implementing their own State block grants. In Arizona, for example, legislation was enacted in 1980, consolidating State special education, pupil transportation, and other program monies into a package for the local school board to allocate for specific programs. This is in contrast to the past system where the State allocated revenues to schools for specific programs.

In 1981 actions:

- In **Kansas,** the Kansas Supreme Court ruled that the 1981 legislature had overstepped its constitutional powers by tacking on an amendment to the School District Equalization Act. As a result of the ruling, school districts statewide will see shifts in funding, and the statewide property tax may climb to finance district shortfalls.
- In **Maryland,** a trial court in the City of Baltimore held the financing methods for Maryland's public schools unconstitutional and called on the State legislature to come up with a new system to equalize spending for schools in rich and poor districts. The case is being appealed to a higher court.
- In **North Carolina,** the State aid formula was streamlined by reducing the number of line items. According to the Education Commission of the States, this adjustment is intended to provide greater flexibility at the local level.
- In **Wyoming,** the legislature approved a proposed constitutional amendment that would empower it to equalize the revenues of school districts by means of a recapture provision. This constitutional amendment will be submitted to the voters in the November 1982, election.

Public Welfare: 25 States

''Public Welfare'' is a term frequently used to describe those programs which provide significant support on an income-tested basis to a fairly broad segment of the low income population. This definition would exclude programs aimed at a particular segment of the population such as veterans' pensions, although the veterans' pension programs clearly would fit within other reasonable definitions of ''welfare programs.'' Similarly, the above

Table 10

State Ranked According to State Percentage of State-Local General Expenditures, From Own Revenue Source, For Local Education 1980-81

Local Education	
Hawaii	97.1
California	84.3
Washington	81.9
Alaska	80.1
Kentucky	79.8
Alabama	79.7
New Mexico	78.2
North Carolina	75.5
Delaware	75.4
Mississippi	69.9
West Virginia	68.9
South Carolina	68.6
Idaho	67.2
Oklahoma	67.0
Louisiana	64.9
Florida	63.5
Georgia	63.5
Arkansas	63.3
Indiana	63.1
Minnesota	58.4
Utah	58.4
Tennessee	56.9
Texas	56.6
Nevada	56.1
Maine	53.7
Montana	53.1
North Dakota	49.4
Pennsylvania	49.2
Kansas	48.9
Iowa	46.5
Arizona	46.2
Virginia	45.2
Illinois	45.1
New York	44.2
Ohio	44.2
Colorado	43.6
Maryland	43.0
Massachusetts	41.6
Rhode Island	41.2
Missouri	41.1
New Jersey	40.9
Oregon	39.8
Wisconsin	39.2
Michigan	38.9
Connecticut	36.5
South Dakota	30.9
Wyoming	30.6
Vermont	28.8
Nebraska	26.5
New Hampshire	7.0
U.S.	54.6

Note: Local school percentages were derived from estimated receipts available for expenditure for current expenses, capital outlay, and debt service for public elementary and secondary schools as reported by the National Education Association.

Source: Compiled by ACIR staff from the National Education Association, *Estimates of School Statistics, 1980-81* (copyright 1981 by the National Education Association, all rights reserved).

Table 11

State and Local Expenditures for Public Welfare,[1] by Governmental Source of Financing, by State, 1978-79 (in millions)

States	Local Funds	State/ Local Funds	Federal Aid	Total Federal, State, Local Funds	Percent Federal Funds	Percent State Funds	Percent Local Funds	Share of State/Local State	Local
United States, Total	$3,134.6	$19,517.4	$22,360.9	$41,878.3	53.4	39.1	7.5	83.9	16.1
Alabama	8.6	135.9	305.5	441.4	69.2	28.8	1.9	93.7	6.7
Alaska	.7	69.5	33.0	102.5	32.2	67.1	.6	99.0	1.0
Arizona	27.4	94.8	49.8	144.6	34.4	46.6	18.9	71.1	28.9
Arkansas	2.9	84.2	226.4	310.6	72.9	26.2	.9	96.6	3.4
California	112.5	4,193.4	2,865.1	7,058.5	40.6	57.8	1.6	97.3	2.7
Colorado	42.1	173.2	216.7	389.9	55.6	33.6	10.8	75.7	24.3
Connecticut	21.4	278.6	312.1	590.7	52.8	43.5	3.6	92.3	7.7
Delaware	.7	38.3	46.9	85.2	55.0	44.1	.8	98.2	1.8
District of Columbia	—	—	—	—	—	—	—	—	—
Florida	55.4	310.6	365.1	675.7	54.0	37.8	8.2	82.2	17.8
Georgia	2/	2/	2/	2/	2/	2/	2/	2/	2/
Hawaii	1.5	109.8	114.7	224.5	51.1	48.2	.7	98.6	1.4
Idaho	3.4	43.5	54.6	98.1	55.7	40.9	3.5	92.2	7.8
Illinois	-3.2	1,139.7	1,154.2	2,293.9	50.2	49.8	0.0	100.0	0.0
Indiana	96.9	252.6	322.4	575.0	56.1	27.1	16.9	61.6	38.4
Iowa	48.6	263.0	192.2	455.2	42.2	47.1	10.7	81.5	18.5
Kansas	8.1	156.4	162.6	319.0	51.0	46.5	2.5	94.8	5.2
Kentucky	8.4	249.8	277.7	527.5	52.6	45.8	1.6	96.6	3.4
Louisiana	4.8	142.2	403.6	545.8	73.9	25.2	.9	96.6	3.4
Maine	9.7	90.2	140.9	231.1	61.0	34.8	4.2	89.2	10.8
Maryland	6.1	327.9	325.1	653.0	49.8	49.3	.9	98.1	1.9
Massachusetts	28.4	857.7	847.6	1,705.3	49.7	48.6	1.7	96.7	3.3
Michigan	64.7	1,224.2	1,222.7	2,446.9	50.0	47.4	2.6	94.7	5.3
Minnesota	179.2	430.2	495.9	926.1	53.5	27.1	19.3	58.3	41.7
Mississippi	15.2	122.0	236.6	358.6	66.0	29.7	4.2	87.5	12.5
Missouri	-12.8	212.3	327.2	539.5	59.2	40.8	0.0	100.0	0.0
Montana	16.3	27.5	69.8	97.3	71.7	11.5	16.8	40.7	59.3
Nebraska	17.8	81.9	100.5	182.4	55.1	35.1	9.8	78.3	21.7
Nevada	19.3	38.8	32.8	71.6	45.8	27.2	27.0	50.3	49.7
New Hampshire	22.9	49.1	68.2	117.3	58.1	22.3	19.5	53.4	46.6
New Jersey	155.7	685.2	780.1	1,465.3	53.2	36.1	10.6	77.3	22.7
New Mexico	2/	2/	2/	2/	2/	2/	2/	2/	2/
New York	1,412.8	2,496.0	3,424.4	5,920.4	57.8	18.3	23.1	43.4	56.6
North Carolina	2/	2/	2/	2/	2/	2/	2/	2/	2/
North Dakota	7.8	36.1	48.7	84.8	57.4	33.4	9.2	78.4	21.6
Ohio	187.6	755.5	777.4	1,532.9	50.7	37.0	12.2	75.2	24.8
Oklahoma	6.1	192.1	302.5	494.6	61.2	37.6	1.2	96.8	3.2
Oregon	23.7	223.0	247.2	470.2	52.6	42.4	5.0	89.4	10.6
Pennsylvania	165.1	1,304.6	1,433.4	2,738.0	52.3	41.6	6.0	87.3	12.7
Rhode Island	3.7	129.1	128.9	258.0	50.0	48.6	1.4	97.1	2.9
South Carolina	6.8	108.6	200.1	308.7	64.8	33.0	2.2	93.7	6.3
South Dakota	3.2	32.2	57.4	89.6	64.1	32.4	3.6	90.0	10.0
Tennessee	23.8	206.1	344.3	550.4	62.6	33.1	4.3	88.5	11.5
Texas	39.5	478.2	932.6	1,410.8	66.1	31.1	2.8	91.7	8.3
Utah	1.9	70.9	113.6	184.5	61.6	37.4	1.0	97.3	2.7
Vermont	.3	23.6	67.8	91.4	74.2	25.4	.3	98.7	1.3
Virginia	70.0	283.6	371.1	654.7	56.7	32.6	10.7	75.3	24.7
Washington	-11.9	213.8	350.0	563.8	60.8	39.2	0.0	100.0	0.0
West Virginia	1.6	78.3	141.4	219.7	64.4	34.9	.7	98.0	2.0
Wisconsin	82.2	497.8	654.0	1,151.8	56.8	36.1	7.1	83.5	16.5
Wyoming	3.7	19.5	17.6	37.1	47.4	42.6	10.0	81.0	19.0

[1] Includes Medicaid (public assistance under medical payments).

[2] Public welfare expenditures for Georgia, New Mexico, and North Carolina are included with health and hospital expenditures. Data necessary for separation by function, by source of financing, are not available for FY 1979.

Source: ACIR Staff Compilation, *Significant Features of Fiscal Federalism, 1980-81 Edition.*

definition excludes the general social security programs, which are not operated on an income-tested basis.[41]

Chief among the public welfare policies, in terms of its costs and intergovernmental dimensions, is Medicaid – a policy of public assistance to welfare beneficiaries and the medically needy.[42] With 1981 Federal outlays of more than $16 billion – expected to reach $18.3 billion on FY 1982 – Medicaid is far and away the largest Federal aid program. And, because costs are shared by State (and, in some cases, local) governments, Medicaid absorbs substantial amounts of their revenues. At present, these costs are escalating. State Medicaid payments rose from $8.4 billion to $9.9 billion between 1978 and 1979, an increase of 17.9 percent, while total general State operating fund expenditures increased by only 9.4 percent. In some States, these exceptional increases have forced substantial reductions in other programs. Hence, the National Governors' Association has recently declared that,

> while the purpose of Medicaid is sound. . . , the design and administration of the program have produced a system which is bankrupting the States and their localities.[43]

While costs are a major problem, equity is another. Because the States have substantial policy discretion, eligibility and benefit levels vary widely, and in a manner which cannot be accounted for readily by levels of need or the cost of providing health services. Thus, in this respect,

> the Federal-State partnership has not worked well. The intent of the legislation – to bring general medical care to the Nation's poor – has been thwarted by the way in which the States have used their discretionary power to determine the level and type of benefits available to the poor and medically needy within their borders.[44]

Other frequent criticisms of Medicaid focus on the quality of care, and on the excessive levels of waste, fraud, and abuse.

In 1981, the Federal-State partnership in the Medicaid program was being reevaluated by the Reagan administration and Congress. Initially, the administration

[41]Definition of public welfare is provided by a report from the U.S. Senate, Committee on Finance, Subcommittee on Public Assistance, *Public Welfare Programs*, 95th Cong., 2nd Sess., Washington, DC, U.S. Government Printing Office, April 1978, p. 1.

[42]This introductory section is from an unpublished discussion paper by David Beam prepared for the Advisory Commission on Intergovernmental Relations, Seventy-Second meeting on January 15-16, 1981.

[43]National Governors' Association, *The Policy Positions of the National Governors' Association in the Purview of the Association's Committee on Human Resources*, Washington, DC, September 1, 1980, p. 38.

[44]Karen Davis and Cathy Schoen, *Health and the War on Poverty: A Ten-Year Appraisal*, Washington, DC, The Brookings Institution, 1978, p. 71.

Table 12

States Ranked According to State Percentage of State-Local General Expenditures, From Own Revenue Source, for Public Welfare 1978-79

Public Welfare[1] (including Medicaid)	
Illinois	100.0
Missouri	100.0
Washington	100.0
Alaska	99.0
Vermont	98.7
Hawaii	98.6
Delaware	98.2
Maryland	98.1
West Virginia	98.0
California	97.3
Utah	97.3
Rhode Island	97.1
Oklahoma	96.8
Massachusetts	96.7
Arkansas	96.6
Kentucky	96.6
Louisiana	96.6
Kansas	94.8
Michigan	94.7
Alabama	93.7
South Carolina	93.7
Connecticut	92.3
Idaho	92.2
Texas	91.7
South Dakota	90.0
Oregon	89.4
Maine	89.2
Tennessee	88.5
Mississippi	87.5
Pennsylvania	87.3
Wisconsin	83.5
Florida	82.2
Iowa	81.5
Wyoming	81.0
North Dakota	78.4
Nebraska	78.3
New Jersey	77.3
Colorado	75.7
Virginia	75.3
Ohio	75.2
Arizona	71.1
Indiana	61.6
Minnesota	58.3
New Hampshire	53.4
Nevada	50.3
New York	43.4
Montana	40.7
U.S.	83.9

Note: Percentages for public welfare were derived from U.S. Bureau of the Census data on expenditures adjusted to exclude Federal intergovernmental transfers. State transfers to local governments are included with State expenditures and deducted from local expenditures.

[1] Public welfare expenditures for Georgia, New Mexico, and North Carolina are included with health and hospital expenditures. Data necessary for separation by function, by source of financing, are not available for FY 1979.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

Table 13

Public Welfare Expenditure "Overload"[1] (State-local public welfare expenditure from own funds, excluding Federal aid in 1978-79)

State and Region	"Overload"
United States	$7,439.9
New England	(667.2)
Connecticut	58.8
Maine	36.1
Massachusetts	498.7
New Hampshire	–
Rhode Island	73.6
Vermont	–
Mideast	(2,319.3)
Delaware	0.1
District of Columbia	114.6
Maryland	54.5
New Jersey	183.7
New York	1,365.7
Pennsylvania	600.7
Great Lakes	(1,299.0)
Illinois	364.5
Indiana	–
Michigan	615.8
Ohio	99.5
Wisconsin	219.2
Plains	(271.1)
Iowa	84.1
Kansas	6.5
Minnesota	180.5
Missouri	–
Nebraska	–
North Dakota	–
South Dakota	–
Southeast	(85.1)
Alabama	–
Arkansas	–
Florida	–
Georgia	–
Kentucky	68.2
Louisiana	–
Mississippi	16.9
North Carolina	–
South Carolina	–
Tennessee	–
Virginia	–
West Virginia	–
Southwest	(23.8)
Arizona	–
New Mexico	–
Oklahoma	23.8
Texas	–
Rocky Mountain	(2.5)
Colorado	–
Idaho	–
Montana	–
Utah	2.5
Wyoming	–
Far West[2]	(2,683.9)
California	2,617.8
Nevada	–
Oregon	66.1
Washington	–
Alaska	36.8
Hawaii	51.2

[1]Public Welfare "overload" is estimated as that portion of a State's public welfare expenditure (from State-local funds) that is in excess of 0.74 percent (median State experience) of the personal income of the State.

[2]Excluding Alaska and Hawaii.

Source: ACIR staff computations based on U.S Bureau of the Census, Governments Division Data.

proposed that Federal matching payments to States for Medicaid be capped at $16.3 billion in FY 1981 and allowed to rise 5 percent to $17.2 billion in FY 1982 rather than the 10 percent or $18.2 billion projected. However, rather than capping Medicaid, Federal participation was reduced by a maximum of 3 percent in FY 1982, 4 percent in FY 1983, and 4.5 percent in FY 1984 from the estimated funding levels. The changes also provided States with tools to leverage costs charged by health care providers and allowed States that meet cost-containment standards to share in the benefits of those savings.

According to the most recent data, 25 States assume 90 percent or more of the State-local share of Medicaid. In New York, Governor Carey proposed that the State join that list by assuming the local cost of Medicaid. While the State legislature defeated the proposal, it did set aside $80 million for distribution to localities if a Medicaid takeover plan is adopted in the future.

State Mandate Reimbursement: 14 States

Over the last two decades, intergovernmental regulations have mushroomed. According to one recent ACIR analysis of the growth of intergovernmental regulation:

> Beginning in the mid-1960's, and more notably during the 1970's, the Federal regulatory presence has spilled over from the traditional economic sphere to include the Nation's States, cities, counties, school districts, colleges, and other public jurisdictions.[45]

The impact of Federal, as well as State, mandates upon local government fiscal and decisionmaking capabilities has been significant. In a recent article summarizing their research on Federal and State mandates, Catherine Lovell and Charles Tobin conclude that "evidence is beginning to accumulate that mandates serve as the most important determinant of local government expenditures and as the single most important influence on local government policymaking."[46]

By studying one city and one county in each of five States, Lovell and Tobin's research offers perhaps the most comprehensive analysis to date of Federal and State mandates and their impact on local governments. Some conclusions they reach include:

- Nearly 75 percent of the direct order State mandates (or mandates imposed without being contingent on local acceptance of State assistance) studied were paid

[45]David R. Beam, "Washington's Regulation of States and Localities: Origins and Issues," *Intergovernmental Perspective*, Vol. 7, No. 3, Washington, DC, ACIR, Summer 1981, p. 9.

[46]Catherine Lovell and Charles Tobin, "The Mandate Issue," *The Public Administration Review*, Washington, DC, American Society for Public Administration, Vol. 41, No. 3, May/June 1981, p. 318.

either completely or partially out of revenues from the local government's own sources. Nearly half of the combined Federal direct orders and State and Federal conditions of aid were also paid partially or fully by local funds. In other words, the concern of local government officials about the burden that mandates place on their local resources appears to be justified.

- Nearly half of the mandates studied had introduced entirely new activities to the jurisdictions, thereby imposing new costs on the jurisdictions and broadening their scope of responsibility. Additionally, the data also showed that some of the activities introduced by mandates have been institutionalized and would now continue even if the mandate were withdrawn. The values behind some of the mandates apparently have been internalized and organization structures, support systems, and budget lines have been developed around them.
- State and Federal mandates have rather different levels of acceptance at the local level. More of the cost of State mandates are funded locally than are costs of Federal mandates, yet State mandates appear to be more in keeping with the value systems of local governments studied than are Federal mandates.[47]

To the problem illustrated by their research, 14 States have responded with mandate reimbursement policies. Under such a policy, a State reimburses local governments for the increased costs caused by laws and executive orders that mandate new programs or increased levels of service. While only a few States have begun mandate reimbursement programs, an ACIR report studying the issue concluded the following:

> To be sure, separating out the State from the local interest in a given program or subprogram [for the purposes of a reimbursement policy] is difficult and unlikely to yield a precise delineation of the statewide interest (to be financed by the State) from the benefits retained locally. Yet, while the division of financial responsibility for State mandates may be no more than rough justice, the principle of partial State financing, say 50 percent, would work in the direction of removing the fiscal inequities that stem from the present pattern of mandating practice that is generally characterized by no State reimbursement.[48]

Local Credit Market Access: 35 States

Local governments often must rely on the State government to gain access to the public credit market. "In specific financial terms, State laws may control the revenue structure of local governments and methods of tax collection; budgeting, accounting and financial reporting practices; cash collection, deposit and disbursement procedures; and the procedures for incurring debt, the types of debt that may be issued and the level of debt that may be incurred. These broad powers give the State a potentially dominant role in the financial affairs of all local governments, including municipalities, counties, school districts, and special districts."[49] Thirty-five States provide significant local access or assistance to credit markets. More States are listed in the 1981 report than in last year's volume because of the availability of more complete data.

To improve local government credit access, States have initiated a variety of policies, including requiring validation of municipal bond offerings by State courts or agencies, providing a State guarantee for municipal debt, authorizing the creation of bond banks, and subsidizing local debt service payments.

In 28 States, some form of municipal bond validation is either required or optional. The Government Finance Research Center within the Municipal Finance Officers Association describes validation policies in the following manner:

> The validation or approval of local government bond issues by States can be a means of improving the security and marketability of local government securities. Validation procedures can range from a vigorous approval of the details of a proposed borrowing to a fairly routine registering of the fact that a community has borrowed. While it does increase State control and, possibly interference in local affairs, the validation process can reduce borrowing costs and provide a reassuring oversight of the legal and technical aspects of a municipal bond sale.[50]

Some examples of State validation policies include:

- In **Georgia,** the State superior court must validate all municipal bond issues.
- In **Lousiana,** the Louisiana Bond Commission must authorize and approve all local government bond issues.
- In **New Mexico,** school bond issues must be approved by the State attorney general.

[47] *Ibid.*, pp. 320-23.

[48] Advisory Commission on Intergovernmental Relations, *State Mandating of Local Expenditures,* A-67, Washington, DC, U.S. Government Printing Office, July 1978, p. 5.

[49] John E. Petersen, C. Wayne Stallings, and Catherine Lavigne Spain, *State Roles in Local Government Financial Management: A Comparative Analysis,* Washington, D.C., Government Finance Research Center, June 1979, p. 1.

[50] Jack F. Haley, Jr., "A Study of State-Imposed Municipal Bond Validation Requirements," Washington, DC, Government Finance Research Center of the Municipal Finance Officers Association November 1979, mimeo, p. 1.

• In **North Dakota,** the State attorney has the option but is not required to give an opinion on the legal sufficiency of an investment.

Another State policy to improve local government credit access is for the State to guarantee municipal debt. "In its simplest form, a State guarantee is an explicit promise by the State to a local unit bondholder that any shortfall in local resources will automatically be assumed by the State. In its strongest form, a State guarantee places the full faith and credit of the State behind the contingent call on State funds."[51] Of the four States that have developed bond guarantee programs for local debt, included are:

• **California,** where the Health Facilities Construction Loan Program provides insurance for local debt for health facilities construction. The local borrower pays premiums into a State-established fund.

• **New Hampshire,** where the State guarantees up to 75 percent of school bonds issued by districts with an annual enrollment increase of 10 percent or more. Additionally, the State guarantees local issues for sewerage systems, sewerage treatment and disposal plants, and other local pollution control facilities.

States also may establish or authorize financial intermediaries in order to extend credit assistance to local governments. States act as financial intermediaries in that debt is issued by the State, a State agency, or State authority and the proceeds are loaned to municipalities.[52] Bond banks are a common intermediary mechanism since they allow States to purchase the bonds of local governments and to issue their own bonds in larger amounts when a sufficient number of local government bonds have been aggregated. Such banks have been established in Alaska, Maine, North Dakota, and Vermont. Fourteen States provide other forms of financial intermediaries, such as these:

• **Delaware** issues general obligation bonds to finance 100 percent of school capital costs. Sixty percent of the proceeds represent a State grant to localities; 40 percent represent loans to school districts which are repaid annually to the State.

• **Hawaii** has issued general obligation bonds for county capital improvements. Counties receive proceeds from loans and repay the State.

• **Virginia's** Public School Authority sells bonds and lends funds to localities for school construction.

Another form of credit assistance is for the State to provide debt service subsidy payments to local governments. Such subsidy payments (currently authorized in seven States) typically are restricted to meeting debt service payments and usually are made directly to the local unit, although they may be sent directly to the paying agent or fundholder under certain circumstances.[53] Examples of State subsidy programs are found in:

• **Illinois,** which has authorized $100 million in grants in local school districts for debt service on locally issued bonds.

• **Maine,** which has annual grants authorized to cover a certain proportion of debt service on locally issued school bonds.

• **Massachusetts,** which pursuant to a 1948 statute, is authorized to reimburse municipalities for annual debt service payments up to 65 percent of costs.

Finally, two special cases of a State improving a local government's credit status are in New York and Ohio. In New York, the Municipal Assistance Corporation (MAC) was established in 1976 to aid New York City's effort to recover financially. The MAC issues long-term bonds to the city while requiring the city to meet detailed stipulations on spending and accounting procedures. Meanwhile, Ohio enacted the Municipal Fiscal Emergency Act in 1979. Under the law a local government which suspects it is experiencing a fiscal emergency first requests a review by the State auditor to determine if the crisis situation exists. If so, a financial planning and supervisory commission is established for the local government. The local government then prepares its financial recovery plan and names the special financing vehicle which may be available to help the unit facilitate its financial recovery. The commission reviews the recovery plan and the plan is implemented.[54]

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[51] Ronald W. Forbes and John E. Petersen, *Special Credit Assistance to Local Governments,* Boston, MA, First Boston Corporation, 1978, p.4.

[52] *Ibid.*, p. 3.

[53] *Ibid.*, p. 9.

[54] "Municipal Fiscal Emergency Act Helps Ohio Cities Respond to Financial Crisis," *Governmental Finance,* June 1981, pp. 44-45.

A Closer look at California's Mandates Reimbursement Policy

Under the terms of Chapter 1046, Statutes of 1972 (SB 90), otherwise known as the Property Tax Relief Act of 1972, California established the principle of reimbursing local governments for certain mandated local costs and revenue losses.[1] The act included provisions to compensate local governments for limits placed on their authority to generate additional revenues by increasing local property tax rates. The provisions required the State to reimburse local agencies (excluding school districts) for (1) the full cost of any new program or increased level of service of an existing program mandated by legislation or executive order after January 1, 1973, and (2) revenue losses stemming from new property or sales and use tax exemptions. Costs previously incurred at local option that were subsequently mandated by the State are also reimbursable. In 1981, for example, the State's largest reimbursed mandate was for local costs incurred by workers' compensation requirements – $20 million was distributed statewide.

The original legislation has been amended many times since 1972. The definition of "costs mandated by the State" has not changed substantially, though, and the reimbursement provisions now apply to both school districts and local agencies. It is important to note that SB 90 does not provide reimbursement for all increased local costs, notably costs mandated by the courts, the Federal Government or the voters. In addition, local costs which are not the result of a new program or an increase in the level of service of an existing program are not reimbursed. For example, the increased cost of electricity borne by a local agency that results from the State-imposed electrical energy surcharge is not reimbursable, because no program was mandated. Mandates that cause revenue losses are not reimbursable, either, unless they enlarge property or sales and use tax exemptions.

Disclaimers

Soon after the enactment of SB 90, the legislature began to insert disclaimers into bills mandating costs on local government. The disclaimers stated that the reimbursement requirements did not apply to a given bill for one of two reasons. This would generally occur:

- when the bill affected local government costs for reasons outside the scope of SB 90's reimbursement provisions;

- when the legislature recognized that SB 90 applied, but decided to exempt the bill from the reimbursement requirement.

Until 1977, local governments could recover costs mandated by legislation containing a disclaimer only by seeking new legislation to pay these costs. Subsequently, the legislature amended SB 90 in 1975, 1977 and 1978 to allow local agencies to submit claims to the Board of Control[2] alleging that:

- a chaptered bill or executive order contained a disclaimer, yet had resulted in "costs mandated by the State"; and
- a chaptered bill or executive order contained neither an appropriation or a disclaimer, but had resulted in "costs mandated by the State."

The "SB 90 Process" for Legislative Mandates

Exhibit 3 summarizes the SB 90 process for identifying and funding legislative mandates. In the first step in the legislative process, the identification of mandates, the Legislative Counsel determines whether a bill includes a mandated local program when it is introduced and each time it is amended. If the Legislative Counsel identifies a mandated local program, the Department of Finance estimates the cost of implementing the mandate.

Funded Mandates

The right side of *Exhibit 3* illustrates the process for reimbursing mandated costs from funds appropriated by the bill that imposed the costs. The State Controller's Office prepares the reimbursement claim instructions, receives claims for first-year costs, and pays them after performing a desk audit. The Department of Finance includes funds for subsequent years' costs in the Governor's budget, and the Controller receives and pays the claims.

Unfunded Mandates

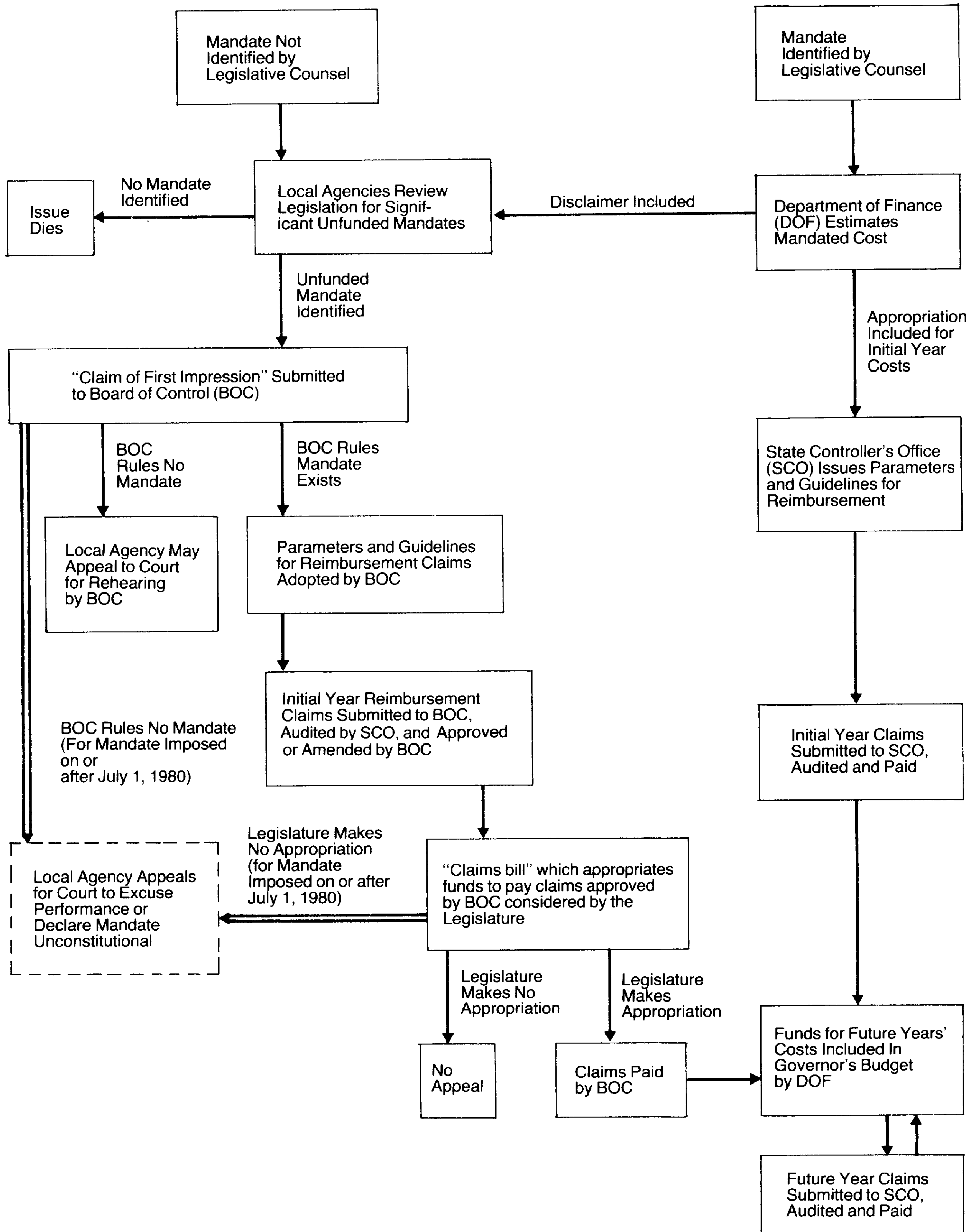
The left side of the exhibit illustrates the process for reimbursing mandated costs where (1) a bill contains a

[1]Information in this section is from a California Legislative Analyst report, *State Reimbursement of Mandated Local Costs: A Review of the Implementation of Chapter 1135, Statutes of 1977 (Pursuant to Chapter 794, Statutes of 1978)*, February 1980, pp. 10-16.

[2]California law provides for a three-member Board of Control consisting of the director of General Services, the State Controller and a third member appointed by and serving at the pleasure of the Governor and an expanded five-member board, which includes two additional members appointed by the Governor and representing local agencies. The three-member board oversees certain State administrative regulations regarding fiscal transactions and adjudicates all claims for money or damages against the State except for mandated cost claims. The five-member board hears all claims relating to State-mandated local costs.

Exhibit 3

The "SB 90 Process" for Legislative Mandates



disclaimer or (2) a bill does not identify a mandate and includes neither an appropriation nor a disclaimer. For these mandates, the Board of Control uses a "lead claim," "test claim" or "claim of first impression" submitted by a local agency to make its initial determination of whether the State has incurred a mandated cost. If the board denies this claim, the local agency may appeal to the court for an order directing the board to hold another hearing. The court may grant such an order only on the grounds that the board's decision was not supported by substantial evidence.[3]

A decision by the board that legislation contains an unfunded mandate does not constitute approval of the claim. The claim can be approved only after the board adopts guidelines that specify the types and amounts of costs eligible for reimburement. Local agencies may then submit their claims for first-year costs to the board, which forwards them to the State Controller for auditing before approval.

Claimants and the amounts of all approved claims are contained in a report submitted to the legislature by the board twice each year. The report serves as the basis for the local government claims bill which appropriates funds to pay listed claims. Both the legislature and, after passage by both houses, the Govvernor may delete items from the bill; however, if the local agency's claim is deleted, there is no appeal.[4]

The Board of Control, not the Controller's Office, pays all claims funded through the claims bill. After the initial claims are paid, the Department of Finance includes subsequent-year funding for approved claims in the Governor's budget. The Controller's Office is then responsible for making these subsequent-year payments.

Proposition 4 (November 1979 Ballot)

In November 1979, California voters approved Proposition 4, which raised the reimbursement principle established by SB 90 to the level of a constitutional guarantee in Section 6 of Article XIII B of the California constitution. The primary effect of the amendment was to allow local agencies to seek a court order excusing them from complying with an unfunded mandate or declaring a mandate unconstitutional if they had pursued all available administrative remedies. This is illustrated in *Exhibit 3* by the double lines following the Board of Control's denial of a claim of first impression and the legislature's refusal to appropriate funds for any mandate imposed on or after July 1, 1980 (the effective date of Article XIII B).

[3]Other remedies are available for mandates imposed on or after July 1, 1980. See discussion of Proposition 4.

[4]Remedies are made available for mandates imposed on or after July 1, 1980. See discussion of Proposition 4.

Enhancing Local Self-Help Capabilities

Amidst the uncertainty caused by Federal and State budget cuts, some argue that local governments could better survive losses in aid if their States granted them greater fiscal and functional authority. For example, Robert W. Rafuse, Jr., Deputy Assistant Treasury Secretary for State and Local Finance, suggested, according to *The Weekly Bond Buyer*, that "although State and local governments will face a serious deficit of about $13 billion by 1985, the situation 'is not as bleak as some might think,' because a modest 3 percent increase in State and local taxes could close the gap."[55] Such projections imply that local governments might increase their financial capacity if they were given the authority to enact sales or income taxes in order to raise new revenues. Similarly, State authorization of local redevelopment agencies and tax increment financing policies might help municipalities reduce their dependence on Federal and State community development assistance.

Targeted State programs to enhance local self-help capabilities must assure that local governments are legally equipped to address the fiscal and development problems of distressed communities.

As in 1980, the Central States have been the most active in enhancing local self-help capabilities, while the Eastern States have been the least active.

Tax Increment Financing: 24 States

Tax increment financing, as authorized by a State, allows municipalities to capture the "projected new property tax revenues generated by a development project to finance the necessary public investment in that project."[56] Specifically, in a designated revitalization area, once a tax base has been established, all future tax revenues above that base are used to finance the development project.

According to a report by the Council for Urban Economic Development, tax increment financing is largely a targeted development tool used by larger cities.

> Tax increment financing is a mechanism to help cities pay for capital improvements associated with relatively large scale development. As such, it is of little direct benefit to the small, expanding firm in distressed cities that can add to the employment base of the community. Nevertheless, tax increment financing has proven to be of significant value in stimulating the physical develop-

Table 14

Enhancing Local Self-Help Capabilities

State and Region	Tax Increment Financing	Local Taxing Authority	Discretionary Authority
United States	24	36	16
New England			
Connecticut	x		x
Maine			x
Massachusetts	x		
New Hampshire	x		
Rhode Island			
Vermont			
Mideast			
Delaware		x	x
Maryland	x	x	x
New Jersey		x	
New York		x	
Pennsylvania		x	x
Great Lakes			
Illinois	x	x	x
Indiana	x	x	
Michigan	x	x	x
Ohio	x	x	
Wisconsin	x	x	
Plains			
Iowa	x	x	
Kansas	x	x	x
Minnesota	x	x	
Missouri		x	
Nebraska	x	x	
North Dakota	x		
South Dakota	x	x	
Southeast			
Alabama		x	
Arkansas	x	x	
Florida	x	x	
Georgia		x	
Kentucky		x	
Louisiana		x	x
Mississippi			
North Carolina		x	x
South Carolina			x
Tennessee		x	
Virginia		x	x
West Virginia			
Southwest			
Arizona		x	
New Mexico	x	x	
Oklahoma		x	x
Texas		x	x
Rocky Mountain			
Colorado	x	x	
Idaho			
Montana	x		
Utah	x	x	
Wyoming		x	
Far West			
California	x	x	
Nevada	x	x	
Oregon	x		x
Washington		x	
Alaska		x	x
Hawaii			

Source: ACIR staff compilation.

[55] "Localities, States Can Endure Cuts in U.S. Aid," *The Weekly Bond Buyer*, New York, NY, Vol. 223, No. 4601, June 22, 1981, p. 8.
[56] *State Development Programs: A Catalogue*, Washington, DC, National Council for Urban Economic Development, February 1981, p. 21.

ment of relatively large and financially sophisticated distressed cities.[57]

Because tax increment financing policies utilize future revenues to finance existing projects, the program is a controversial development tool often subject to legal challenges. For example, in Florida, the tax increment financing law, although statutorily authorized in 1977, could not be implemented until after the Florida Supreme Court upheld its constitutionality in December 1980. In that case, *Miami Beach Redevelopment Agency v. State of Florida,* several typical challenges to the tax increment financing law were heard. For example, among the questions raised were whether the issuance of the tax increment bonds constituted a loaning of public credit to aid private entities, and whether tax increment financing is an unconstitutional pledge of ad valorem taxes because it does not require voter approval of the bonds. Other States' courts, including those in Arizona, Kentucky, and Texas, have held tax increment financing laws to be unconstitutional.

Outside the courtroom, some complaints regarding tax increment financing programs include the charge that public funds are used to finance projects that otherwise would have been developed by private industry and that tax increment financing bonds must be retired within the appropriate time frame or the financing may extend indefinitely and never return the benefits to the community as a whole.

Twenty-four States have authorized use of tax increment financing. For example:

- In **Kansas,** cities are authorized to issue tax increment bonds to purchase property in blighted areas for redevelopment. Property must be located in blighted central business areas.
- In **Ohio,** municipal corporations may exempt certain real properties from taxation on the value of improvements. The owner of the property is required to make annual service payment in lieu of taxes into a special fund. The fund backs municipal bonds issued to finance improvements on property in question. The assisted area, however, need not be blighted.
- In **Utah,** municipalities may designate redevelopment agencies which have the power to issue tax increment bonds and employ tax increment financing.

State action to authorize tax increment financing in 1981 took place:

- in **Arkansas,** where a bill was enacted allowing municipalities to use tax increment financing to retire bonded indebtedness for projects including public facilities and residential, commercial, and industrial development and revitalization;
- in **Maryland,** where the legislature authorized all localities, except the city of Baltimore, to sell tax increment bonds;
- in **Massachusetts,** where the Tax Increment Financing Act was enacted to empower local governments to designate a specifically defined development district for development purposes; and
- in **Michigan,** where the Tax Increment Finance Authority Act was enacted to allow for cities to make public improvements in a specific redevelopment district that was necessary to induce and accommodate additional private development such as industrial, commercial, and residential construction in that same district.

Local Taxing Authority: 36 States

Local governments, with budgets linked to State revenue levels, have witnessed a steady reduction in funding levels as State taxes have been cut. For example, according to an ACIR compilation, in the three-year period 1977-80 there were 36 State personal income tax reductions and 22 general sales tax cuts. In addition, nine States indexed personal income taxes to the inflation rate. Just as significant was the virtual moratorium on State tax increases, particularly in the income and sales tax fields.[58]

As States have chosen to either cut or freeze their income and sales taxing levels, local governments have become increasingly more dependent on their own revenue sources. And yet, in addition to the State tax limits, 36 States have limited local property tax levies or rates with the result that local property taxes, 3.68 percent of the GNP in 1972, were only 2.60 percent of the GNP in 1980. Nevertheless, while property tax revenues have decreased, local sales and income tax revenues have remained steady over the past eight years (see *Table 15*), implying that those localities authorized to enact sales or income taxes might overcome losses in property tax revenues.

Of the 36 States authorizing local governments to levy either sales or income taxes, 29 States allow a local sales tax and 13 allow a local income tax. *Exhibit 4* provides a listing of the States – currently six States authorize their local jurisdictions to use both sales and income taxes. A popular local tax, the sales tax, is one means by which local governments can diversify their revenue structures, secure more balanced use of taxes on income, sales, and property, and offer a major source of revenue at relatively low rates. While not entirely free of their own problems, particularly the potential for aggravating disparities and distorting shopping decisions, local sales taxes equipped with the necessary safeguards

[57] *Ibid.*, p. 22.

[58] For more information on reductions in State and local spending, see remarks by John Shannon, Assistant Director of ACIR, entitled "The Great Slowdown in State and Local Government Spending in the United States: 1976-1984."

Table 15

Local Taxes as a Percentage of Gross National Product, Selected Years 1948 – 80

By Type of Tax, Local Government	1980[2]	1978	1976	1974	1972	1970	1968	1966	1964	1962	1960	1956	1952	1948
Property	2.60	3.20	3.38	3.41	3.68	3.43	3.23	3.30	3.33	3.37	3.17	2.75	2.44	2.38
Sales and gross receipts	.44	.47	.44	.41	.38	.32	.23	.28	.29	.27	.27	.22	.18	.16
Individual income[1]	.19	.20	.19	.18	.20	.17	.13	.07	.06	.06	.05	.04	.02	.02
All other	.13	.15	.15	.15	.14	.12	.16	.14	.14	.15	.14	.16	.14	.12

[1] Includes minor amounts of corporation income taxes.

[2] Partially estimated.

Source: Derived from ACIR publication, *Significant Features of Fiscal Federalism, 1979-80 Edition*, October 1980, Table 43, p. 57.

can permit local policymakers to choose tax sources that match taxpayer preferences.[59]

While the sales tax is a popular local taxing mechanism, the local income tax is another device by which local governments can diversify their revenue structures. As a broad based tax, the local income tax can produce relatively large amounts of tax revenue at moderate rates, thus relieving pressures on the property tax.[60] It should be noted that virtually all local income taxes could serve as commuter taxes. Washington, DC, a handful of Pennsylvania municipalities and school districts are the only local jurisdictions unable to tax incomes earned within their boundaries by nonresidents. Accordingly, the local income tax would appear to be a significant mechanism by which central cities might expand their revenue bases.

Local Discretionary Authority: 16 States

According to an ACIR report measuring local government discretionary authority, general purpose local governments in most States do not possess broad structural, functional, and financing powers – particularly the latter.[61] In many instances this was traceable in part to the proliferation of special district governments – 26,140 other than school districts in 1977, which was an 8.6 percent increase from 1972. Yet a survey conducted for the ACIR report indicates that in some key areas localities do not always use their available authority, even though such utilization has tended to rise over time. About one-third of the cities and counties request special State legislation even when they already have the requested authority under their charters or general legislation. It comes as no surprise then, that about one-third of the State municipal association representatives and one-fifth of

[59] Material from ACIR report: *Local Revenue Diversification: Income, Sales Taxes and User Charges*, A-47, Washington, DC, U.S. Government Printing Office, October 1974, pp. 47 & 49.

[60] *Ibid.*, p. 61.

[61] The material in this section is principally from an ACIR report: *Measuring Local Government Discretionary Authority, M-131, Washington, DC, U.S. Government Printing Office, 1981.*

Exhibit 4

States Which Authorize Local Governments to Enact Income Tax Levels[1] and Sales Tax Levies 1978-79

Income:[2]	**Sales:**[3]
13 States	29 States
Alabama	Alabama
Arkansas	Alaska
Delaware	Arizona
Georgia	Arkansas
Indiana	California
Iowa	Colorado
Kentucky	Florida
Maryland	Georgia
Michigan	Illinois
Missouri	Kansas
New York	Louisiana
Ohio	Minnesota
Pennsylvania	Missouri
	Nebraska
	Nevada
	New Jersey
	New Mexico
	New York
	North Carolina
	Ohio
	Oklahoma
	South Dakota
	Tennessee
	Texas
	Utah
	Virginia
	Washington
	Wisconsin
	Wyoming

[1] This listing excludes Washington, DC, which has a graduated net income tax that is more closely akin to a State tax than to the municipal income taxes. Also excluded is the Denver Employee Occupational Privilege Tax of $2 per employee per month, which applies only to employees earning at least $250 per month; the Newark 1/2 of 1 percent payroll tax imposed on employers, profit and nonprofit, having a payroll over $2,500 per calendar quarter; the San Francisco 1.1 percent payroll expense tax; the 6/10 of 1 percent quarterly payroll tax on employers imposed in the Tri-County Metropolitan Transit District (encompassing Washington, Clackamas and Multnomah Counties, OR); the 0.54 percent payroll tax imposed on Lane County Mass Transit District; and the Portland business tax of 2.2 percent of net income. Additionally, Iowa has 21 school districts which can levy local income surtaxes at a specified rate.

[2] Arkansas and Georgia authorize their local governments to use the income tax, but to date none have. Additionally, in Delaware and New York only one locality actually uses the income tax.

[3] Florida and Wisconsin both allow their counties to use the sales tax, but to date none have. Additionally, in Arkansas, Minnesota and New Jersey only one local government actually uses the sales tax.

Source: ACIR staff compilation drawn from ACIR, *Significant Features of Fiscal Federalism, 1979-80 Edition,* M-123, Washington, DC, U.S. Government Printing Office, October 1980, Table 80.

Table 16

States Ranked by Degree of Local Discretionary Authority

	Composite (All types of Local Units)		Cities Only		Counties Only		Degree of State Dominance of Fiscal Partnership*
1	Oregon	1.65	Texas	1.26	Oregon	1.65	2
2	Maine	1.66	Maine	1.30	Alaska	1.90	2
3	North Carolina	1.81	Michigan	1.40	North Carolina	1.98	1
4	Connecticut	1.84	Connecticut	1.60	Pennsylvania	2.00	2
5	Alaska	1.90	North Carolina	1.60	Delaware	2.10	1
6	Maryland	2.19	Oregon	1.65	Arkansas	2.50	2
7	Pennsylvania	2.20	Maryland	1.70	South Carolina	2.50	2
8	Virginia	2.20	Missouri	1.80	Louisiana	2.60	2
9	Delaware	2.26	Virginia	1.80	Maryland	2.68	1
10	Louisiana	2.28	Illinois	1.83	Utah	2.75	1
11	Texas	2.28	Ohio	1.85	Kansas	2.80	2
12	Illinois	2.29	Oklahoma	1.85	Minnesota	2.80	2
13	Oklahoma	2.35	Alaska	1.90	Virginia	2.80	1
14	Kansas	2.38	Arizona	1.90	Florida	2.84	2
15	South Carolina	2.39	Kansas	1.90	Wisconsin	2.85	1
16	Michigan	2.43	Louisiana	1.95	Kentucky	2.94	2
17	Minnesota	2.56	California	2.00	California	3.00	2
18	California	2.57	Georgia	2.20	Montana	3.00	3
19	Missouri	2.68	Minnesota	2.20	Illinois	3.08	2
20	Utah	2.70	Pennsylvania	2.20	Maine	3.18	2
21	Arkansas	2.72	South Carolina	2.20	North Dakota	3.20	1
22	New Hampshire	2.75	Wisconsin	2.30	Hawaii	3.36	3
23	Wisconsin	2.76	Alabama	2.35	New Mexico	3.40	2
24	North Dakota	2.76	Nebraska	2.35	Indiana	3.45	2
25	Arizona	2.82	North Dakota	2.43	New York	3.45	2
26	Florida	2.82	Delaware	2.45	Wyoming	3.50	2
27	Ohio	2.86	New Hampshire	2.45	Oklahoma	3.55	3
28	Alabama	2.92	Utah	2.65	Michigan	3.60	1
29	Kentucky	2.95	Wyoming	2.70	Washington	3.64	1
30	Georgia	2.98	Florida	2.79	Iowa	3.67	2
31	Montana	3.04	Mississippi	2.80	New Jersey	3.75	3
32	Washington	3.12	Tennessee	2.80	Georgia	3.80	2
33	Wyoming	3.14	Washington	2.88	Nevada	3.80	2
34	Tennessee	3.21	Arkansas	2.90	Tennessee	3.80	2
35	New York	3.22	New Jersey	2.90	Mississippi	3.90	3
36	New Jersey	3.26	Kentucky	2.94	New Hampshire	3.90	3
37	Indiana	3.30	Colorado	2.95	Alabama	4.00	2
38	Rhode Island	3.30	Montana	3.10	Arizona	4.00	2
39	Vermont	3.36	Iowa	3.21	South Dakota	4.00	2
40	Hawaii	3.38	Indiana	3.25	West Virginia	4.00	1
41	Nebraska	3.38	Massachusetts	3.30	Nebraska	4.10	3
42	Colorado	3.40	Rhode Island	3.30	Ohio	4.10	2
43	Massachusetts	3.41	South Dakota	3.30	Texas	4.14	3
44	Iowa	3.42	New York	3.45	Idaho	4.20	2
45	Mississippi	3.46	Nevada	3.50	Colorado	4.35	1
46	Nevada	3.71	West Virginia	3.60	Vermont	4.60	2
47	South Dakota	3.74	Idaho	3.70	Missouri	4.80	3
48	New Mexico	3.82	Vermont	3.70	Massachusetts	5.00	1
49	West Virginia	3.86	New Mexico	4.00	—		1
50	Idaho	3.95	—		—		2

*1 — State dominant fiscal partner.
2 — State strong fiscal partner.
3 — State junior fiscal partner.

Source: ACIR survey and staff calculation.

their county counterparts, thought a constitutional prohibition on special legislation undesirable, according to the survey.

To determine the number of States which provide their local governments with a significant degree of discretionary authority, a composite index was developed from ACIR survey results regarding four types of local authority – financial, functional, personnel, and structural – as used in cities, counties, towns, townships, boroughs, and villages.[62]

The objective of the single index was to develop the relative standing of the States in relation to their local governments as a whole. This composite index was computed by assigning weights to each of the four types of authority: financial – 4, functions – 3, personnel – 2, and structure – 1. The figures for each of the six types of general purpose local government unit were combined by weighting each type of unit on the basis of its share of the State's nonschool local direct general expenditures represented by that unit. *Table 16* ranks the States according to this composite index, with the States granting the highest degree of local discretion at the top. Since the cities and counties carry by far the greatest weight in the composite, by virtue of their high proportions of nonschool local direct general expenditures, the States are ranked separately on these two indices in the second and third columns. These rankings help explain whether the cities or counties or both are responsible for the general posture of local discretionary authority in each State.

Finally, a fourth column shows each State's rating (1, 2, and 3) according to the degree of State dominance in the State-local fiscal partnership. Among the 16 States ranking highest on local discretionary authority, four are State dominant, six are State strong, and none are State junior partners. Among the nine lowest, two are junior partners, three are State strong, and four are State dominant.

Clearly, these rankings should be used with great caution, because of the many subjective factors in their construction. These include judgments of the individuals queried in the questionnaire survey as to the basic data, the selection of the four types of authority, the relative weights given to each of these types, and the relative weights given to each of the six types of local unit.

Despite these important caveats, the ratings can be accepted at least as a general indication of the relative standing of the 50 States with respect to the amount of local discretion they give to their general purpose local governments as a whole. Thus, one would be justified in saying as a minimum that the 16 States with a rating under 2.50 give their local governments relatively great discretion in managing their own affairs, whereas the 9 rated at and above 3.40 tend to maintain the greatest degree of control over their local units. Further, the 25 States in between ranked neither highest nor lowest in the degree of local discretion.

A further caveat must be added, however. Because of the many judgmental factors involved, too much must not be read into the specific place rankings of the individual States.

[62] The composite index differs from that used in the 1980 report, thus explaining differences in the listings of those States providing significant discretionary authority. In last year's report, States were listed as providing significant discretionary authority if either their cities, counties or towns were granted *both* functional and financial authority. Boroughs, villages, and townships were not included in the tabulation, nor was personnel or structural authority.

A Closer Look at Wisconsin's Tax Increment Financing Law

The Wisconsin Legislature enacted the *Tax Incremental Finance (TIF) Act* in 1975.[1] The law provided municipalities (cities and villages) with a new method of financing municipal projects aimed at promoting development and redevelopment by eliminating blight, rehabilitating depressed areas, and promoting industrial growth.

The Tax Incremental Finance Act permits a municipality to designate an area that is valued at no greater than 5 percent of the municipality's total equalized taxable property value as a tax incremental finance district upon a local finding that at least 25 percent of the area is blighted, in need of rehabilitation, or suitable for industrial sites. More than one such district may be established. The municipality can finance public works and improvements which promote development in the district by retaining all tax revenues generated by the new development. Without TIF, roughly 78 percent of the additional property taxes collected would go to tax districts which overlie the TIF district, including the county; school district; vocational, technical, and adult education district; and other local tax districts.

All improvements must be made by the municipality within five years after creating the district. The municipality can retain the revenues which would go to the overlying taxing districts for up to 15 years after the last improvement is made in the TIF district, thereby making long-term borrowing to fund TIF improvements feasible.

Problems with TIF

Tax Incremental Financing has already been used effectively by several Wisconsin cities to promote development and redevelopment. Nevertheless, the TIF law has been abused in two ways:

[1] Material in this section is derived from an evaluation by the State of Wisconsin Legislative Audit Bureau, *The Tax Incremental Financing Law, Section 66.46, Wisconsin Statutes*, January 1981.

• Some municipalities have attempted to take advantage of the TIF law by creating tax incremental districts (TID's) in areas which would have developed anyway and have, therefore, "captured" tax revenues which should have gone to overlying tax districts.

• Some municipalities have used TIF revenues which should have gone to overlying tax districts to fund projects and services which are, at best, indirectly related to promoting development.

Distinguishing between efforts to acquire commitments to development to assure the success of TIF and efforts to take advantage of development which would have occurred without TIF is sometimes difficult. Nevertheless, indicators of the abuse associated with taking advantage of development, include:

• inclusion of large portions of vacant and farm land, which is the land most likely to develop, in a tax incremental district by declaring it to be blighted;

• inclusion of land already owned by industry which will normally develop without TIF when the owner is ready to relocate or expand;

• annexation of vacant land on the fringes of a municipality to create a tax incremental district; and

• application of a broad definition of contiguity in order to include unrelated areas within a single TIF district, allowing the municipality to take advantage of development occurring in one area to finance improvements in another.

To limit these abuses of the TIF law, the Wisconsin Legislative Audit Bureau recommended that a TIF law:

• require that no more than 25 percent of the land in a TID may be vacant in each of the seven years prior to the creation of the TID;

• exclude from TID's land that has been annexed within, for example, three years of the creation of the district; and

• require that "links" between TID areas contain whole parcels where right-of-ways are not considered parcels (i.e., a road joining two areas must have a parcel on at least one side all along the connecting section).

Regarding the use of TIF revenues to fund projects and services only indirectly related to development, the Audit Bureau said that the degree to which projects funded from TIF revenues are related to development can be judged by the degree to which they are targeted at eliminating blight, rehabilitating declining areas, and promoting industrial development.

The bureau also complained that TIF revenues can be misused to fund a variety of municipal services and projects not intended by the legislature when the TIF law was enacted, including:

• funding projects not directly related to eliminating blight or promoting industrial development;

• lowering the cost of routine services to the entire municipality at the expense of the overlying taxing districts;

• replacing user fees as the source of financing for larger-scale water and sewage facilities which will serve areas of the municipality not in the TID;

• funding municipal projects which were created prior to creating the TID; and

• funding improvements and services which the municipality could normally not afford or would not choose to purchase.

Overlying taxing districts may not be the only jurisdictions hurt by a municipality's use of TIF revenues on projects not directly related to development. Some TID's may in the long run negatively affect the municipality's own financial well-being and ability to plan for development. This can occur when the municipality:

• fails to coordinate TIF planning with other municipal planning;

• fails to recognize the long-range impact of a TID on its normal operating budget by including most of its developable land (potential tax base) in the TID, thereby making most of the growth unavailable to its general operating budget for as long as 20 years; or

• fails to anticipate the cost of maintaining and administering projects and services initiated with TIF beyond the five-year period in which TIF expenditures are permitted.

The Wisconsin Legislative Audit Bureau concluded in its evaluation of the TIF law that while TIF has stimulated development in some municipalities, the long-term impacts of its use remain largely unknown though potentially negative. This is especially true in small communities that have included large portions of vacant land in their TID's, inadequately planned development, or included a wide range of TIF expenditures which they could not otherwise afford, and which do not promote development.

Success in Promoting Development

The Bureau also concluded that TIF has been used successfully to promote development and redevelopment by eliminating blight, rehabilitating problem areas and promoting industrial growth. Examples follow of when TIF has worked in cities of varying size to effectively expand their tax base.

• LaCrosse – Tax Incremental District No. 1 was created to redevelop blighted areas of the central business district. Structural blight was identified by the city planning department. Public improvements in the TID plan include street and alley improvements, land acquisition, demolition, relocation, construction of off-street parking, street signalization and lighting, and construction of a convention center. A major hotel has located in the TID primarily due to the stimulus of TID improvements. Construction of offices, including corporate headquarters for a brewery, was also encouraged by TID development. The equalized value of taxable property in this TID increased from $12.6 million in 1978 to nearly $21 million in 1980.

• Madison – TID No. 3 was created to provide housing and clear a blighted area. Project costs consisted primarily of land acquisition, demolition of blighted structures, and implementation of public works necessary for residential development. The result of the TIF use in this area is the conversion of an old brewery area to a condominium housing complex.

• Milwaukee – TID No. 1 was created to encourage industrial development and redevelopment in the Menomonee Valley industrial area. The planning phase for this TID was four years. Projects in the plan included property acquisition; site clearance; demolition; construction and reconstruction of streets, bridges, viaducts, and ramps; right-of-way improvement such as street lights, traffic lights, bus shelters and landscaping; and storm and sanitary sewers. The equalized value of all taxable property in TID No. 1 increased from $34.7 million at the time the TID was created in 1976 to $49.3 million in January 1980.

• Sparta – Poor drainage was inhibiting industrial development in a portion of Sparta's industrial park so TID No. 2 was created to provide improvements. Project costs for this TID include construction of sanitary sewers, water mains, roadways, curbs, gutters, and storm sewers. A number of small businesses and some residences have located in the TID because drainage problems have been alleviated.

Conclusion

This report has surveyed the actions of the 50 State governments in assisting their local governments in five policy areas: housing, community development, economic development, fiscal reform, and enhancing local self-help capabilities. The programs in this report cover a broad spectrum, and overall, provide a reliable indicator of a State's performance in directing assistance to communities in need.

Readers of *the 1980 Annual Report* on *State Aid to Distressed Communities* will notice a number of differences between this year's report and last year's. For many of the programs, a State was shown to be providing a targeted program in 1980, but not in 1981. Or, conversely, State programs identified in this year's report were not included in the 1980 report.

The most substantial differences between the 1980 and 1981 reports appear in the areas of multifamily housing and customized job training. In these two programs, this year's report counts only those where the State rather than the Federal Government provided most of the funds. In another policy area, the criteria for local discretionary authority have been changed to provide a more reliable measure of State performance.

Other reasons for differences stem from developments in the programs themselves. Some State actions, such as tax increment financing in Arizona and Kentucky, were ruled unconstitutional by the courts. Other programs were operated last year on a pilot basis or simply terminated. And in a couple of instances, the targeting provisions of programs were rescinded.

The addition of programs in some States represents new ventures, but in others, more exhaustive data collection efforts have revealed old programs in States which were not uncovered in 1980. Every effort was made to verify the presence or absence of these State programs. Officials in the State governments were contacted directly to confirm a program's existence or to clarify whether it was targeted.

In general, however, the research findings indicate that only a small number of the 50 States have made extensive use of the full range of powers and tools at their disposal. Only one State – Massachusetts – has adopted 15 of the 19 programs. Four states – California, Connecticut, Michigan and Pennsylvania – have enacted 12 to 14 of the targeted aids. Nine States have nine to 11 of the programs; 27 States, five to eight; and nine States have one to four. In recounting these numbers, it should be emphasized that they include only those programs which are targeted according to the criteria which were developed for this series of reports.

While the 19 local assistance programs included in this report are among the most significant actions that States can take to improve conditions in their most needy communities, other courses of action could be taken. As noted in the introduction, States may reduce their number of local aid projects by assuming direct responsibility for local problems. Additionally, most rural States would have little need for the assistance programs detailed in this report.

Regional Differences

Blanket conclusions about the needs of distressed communities are difficult. State adoption of these programs varies by policy area – some regions rely on fiscal reforms, and others on economic development. While the two most active States – Massachusetts and Connecticut – are located in New England, States in this region generally have been least involved in making fiscal reforms and providing greater authority to local governments.

Review of regional trends across the five policy areas illustrates how differently the various parts of the country seek to deal with distressed communities' problems. Most of the housing programs – particularly the rehabilitation policies – are located in the Eastern and Central regions. Economic development policies may be found throughout the United States, although State financial aid programs for industrial or commercial development are concentrated mainly in the Mideast and Great Lakes regions and small business aid is most prevalent in the Mideast States. Generally, State community improvement programs are spread across the Nation with some concentration in the Rocky Mountain States, while the neighborhood assistance policies are located in the East and Central States. In the policy area of fiscal reform, most of the actions have been undertaken by the Western and Central States. Finally, the Central States have been the most active in enhancing local self-help capabilities, while the Eastern States have been the least active.

While no clear regional pattern in assisting distressed communities emerges overall, there is a high correlation between the extent of urbanization within a State and the adoption of these 19 programs. Conversely, those States with a largely rural population tend to have the least number of these targeted programs. While the percentage of urban population within a State does not totally explain the adoption of targeted programs – other political and historical factors undoubtedly exert an influence – a relationship between urbanization and targeted State-local assistance nonetheless seems to be present. Of ten States that have adopted ten or more of the 19 programs, the median percentage of urban population is 80 percent, based on 1980 census data. There are 17 States which have adopted five or fewer of the 19 programs. The median percentage of urban population in those States is a much lower figure, 54 percent. On the other hand, 11 States whose resident population is more than 70 percent urban have adopted only five to nine of the program indicators. States with predominately urban political

constituencies, then, will tend to have a greater need for targeted programs and thus be among the leaders in adopting aid for distressed communities.

Similarly, the eight States described in the introductory section as having comprehensive urban strategies also tend to have enacted many of the programs in the 19 indicator areas. For example, California, Connecticut, Florida, Massachusetts, Michigan, and Pennsylvania have policies in ten to 15 indicator areas, while Oregon offers eight of the targeted aids. Only North Carolina lags behind with programs in four indicator areas.

State Fiscal Assistance

Education and welfare financing in particular are significant indicators of State efforts to relieve local governments' fiscal problems, since these two functional areas alone represent 50 percent of all State-local expenditures. Over the last decade, the State record in these areas has improved dramatically. For example, while the State share of State/local revenues for public elementary and secondary schools was, on an aggregate basis, 43.4 percent in 1969-70, the States had increased their share to 54.6 percent by 1980-81. Similarly, in public welfare, while the State share of State/local expenditures for public welfare was, on an aggregate basis, 75.7 percent in 1966, the States had increased their share to 83.9 percent in 1978-79. Despite that impressive record, however, tighter fiscal conditions and new Federal policies are forcing some adjustments by the States. While a few States continue to increase responsibility in both functions, a number of other States now appear to be placing a greater fiscal burden on their local governments.

Table 17 presents State-by-State percentages of the State share of State and local expenditures for public welfare for fiscal years 1977-78 and 1978-79. Sixteen States have increased their percentage share of public welfare expenditures. The biggest increases came in California (from 77.4 percent to 97.3 percent), Nebraska (from 61 percent to 78.3 percent), and Wyoming (from 65.8 percent to 81 percent). At the same time, 27 States decreased their responsibility for public welfare costs. While most of the declines were minor, a few were dramatic. For example, Montana's share went from 52.1 percent to 40.7 percent, and Oregon decreased its funding percentage from 97.1 percent to 89.4 percent. While 25 of the States assume 90 percent or more of public welfare costs, only three States – Illinois, Missouri, and Washington – have assumed total responsibility.

Table 18 presents a similar State-by-State breakdown of the State percentage of State-local revenue receipts for secondary and elementary education, but for fiscal years 1979-80 and 1980-81. Over these fiscal years, 29 States have increased their education finance responsibilities, one State was unchanged, and in 20 the State

Table 17

State Share of State/Local Expenditures for Public Welfare

State	1977-78	1978-79	Change
Alabama	91.8%	93.7	+1.9
Alaska	99.8	99.0	−0.8
Arizona [1]	—	—	—
Arkansas	96.8	96.6	−0.2
California	77.4	97.3	+19.9
Colorado	76.1	75.7	−0.4
Connecticut	94.7	92.3	−2.4
Delaware	97.2	98.2	+1.0
Florida	81.8	82.2	+0.4
Georgia [1]	—	—	—
Hawaii	98.9	98.6	−0.3
Idaho	91.3	92.2	−0.9
Illinois	100.0	100.0	—
Indiana	59.1	61.6	+2.5
Iowa	78.1	81.5	+3.4
Kansas	96.8	94.8	−2.8
Kentucky	96.0	96.6	+0.6
Louisiana	97.2	96.6	−0.6
Maine	88.6	89.2	+0.6
Maryland	100.0	98.1	−1.9
Massachusetts	96.8	96.7	−0.1
Michigan	96.6	94.7	−1.9
Minnesota	62.7	58.3	−4.4
Mississippi	85.4	87.5	+2.1
Missouri	99.7	100.0	+0.3
Montana	52.1	40.7	−11.4
Nebraska	61.0	78.3	+17.3
Nevada	47.8	50.3	+2.5
New Hampshire	56.1	53.4	−2.7
New Jersey	70.8	77.3	+6.5
New Mexico [1]	—	89.8	—
New York	45.7	43.4	−2.3
North Carolina [1]	—	—	—
North Dakota	79.6	78.4	−1.2
Ohio	76.7	75.2	−1.5
Oklahoma	95.8	96.8	+1.0
Oregon	97.1	89.4	−7.7
Pennsylvania	88.5	87.3	−1.2
Rhode Island	98.9	97.1	−1.8
South Carolina	94.6	93.7	−0.9
South Dakota	90.2	90.0	−0.2
Tennessee	89.2	88.5	−0.7
Texas	96.2	91.7	−4.5
Utah	95.6	97.3	+1.7
Vermont	98.4	98.7	+0.3
Virginia	78.4	75.3	−3.1
Washington	100.0	100.0	—
West Virginia	98.7	98.0	−0.7
Wisconsin	85.1	83.5	−1.6
Wyoming	65.8	81.0	+15.2

[1] Public welfare expenditures for Arizona, Georgia, and North Carolina are included with health and hospital expenditures. Data necessary for separation by function, by source of financing, are not readily available for FY 1978 and 1979. In New Mexico, such data is not available for FY 1978.

Source: Compiled by ACIR staff from *Significant Features of Fiscal Federalism, 1979-80 Edition,* October 1980, and various reports of the Governments Division, U.S. Bureau of the Census.

Table 18

State Percentage Distribution of Education Receipts — Excluding Federal

State	1979-80	1980-81	Change
Alabama	75.4%	79.7	+4.3
Alaska	80.6	80.1	−0.5
Arizona	49.3	46.2	−3.1
Arkansas	63.1	63.3	+0.2
California	77.8	84.3	+6.5
Colorado	44.5	43.6	−0.9
Connecticut	33.9	36.5	+2.6
Delaware	74.9	75.4	+0.5
Florida	62.2	63.5	+1.3
Georgia	57.6	63.5	+5.9
Hawaii	95.6	97.1	+1.5
Idaho	53.6	67.2	+13.6
Illinois	54.5	45.1	−9.4
Indiana	59.2	63.1	+3.9
Iowa	43.0	46.5	+3.5
Kansas	49.5	48.9	−0.6
Kentucky	80.1	79.8	−0.3
Louisiana	66.5	64.9	−1.6
Maine	54.3	53.7	−0.6
Maryland	42.7	43.0	+0.3
Massachusetts	38.9	41.6	+2.7
Michigan	41.8	38.9	−2.9
Minnesota	58.1	58.4	+0.3
Mississippi	69.0	69.9	+0.9
Missouri	41.1	41.1	—
Montana	53.9	53.1	−0.8
Nebraska	17.6	26.5	+8.9
Nevada	36.0	56.1	+26.1
New Hampshire	10.0	7.0	−3.0
New Jersey	40.9	42.1	+1.2
New Mexico	76.8	78.2	+1.4
New York	42.4	44.2	+1.8
North Carolina	75.6	75.5	−0.1
North Dakota	50.4	49.4	−1.0
Ohio	47.0	44.2	−2.8
Oklahoma	63.2	67.0	+3.8
Oregon	36.7	39.8	+3.1
Pennsylvania	49.8	49.2	−0.6
Rhode Island	42.7	41.2	−1.5
South Carolina	64.7	68.6	+3.9
South Dakota	23.2	30.9	+7.7
Tennessee	53.5	56.9	+3.4
Texas	56.4	56.6	+0.2
Utah	59.8	58.4	−1.4
Vermont	29.3	28.8	−0.5
Virginia	46.2	45.2	−1.0
Washington	77.4	81.9	+4.5
West Virginia	67.7	68.9	+1.2
Wisconsin	39.3	39.2	−0.1
Wyoming	30.4	30.6	+0.2

Source: ACIR, *Significant Features of Fiscal Federalism, 1979-80 Edition*. Also compiled by ACIR staff from the National Education Association, *Estimates of School Statistics, 1980-81* (copyright 1981 by the National Education Association, all rights reserved).

share declined. The biggest increases came in Nevada (from 36 percent to 56.1 percent), Idaho (from 53.6 percent to 67.2 percent), and Nebraska (from 17.6 percent to 26.5 percent). The decreases in States' share of education finance were less dramatic, with the largest decline in Illinois (from 54.5 percent to 45.1 percent). The next largest decreases were in New Hampshire, Arizona, and Michigan, each of which showed declines of approximately 3.0 percent. The decline in the State share of education finance was 1.0 percent or less in 13 of the 20 States.

Other Forms of State Aid

Several programs in the report's list of significant indicators do not require appropriation of funds or direct expenditures by the State governments. For example, the indicators in the policy area "enhancing self-help capabilities" – tax increment financing, local taxing authority, and local discretionary authority – require only State authorization. Moreover, these self-help actions are becoming increasingly important to local officials, as the National Governors' Association meeting in August 1981 made clear. There, Mayor Willam H. Hudnut of Indianapolis, president of the National League of Cities, outlined for the governors the issues he considered "critical to meeting the intergovernmental challenges of the 1980's."

> First, he said, is authority – both home rule and revenue authority. In almost half the States, he said, cities do not have home rule. Moreover, the imposition of tax lids, growth caps, and other revenue limitations, along with the excessive burdens placed on the property tax, have, said Hudnut, created "an overload system. States have to help us solve this problem."[63]

The States can do much here, although only 16 States now provide their local governments broad discretionary authority, as defined by the report's criteria. Similarly, while 36 States authorize their local governments to levy either a sales or income tax, only six States authorize their localities to employ both a sales and an income tax. Mayor Hudnut's comments and these statistics suggest that the allocation of revenue authority and tax bases among the Federal, State, and local governments is sure to become a priority issue in the emerging struggle to "rebalance" federalism during the next several years.

Another form of State aid, using tax incentives to accomplish social objectives, has become not only acceptable but popular, as the recent tax cut and tax reform legislation passed by Congress demonstrates. The States also have adopted this course. Twenty-four States

[63] Randy Arndt, "Hudnut Takes City Issues to Governors," *Nation's Cities Weekly*, Washington, DC, National League of Cities, Vol. 4, No. 33, August 17, 1981, p. 8.

have authorized local use of tax increment financing and 17 States have approved housing rehabilitation tax incentives. State neighborhood assistance programs rely heavily on the tax mechanism as well. Six States – Delaware, Florida, Indiana, Michigan, Missouri, and Pennsylvania – utilize tax credits, rebates or deductions to operate their neighborhood programs. Additionally, eight of the 16 States with targeted programs aiding industrial or commercial development employ some form of tax incentive.

As indicated earlier, the State programs outlined in this report are most effective when they are applied in combination or in a mutually supporting fashion. Thus, implementation of a package of assistance programs can often produce the greatest payoffs for distressed communities' needs in related program areas.

This philosophy is embodied in the recent and much discussed concept of enterprise zones. An enterprise zone combines, to varying degrees, tax incentives and regulatory relief policies which together might attract business and investment to blighted and depressed urban areas. Extensive State interest in enterprise zone programs has been one of the most encouraging indications of concern for urban areas during the past year. In 1981, three States adopted enterprise zone legislation – Connecticut, Louisiana, and Maryland – and more than 60 bills in 17 States were introduced to enact this concept.[64] In many of these States, an enterprise zone type program can be established simply by packaging or amending programs that already are on the books.

Overview

This report demonstrates that while the States' potential role is great, it remains largely unfulfilled.

- In the housing area: the record in helping low and moderate income families obtain single family housing is impressive, but State actions in multifamily housing have depended largely on federally funded programs; 14 States are involved in housing rehabilitation grants or loans; and 17 States offer housing rehabilitation tax incentives.
- In economic development, there is extensive State involvement, but most of the programs are not targeted. Twenty-two States have at least one program in this area, yet 28 offer no targeted programs to stimulate economic development in distressed communities.
- The policy area of community development includes only two indicator programs: capital improvements and local neighborhood improvement; 16 States offer the former and 14 the latter, and together, 26 States are involved in this policy area.
- Of the five indicators under fiscal and financial management assistance, 35 States provide at least one, improving local governments' access to credit markets. Far more significant in terms of direct fiscal relief are the other four: State-local revenue sharing, education finance reform, assumption of welfare costs, and reimbursement of mandates. The States' record here varies. Forty-four States offer at least one of the four and 20 States at least two. And, only two States – Illinois and Michigan – provide all four of the most important fiscal assistance programs.
- The final category focuses on three programs aimed at enhancing local self-help capabilities: tax increment financing, local taxing authority, and discretionary authority. While 44 States provide at least one of these forms of local authority, only four of them – Illinois, Kansas, Maryland, and Michigan – have enacted all three.

This report has served a two-fold purpose. First, it has demonstrated that while a few States have moved aggressively to provide significant assistance to their distressed communities, many others have not yet done so for a variety of fiscal, political, and historical reasons. Second, where the need exists, and the States can respond, this report indicates a variety of remedial actions that governors and legislatures should consider taking. Future reports will examine the nature and extent to which the States have responded to this challenge.

[64] U.S. Senate, Committee on Finance, Subcommittee on Investment Policy, 97th Congress, regarding the *Urban Jobs and Enterprise Zone Act*, testimony of John M. Mutz, Lieutenant Governor of Indiana, July 16, 1981, p. 2.

Targeted Single-Family Housing Programs [1]

Alabama

Alabama Housing Finance Agency's first single-family bond issue of $150 million was in November of 1980.

Alaska

1. Alaska Housing Finance Corporation's most recent single-family issue of $230 million on December 2, 1980, used the following program restrictions: FNMA mortgage limits for Alaska.
2. *Homeownership Assistance Program.* $40 million, 1981.
   Program is income targeted: income limit of $25,650 for one person and additional $1,000/person up to $32,650. Administered by the Division of Housing Assistance, DCA.
3. *Senior Citizen Housing Program.* $25 million.
   Provides grants for 24 percent of the costs of newly constructed housing for the elderly. 400 units have been built already. Administered by the Division of Housing Assistance, DCA.

Arkansas

Arkansas Housing Development Agency's most recent single-family issue of $110 million in August 1980 used the following program restrictions: income limit of $24,000; purchase price limit of $60,000; 20 percent of funds were targeted to rural areas and 10 percent targeted to economic development areas.

Arizona

Arizona Housing Finance Review Board received authority to issue bonds in April 1981 for single-family housing. No bond issue yet.

California

1. California Housing Finance Agency's most recent single-family issue of $85 million in January 1980 used the following program restrictions: income limits of 120 percent of HUD county median income; purchase price limit of $60,000 to $77,000 ($90,000 in San Francisco), varying by county based on HUD median income, and higher limits for two to four unit buildings.
2. *Rural and Urban Predevelopment Loan Program.*
   Loans for the preliminary costs of developing low-income family, elderly or handicapped housing. Administered by the Department of Housing and Community Development from fund total of $2.75 million. (See also multifamily housing.)
3. *Rural Land Purchase Fund.*
   Provides loans for the purchase of land in rural areas for the development of low-income housing. $1 million program administered by the Department of Housing and Community Development. (See also multifamily housing.)

Colorado

Colorado Housing Finance Authority's most recent single-family issue of $50 million on May 1, 1980, used the following program restrictions: income limit of $18,500 adjusted annual income; $60,000 sales price limit; maximum of 20 percent downpayment; owner occupancy; borrower net worth of no more than $30,000; liquid assets after closing of no more than $6,000.

Connecticut

1. Connecticut Housing Finance Authority's 1980 Series C single-family issue of $44 million used the following program restrictions: income limits which vary between $13,600 and $26,400 based on family size and location; purchase price limit of $45,000 to $85,000; and mortgage limit of $50,000 to $60,000.
2. *Downpayment Loan Program.* $6 million.
   Second mortgage loans to assist households in making downpayments. Administered by Department of Housing. Single- and multifamily (one to four families). (See also multifamily housing.)

Delaware

Delaware State Housing Authority's most recent single-family issue of $50,530,000 in June 1980 used the following program restriction: income limits of $30,000 (adjusted gross).

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[1] Information provided in appendices was gathered primarily from telephone interviews and relevant secondary source material. Funding levels either were approximated or unknown.

Florida

1. Florida Housing Authority has the authority to issue bonds for single-family housing, but has not issued yet.
2. *State Housing Land Acquisition and State Development Assistance.* $3.5 million, 1974 (no other appropriations).
   Provides low-interest loans for land acquisition and single-family housing development for low- and moderate-income persons. Administered by the DCA.

Georgia

Georgia Residential Finance Authority's most recent single-family issue of $65 million in July 1980 used the following program restrictions: income limit of $18,500 for purchase of existing property, $21,000 for new construction; purchase price limit of $42,500 and $45,800, respectively.

Hawaii

Hawaii Housing Authority's most recent single-family issue of $100 million on January 25, 1980, used the following program restrictions: borrower must not have owned any interest in residential property or a land trust either in Hawaii or anywhere else, at any time during the past three years before applying for a loan; income limits per the following schedule:

1 member: $22,475	5 members: $29,344
2 members: 25,594	6 members: 30,594
3 members: 26,844	7 members: 31,844
4 members: 28,094	8+ members: 33,094

Idaho

Idaho Housing Agency's last single-family issue of $47,945,000 in May 1980 used the following program restrictions: income limits of $15,000 for a family of one, plus $500/person up to family of six, and $900/person thereafter; purchase price limit of $44,000 for existing housing and $49,500 for new construction.

Indiana

Indiana Housing Finance Authority's first single-family issue of $150 million in June 1980 used the following program restrictions: income limits of 125 percent of county median income (this limit is statutory); mortgage amount limit of $75,000; 40 percent of all loans to be made to borrowers whose income is less than 80 percent of median.

Iowa

Iowa Housing Finance Authority's most recent single-family issue of $150 million in March 1979 used the following program restrictions: income limit of $17,300 (with adjustments); purchase price limit of $55,000; mortgage amount limit of $55,000 (VA); $7 million targeted to designated urban revitalization districts.

Kentucky

Kentucky Housing Corporation's most recent single-family issue of $59,335,000 in April 1979 to finance loans to mortgage lenders used the following program restrictions: income limit of $15,000; purchase price limit of $40,000.

Maine

Maine State Housing Authority's most recent single-family issue of $38 million in April 1980 used the following program restrictions: income limit of $20,000; purchase price limit of $45,000.

Maryland

1. Maryland Community Development Administration's most recent single-family issue of $42 million in July 1980 (Homeownership Development and Mortgage Purchase Program) used the following restrictions in the Homeownership Development Program: income limits of the lesser of 1) either the limits established for the Mortgage Purchase Program or 2) $4,000 above the minimum income determined by CDA as necessary to afford the average base price of a home of appropriate bedroom size and with a price which substantially equals the lowest price in the market area for a home that meets

CDA's design standards; mortgage amount not to exceed the purchase price or appraised value, whichever is less.

2. Another recent CDA single-family program opening from a $2.5 million appropriation in August 1980 used the following program restrictions: income limits of $22,400 to $25,600, depending on region of the State, for a three-person family; and mortgage limits of $40,000 to $44,000, depending upon region of the State.

Massachusetts

1. The Massachusetts Home Mortgage Finance Agency's single-family mortgage loan program is a 90 percent participation program with each lender retaining a 10 percent equity interest in each loan made; the Agency purchases a 90 percent interest in each. The most recent single-family issue of $75 million in May 1980 used the following program restrictions: income limit of $19,000 to $21,000 for family of two, plus $1,000 for each additional person; mortgage limits of $45,000 to $54,000 for one- to four-family units; 10-20 percent of funds set aside for designated Neighborhood Preservation areas; 40 percent set aside for high priority loans, i.e., low-income families, minorities, rehabilitation.
2. *Chapter 667 Program.* $77 million.
   Provides for the construction and rehabilitation of 1,600 units of low-income elderly housing in approximately 30 communities. (See also multifamily housing.)
3. *Chapter 705 Program.* $13 million.
   Provides monies for the development of scattered-site family public housing. (See also multifamily housing.)

Michigan

Michigan State Housing Development Authority's most recent single-family issue of $80 million on May 1, 1980, used the following program restrictions: income limit of $24,044 (under emergency rules); purchase price limit of $72,132; mortgage amount limit of $48,000 or $49,500 with energy improvements.

Minnesota

Minnesota Housing Finance Agency's most recent single-family issue of $123.8 million on June 10, 1980, used the following program restrictions: income limit of $19,000 in Twin Cities metro area, $17,500 in other areas; purchase price limit of $55,000 in Twin Cities metro area, $51,000 in other areas; targeting requirements that 80 percent or more of all loans placed by Seller/Originating Lenders for sale to MHFA be borrowers in one or more of the following categories.

1. First-time home buyer (i.e., borrower who has not had ownership interest within two years prior to MHFA mortgage application)
2. Handicapped buyer
3. Minority buyer
4. Female head of household
5. Buyer displaced by government action or natural disaster

Mississippi

The Mississippi Housing Finance Corporation's first single-family issue of $150 million in September 1980 used the following program restrictions: income limit of $30,000 with an additional $1,000 per exemption; purchase price limit of $75,000; mortgage amount limit of $60,000.

Missouri

Missouri Housing Development Commission's most recent single-family issue of $50 million in June 1980 used the following program restrictions: income limit of $24,000 for family of one–four, $29,000 for family of four–eight; purchase price limit of $51,750; 55 percent inner city or outstate targeting requirements.

Montana

Montana Board of Housing's most recent single-family issue of $50 million in May 1980 used the following program restrictions: income limit of $18,500; purchase price limit of $60,000.

Nebraska

Nebraska Mortgage Finance Fund's first single-family issue of $150 million in March 1980 used the following program restrictions: income limit of $22,000 adjusted 1979 income and $24,200 adjusted 1980 income; purchase price limit of $55,000; mortgage amount limit of $55,000.

Nevada

Nevada Housing Division's most recent single-family issue of $30 million in May 1980 used the following program restrictions: income limit of $15,900 to $28,350 for families of one–eight plus; purchase price and mortgage amount limits of $60,000 to $65,000.

New Hampshire

New Hampshire Housing Finance Agency's most recent single-family issue of $60 million in June 1980 used the following program restrictions: income limits of 150 percent of median income for existing housing and 175 percent of median income for new construction; purchase price limits of 2.5 times income or $60,000 for existing housing and $64,000 for new construction; requirement for 15 percent low income and 55 percent must be newly constructed.

New Jersey

New Jersey Mortgage Finance Agency's most recent single-family issue of $130.3 million in May 1980 used the following program restrictions: income limits only in Atlantic County where a pilot program set an income limit of $29,120 gross family income and set liquid assets at 33.3 percent of purchase price of home; mortgage amount limits of $50,000 for one unit, $70,000 for two and three units and $80,000 for four units; targeting requirements to eligible neighborhoods in urban aid municipalities; strict enforcement of owner occupancy requirement.

New Mexico

New Mexico Mortgage Finance Authority's most recent single-family issue of $43.7 million in October 1980 used the following program restrictions: income limit of $23,000; purchase price limit of $57,000.

New York

New York Mortgage Agency's most recent single-family issue of $125 million in February 1980 used the following program restrictions: no income or purchase price limits; 20 percent of the funds were targeted to families with incomes of 80 percent less than the State median.

North Carolina

North Carolina Housing Finance Agency's most recent single-family issue of $58 million in May 1980 used the following program restrictions: income limit of $15,000 to $17,400 (rural and urban areas); purchase price and mortgage limits of $45,000.

North Dakota

North Dakota Industrial Commission has the authority to issue bonds, but has not made an issue yet. Funds will be used to finance mortgage subsidies for persons of low- and moderate-income.

Oklahoma

Oklahoma Housing Finance Agency's single-family issue of $150 million in June 1980 used the following program restrictions: income limit of 150 percent of State median income, not to exceed $28,017; purchase price limit of $69,950 or 2.75 times family's maximum income (provided it does not exceed $69,950); mortgage amount limit of 95 percent of appraised value of purchase price.

Oregon

Oregon Housing Division's most recent single-family issue of $42 million in August 1980 used the following program restrictions: income limit of $19,500; purchase price limit of $50,000 for new and $47,000 for existing housing. Funds were set aside during this sale specifically for mobile homes.

Pennsylvania

Pennsylvania Housing and Redevelopment Assistance Program (single- and multifamily housing) provides write-down grants or seed money loans to nonprofit housing development corporations and redevelopment authorities for the development and redevelopment of subsidized single- and multifamily housing. (See also housing rehabilitation and multifamily housing.)

Rhode Island

1. Rhode Island Housing and Mortgage Finance Corporation's most recent single-family issue of $164 million in August 1979 used the following program restrictions: income limit of $18,500 for a family of two or fewer and $19,500 for a family of three or more; mortgage amount limit of $40,000 on one unit and $50,000 on two or three units; 15 percent of proceeds to go to new construction or substantial rehabilitation.
2. *Housing Seed Money Fund.* Promotes construction and rehabilitation of low- and moderate-income housing. Financial loan assistance is made available to nonprofit sponsors at no interest for pre-mortgage expenses. (See also multifamily housing.)

South Carolina

South Carolina State Housing Authority's most recent single-family issue of $170.3 million in October 1979 used the following program restrictions: income limit of $20,300, plus $800 per each additional family member; purchase price and mortgage limits of $46,000 for house and property; financial incentive bonuses given to participating lenders for originating new construction or major rehabilitation in excess of $5,000 in rural counties and in urban areas with populations over 30,000.

South Dakota

South Dakota Housing Development Authority's most recent single-family issue of $57 million on June 15, 1980, used the following program restrictions: income limit of $20,100 for family of four; purchase price limit of $55,275 for family of four.

Tennessee

Tennessee Housing Development Agency's most recent single-family issue of $63.2 million in June 1980 used the following program restrictions:

Income limit:

Household Size	Urban Areas	Nonurban Areas
One member	$14,000	$13,000
Two members	18,000	14,400
Three members	20,000	14,400
Four members	22,500	16,000
Five or more	23,000	17,500

Sales price limit:

	Urban Areas	Nonurban Areas
Older Home	$37,000	$33,000
New Home	44,000	36,000

Texas

Texas Housing Agency's first single-family issue of $150 million in November 1980 used the following program restrictions: income limit of $25,000 plus $1,000 per each additional family member over two; mortgage amount limit of $67,500.

Utah

Utah Housing Finance Agency's most recent single-family issue of $50 million in June 1980 used the following program restrictions: income limit of $17,000 for a family of one, $19,000 family of two, $20,000 family of three, and $500 per each additional family member; purchase price limit of $46,000 for existing housing and $48,000 for new construction; $3 million targeted to areas affected by energy development.

Vermont

Vermont Housing Finance Agency's most recent single-family issue of $75 million in May 1980 used the following program restrictions: income limit of $22,500 for new construction for family of one, $24,500 for family of two to four, and $26,500 for five or more (deduct $2,000 for existing housing); purchase price limit of $50,000 for existing and $55,000 for new construction; mortgage limit of $44,000 for existing housing and $46,000 for new construction; first time home buyer requirement for existing housing.

Virginia

Virginia Housing Development Authority's most recent single-family issue of $75 million in December 1980 used the following program restrictions: income limit of $18,000 to $22,000 adjusted gross, depending on region of State; purchase price limit of $36,500 to $51,000 for existing housing and $40,500 to $56,500 for new construction.

West Virginia

West Virginia Housing Development Fund's most recent single-family issue of $63.6 million in June 1980 used the following program restrictions: income limit of $23,000 adjusted income; purchase price limit of $50,000 for existing housing and $55,000 for new construction.

Wisconsin

Wisconsin Housing Finance Authority's most recent single-family issue of $45 million in June 1980 used the following program restrictions: income limit of 110 percent of county median (except 120 percent for new construction or targeted areas); mortgage limit of 2.5 times income.

Wyoming

Wyoming Community Development Authority's most recent single-family issue of $25 million in April 1980 used the following program restriction: income limit of $30,000 gross family income; purchase price limit of $75,000; mortgage amount limit per FHA; energy impacted areas given priority for funds.

Targeted Multifamily Housing Programs

Alaska

Senior Citizen Housing Program. $7 million, 1981. Provides money for the construction of multifamily elderly housing. Administered by the Department of Community and Regional Affairs.

California

1. *Rural and Urban Predevelopment Loan Program.* Loans for the preliminary costs of developing low-income family, elderly or handicapped housing. Administered by the Department of Housing and Community Development from fund total of $2.75 million. (See also single-family housing.)

2. *Rural Land Purchase Fund.*
   Provides loans for the purchase of land in rural areas for the development of low-income housing. $1 million program administered by the Department of Housing and Community Development. (See also single-family housing.)

3. *Rental Housing Construction Program.*
   $82 million program administered by Department of Housing and Community Development. Provides funds through local agencies or the California Housing Finance Agency for the development of new rental housing (30 percent for very low- and moderate-income, 70 percent for moderate-income and market rate).

4. *Farmworker Housing Grant Fund.*
   Provides up to 50 percent matching grants for developing new or rehabilitated housing for low-income agricultural employees. Administered by the Department of Housing and Community Development with annual appropriation of $2.5 million.

Connecticut

1. *Downpayment Loan Program.* $6 million.
   Second mortgage loans to assist households in making downpayments. Administered by Department of Housing. (See also single-family housing.)
2. *Multifamily Program.* $5 million, 1981.
   Loans for multifamily housing development or rehabilitation.
3. *Rental housing* for the elderly. $2 million, 1981.
   Grants to local housing authorities. Administered by Department of Housing. Income trigger. Multifamily.

4. *Congregate housing* for the elderly. $1 million, 1981.
   Grants to local housing authorities and nonprofit groups for congregate housing for the elderly. Department of Housing. Four projects currently in action.

Massachusetts

1. *Chapter 667 Program*. $77 million.
   Provides for the construction and rehabilitation of 1,600 units of low-income elderly housing in approximately 30 communities. (See also single-family housing.)
2. *Chapter 705 Program*. $13 million.
   Provides monies for the development of scattered-site family public housing. (See also single-family housing.)

New York

1. *Mitchell-Lama Program*. 1960.
   Multifamily housing for moderate- and middle-income households. Bond debt of $1.6 billion. Provides subsidies to limited-profit companies for development of multifamily housing. 400 projects. Administered by the State Division of Housing and Community Renewal.
2. The New York City Housing Corporation and the New York State Housing Finance Agency offer multifamily housing financing policies. The City Housing Corporation financed 9,060 multifamily homes in 1980 of which 1,024 were Section 8 subsidized; the NYHFA financed the construction of 64,986 multifamily homes of which 2,622 were Section 8 subsidized.

Oregon

The Oregon Housing Division provides below-market interest rate loans for the construction of lower cost elderly housing. Program is funded through the issuance of general obligation bonds.

Pennsylvania

Housing and Redevelopment Assistance Program.
Write-down grants or seed money loans to nonprofit housing development corporations and redevelopment authorities for the development and redevelopment of subsidized single- and multifamily housing. (See also housing rehabilitation and single-family housing.)

Rhode Island

Housing Seed Money Fund.
Promotes construction and rehabilitation of low- and moderate-income housing. Financial loan assistance is made available to nonprofit sponsors at no interest for pre-mortgage expenses. (See also single-family housing.)

Targeted Housing Rehabilitation Programs (Grants or Loans)

California

1. *Homeownership Home Improvement (HOHI) Program in Neighborhood Preservation.*
   Provides below-market interest rate loans for low- and moderate-income families in neighborhood preservation areas. Funded through appropriations and revenue bonds. (See also neighborhood assistance.)
2. *Deferred Payment Loan Program.*
   Provides loans to local agencies for the rehabilitation of housing for low-income households. Three percent deferred payment loans. Administered by the Department of Housing.

Colorado

Housing Development Grant Program. $1.9 million, 1981.
Provides grants (deferred loans) through local sponsors for the construction, rehabilitation or acquisition of housing for low-income households. Program available statewide: targeted by household income. Administered by the Department of Housing.

Connecticut

1. *Housing Development Corporations Program*. $2 million, 1981.
   Provides grants to local HDC's and municipalities for community development neighborhood rehabilitation projects.

2. *Housing Site Development Program.* $800,000, 1981.
   Grants to municipalities for the acquisition and rehabilitation of blighted structures. Administered by the Department of Housing.

Hawaii

Hawaii Housing Authority makes rehabilitation and renovation loans of up to $10,000 to low-income families. The program has a revolving loan fund of $125 million.

Iowa

1. *Property Improvement Program.*
   Targeted by income, or to families with elderly or disabled members. Administered by Iowa HFA.
2. *Iowa Homesteading Program.*
   Targeted to slums or blighted areas.

Maryland

Housing Rehabilitation Program. $175 million, 1981.
Awards low-interest loans for the repair and renovation of single-family homes, small apartment buildings, and commercial properties in locally designated targeted areas.

Massachusetts

1. *Family Housing Program* (Chapter 705). $38 million, 1979.
   Provides local authorities with funds to construct, buy, and/or rehabilitate single homes or small multiunit structures (up to 24 units). Administered by the Bureau of Housing Development.
2. *Elderly Housing Program* (Chapter 667).
   Funding is awarded for new construction, major rehabilitation, or acquisition of standard housing for low-income elderly and handicapped persons. The last bond authorization was $100 million in 1980.

Michigan

Home/Neighborhood Improvement Program. $36.5 million, 1981.
Provides loans to families whose annual income is less than $16,000 for home and neighborhood improvement projects. Program financed through the sale of bonds and contributions from the General Fund.

Minnesota

1. *Home Improvement Loan.* $40-45 million, 1981-83.
   Makes loans available to homeowners at low interest rates.
2. *Rehabilitation Loan Program.* $9 million, 1981-83.
   Loans available to homeowners with incomes of $6,000 or less for housing rehabilitation.

Nebraska

Nebraska Mortgage Finance Fund.
Twenty percent of the $50 million bond issue in December 1980 was set aside to provide below-market interest rate loans for low- and moderate-income families for construction and rehabilitation and construction, but not earmarked for this purpose.

New Jersey

Housing Demonstration Program. $1.56 million, 1979 (no other appropriations).
Grants to nonprofit organizations and municipalities for the preservation of deteriorating multifamily buildings (with 5-50 units). So far, ten demonstrations have taken place.

New York

1. *Neighborhood Preservation Companies Act.* $8 million, 1981.
   Provides low-interest rehabilitation loans to landlords with low-income housing. (See also neighborhood assistance.)
2. *Rural Preservation and Community Act.* $2 million, 1981.
   Basically, same program as above, but applies to rural areas. (See also neighborhood assistance.)
   Both acts administered by the Department of Housing.

Pennsylvania

Housing and Redevelopment Assistance Program.
Write-down grants or seed money loans to nonprofit housing development corporations and/or government agencies for redevelopment and development

of federally subsidized single- and multifamily housing. (See also single-family and multifamily housing.)

Wisconsin

Neighborhood Conservation Rehabilitation Program.
Provides loans to owner occupied units with income restrictions. Financed by tax exempt bonds – $30 million issue. Administered by the Department of Development. (See also neighborhood assistance.)

Targeted Housing Rehabilitation Programs (Tax Incentives)

California

Depreciation deduction for rehabilitation of low-income rental housing of up to $20,000. Expenses for rehabilitation must be incurred between December 31, 1970 and January 1, 1982.

Colorado

State law prohibits increases for five years in assessed valuations of certain structures where the market value increases as a result of rehabilitation. Eligible structures are at least 30 years old and contain three or fewer units.

Connecticut

Municipalities may defer assessment increases in locally designated rehabilitation areas. Assisted properties must consist of three or more housing units to be constructed or rehabilitated. Previously, the law applied only to new construction of rental housing. The proposed project may now be located in a community development or neighborhood strategy area, as well as in the originally specified redevelopment area. Multifamily and cooperative housing eligible for designation.

Indiana

Indiana Tax Abatement Program.
Allows a ten-year partial abatement of property taxes on building construction or rehabilitation in communities where development needs to be encouraged.

Iowa

1979 Urban Revitalization Act.
Cities are given the authority to designate certain areas as revitalization areas. Improved residential property eligible for an exemption based on actual value added by the improvements for a period of ten years; the exemption is equal to a percent of the actual value added by the improvements, up to $20,000.

Massachusetts

"Urban Development Corporations" (Chapter 121 A).
Corporations undertake residential, commercial, civic, recreational, historic and industrial projects in areas which are considered to be blighted, decadent or substandard. The program authorizes the exemption of certain Massachusetts developments from the real property tax.

Minnesota

1. Developers proposing to construct improvements on property located in an industrial development district, a development district or a redevelopment project may apply to the local governing body to obtain deferral of property taxes on the improved property (1979 enactment). Under another enactment (1978), State defers property tax increases for five years on apartment buildings which have undergone significant rehabilitation. Administered by State Planning Agency.
2. *Title 2 Property Law.*
   Homes for elderly and low- and moderate-income families are assessed at 20 percent of their market value, apartments at 38 percent. Allows homeowners and landlords to improve their property and pay a small percentage of its increased assessed value.

Montana

Five-year reduction in taxable percentage of the increased market value of residential property attributable to improvements and rehabilitation.

New Jersey

Fox Lance Tax Incentive Program.
Municipal redevelopment agencies may grant tax exemptions for residential improvements taking place in conjunction with redevelopment projects. Municipalities may exempt improvements to multifamily dwellings in amounts up to 30 percent of the cost of improvements for the first year; second year 25 percent; third year 20 percent; fourth year 15 percent; fifth year 10 percent. Eligible dwellings must be located in municipally designated rehabilitation areas. The governing body may take into account the following factors: existence of blighted areas; deterioration of housing stock; supply and demand for housing; arrearage in real property taxes.

New York

J-51 Program.
Cities of one million or more (e.g., New York City) may exempt any increase in assessed valuations for multiple dwellings due to certain improvements, alterations, conversions, etc. Alterations or improvements constituting a moderate rehabilitation of a substantially occupied multiple dwelling are eligible for such an exemption. Exemptions may be made for a period of up to 32 years; the annual abatement can amount to no greater than 8 1/3 percent of the total cost of the improvement, and cannot exceed the amount of taxes payable in that year.

Ohio

Community Reinvestment Area Tax Exemption Law.
Allows municipalities and counties to designate community investment areas and provide these areas with tax abatements for new construction and rehabilitation of residential, commercial, and industrial properties.

Oklahoma

A renovated structure which is located in a special "renovation for preservation" area as designated by a local governing body, or which has been approved as a special "renovation for preservation" structure shall be assessed for a period of five years from the date of completion of the renovation at the assessed value of such property just prior to renovation, plus the value of any improvements which do not qualify as "renovation for preservation." "Renovation for preservation" includes repairs, replacements and improvements which are intended to restore the liveability, utility, safety or value of the property.

Oregon

Statute provides for limited assessment for rehabilitated substandard rental units for not more than ten years. Such units must be located in locally designated areas. Newly constructed multifamily dwellings are also eligible for property tax exemption.

Pennsylvania

Local Economic Revitalization Tax Assistance Act of 1977. Real property tax abatement is authorized for improvements (and new construction) in areas designated by a municipality as physically deteriorated. Department of Revenue administers the program.

Rhode Island

Energy Conservation Law.
Tax credits for energy conservation rehabilitation.

Virginia

Cities, counties and towns authorized to exempt rehabilitated residential, commercial and industrial real estate for an amount equal to the increase in assessed values resulting from the rehabilitation. The assisted property must be at least 25 years old. For residential structures, the improvements must increase assessed valuation at least 40 percent.

Wisconsin

Homestead Tax Credit.
Provides tax credits to low-income homeowners against their income and property taxes. Administered by the Department of Revenue.

Targeted Site Development Programs

Alabama

Proposed Cities Program.
Sites in cities of 20,000 or less are developed to attract industries. Site preparation includes providing adequate water, sewer, and power facilities and convenient transportation systems.

Indiana

Rural Development Fund. $1 million, 1981-1983 biennium.
Provides grants to aid the economic growth of rural areas with populations of less than 10,000. Program is designed to create jobs and help municipalities meet needs for site development.

New Jersey

1. *Urban Industrial Parks Program.*
   The Economic Development Authority is authorized to undertake a full range of development activities, including land assembly, acquisition, site preparation, marketing, and financing. Program targeted to municipalities receiving State urban aid.
2. *Matching Fund Program.*
   Provides matching aid grants to governmental and nonprofit agencies engaged in site development activities. However, the Economic Development Assistance Act of 1966, which establishes the Matching Fund program, received no appropriations this fiscal year.

Pennsylvania

Pennsylvania Industrial Economic Authority.
Provides loans to industrial development agencies to finance industrial park projects in redevelopment areas or "critical economic areas." Also, PIDA finances the construction of multiple-tenancy buildings for the occupancy of two or more industrial, manufacturing or research and development enterprises. (See also State financial aid.)

Tennessee

Economic Preparedness Program.
Provides technical and counseling assistance to local governments interested in revitalizing their areas. Technical services industrial site development including preliminary engineering surveys, site planning assistance, and development of financing packages necessary to sell completed sites. Available to communities in nonurban areas with populations under 20,000. Administered by the Department of Economic and Community Development.

Washington

Washington Economic Assistance Authority
Provides loans and grants to local governmental units and Indian tribes for the construction of roads, bridges, sewer and water lines, and other public facilities in areas designated as distressed. Assistance targeted and nontargeted. Program is scheduled to be terminated in June 1982.

Targeted State Financial Aid Programs for Industrial and Commercial Development

Connecticut

1. *The Urban Jobs Program.*
   Provides a package of incentives in designated economically distressed areas for newly constructed, substantially expanded or renovated facilities, or for existing facilities idle for more than one year. Generally, only manufacturing operations are eligible; however, certain service or distribution operations, and leased property with a lease of at least five years may also be eligible. Eligible projects can qualify for the following incentives:
   a. Working capital loans to small businesses, for up to 50 percent of a firm's needs; maximum loan of $75,000;
   b. Reduction of 1 percent in charges on direct State loans;
   c. Reduction of 1/2 percent in charges for State mortgage guarantees in connection with new buildings, land and equipment.

Targeting criteria:
Distressed cities must meet the six minimum standards of physical and economic distress developed as eligibility criteria under HUD's Urban Development Action Grant (UDAG) program. Criteria are: (a) growth in per capita income; (b) unemployment; (c) employment growth; (d) percentage of housing stock constructed before 1940; (e) percent of population below the poverty level; and (f) population growth for 1960-75.

a. Communities with high unemployment are those with an average unemployment rate at or above 110 percent of the statewide average and an unemployment rate above 6 percent for the calendar year preceding the year of eligibility.
b. The State reserves the authority to establish independent criteria, should UDAG undergo significant modification. State also can rule a facility eligible for aid before one year of idleness.

Administered by Department of Economic Development.

2. *Municipal Industrial Development Grants.*
   Assist towns to maintain and expand firms and job opportunities. Targeted to economically distressed cities. Administered by Department of Economic Development.
3. *Urban Enterprise Zone Act.*
   The Commissioner of the Department of Economic Development may designate parts of six Connecticut cities as an enterprise zone. In the zone, business enterprises and residential property owners are eligible to receive the benefits of a variety of economic incentives including: employment training vouchers, venture capital loans, corporate business tax credits, property assessment deferments, job incentive grant increases, sales tax suspension on replacement parts, and a commission to study regulatory and licensing policy.

Florida

1. *Tax Credit for New Jobs.*
   This program provides a 25 percent tax credit for wages paid to residents of slum or blighted areas employed in newly created jobs.
2. *Tax Credit for New or Expanded Businesses.*
   A credit based on the ad valorem taxes paid on expansion-related property (up to a maximum of $50,000 per year) can be applied to the corporate income tax for businesses expanding or locating in distressed areas.

Illinois

Direct Loan Program.
Program is designed to aid the small- to medium-sized industry that cannot obtain 100 percent of the financial requirements from conventional sources. Ordinarily the Illinois Industrial Development Authority furnishes from 25 percent to 40 percent of total fixed costs. The amount of direct loan assistance for any individual project will depend upon available funds and the number of jobs created or jobs retained. In the past these loans have ranged from $16,000 to $150,000.

Indiana

1. *Economic Development Authority Act.*
   The program establishes a commercial and industrial guaranty fund from which the Authority is empowered to guarantee mortgage and security agreements. If the Authority finds that the guarantee of a particular mortgage or security agreement would tend to alleviate unemployment conditions, and further finds that the proposed borrower can not obtain adequate financing at a reasonable rate from private financial institutions, the Authority may guarantee payments required by a first mortgage or senior or first security interest on any commercial or industrial development project.
2. *Industrial Development Fund Loan Program.*
   Through this program, low-interest, direct financing is available to municipalities for the purpose of economic development and job creation. Administered by the Indiana Department of Commerce and the State Board of Finance.

3. *The Economic Development Fund Program.*
Provides grants or loans to the State, a political subdivision of the State, an agency of either, or a not-for-profit corporation for public works projects, technical assistance, economic adjustment assistance or other economic development programs.

Louisiana

An enterprise zone bill was enacted that provides a different set of tax incentives for businesses in rural and urban areas. The Act is intended to encourage economic growth in rural areas and retention of existing businesses in urban areas. In rural areas, businesses are eligible for benefits including a $2,500 credit against State income and franchise tax liability for every new job they create. Other benefits in both rural and urban areas include an exemption from sales and use taxes on capital expenditures. Twenty-five percent of the State's census divisions will be declared to be enterprise zones. The program will be administered by the Department of Commerce.

Maryland

1. *Industrial and Commercial Redevelopment Fund.*
Provides loans or grants to political subdivisions to cover part of the eligible project costs of an industrial or commercial development project. Eligibility is determined according to the extent of economic and related social distress, underemployment, and unemployment in the political subdivision.
2. The legislature authorized the Governor to provide tax incentives to firms located in distressed areas. Although the legislation is based on the enterprise zone approach, it does not define what constitutes a zone, but allows the Governor to reduce or eliminate payments a company makes to worker's compensation and unemployment insurance funds. Payments of personal or corporate State income taxes may also be reduced or waived by the Governor.

Massachusetts

1. *Industrial Mortgage Insurance Program.*
Commercial enterprises located in designated urban revitalization areas and industrial enterprises located anywhere in Massachusetts in need of funds to acquire, construct, alter or equip new facilities or pollution control facilities may obtain mortgage insurance. Enables industrial and commercial projects to make lower down payments, lower monthly payments, and negotiate longer maturities than would be possible without such assistance. Administered by the Massachusetts Industrial Finance Agency.
2. *Community Enterprise Economic Development Program.*
Provides funds to CDC's and other community-based organizations to pursue economic planning and venture development strategies and leverage funds for specific economic development projects. Targeted to CDC's in economically distressed areas.
3. *Urban Job Incentive Program.*
Provides a State tax credit to firms locating or expanding in urban communities with high property taxes in an effort to reduce their property taxes to the statewide average. The firms must locate in an area of substantial poverty. Commercial firms are also eligible if they are located in an approved Commercial Area Revitalization District. The firm may also receive a deduction equal to 25 percent of its payroll for employees living in an eligible area.

Michigan

Commercial Redevelopment Districts Act.
Renovating or building new commercial facilities in declining commercial or redevelopment areas may qualify for tax credits:

1. Restored obsolete facilities are completely exempt from ad valorem property taxes.
2. New or replacement construction receive a 50 percent exemption from property taxes.

Commercial businesses are eligible for benefits. So are offices, facilities devoted to engineering, research and development, warehousing and parts distribution, and retail sales outlets.

Minnesota

1. *Area Redevelopment Act.*
   Targeted to areas in State with unemployment over 6 percent or above State average, areas experiencing population decline, areas in which per capita income is below State average. Funds can be used in areas which do not meet these criteria. Funds can be directed to new businesses, existing businesses or local development authorities. Type of assistance: 7¼ percent loans, with ARA participation limited to 20 percent of the total project cost. Loans may be used for land, buildings, machinery and equipment.
2. *Minnesota Community Development Corporation.*
   Provides start-up grants and equity capital to local community development corporations. Targeted by percent of population below poverty level. At least 10 percent of the population of area served must be below the poverty level.
3. *Indian Business Loan Program.*
   Proceeds from mineral severance taxes are used to make below-market interest rate (20 percent) loans to Indians for the purpose of starting a business enterprise, expanding an existing business, or for technical and management assistance. Loans are available to Indians living off and on reservations. Administered by the Department of Economic Development.

New Jersey

Loan Guarantees and Direct Loans.
The bulk of New Jersey Economic Development Authority activity is in issuing industrial revenue bonds for specific projects. (See the section on targeted IRB use.) Administrative fees from participating firms amount to 1/2 percent of the amount of the bond issue. This money finances EDA's administrative expenses, with the remaining amounts used for direct loans, loan guarantees, the development of industrial parks and small business aid. The loan guarantee/direct loan program is also financed through a revolving fund. New Jersey EDA's direct loan and loan guarantee programs are targeted activities. The projects eligible for direct loans and loan guarantees must meet three criteria:

a. The project should be located in a municipality with unusually high unemployment and low income. Highest priority is given to projects located in those communities which receive State urban aid. (State urban aid distributed on the basis of a formula which includes population or population density, the number of children receiving AFDC assistance, local tax effort, local tax valuations and the number of public housing units.)
b. The project should involve the manufacturing or processing and distribution of products and materials. Retail, commercial and service enterprises generally will not be considered for aid unless such enterprises are located in a distressed community and are job intensive.
c. The assisted project should create or maintain a significant number of permanent jobs.

New York

Industrial Recycling Program.
Provides technical assistance and limited financial assistance to localities in economically distressed areas for study of re-use alternatives and for implementation of a re-use program. Purpose of program is threefold: (1) to develop job intensive industrial and commercial projects that will help eradicate blighting or substandard conditions affecting a project site; (2) to develop an existing improvement on the site; or (3) to enhance the economic benefits of projects by providing lower-cost project financing through loan guarantees and other arrangements. Administered by the New York State Urban Development Corporation.

Ohio

Economic Development Financing Act.
A certain percentage of State liquor store profits is collected by the State and given to "local economic need areas" in the form of loans and loan guarantees. These areas are designated locally on the basis of unemployment rate, employment growth rate, population growth rate, per capita income increase, and assessed property valuation growth rate.

Oregon

Economically Lagging Areas Act.
Authorizes certain employers in "economically lagging areas" to deduct 10 percent of the cost of new investments from their corporate excise tax liability; the qualified investments must be approved by the State Economic Development Commission; relies on Federal Economic Development Administration definition of "economically lagging areas."

Pennsylvania

Pennsylvania Industrial Development Authority.
Financed through State appropriations and the issuance of tax-exempt revenue bonds. PIDA provides loans for projects involving industrial development, industrial parks, and multiple-tenancy buildings and located in critical economic areas of the State. The percentage of financing for the project costs by PIDA depends upon the degree of unemployment in the critical economic area. (See also site development.)

Texas

Texas Rural Industrial Development Commission.
Provides direct loans to nonprofit industrial foundations for up to 40 percent of the cost of financing a new or expanding industry in a rural area. Rural areas are defined as those areas suffering an outmigration of population between 1960-70, containing less than a 50,000 population, and not sustaining a population increase as great as the average for the State's metropolitan areas.

Washington

Investment Tax Deferral Program.
Under the Economic Assistance Act of 1972, manufacturers investing in a new plant or improving an existing plant complex may be eligible for a three-year deferral of sales and use taxes applicable to construction and machinery involved in the investment project. Payment of deferred taxes begins on December 31 of the third calendar year after completion of the project and extends over a five-year period. Eligibility depends on whether project is located in a designated economic assistance area or whether it meets additional criteria. Administered jointly by the Economic Assistance Authority and the Department of Reve[illegible]e. Program scheduled to be terminated in June 1982.

Targeted Customized Job Training Programs

California

California Worksite Education and Training Act.
Attempts to provide a better match between the needs of California employers and the local labor supply, particularly low-income, unskilled job seekers and those workers with inadequate or obsolete skills.

Massachusetts

Bay State Skills Corporation.
Provides a 50 percent match in grants to aid in the establishment of training programs for all segments of the State. But the Corporation makes a special effort to ensure that certain overlooked and underutilized groups receive priority for skills training: displaced homemakers, the elderly, women, the handicapped, minorities, people desiring to get off welfare, and unemployed workers.

Minnesota

Indian Vocational Program.
State provides funding to reservations for the training of Indians. (Seven percent of training costs are covered by Federal vocational dollars.) The program is contingent upon rceiving a CETA appropriation for student stipends.

Targeted Small Business Development Programs

California

1. *Loan Guarantee Program.*
   The Office of Small Business Development contracts with Regional Development Corporations to guarantee loans to businesses unable to secure credit through conventional financing sources. Small businesses and larger

businesses which use loans to create jobs may qualify for guarantees. Normally, loans are guaranteed up to 90 percent with 100 percent guarantees available for revolving lines of credit. Applications for assistance are sent to the Regional Development Corporations for review. If the Corporation approves the financial assistance request, it issues to the lender a guarantee backed by a State-deposited fund.

2. *Economic Development Direct Loan Program.*
   Funds are loaned to firms with projects which will result in the creation of new, permanent jobs in the private sector. This program is an effort by the State to extend direct public participation in financial markets. Businesses can benefit by using direct loan assistance for the expansion or location of new facilities in areas burdened with high unemployment and/or low family income in order to create new, permanent jobs and diversify and improve the long-term viability of local economies. The program gives preference to already established, expansion-oriented and labor-intensive firms. Most of the assistance goes to manufacturing firms. Other industries are considered insofar as they meet the economic development mandate of the program. Administered by the California Office of Small Business Development.

Connecticut

Small Business Development Center Program.
Provides technical assistance to small businesses in low-income groups to stimulate the growth of the local economy. Administered by the Office of Small Business Affairs.

Florida

Community Development Corporation Support and Assistance Fund.
$34 million left from last year's $5 million appropriation. CDC's could get up to $100,000 in grants and $1 million in noninterest loans per fiscal year to assist in the establishment of a new business or in the purchase of an existing venture in a designated blighted area. Administered by the Division of Local Resource Management in the DCA.

Indiana

1. *The Corporation for Innovation Development.*
   A private corporation empowered by State law to grant up to $5 million in tax credits to generate private venture capital for investment in innovative small business enterprises. The Corporation will use its resources in three ways: invest in Small Business Investment Companies (SMIC's), make direct investments in new businesses by providing seed capital, and provide equity and loan financing to established industries which may be slightly larger than those eligible for SBIC financing.
2. *The Office of Minority Business Enterprise.*
   Offers technical assistance to small businesses in such areas as government procurement, financial management and marketing.

Louisiana

Louisiana Small Business Investment Fund.

1. Makes funds available to the Louisiana Small Business Equity Corporation, which in turn offers loans, loan guarantees to community development corporations, small business investment corporations, and minority enterprise small business corporations. Corporation can also guarantee dividend payments of equity stock issued by CDC's, SBIC's, and MESBIC's, in order to stimulate private equity investment in such entities. The Corporation can also guarantee funds loaned to CDC's, SBIC's, and MESBIC's for feasibility studies, or consign funds to the institutions financing such loans. Assisted CDC's, SBIC's, and MESBIC's must contribute to the development of high growth, employment, productivity in Louisiana, or must make funds available to firms headed by disadvantaged persons or located in distressed areas.
2. *Act 697.*
   Provides financial assistance in leveraging equity capital and long-term loans to finance the development, expansion and retention of small businesses, especially those in distressed areas.

3. *Minority Business Development Act.*
Provides loans to minority-owned businesses and those small businesses owned by socially and economically disadvantaged persons.

Maryland

Maryland Small Business Development Financing Authority.
The authority was established to assist socially or economically disadvantaged business persons to secure adequate working capital to start, continue, and complete projects awarded their enterprise by the Federal, State, or local government. Direct loans or loan guarantees of up to $150,000 are provided.

Massachusetts

Massachusetts Community Development Finance Corporation.
Created to provide capital to businesses in economically depressed areas which are unable to obtain financing through conventional means. Financing is provided through a fund established by the Commonwealth of Massachusetts, and all investments must be made through a local development corporation (LDC). CDFC purchases stock in LDC's which, in turn, acquire equity in or fully acquire businesses in distressed areas. The CDFC goal is to develop sound businesses which will create or retain jobs, and provide other economic benefits in economically distressed areas. Massachusetts financed the original $10 million fund through the sale of bonds.

New Jersey

Urban Centers Small Loan Program.
Provides loans to small businesses at a 7 percent interest rate to increase employment and rehabilitate urban downtown retail businesses located in neighborhood shopping districts of urban aid cities.

New York

Job Development Program.
Provides capital financing to small businesses in distressed areas of the State for investment in real property and equipment. Administered by the New York State Urban Development Corporation.

Ohio

Ohio Financing Commission.
Charged with encouraging the establishment and expansion of minority business enterprises, stabilizing the economy, providing employment, and assisting in the development of industrial and commercial projects.

Pennsylvania

Pennsylvania Minority Business Development Authority.
The Authority will make loans or loan guarantees to viable or potentially viable enterprises owned and operated by demonstrated socially or economically disadvantaged persons belonging to ethnic or minority groups.

Targeted Industrial Revenue Bond Programs

Connecticut

Self-Sustaining Revenue Bond Program.
The Connecticut Development Authority finances certain retail, service, parking, and transportation projects in "economically distressed areas" of the State.

Florida

Commercial facilities (including restaurants, lodging, retail facilities) may be financed only if they are located in slums and blighted areas, defined as areas manifesting conditions of physical deterioration, overcrowding, high density or obsolescence which present a threat to the public health, safety, morals and general welfare. Targeting is limited, in light of the variety of purposes for which IRB's can be used by all municipalities.

Illinois

The Illinois Industrial Development Authority is empowered by the legislature to issue revenue bonds to raise funds for the financing of projects which provide employment for the citizens of Illinois. IRB's may be issued on behalf of any project located in any county with the exception of those counties with an unemployment rate of less than 4.5 percent.

Iowa

Urban Revitalization Act of 1979.
Local governments may issue industrial revenue bonds for commercial and residential projects in locally designated urban revitalization areas. Urban revitalization areas are designated locally after public hearings. The areas must meet at least one of the following three criteria:
1. deterioration, or dilapidated physical conditions;
2. inappropriate land use or patterns of ownership which impair or arrest sound growth;
3. designation as an historic preservation area.

Designated areas can include vacant plots. According to an official of the Office of Planning and Programming, the program is targeted loosely; local governments have broad authority to designate revitalization areas. State oversight is limited.

Massachusetts

Commercial Area Revitalization District (CARD) Program.
Industrial projects can be financed through either Massachusetts Industrial Finance Authority or local issuance of IRB's anywhere in the State. Retail stores and office buildings are eligible only if they are located in CARD districts, which are designated locally and approved by the Department of Communities and Development (DCD). Local governments must apply to the DCD for CARD designation. The CARD area must be a declining or depressed commercial center characterized by physical blight, loss of business activity, out-migration of firms and high retail vacancy rates. The local CARD plan must demonstrate how CARD designation will be employed to revitalize the designated area. Following State approval of the plan, it must be adopted by resolution of the local governing body. Administered jointly by the Massachusetts Industrial Finance Agency and the Department of Communities and Development.

Missouri

Authorized the cities of Kansas City and St. Louis to sell revenue bonds to finance commercial development in blighted areas. (HB 1477)

New Jersey

The New Jersey Economic Development Authority provides financing by issuing IRB's for certain types of commercial and retail facilities, provided that such facilities are located in certain designated communities with high unemployment. New Jersey EDA does not target the use of IRB's for manufacturing and distribution facilities, although market forces allocate a calculated 42 percent of that funding to localities designated by the State as distressed.

Oregon

The Economic Development Commission issues IRB's to finance economic development projects in the State. However, preference is shown to projects located in economically lagging areas. So far, 14 out of the 36 projects financed took place in distressed areas.

Tennessee

Central Business Improvement District Act of 1971.
Enables local governments to designate central business improvement districts characterized by dilapidation, obsolescence, overcrowding, or faulty arrangement or design in which IRB's can be used for hotel, motel and apartment building construction. Memphis is the only city which has established a central business improvement district and invoked the act. To date, the statute has been used to finance apartment building construction. The targeting provision in the use of IRB's is limited, in that Tennessee municipalities may use IRB's without restriction for the following purposes: industrial buildings and facilities, agriculture facilities, mining, off-street parking, harbors, railroads, office buildings, State and other public facilities, health care facilities, educational facilities, recreation facilities and amusement parks. All IRB's issued locally.

Texas

Texas Industrial Commission.
The Commission is authorized to issue revenue bonds for both industrial and commercial projects. Targeting requirements for using IRB's apply only to commercial projects, not industrial ones. For IRB's to be used on a commercial project, it must be:
a. located in a UDAG-designated city;
b. part of a city-designated economic revitalization plan; and
c. supported in part by HUD funds.
Though there is some Federal assistance, the majority of the funding for projects is provided by the State.

Wisconsin

Commercial facilities, including shopping centers, convention centers, office buildings, motels and hotels financed by IRB's must be in or adjacent to "blighted areas," or undertaken pursuant to a locally approved urban redevelopment or renewal plan. Blighted areas defined as physically blighted, characterized by dilapidation, decay, high population density, overcrowding, or land use (including vacant land) which impedes the sound growth of the local jurisdiction. Local blighted areas locally designated, targeting is loose, leaves great latitude for assistance for any sort of project in which blight determination can be made. (Vacant land inclusion means that new development can be financed under blight provision in undeveloped or underdeveloped areas.) Localities issue IRB's; manufacturing and distribution centers can be financed anywhere in the State.

Targeted Capital Improvement Programs

Alaska

1. *Rural Development Assistance Programs*. $3 million, 1981.
   Grants of up to $100,000 per year to small cities and villages for construction projects to help generate community development.
2. *Village Safe Water Act*.
   Provides water and sewer disposal facilities for villages.

Colorado

1. *Small Communities Sewer Construction Program*. $17 million, 1981.
   Provides grants of up to 80 percent for construction of sewer treatment and pollution systems to communities that are unable to finance capital structures in incorporated areas of the State. The matching grant percentages are determined by the Department of Local Affairs and based upon the community's ability to acquire private market bonds. The criteria for the allocation of grants in descending order of importance are: (1) fiscal need assessment of community's financial situation (as determined by the DLA), (2) high level of health or safety problems, and (3) growth rate.
2. *Capital Construction Emergency Program*. $500,000, 1981. Grants of 100 percent for water and sewer systems that are damaged or inoperable because of natural disasters and only in rare occasions to poorly maintained systems. Grants are targeted to communities who lack the money to meet the costs of repair. Department of Local Affairs determines eligibility and the State Health Department administers the program.

Connecticut

1. *Urban Action Grants*. $12 million, 1980 (no additional funding in 1981).
   Provides monies to communities designated as distressed by the States and HUD's criteria for transit, recreation development, and solid waste management projects. Program administered by the Department of Housing, the Department of Economic Development, the Department of Transportation, and the Department of Environmental Protection. Program coordinated by the Office of Policy and Management.

Massachusetts

Heritage State Parks Program.
Parks will be constructed in distressed urban areas of Boston, Lawrence, Lynn, Gardner, Holyoke, Springfield, and North Adams. Employs HUD's criteria for determining distressed areas.

Montana

MCA Coal Board Grant Program.
State uses coal severance revenues to provide categorical grants to communities experiencing rapid growth because of coal mining. Funds are provided for public school financing, county land planning, local impact aid, and highway improvement.

Nebraska

L.B. 508. Passed in 1978.
Power plant construction companies provide additional financial aid to school districts which have suffered rapidly expanding enrollments due to population influxes caused by the company.

New Jersey

1. *Depressed Rural Centers Aid Act*. $451,840, 1981.
   Provides aid to certain depressed, small municipalities in rural areas which cannot maintain adequate municipal services.
2. *Safe and Clean Neighborhoods Program*.
   Operated by State DCA. Provides matching grants to urban governments for crime protection and community improvements, including street repairs and street lighting improvements. Thirty-one urban aid cities selected on the basis of a formula which weights population or population density, number of children receiving AFDC aid, local tax effort, local tax valuations and number of public housing units.

New Mexico

1. *Water Supply Construction Act*. 1973. $15 million, 1981. Provides State matching grants and loans for local construction and maintenance of water

supply systems to local governments experiencing population growth. Communities of populations under 5,500 receive grants for 40 percent of the project's cost or $100,000, whichever is less; those with populations over 5,500 receive grants or loans for 25 percent or $100,000.

2. *Energy Impacted Areas Program*. 1977. $10 million, 1981. Proceeds from severance tax is given in the form of grants to assist areas impacted by energy development. Monies are used for a variety of purposes: to construct and rehabilitate public facilities (roads, recreational, water, and sewer facilities).

North Dakota

Energy Development Impact Fund.
Portions of coal, oil, and gas severance taxes are available through the Energy Development Impact Fund Office in the form of grants to communities affected by rapid, energy-related (oil, gas, and coal) development. Funded at $22 million for 1981-83 biennium.

Pennsylvania

Act 339. $15 million, 1981.
Provides State grants for construction and maintenance of water and sewer facilities to local governments and municipal authorities.

South Dakota

Energy Severance Tax Fund. $800,000, 1980. (no 1981 appropriations).
Severance tax funds are used to offset energy development (oil, gas, and uranium) related impacts to communities.

Tennessee

A statute provides loans to communities of up to 100 percent of project costs for solid waste and water facilities. Law does not require matching, but does allow the use of Federal funds. Sometimes projects are funded by the Federal Government at percentages as high as 75 percent of project costs.

Utah

Community Impact Funding Program. $49 million, 1981. The program provides monies to communities experiencing rapid development pressures due to mineral and natural resource development. Administered by the Department of Community and Economic Development, Division of Community Development.

Washington

1. *Referendum 39 Programs.*
   a. *Solid Waste Disposal Program*. $90 million, 1981.
      Grants and loans for the treatment of dangerous waste disposal facilities.
   b. *Agricultural Pollution Abatement Program*. $10 million, 1981.
      Grants and loans for draining improvement projects.

   Both programs administered by the Department of Ecology.
2. *Referendum 38*. $125 million, 1981.
   Grants for the construction of capital facilities up to 40 percent of the project's cost. Administered by the Department of Social and Health Services.

West Virginia

1. *Water Development Authority.*
   Grants and loans for water and sewer facilities. Requires matching by local governments. Monies are targeted to areas designated as growth areas. Administered by the Water Development Authority.
2. *Community Partnership Grants and Loans Program.*
   Grants and loans are targeted toward designated growth areas. Assisted projects must: (a) have an impact on the growth and economic development potential of a particular area; and (b) stimulate investment of private capital. Eligible projects include industrial site acquisition and development, water, sewer and access roads; and community development facilities which will improve an area and attract private capital investment. Funds from this program are to be used for projects which have received primary funding from other sources, but which need a secondary allocation from the State to complete the financing. Administered by the Office of Economic and Community Development.

Wyoming

1. *Mineral Royalty Fund.*
   Mineral royalties are available to all communities experiencing declining sewer and waste facilities, roads, and health conditions. Proceeds are given to local governments in the form of matching grants where the matching percentage is determined for each individual project by the State Land Board. Tries to involve the community as much as possible.
2. *State Coal Severance Fund. $27 million, 1981.*
   Monies collected from severance taxes on coal devvelopment are given in the form of grants to communities whose areas are considered affected by the State Land Board. (50 percent of the grants must go to water and sewer facilities and 50 percent to roads.)
3. *Joint Powers Fund.* $60 million, 1981.
   Communities with a Joint Power Board can apply for loans at 4 percent interest to finance capital improvements and capital development. A Joint Power Board is a legal entity composed of mayors, Commissioners and council members that represents a metropolitan area in dealings with the State Land Board.

Targeted Neighborhood Assistance Programs

California

Homeownership and Home Improvement Loan Program in Neighborhood Preservation Areas (HOHI).
Assists low-and moderate-income people to purchase or rehabilitate their homes by providing loans at below market interest rates. The program is operated by the California Housing Finance Agency (CHFA) in cooperation with private lenders and local governments. One goal of the program is to revitalize deteriorating neighborhoods by providing below market interest rate loans for home improvement and rehabilitation. (See also housing rehabilitation.)

Connecticut

1. *Neighborhood Preservation Program.* $2 million, 1981.
   Provided loans for community housing development activities in distressed areas. Administered by the Department of Housing.
2. *Neighborhood Housing Services Program.* $100,000, 1981.
   1978 enactment provides State funds to NHS programs in urban neighborhoods. Funds targeted to communities with the greatest need. Currently, there are six NHS's in the State.

Delaware

The Neighborhood Assistance Act.
Allows any business firm to deduct expenses for "neighborhood assistance" that leads to the "physical improvement of any part or all of an impoverished area"; also allows tax deductions for community services or crime prevention in an impoverished area; provides statutory definitions for: community services, impoverished area, neighborhood assistance, neighborhood organization, business firm, job training and crime prevention.

Florida

1. *CDC Support and Assistance Program.* $5 million, 1980.
   (no 1981 appropriation).

   a. Provides grants for administrative expenses not to exceed $100,000 annually to CDC's; and
   b. Provides loans not to exceed $3 million annually to any CDC in establishing businesses in blighted communities.

   Target criteria: 12 factor formula:
   8 factors=physical/socioeconomic factors;
   4 factors=fiscal factors.
2. *Community Improvement Act of 1980.*
   Provides tax credits (up to $3 million annually statewide; up to $200,000 annually per firm) against the State's corporate income tax for businesses which contribute funds for approved community development projects in designated blighted areas. DCA approves designated areas. (See 12 factor formula above.)

3. *Neighborhood Housing Finance Program*. $500,000, 1980. (no appropriations in 1981).
   $125,000 in grants given to local governments for participation in the Neighborhood Housing Services program. Three projects funded already.

Georgia

DCA Downtown Development Program.
Provides technical assistance for the revitalization of commercial areas and declining neighborhoods.

Indiana

Neighborhood Assistance Program. 1977.
Tax credits to firms which invest in community upgrading activities in distressed urban areas.

Massachusetts

Neighborhood Improvement Program.
Provides technical assistance to the elderly or neighborhood housing rehabilitation. (Funding for projects depends on Federal funds like CDBG's.)

Michigan

Neighborhood Assistance and Participation Program.
Provides actual rebates to businesses for contributions to neighborhood preservation activities. Funds targeted to neighborhoods demonstrating the greatest need:

1. decline in real per capita income;
2. unemployment; and
3. relative decline in State Equalized Valuation.

Minnesota

Community Development Corporation. $260,000, 1981.
CDC's are grass-roots organizations formed in a local area. State funds provided in the form of grants for direct investment in communities with low income families. Funds principally used for creating jobs.

Missouri

Neighborhood Assistance Tax Credit.
Provides a 70 percent tax credit against not only corporate but also business income tax liabilities on contributions made to neighborhood groups and for providing employment training opportunities to distressed communities.

New Jersey

Neighborhood Preservation Program. $2.4 million, 1981.
Provides loans and grants for housing rehabilitation to local governments for neighborhood preservation projects.

New York

1. **Neighborhood Preservation Companies Act.** $8 million, 1981.
   Provides grants to nonprofit groups to carry out conservation activities and rehabilitation in low-income areas. Grants help defray administrative costs. Administered by the Department of Housing. (See also housing rehabilitation.)
2. **Rural Preservation and Community Act.** $2 million, 1981.
   Basically, same program as the Neighborhood Preservation Companies Act, but directed to rural neighborhoods only. Administered by the Department of Housing. (See also housing rehabilitation.)

Pennsylvania

Neighborhood Assistance Act.
Private corporations contribute cash, equipment or in-kind services to nonprofit neighborhood groups and receive tax credits for up to 50 percent of their contribution. $8 million in tax credits given in 1980. Administered by the Bureau of Human Resources in the Department of Community Affairs.

Wisconsin

Neighborhood Conservation Rehabilitation Program.
Provides rehabilitation loans to owner-occupied units with income restrictions. Financed by tax exempt bonds – $30 million issue. Also, provides incentive grants and research on helping distressed neighborhoods. Administered by the Department of Development. (See also housing rehabilitation.)

I. Municipal Bond Validation Requirements:

State court validation required:

Florida: municipal bonds validated by State Circuit Court.
Georgia: municipal bonds validated by State Superior Court.
Kentucky: municipal bonds validated by the State court having jurisdiction.

State court validation optional:

Alabama, California, Mississippi, Ohio, Virginia, Washington. (Procedure generally employed by private bond counsel when legality of a municipal issue uncertain.)

Validation by State attorney required:

Arizona, Montana, Oklahoma, Texas, West Virginia.

Validation by State commission or agency required:

Louisiana: The Louisiana Bond Commission must authorize and approve all local government bond issues.

Michigan: Municipal bonds must be approved by the Municipal Finance Commission. This Commission certifies the bond with respect to purpose, authority and financial ability to the municipality to issue the bonds. However, the Commission makes no judgment with respect to the legality of the issue, or pending litigation on the issue.

Missouri: Municipal bonds must be registered with the State Auditor's Office. The auditor gives an opinion with respect to the bond issue's compliance with law and contracts.

Nevada: The County Bond Commission must approve municipal bond issues.

North Carolina: The State of North Carolina's Local Government Commission markets and delivers all municipal bonds.

Pennsylvania: Municipal bonds must be approved by the State Department of Community Affairs.

States where approval of local bond issues is required only in selected circumstances:

Massachusetts: Towns issuing short term notes must have notes approved by Director of the Bureau of Accounts.

New Jersey: School bond issues must be approved by the Deputy Attorney General assigned to the Department of Education. In order for other municipal bonds to exceed the State debt limit, they must obtain approval from the Local Finance Board.

New Mexico: School bond issues must be approved by the State Attorney General.

Rhode Island: In order to exceed the State debt limit, municipalities must have State approval.

Optional validation by State agency:

Illinois: Department of Commerce and Community Affairs authorized to issue an advisory opinion on municipal bond issues.

Iowa: Optional bond validation by the State auditor.

North Dakota: Optional provision allows the State Attorney General to give an opinion on the legal sufficiency of the investment.

Wisconsin: An optional provision allows the State Attorney General to give a legal opinion on the bonds upon request.

II. State Guarantees of Municipal Debt:

California: Health Facilities Construction Loan Program. Provides insurance for local debt for health facilities construction. The local borrower pays premiums into a State-established fund.

Michigan: Qualified School Bond Fund. Local school districts apply for qualification of debt under State guidelines. Subsequently, the district may borrow from the State 90 percent of the annual debt service in excess of the proceeds from a school district debt service tax. If the school district cannot meet debt service, the district borrows amount necessary from State. In the event of a local default, the State is required to lend the school district an amount sufficient to meet debt service. Security of qualified bonds rests on School Bond Fund's debt service fund. This is financed through periodic borrowings by the School Bond Fund on the tax-exempt market and by loan repayments from local districts flowing into the fund. Unconditional full faith and credit of the State not pledged, however. Still, the State requirement that qualified bonds receive loan payments from fund in event of a local shortfall acts as State guarantee.

Minnesota: Bond Guarantee Fund. State guarantee (full faith and credit pledged) for up to $400 million in local obligations for capital expenditures. Financed through State issuance of $20 million in general obligation debt. Local government must pay guaranty fee to State for inclusion in the program in the amount of 2.5 percent of principal amount guaranteed.

New Hampshire:

1. Full faith and credit of the State guarantees local issues for sewage systems, sewage treatment and disposal plants, and other local pollution control facilities.

2. State extends full faith and credit guarantee to school bonds issued by districts with an annual enrollment increase of 10 percent or more. Guarantee applies to only 75 percent of project cost.

III. State Financial Intermediaries:

Municipal Bond Banks:

Alaska, Maine, North Dakota, Vermont

Other Financial Intermediaries:

California:

1. State issues general obligation bonds for loans to school districts. State loans are repaid from State general funds; local loan repayments are obligated to State general fund. Part of the loan amount is, in fact, a grant which the locality need not repay.
2. Davis-Grunsky Act. Portion of State-issued water project bonds used to provide loans to municipalities for water project facilities.

Connecticut: Connecticut Resource Recovery Authority. Loans to local units for resource recovery projects.

Delaware: State issues general obligation bonds to finance 100 percent of school capital costs. Sixty percent of the proceeds represents a State grant to localities; 40 percent represents loans to school districts which are repaid annually to the State.

Florida: State issues general obligation bonds for local sewage treatment facilities.

Hawaii: State has issued general obligation bonds for county capital improvements. Counties receive proceeds from loans and repay State.

Maine: Maine School Building Authority. Issues revenue bonds to finance school construction and enters into lease-rental agreements with school districts that provide for rental payments sufficient to meet the authority's debt service outlays. A 1969 constitutional amendment authorized placing the full faith and credit of Maine behind these revenue bonds, and limited the overall authorization of such debt to $25 million.

Massachusetts: General obligation debt issued by the Commonwealth for the benefit of local water and sewer districts. Bonds are retired for State assessments on municipalities.

Minnesota: Minnesota School Loan Program. State bonds are sold and the proceeds are loaned to school districts. Although the bonds are backed by the full faith and credit of the State, repayment is derived from local repayments into the State general fund.

Nevada: Under special legislation, the State has sold bonds for a Clark County wastewater treatment facility. The State bonds are general obligation issues payable in the first instance from net revenues derived from user charges on Clark County residents.

Ohio: Water Development Authority. State borrows money for local sewage treatment programs. Bonds repaid by local repayments to State.

Pennsylvania: Pennsylvania State Public Building Authority. Bonds of the authority repaid from lease rental payments by school districts. (Bonds used for direct construction of school facilities.) In the event of a local default, State must direct equivalent amount of aid to the authority. Portion of State-local school subsidies earmarked for reimbursement of lease rentals.

Tennessee: Proceeds of general obligation State bonds reloaned to local units for sewage treatment plants. Local repayments to State retire bonds.

Texas: Texas Water Development Board has two loan programs: 1) Loans to local units for water projects. 2) Water Quality Enhancement Program – loans and grants to local units for sewage treatment plants.

Virginia: Virginia Public School Authority. Sells bonds and lends funds to localities for school construction. The local loans are general obligations of the localities and local loan repayments are scheduled to exceed authority debt service fund which pledges loan repayments from other school loans granted by the Literacy Fund of the Commonwealth. The Literacy Fund is a constitutionally chartered permanent endowment fund which lends to school districts.

IV. State Subsidies for Local Debt Service Payments:

Connecticut: Local units issue their own debt for school building projects. Pursuant to a 1976 statute, the State provides annual grants to local school districts to cover up to 80 percent of the debt service. Grant applications annually submitted to and approved by State general assembly.

Illinois: Has authorized $100 million in grants to local school districts for debt service on locally-issued bonds. Grant funds are raised from State general obligation borrowing.

Maine: Annual grants to cover certain proportion of debt service on locally-issued school bonds.

Maryland: State reimburses counties and the City of Baltimore for debt service on all school construction bonds issued prior to June 1967, pursuant to the School Building Construction Aid program. Since 1967, the State has issued all bonds for local schools.

Massachusetts: Pursuant to a 1948 statute, the State is authorized to reimburse municipalities for annual debt service payments up to 65 percent of costs. Such amount must be appropriated annually by the State legislature (Chapter 645, Massachusetts Acts of 1948).

New Jersey:

1. Qualified Bond Program. Local Government Services Division reviews local applications for assistance. If Division rules that the community is creditworthy and the project to be financed is reasonable, the State treasurer will withhold selected tax receipts and State urban aid payments and deposit them in an amount sufficient to meet the upcoming debt service. The reserved assistance payments are then paid over to the paying agent for disbursement to the bondholders.

2. Under Chapters 177 and 10 of the New Jersey State Laws passed in 1968, school districts may be entitled to additional State aid programs to be applied to the debt service for local school construction costs. New Jersey maintains a fund for this purpose. Eligible school construction projects must have been supported by bonds issued since 1958.

Utah: Under a formula-based ratio, school districts receive State payments for part of their debt service requirements.

Arkansas

Arkansas Community Redevelopment Financing Act.
Enables a municipality to designate redevelopment project areas, to define the boundaries of such districts, and to issue redevelopment bonds and notes for the financing and revitalization of these areas.

California

State constitution enables all local redevelopment agencies to employ increased valuations on redeveloped property to pay back principal and interest on loans, monies advanced to or other indebtedness incurred by such redevelopment agencies.

Colorado

Urban renewal authorities have the power to issue revenue bonds to implement tax increment financing.

Connecticut

Redevelopment Agency Authorization Act.
A municipality acting through a redevelopment agency may issue bonds to be secured by income, proceeds, revenues and property of the redevelopment agency, and by taxes paid into a special fund.

Florida

Community Redevelopment Act.
A city council can designate itself a community redevelopment agency, which would have the authority to issue revenue bonds and to implement tax increment financing within a redevelopment area of the municipality.

Illinois

Tax Increment Allocation Fund.
Enables municipalities to finance redevelopment projects with tax increment bonds. The bond proceeds can be used to acquire, clear, and prepare sites in blighted or "conservation" areas.

Indiana

Empowers municipalities to form a redevelopment commission which can issue redevelopment bonds. A case concerning the constitutionality of the legislation is currently pending in the courts.

Iowa

Tax increment financing authorized for municipalities for urban renewal projects. The State also assumes all school property tax revenue to repay interest on bond issues.

Kansas

Cities authorized to issue tax increment bonds to purchase property in blighted areas for redevelopment. Property must be located in blighted central business areas.

Maryland

Tax Increment Financing Act.
Any municipality or county may borrow money by issuing and selling bonds to finance the development of an industrial, commercial, or residential area except the City of Baltimore.

Massachusetts

Tax Increment Financing Act.
Empowers local governments to designate a specifically defined development district for development purposes.

Michigan

1. The Downtown Development Authority can finance the restoration or development of a deteriorating central business district through bond issues, tax levies and the use of tax increment financing. Additional tax revenues from private investment in designated downtown districts may be diverted into a bond financing fund for related public improvements.
2. *Tax Increment Finance Authority Act.*
   Authorizes cities to make public improvements in a specific redevelopment district that are necessary to induce and accommodate additional private development such as industrial, commercial, and residential construction in that same district.

Minnesota	*Tax Increment Financing Act of 1979.* Tax increment financing is a technique that uses increases in property valuations attributed to redevelopment within a specific district area to pay for public redevelopment costs. A municipality has the authority to issue general obligation or revenue bonds to finance the public planning and implementation costs. Repayment of bonds is assured by tax increment financing, special assessments and grants from other public agencies.
Montana	Enables an agency in a renewal area to take advantage of tax increment financing. The agency must receive approval by the Council of Commissioners to employ tax increment financing.
Nebraska	*Community Improvement Financing.* Under Nebraska Law, local governments may use CIF to assist in the redevelopment of areas which are locally designated as blighted or substandard.
Nevada	Pursuant to the State's Urban Renewal Law, local governments were empowered to employ tax increment financing. Designated redevelopment agencies have the authority to issue tax increment bonds.
New Hampshire	Enables municipalities to establish a tax increment financing program in designated redevelopment areas. The local redevelopment agencies can issue general obligation bonds to finance redevelopment efforts.
New Mexico	Pursuant to New Mexico's Urban Development Law, authorization for tax increment financing was established in 1975 for the purpose of financing urban renewal projects in blighted areas.
North Dakota	At any time after the governing body of a municipality has approved an urban renewal plan for any urban renewal area, it may request the county auditor and treasurer to compute, certify, and remit tax increments resulting from the renewal of the area in accordance with the plan.
Ohio	*Urban Redevelopment Tax Increment Equivalent Fund.* Municipal corporations may exempt certain real properties from taxation on the value of improvements. Owner of the property makes annual service payment in lieu of taxes into a special fund. Funds back municipal bonds issued to finance improvements on property.
Oregon	*Tax Increment Financing of Urban Renewal Indebtedness.* Enables municipalities to designate local redevelopment agencies, which would have the authorization to issue tax increment bonds and employ tax increment financing in the repayment of these bonds.
South Dakota	A municipality may exercise the powers to create tax increment districts and to define their boundaries, prepare project plans, approve the plans, and implement the provisions of the plans, and issue tax increment bonds and notes.
Utah	Enables municipalities to designate redevelopment agencies, which have the power to issue tax increment bonds and employ tax increment financing.
Wisconsin	*Tax Incremental Financing Law.* Facilitates industrial development and redevelopment of blighted areas by allowing cities and villages to utilize the increase in property tax revenues caused by increased property values in the redeveloped district to finance redevelopment costs. Technical assistance for developing a Tax Incremental Financing District is provided by the Department of Local Affairs and Development. The Department of Revenue certifies the tax base.

The States and Urban Strategies: Executive Summary*

Introduction

When a National Urban Policy was announced by the Carter administration in March 1978, it included a call for a Federal-State Partnership to respond to urban problems. Recognition at the national level of the importance of State governments was long overdue. Reform and modernization at the State level during the past three decades coupled with effective leadership has enabled a number of States to undertake strong initiatives in community assistance.

A number of States are developing comprehensive policies or strategies to deal with the problems faced by their local governments which may serve as models for other States. The National Academy of Public Administration received a research grant from HUD's Office of Policy Development and Research to examine the genesis and character of these State urban strategies and to provide an understanding of how and why States are addressing community needs. The Academy has compared and analyzed ten of these State urban strategies. The States covered are: California, Connecticut, Florida. Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Oregon, and Pennsylvania. In 1979, case studies on each of the States, written by specialists in intergovernmental relations against a common framework, provided the basis for the Academy's comparative analysis.

A "State Urban Strategy" can be defined as an explicit policy framework containing a set of articulated goals and policies with identified programs and activities which can address issues of growth, development or decline affecting the State's communities.

Origins and Politics

The origins of urban strategies are quite parallel. First, State responsibility for problems of growth and the environment were articulated and accepted. Second, a State government capacity in the executive branch to engage in longer-range planning, goal setting and policymaking was created with legislative sanction. Third, State plans evolved from advisory to more influential frameworks for State action. The most significant feature of this evolutionary process is a substantive and political attempt to reconcile concerns for the economy with ecology and to balance the goals of competing interest.

State strategies stemmed largely from action by State legislatures in the late sixties and early seventies, mostly in response to lobbying by environmental groups. The 1977 and 1978 strategies, however, focused more on economic development and were prepared in the State executive branch. The case studies show clearly the importance of the Governor in launching these efforts and seeing that they become a serious policy too.

Electoral politics provide an important impetus to State urban strategies. In several of the States analyzed, an incumbent Governor initiated an urban policy exercise because of the demands of a political constituency or to outflank an election opponent. Yet, strategies are motivated not only by political considerations, but also by a substantive desire and necessity on the part of State officials to respond to persistent and popular concerns over the physical and economic quality of life. Analysis of the politics and motivating factors behind the development of State strategies reveals that they have been largely indigenous efforts motivated by internal considerations. They are the exercise by State government of its basic authority in response to objective and political forces.

Strategy Participants

Gubernatorial leadership is critical to committing a State to develop and implement an explicit policy on growth and development. There must also be an organizational capacity within State government to manage and implement the process. The importance to the success of a State strategy of a strong central staff agency closely linked to the Governor and to the budget process is one of the most significant findings to emerge from these case studies. Among the most important ingredients to an effective strategy are gubernatorial leadership, organizational capacity, outside support, and capable staff.

State legislatures have exercised considerable influence and authority over strategy initiation and implementation. In several of these case study States, the legislature has helped initiate the strategy process by enacting planning or policy legislation or by mandating growth management/goal-setting procedures. State legislation was critical in providing the executive branch the legal basis and organizational capacity essential to strategy formulation. Generally, legislative involvement has been less direct in the preparation of strategy reports or urban policy documents. Their most important function is, of course, to act upon the Governor's recommendations for new programs and policies to implement strategy objectives.

Two types of strategies were identified-*horizontal* and *vertical*. A horizontal strategy concentrates on the coordination or redirection of State government policies and State agency decisionmaking. Those States which have relied upon State program coordination, regulatory approaches, fiscal aid and tax incentives to help their local governments are characteristic of the horizontal approach. A vertical strategy attempts to set policies and processes which would change or guide the actions of local governments as well as State agencies. The States with vertical strategies were focused on growth management and land use and included mandatory or influential processes affecting local government decisions. While each of the strategies we studied addressed some element of both vertical and horizontal coordination or direction, they differ greatly in the degree of attention given the two approaches.

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Precisely how local governments participated in the formulation of State strategies depended upon the type of strategy. North Carolina, Oregon, and Massachusetts have adopted vertical strategies, and in those States participation and involvement of local government officials was formal, continuous and extensive. The horizontal strategies of California, Connecticut, New Jersey, Pennsylvania and Michigan were characterized by local government participation that was less formal and more of an advisory and reactive character.

Regional agency involvement was modest to nonexistent. The States preferred to deal directly with local jurisdictions, rather than working through metropolitan or substate frameworks. As voluntary associations of local government or regional planning councils, their normal role is advisory. In some cases, the State has proposed a stronger regional role and encountered stiff opposition from local governments.

Substance and Implementation

These strategies represent a new way of doing business for State agencies, Governors' staffs and legislatures. They are generally more than program initiatives, being instead policy frameworks, new processes, review procedures and guidelines for decisionmaking. As such, they are long-range efforts, not easily implemented with a few pieces of legislation or executive orders. Nor are they implemented with finality; State urban strategies tend to be evolutionary, and to take a long-range view of State policies and programs.

State strategies are generally comprehensive and broad policy statements which cover a wide array of issues facing the State and its communities. They most often begin with a statement of goals, policies or principles which are intended to serve as a general framework for more specific proposals. The goal statements are usually broadly worded and inclusive. In and of themselves, these listings of laudatory objectives provide little indication of the purposes or intents of the strategy. However, there are four major themes which the States are attempting to address: economic development, growth management, urban revitalization, and fiscal reform.

Nine of the ten State strategies give major emphasis to economic development. In fact, all but one accord economic development issues the highest priority. They reflect a growing faith in the power of economic development to solve urban ills — a faith shared by the architects of President Carter's National Urban Policy.

Growth management is also given major attention by six of the ten States, and is the most important area of the Oregon and California strategies. Guiding urban development is the dominant theme in California, while in Oregon protecting prime agricultural lands and establishing urban growth boundaries are the dominant objectives. In Massachusetts and North Carolina, growth or development management is seen as a parallel and supporting theme to economic development. The protection of environmentally sensitive areas and the accommodation of new and continuous growth is a major theme of the Florida strategy. The Pennsylvania effort relies on growth and investment policies to prevent both urban and rural decline.

All of the strategies addressed the issues of urban revitalization and housing. Two separate phrases are used by the States in describing this area — "urban revitalization" and "community conservation." The former term is understood to mean special recognition of older, declining cities, while the latter term is meant to be inclusive of smaller and less urban communities.

Fiscal reforms to increase the equity of local tax systems and the fiscal capacity of local governments are addressed by the strategies, but are not typically their major emphasis. Major changes in the State-local fiscal system have taken place in the last decade, but mostly outside of these strategies; e.g., educational finance and property tax reform movements.

The States are experimenting with a number of approaches to increase the coordination of functional programs, to develop an increased sensitivity to local needs among State officials, and to reduce the unintended negative consequences of State policies and actions. Program coordination tools adopted or proposed by these States include:

1. Coordinating committees or interagency "development cabinets";
2. Budget review processes to ensure conformance with urban policy objectives;
3. Urban or community impact analysis; and
4. State expenditure policies to benefit declining and underdeveloped areas.

The Permanency of State Strategies

Are State strategies a permanent feature on the landscape of State government? Or are they simply another passing fad of intergovernmental relations? Four pieces of evidence provide some sense of the permanency of State urban strategies. They are: 1) the effect of a change in Governors; 2) the extent to which the strategy is legislatively based; 3) the amount of political and popular support for the strategy; and 4) the presence of a continuing mechanism or focal point for implementation. Our findings on these factors in the States studied are shown in the chart below.

Targeting

A major principle of the National Urban Policy is the notion of "targeting," defined as directing scarce Federal resources to communities most in need. Most, but clearly not all, of the States examined in the case studies see targeting as a goal, but their performance has been mixed. Strategies from the New England and Mid-Atlantic States have embraced the principle of targeting, while the Sunbelt and Western States, as would be expected, generally have not. Ohio views targeting as anathema to the State's role.

Indicators of Strategy Permanency

State	Legislative Adoption	Popular Support	Continuing Gubernatorial Support	Organizational Capacity
California				X
Connecticut	X	X	X	X
Florida			X	X
Massachusetts		X		
Michigan		X	X	X
New Jersey		X	X	
North Carolina	X	X	X	X
Oregon	X	X	X	X
Pennsylvania			X	X

There is another important policy difference between the States and the national government on the issue of targeting. It is a pervasive belief at the State level that strategies must address problems that are statewide rather then concentrate solely on central city distress. This belief is based partly on political grounds, but it is also grounded in substantive assumptions about the nature and causes of urban distress.

These assumptions are that strengthening the economy of the State as a whole will benefit depressed areas, and that stopping rural decline through agricultural preservation and containing suburban growth through anti-sprawl measures will lead to revitalization of urban core areas.

State targeting must be viewed within a context of fiscal constraint that results in little new State money being available. In the absence of major new State resources, the States have undertaken actions to coordinate existing programs of a discretionary nature, but find it extremely difficult to change the allocation of established formula-based programs.

State governments face political and philosophical constraints that mitigate against the development of highly targeted urban strategies. Despite those realities, efforts are being made to develop analytically based criteria for allocation of State aid, and programs are being shaped to alleviate distress. Political and popular support for highly targeted State assistance is as difficult to achieve at the State level as it is at the national level.

Conclusions

If State strategies are to meet the test of politics, they must be comprehensive and balanced statements of policy. They must be directed toward urban revitalization, farm land preservation, economic development and environmental preservation. They must do so in a way that garners the support of previously competing interest groups and builds a new political coalition.

The Federal Government, through the HUD 701 planning assistance program, has played an important role in encouraging and assisting State comprehensive planning, yet Federal influence over the shape and content of State goals and policies appears to be indirect and limited. While the extent of Federal influence over the States in their development of strategies cannot be measured with any precision, it has undoubtedly helped shape some of the policies. It should also be recognized that the States are often influenced by their peers. The publicity that Governors Dukakis and Brown received from the announcement of their urban policies probably had some influence on other chief executives. The National Urban Policy, itself, was not developed in a vacuum, but was the outcome of intensive input and lobbying by associations of State and local governments.

Those who advocate a stronger and more active role for the States have assumed that harnessing and redirecting State powers can yield positive benefits to central cities and distressed communities. A requirement that State officials take into account the impact of their decisions on local communities would be good in itself. Devising frameworks for public capital investment in support of private investment in critical locations would be of immense value.

It is too soon to say whether the States studied here have accomplished any of their objectives. We can conclude, though, that these State strategies are evolving in a comprehensive way and can be expected to provide real pay-offs for urban areas.

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